



Fiscal 2009 Preliminary Budget Hearings

Committee on Education

March 2008

Scheduled To Testify:

- *Department of Education & School
Construction Authority (Capital)*

*Hon. Christine C. Quinn
Speaker of the Council*

*Hon. David I. Weprin, Chair
Committee on Finance*

*Hon. Robert Jackson, Chair
Committee on Education*

*James Caras, Acting Director
Finance Division*

Fiscal 2009 Preliminary Capital Budget Report

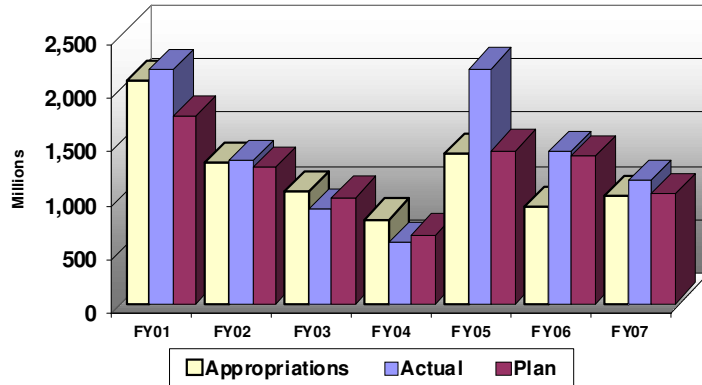
Agency Overview

Created by the State Legislature as an independent body in 1988, the School Construction Authority's (SCA) mandate is to rehabilitate and reconstruct the disrepair and deteriorating conditions of the City's public schools. The SCA is responsible for the Department of Education's (DOE) Capital Plan, which includes acquiring new school sites, and for the design and construction of capital projects within the public school system. The

legislation that established the SCA exempted the DOE and the Authority from the City's line-by-line annual Capital Budget. Instead, the City provides a five-year lump-sum allocation for education capital expenditures, and the DOE determines how the funds will actually be used, subject to scope approval by the City. The DOE operates pursuant to a Five-Year Capital Plan that authorizes the Department to determine the number, size and location of schools to be built and renovated by the SCA.

The new school governance legislation passed by the State in 2002 gives the City Council the authority to approve the Five-Year Capital Plan and any amendments to the Plan. The New York City public school system manages approximately 1,500 school buildings and support facilities including transportables and leased facilities for a school population of almost one million in pre-kindergarten through grade 12.

DEPARTMENT OF EDUCATION
Appropriations vs. Actual & Planned Commitments
(City funds)



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Current Budget Summary

The January 2008 Capital Commitment Plan includes \$11.58 billion in Fiscal 2008-2011 for the Department of Education (including City and Non-City funds). This represents 22.1 percent of the City's total \$52.5 billion January Plan for Fiscal 2008-2011. The Department of Education's January Commitment Plan for Fiscal 2008 - 2011 is less than one percent more than the \$11.57 billion in the September Commitment Plan, an increase of \$17 million.

In its 2006-07 budget, the State finally agreed to provide its 50 percent share of the DOE's \$13.1 billion Five-Year Capital Plan for Fiscal 2005-2009. The City will now receive \$1.8 billion in State aid and an additional \$9.4 billion in Transitional Finance Authority (TFA) borrowing authority, half of which will be paid for by State Building Aid. These two new sources of capital support represent the State's full \$6.5 billion share of the City's Five-Year Plan for capital construction.

Unfortunately, the Governor's Executive Budget for 2008-2009 virtually ignores this agreement and counts \$100 million of incremental State Building Aid as operating aid. Making matters worse, the Executive Budget also includes a provision delaying the payment of all incremental building aid to the City by 18 months. This action would reduce State support for debt issued to finance the City's education capital program. Greater details about the fiscal impact of these proposals are included in the Preliminary Budget Issues section.

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The Department of Education's capital commitments for the last five years are shown below:

FIVE YEAR HISTORY – CAPITAL BUDGET					
(\$ in millions)					
	FY03	FY04	FY05	FY06	FY07
CITY	880	571	2,188	1,409	1,143
NON-CITY	73	22	0	579	2,074
TOTAL	953	593	2,188	1,988	3,217

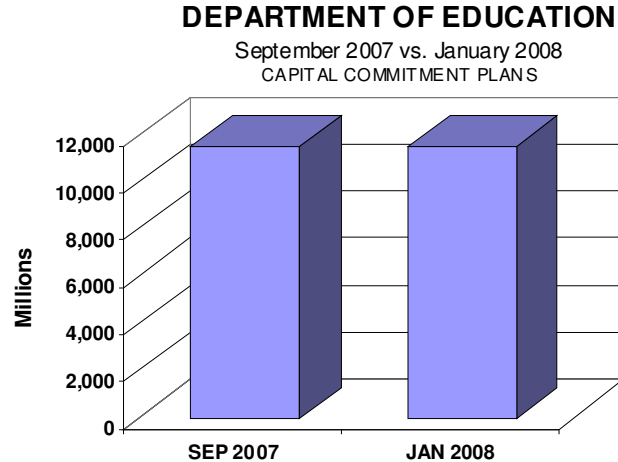
ADOPTED FOUR-YEAR CAPITAL PLAN – SEPTEMBER 2007					
(\$ in millions)					
	FY08	FY09	FY10	FY11	FY's 08-11
CITY	1,162	1,252	1,241	1,283	4,938
NON-CITY	2,079	2,033	1,241	1,283	6,635
TOTAL	3,241	3,285	2,481	2,565	11,572

PRELIMINARY FOUR-YEAR CAPITAL PLAN – JANUARY 2008					
(\$ in millions)					
	FY08	FY09	FY10	FY11	FY's 08-11
CITY	1,175	1,254	1,241	1,283	4,951
NON-CITY	2,079	2,033	1,241	1,283	6,635
TOTAL	3,253	3,287	2,482	2,566	11,586

PRELIMINARY BUDGET ISSUES:

***The Proposed February 2008 Amendment to the
2005-2009
Five-Year Capital Plan***

The Department of Education released its proposed Amendment to the 2005-2009 Five-Year educational capital Amendment in February 2008. This Amendment is based on the original \$13.1 billion funding level adopted in May 2006 and includes \$690 million in other sources including funds added by the City Council and the Borough Presidents. The February 2008 Amendment is supported with \$6.5 billion in State funding secured through the Campaign for Fiscal Equity Agreement reached between the State and City on April 24, 2006. With this State funding in place the Department of Education resumed site acquisition, design, procurement and award of new school construction projects, as well as rehabilitation, restructuring and enhancement projects previously put on hold.



The Governor's Executive Budget for FY08-09 does not support the Campaign for Fiscal Equity Agreement mentioned above. The Executive Budget counts \$100 million of incremental building aid as operating aid. This breaks the State's promise not to comingle operating and capital funds. If the schools use this \$100 million for operations, the DOE might have to reduce the current Five-Year Plan by \$1.5 billion because the City uses building aid to securitize education bonding. This would result in the loss of approximately 20,000 seats in the City, which is almost one-third of the planned expansion in new capacity. In addition, the Executive Budget includes a provision that delays the payment of all incremental building aid to the City by 18 months. This proposal would reduce State support for debt issued to finance the City's educational capital program by over \$100 million for the foreseeable future. If changes are not made to the Executive Budget, the DOE will review the remainder of the current Five-Year Plan with the real possibility of eliminating many projects.

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There is currently a 1.03 percent increase in FY08 in the Proposed February 2008 Amendment over the 2007 Adopted Plan. Some of the major changes for Fiscal Year 2008 are:

- A 153.7 percent increase, or \$800 million in State of Good Repair projects, from \$521 million to \$1,321 million.
- A 34.9 percent decrease, or \$499 million in Capacity Expansion projects, from \$1,432 million to \$933 million.
- A 20.8 percent decrease, or \$145 million in Educational Enhancement projects, from \$696 million to \$551 million.
- A 1 percent increase or \$1 million in Safety and Security projects, from \$146 million to \$147 million.
- A 67.3 percent increase, or \$175 million in Ancillary, Emergency and Miscellaneous projects, from \$259 million to \$434 million.

The Proposed February 2008 Amendment is not significantly different from the Plan adopted in June 2007, there is a 1.9 percent increase over the five years. The change to Fiscal Year 2008 is 1 percent due largely to the escalation of construction costs.

The main function for the School Improvement and Restructuring Allocations (SIRA) program is to restructure larger campuses into smaller more efficient schools, and this effort will continue at 22 large campuses currently undergoing redesign. The redesign of these campuses will result in the creation of 100 small schools. A new pilot program to alleviate overcrowding when the addition of seats at the district level is not sufficient was introduced in the November 2007 Amendment and is included in the February Amendment. The pilot program is called the Individual Overcrowding Reduction Plan and the Department of Education intends to create Individual Reduction Plans (IRPs) for each identified school. SIRA funding for Partnership and Charter Schools (\$359) million, and Safety Enhancements (\$157.2) have remained constant in the February Amendment while Technology and General Enhancements were reduced by \$200 million (21.4%) and \$141 million (14%) respectively.

The Capacity Program has gained \$122 million or 2.5% over the remaining two fiscal years in the current Five Year Plan. The capacity plan intends to produce over 63,000 new seats Citywide over the five years. The 63,000 seats are broken down into 22 small primary schools, 54 primary /intermediate schools, 33 Intermediate/High Schools and 9 Education Construction Fund (ECF), Charter/Partnership developments and room conversion projects. Of the 63,000 seats in the plan 51,874 are in process (11,086 are completed) and 11,431 seats are waiting to be sited.

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The third major component of the Five-Year Plan is the Capital Improvement Program (CIP). Capital Improvement Program projects consist of a wide range of construction projects, including building repairs, system replacements, and reconstruction of existing school buildings. The Proposed February 2008 Five-Year Plan for CIP projects has been increased by 11.8% or \$424 million. The emphasis of the last Five-Year Plan (Fiscal 2000-2005) was on exteriors. Because of the size and age of the buildings, the exterior work continues in this plan. In addition, the Plan includes interior improvements necessary to bring designated buildings up to a state of good repair. DOE addresses the most critical building issues first and uses a Building Condition Assessment Survey (BCAS) to determine which projects are the most significant.

The following chart compares, by category, the Adopted Five-Year Capital plan with the Five-Year Capital plan proposed in the February Amendment.

Changes to DOE Five-Year Capital Plan (2005-2009) (in millions)	Adopted Five-Year Plan	Feb 2008 Amendment	Change	% Change
State of Good Repair	\$3,600	\$4,024	\$424	11.8%
Capacity Expansion	\$4,908	\$5,030	\$122	2.5%
Educational Enhancements	\$2,754	\$2,472	(\$282)	-10.2%
Safety & Security	\$511	\$431	(\$80)	-15.7%
Ancillary, Emergency, & Misc.	\$1,774	\$1,838	64	3.6%
Total	\$13,547	\$13,793	246	1.8%