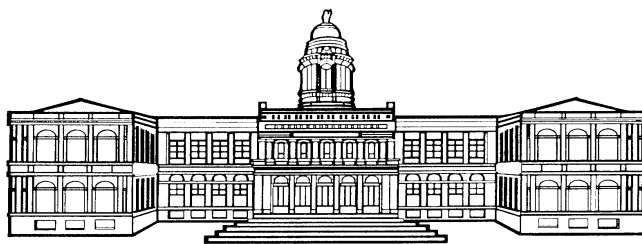


New York City Council



# BUDGET REPORT

Finance Division

March 2009

***Analysis of the Mayor's  
Fiscal 2010 Preliminary Capital Budget  
for the  
Department of Education  
Wednesday, March 18, 2009***

**Hon. Christine C. Quinn**  
Speaker

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

**Hon. Robert Jackson**, Chair  
Committee on Education

**Preston Niblack**, Director

**Jeffrey Rodus**, First Deputy Director

**Latonia McKinney**, Deputy Director

**Nathan Toth**, Assistant Director

## 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.

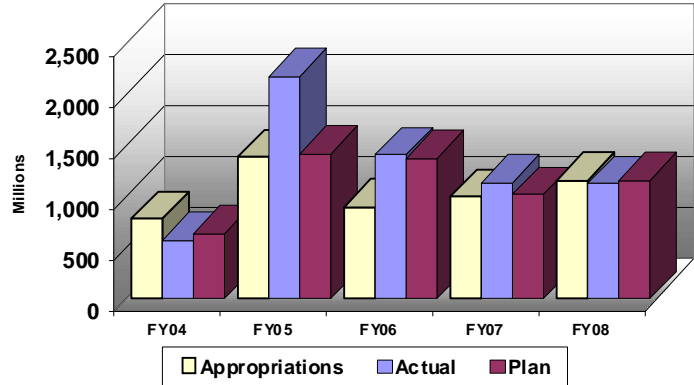
The new school governance legislation passed by the State in 2002 gives the City Council the authority to approve the Plan and any amendments. The New York City public school system manages approximately 1,500 school buildings and support facilities including transportables and leased facilities for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

## Current Budget Summary

The January 2009 Capital Commitment Plan includes \$11.3 billion in Fiscal 2009-2013 for the Department of Education (including City and Non-City funds). This represents 22.4 percent of the City's total \$50.55 billion January Plan for Fiscal 2009-2013. The agency's January Commitment Plan for Fiscal 2009 - 2013 is less than one percent less than the \$11.3 billion in the September Commitment Plan, a decrease of only \$535,000. On March 3, 2009 the Office of Management of Budget sent a letter to all city agencies requesting a reduction of 30% to their capital budgets for the Fiscal 2010-2019 time period. The SCA has not addressed this cut in the 2010-2014 Proposed Plan and will have to adjust its forecast accordingly prior to the adoption of this plan by the City Council.

The objective of the capital cut is to reduce the amount of debt service as a percentage of total revenues. The 30 percent reduction in the Ten-Year Capital Plan Fiscal 2010 – Fiscal 2019 would reduce the long-term average annual growth in debt service costs to 3.4 percent, equal to the level of forecast growth in City revenues. The capital cut would eliminate nearly \$7 billion worth of planned commitments from the current Plan.

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



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

**FIVE YEAR HISTORY – CAPITAL BUDGET**  
(\$ in millions)

	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>
CITY	\$571	\$2,188	\$1,409	\$1,143	\$1,127
NON-CITY	22	0	579	2,074	2,079
<b>TOTAL</b>	<b>\$593</b>	<b>\$2,188</b>	<b>\$1,988</b>	<b>\$3,217</b>	<b>\$3,206</b>

The Adopted Five-Year Capital Plan is shown below:

**ADOPTED FIVE YEAR CAPITAL PLAN – NOVEMBER 2008**  
(\$ in millions)

	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY's 09-13</b>
CITY	\$1,119.8	\$1,138.6	\$1,026.0	\$1,061.2	\$1,051.6	\$5,397.2
NON-CITY	1,666.2	1,134.6	1,026.0	1,061.2	1,026.6	5,914.6
<b>TOTAL</b>	<b>\$2,786.0</b>	<b>\$2,273.2</b>	<b>\$2,052.0</b>	<b>\$2,122.4</b>	<b>\$2,078.2</b>	<b>\$11,311.8</b>

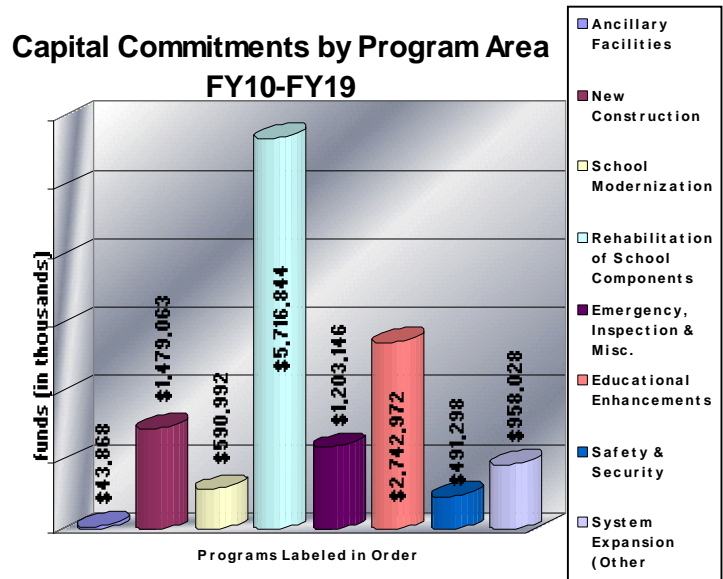
The Preliminary Five-Year Capital Plan – February 2005 Amendment is shown below:

**PRELIMINARY FIVE YEAR CAPITAL PLAN – JANUARY 2009**  
(\$ in millions)

	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY's 09-13</b>
CITY	\$1,123.1	\$1,136.4	\$1,026.0	\$1,061.0	\$1,051.5	\$5,398.0
NON-CITY	1,668.3	1,132.4	1,026.0	1,061.0	1,026.6	5,914.3
<b>TOTAL</b>	<b>\$2,791.4</b>	<b>\$2,268.8</b>	<b>\$2,052.0</b>	<b>\$2,122.0</b>	<b>\$2,078.1</b>	<b>\$11,312.3</b>

## PRELIMINARY BUDGET ISSUES

The Department of Education's (DOE) Fiscal 2010 – 2019 Preliminary Ten-Year Capital Strategy totals \$26.4 billion and keeps intact the 50/50 split between State and City funding that is the basis of the current and proposed Five Year Capital Plans. The DOE's Ten Year Capital Plan Strategy is divided into seven broad program areas which consist of the Rehabilitation of School Components, Educational Enhancements, System Expansion (New Schools), Emergency and Unspecified Work, System Expansion (Other), Major Modernization of Schools, and Safety and Security. The main five areas of work breakdown as follows:



- **Rehabilitation of School Components.** The DOE will use the \$11.4 billion in State and City funds to rehabilitate, replace and upgrade building components. The DOE will use funds to maintain roofs and parapets, resurface floors, install new windows and lighting fixtures, re-develop playgrounds and remove asbestos and lead paint;
- **Major Modernization of Schools.** To compensate for an aging building stock the DOE has allocated \$1.2 billion for projects including major replacements of electrical, plumbing and heating systems;
- **System Expansion.** The DOE is attempting to address the shortage of seating in public schools by providing \$3 billion for the construction of new schools and \$2 billion for leases, building additions, transportables, modular classrooms, and new athletic fields and playgrounds;
- **Educational Enhancements.** \$5.5 billion is allocated for various enhancements including: computers, educational software, upgrading networks, and the construction and upgrade of science labs citywide;
- **Other Funding.** The Mayoral/Council Program, administrative costs, emergency projects, research and development, and prior plan completion costs total \$2.4 billion. Security systems, emergency lighting and code compliance make up the remaining \$1.0 billion of the total \$3.4 billion designated for this funding area.

The Department of Education executes its capital plan through the School Construction Authority (SCA) in five year increments. The 2005-2009 Five Year Capital Plan (Current Plan) will end on June 30, 2009 and be replaced with the 2010-2014 Proposed Five Year Capital Plan (Proposed Plan) which was released on February 2, 2009. The Proposed Plan varies only slightly from the November Draft version of the 2010-2014 Proposed Five-Year Capital Plan, but has changed substantially from the Current Plan. The Current Plan was originally funded at \$13.2 billion in FY 2005 and grew to \$13.8 billion by FY2009 due largely to the yearly additions of City Council and Borough President funds. The Proposed Plan is funded at \$11.3 billion over its five year span and is structurally different from the Current Plan in that the School

Improvement and Restructuring Allocation (SIRA) designation has been eliminated and its component parts divided between Capacity and Capital Improvement Projects. The SIRA projects, which included funding for Charter and Partnership schools, reconfiguration of large campuses, science labs, and technology upgrades, have been reallocated as follows:

	<b>Current 2005-2009 Capital Plan</b>	<b>February 2010-2014 Proposed Plan</b>	<b>Increase (Reduction)</b>
<b>Capacity</b>			
New Capacity	\$4,709.1	\$3,759.8	\$(949.3)
Facility Replacement Program	--	\$1,259.3	\$1,259.3
Charter/Partnership Schools	--	\$210.0	\$210.0
<b>Capacity Total</b>	<b>\$4,709.1</b>	<b>\$5,229.1</b>	<b>\$520.0</b>
<b>Capital Investment</b>			
Capital Improvement Program	\$3,664.9	\$2,203.3	\$(1,461.6)
Children First Initiative	\$3,243.1	\$1,670.9	\$(1,572.2)
Mandated Programs	\$1,736.2	\$2,150.8	\$414.6
<b>Capital Investment Total</b>	<b>\$8,644.2</b>	<b>\$6,025.0</b>	<b>\$(2,619.2)</b>
City Council and Borough President Funding	\$439.9	--	
<b>Grand Total</b>	<b>\$13,793.2</b>	<b>\$11,254.1</b>	<b>\$(2,099.2)</b>

Charter and Partnership schools are grouped under Capacity and the remaining SIRA projects have been moved under the Children’s First Initiative. The reduction of \$1,572.2 million in the Children First Initiative is largely due to the movement of the \$1,259.3 million Facility Replacement Program from the Children First Initiative to the Capacity designation.

With the realignment of funds in the Proposed Plan it is easier to compare the two plans using the five year plan categories which have remained constant. The following chart compares by five year plan category the Current Plan with the Proposed Plan.

<b>Plan over Plan Changes from to DOE Five-Year Capital Plan (2005-2009) (in millions)</b>	<b>Adopted Five-Year Plan</b>	<b>2010-14 Proposed Plan</b>	<b>Variance</b>	<b>% Change</b>
State of Good Repair	\$4,023.9	\$2,497.6	\$(1,526.3)	(38)%
System Expansion	\$5,029.5	\$5,028.2	\$(1.3)	0%
Educational Enhancements	\$2,471.7	\$1,534.7	\$(937.0)	(38)%
Safety & Security	\$430.7	\$183.9	\$(246.8)	(57)%
Ancillary, Emergency, & Misc.	\$1,837.5	\$2,032.6	\$195.1	11%
<b>Total</b>	<b>\$13,793.3</b>	<b>11,277.0</b>	<b>(2,516.3)</b>	<b>(18)%</b>

The SCA has cited the current climate of economic distress as the major factor in the 18% reduction in the Proposed Plan from the Current Plan. The Office of Management and Budget has called for a 30 percent reduction in the City’s Capital Commitment Plan beginning in Fiscal Year 2010. The Proposed Plan does not take this reduction into account. It is likely that the SCA will have to adjust the Proposed Plan downward when it is determined what the cut to the DOE’s capital budget will be. The Proposed Plan also

assumes that the 50/50 funding split between the City and the State will continue. It is important to note that the State is dealing with a growing budget deficit and decreasing revenues, making State funding cuts likely as a part of the solution to this crisis. The State budget has not yet been finalized and until it is we will continue with the historical 50/50 funding split.

Under the Proposed Plan the SCA will add 25,000 new capacity seats over the 2010 to 2014 span and finish the remaining 34,239 seats from the Current Plan. The remaining seats from the Current Plan are slated to come on line over four years with 12,724 in September 2009, 14,034 in September 2010, 1,852 in September 2011, and 5,629 in September of 2012. The 25,000 new capacity seats planned for in the Proposed Plan is a 60.3 percent reduction from the 63,000 new capacity seats contained in the Current Plan. The DOE continues to forecast a downward trend in enrollment in their annual Enrollment, Capacity, and Utilization Report and they contend that the Capacity program is appropriately sized. The advocate community however is not in agreement with this assessment and calls for much more capacity in the Proposed Plan. In spite of the drastic reduction in the number of seats that the SCA will build the System Expansion budget has remained fairly constant at \$5,028.2 million a reduction of less than one percent.

The Capital Improvement Program is derived from the annual Building Condition Assessment Survey (BCAS) report that is conducted jointly between the SCA and the principals and custodial staff of the schools. Each area of need that is identified is ranked from 1 to 5 with 5 being the direst need. The Current Plan addresses level 4 and 5 needs but due to budget constraints the SCA will only address level 5 conditions in the Proposed Plan. As a result, the State of Good Repair category has decreased by \$1,526.3 million or 38 percent.

Educational Enhancements which include new science labs and technology upgrades has seen a decrease in funding of \$937 million or 38 percent. The cabling of classrooms in all schools for internet access has been a major project of the Current Plan and has now been completed. The purchase of computers receives a large amount of funding from the City Council as well as the Borough President. As the Proposed Plan has not been adopted yet there is currently no elected official funding included in it.

As of October 2008, video surveillance systems have been installed in 251 buildings serving approximately 400 secondary schools. The SCA is continuing its commitment to the safety of students through \$183.9 million in spending for safety and security projects in the remaining secondary schools. This is a reduction of \$246.8 million or 57 percent.

Ancillary, Emergency and Miscellaneous Costs have increased by \$195.1 million or 11 percent in the Proposed Plan. The increase is largely due to the costs associated with the closing out the prior capital plan.