

TESTIMONY BY  
DEPUTY COMPTROLLER MARCIA VAN WAGNER

AT A JOINT HEARING OF THE  
EDUCATION AND FINANCE COMMITTEES  
OF THE NEW YORK CITY COUNCIL  
REGARDING THE NEW YORK CITY EDUCATION BUDGET

CITY HALL COUNCIL CHAMBERS  
WEDNESDAY, MAY 27, 2009  
2:45 PM – 3:30 PM

Good afternoon, Chairman Jackson, Chairman Weprin, and members of the Education and Finance Committees...My name is Marcia Van Wagner and I am the Deputy Comptroller for Budget.

I am appearing today on behalf of New York City Comptroller Bill Thompson. He is sorry he could not be with you here in person but wanted to thank you for giving our office this opportunity to testify today regarding budgeting at the New York City Department of Education.

There are many issues that will be discussed at today's hearing relating to the finances at Tweed, but the fundamental priority underlying the entire discussion can be put simply: fiscal accountability requires transparency in budgeting.

Three years ago, the Mayor agreed in principle to begin providing more meaningful budget categories – units of appropriation, or "U of A's" – so that New Yorkers could better understand how their tax dollars are being spent.

At that time, as Comptroller Thompson noted in his testimony regarding the FY 2007 budget, the Department of Education had one U of A that was over 5.2 billion dollars -- larger than the entire budget of most city agencies.

While there has been some notable progress in modifying U of A's in the Mayor's subsequent budgets at a number of city departments, the DOE budget remains frustratingly opaque.

Take, for example, U of A 472 – which includes Charter and Contract schools.

This budget line has ballooned in recent years in part due to the settlement of Carter cases -- cases where the City must pay tuition for students with special needs who cannot find appropriate placement within the city school system.

But as many of you know, charter school payments are a rapidly growing portion of this U of A as they have become an increasingly high priority at Tweed.

Charter school payments, which have nearly tripled since 2006, are slated to grow by over a third from FY 2009 to FY 2010 and are projected to total almost three-quarters of a billion dollars by 2013. It is no wonder then that charters account for most of the growth in U of A 472 going forward.

A more accurate understanding of classroom spending requires looking at charters alongside the core U of A's – areas like general instruction, special ed instruction, school support organizations, facilities and administration.

This is especially important when one considers that schools within the DOE system report their expenditures—albeit after the fact--by function in the School-Based Expenditure Report. By contrast, there are scant details on how charter schools spend their allocations from the Department.

At the very least, the U of A structure should give the public the tools to assess the city's charter expenditures separately. Such a critical element of the DOE budget should have its own U of A and not be subsumed within U of A 472.

While this change would not fully address the lack of detail regarding how charter school allocations are spent, it would be an important step towards greater transparency.

Looking more broadly at the coming fiscal year, the DOE budget is expanding from roughly 17.65 billion dollars in FY 2009 to 18.3 billion dollars in FY 2010, an increase of over 650 million dollars.

However, that increase won't benefit most of our children's classrooms because it is limited to Units of Appropriation *outside* the core of the DOE budget. It is very concerning that spending in these areas continues to expand as city classrooms have been asked to do with less and core U of A's are taking a hit, evidenced by the 5 percent reduction that school budgets are being asked to absorb.

It is true that – like the city's budget – the DOE budget has elements that are harder to squeeze than others because of state and federal mandates and contractual obligations.

The DOE has attempted to address some of these areas by finding increased efficiencies, but not always with success.

A case in point is the Alvarez & Marsal contract, which was supposed to find savings through the improved handling of Carter cases. But instead of the

\$25 million in savings promised, we have seen costs balloon more than \$130 million in these areas.

As we face an extended period of limited resources and doubts about the State's ability to live up to its promises regarding school funding over the long run, the DOE is going to have to adopt a much stricter budget regimen, reining in runaway contracts.

A quick example: each September, New York City public school parents are asked to send their kids to school with a bag that contains an ever greater assortment of items – from paper towels and liquid soap to copy paper and transparent tape.

One might assume that this growing supply list resulted from pressures on the Department of Education budget. Not so. In fact, last year the DOE reached into their school supply budget, removed some 50 million dollars, and used it to pay for outside contracts that exceeded their budget by the same amount.

As we confront an economic downturn of historic proportions, Chancellor Klein must explain to parents why diverting money to outside contractors is more important than providing precious funds for our classrooms.

As some of you will remember, last month I announced the results of a review by my office of contract spending at the Department of Education. We discovered that the Department routinely let hundreds of contract expenditures balloon far beyond their expected costs, including one that jumped by an astounding 6,700 percent.

One out of five of the Department's contracts that ended in the last two fiscal years ultimately cost some 25 percent or more over DOE estimates. The amount that DOE overspent on those contracts was 726.7 million dollars.

Sadly, the Department's overspending on its contracts continues. We found that in the current fiscal year, 27 percent of these contracts have costs topping 125 percent. If DOE properly monitored its contracts, it would have been aware that its spending was far exceeding its own estimates.

Such sloppy accounting calls into question DOE's oversight of its entire contract payment process.

New Yorkers across the city are paying close attention to their budgets. The DOE should do the same. With the Department's \$18 billion cost accounting for nearly one-third of the total City budget, New Yorkers have a right to expect the DOE to follow the strictest standards of transparency and accountability.

Such a process begins here in this room today. I want to thank you for

convening this hearing to address this critical issue and I appreciate the opportunity to share Comptroller Thompson's thoughts and views.