



**Department of
Education**

**TESTIMONY OF NYC SCHOOLS CHANCELLOR DENNIS M. WALCOTT
ON THE FISCAL YEAR 2013 EXECUTIVE BUDGET
BEFORE THE NYC COUNCIL COMMITTEES ON EDUCATION AND FINANCE**

May 30, 2012

Good morning, Chairs Jackson and Recchia and all the members of the City Council Education and Finance Committees here today. Thank you for the opportunity to discuss Mayor Bloomberg's proposed Fiscal Year 2013 Executive Budget as it relates to the Department of Education (DOE) and our public schools. Seated with me are Shael Suransky, our Chief Academic Officer, and Michael Tragale, our Chief Financial Officer.

This morning, I would like to provide an updated overview of our fiscal condition and note some new developments since I last appeared before the Education Committee in March.

Mayor Bloomberg has always made education a top priority, evidenced once again in his proposed Fiscal Year 2013 Executive Budget. The Mayor's budget includes an allocation of approximately \$19.7 billion in operating funds and another \$4.7 billion in education-related pension and debt service funds. This represents a \$646 million increase in total funds from FY12: \$387 million for operating funds and \$259 million for pension and debt service. Our funding is a combination of City, State and federal dollars. City tax levy dollars making up the largest share. Looking at non-federal dollars, City tax levy amounts to 60 percent of our funding and State aid is 40 percent.

When I testified on the preliminary budget in March, I shared my optimism that we would be able to protect schools from budget reductions in the coming fiscal year. I'm happy to report that the Mayor's budget affirms this commitment. Yesterday, school budgets were released to principals and posted on our Website.

In fact, our standing in both the City and State budgets improved slightly. While the State is still far from fulfilling its commitment to the Campaign for Fiscal Equity, the restored State funds are a welcome step in the right direction. These additional City and State dollars will help enable us to maintain our teaching workforce at its current level, rather than lose nearly 2,600 teachers through attrition as well as meet other critical expenses. We are now also able to avoid \$30 million in reductions to per-session programs, enabling teachers to provide additional academic intervention and enrichment services for students and schools.

However, in order to ensure our fiscal stability in the year ahead, our partners in labor and government also need to do their part as well.

Any and all additional State funds depend on the City reaching a final agreement with the United Federation of Teachers (UFT) on a teacher evaluation system by January 2013. While the City has aggressively pursued an agreement with the UFT, unfortunately, to date, we have not yet arrived at an agreement. Failure to reach an agreement would have significant negative



**Department of
Education**

consequences for our students, teachers, and schools. We stand ready to resume good-faith negotiations and urge the UFT to return to the table.

We also need the cooperation of District Council 37 (DC37). Last year, as you recall, we were able to avoid teacher layoffs due to the collective efforts of this Administration, the City Council and the UFT. Unfortunately though, despite a concerted effort, we were unable to reach a similar agreement with DC 37.

This year, I'd like to avoid all layoffs, including non-pedagogical employees – but that will require assistance from DC 37. Since last year, we have been carrying some 225 DC 37 employees, mostly school aides, who were excessed by schools, but unable to find placements. As a result, we assigned them to schools in the interim and covered the costs centrally. Unfortunately, this arrangement is simply unsustainable. As unfair as it is to ask taxpayers to fund the salaries of teachers who remain without permanent jobs for over a year - a topic I will return to shortly - it's also unfair to ask taxpayers to underwrite the costs of non-teaching positions as well, especially in these difficult financial times. In addition, due to annual changes in school organizations and school-based budget decisions, we anticipate additional non-teaching positions to be excessed as well.

I don't want to see any layoffs, I know DC 37 doesn't want to either, and most of all, neither do the men and woman affected by the prospective loss of employment. If we can work with the union to identify savings and concessions to offset these costs, layoffs are avoidable, and I'm hopeful this can be accomplished. In the coming weeks, I look forward to engaging both DC 37 and the Council on this issue.

Finally, if President Obama and Congress do not reach a budget agreement by January 2013, automatic spending reductions in federal discretionary dollars will be triggered, including education aid. These potential cuts, known as "sequestration," were part of the deal Washington enacted last summer to raise the debt ceiling and avoid financial default. If these cuts are triggered, we would lose tens of millions of dollars in Title I funds, which would represent a sizable loss of aid.

So, while there are issues to resolve, as is the case with every budget, I am hopeful that parties will be able to come together and collectively do right by our students. As an agency, we will continue to do everything we can to protect school budgets and push as many dollars as possible directly to the classroom.

We have always looked first at our central budget for ways to reduce our expenses. In FY12, our cumulative PEGs cut 11 percent from our central budget, totaling \$74 million in savings. We also absorbed a mid-year PEG centrally, to protect our schools from any mid-year reductions. Comparably, schools experienced an average reduction of 2.4 percent. Our central budget now represents less than three percent of our total budget. For FY 13, we have shifted an additional \$45 million from central to help support school budgets and meet other critical rising costs. This will be achieved through reductions in OTPS and central headcount through attrition.



**Department of
Education**

In order to identify further efficiencies, I remain committed to taking additional proactive steps. Let me provide just a few examples.

Earlier this month, I proposed several new initiatives to improve teacher quality. Let me say at the outset, as I always do: the vast majority of our teachers are committed, hardworking and talented professionals. They pour their hearts and souls into their jobs, and we can never say thank you enough. However, like every organization, there are a small number of individuals who just aren't getting the job done, and we need better ways to help them improve, or show them the door. We, the taxpayers, also continue to foot the bill for teachers that don't even have permanent teaching positions.

Early in this Administration, we made a decision not to force any principal to accept a teacher they don't want. If you're charged with leading an organization, you should be empowered to build the team you believe will make your organization successful. Schools are no different, and we believe that principals should be empowered to make the best choices for their students. As a result, some teachers have ended up without permanent teaching jobs, and are placed in something we call the Absent Teacher Reserve, also known as the ATR pool.

If these teachers can't get hired by another principal – and even if they don't try to find a job at all – we still have to pay their salaries. There have been over 3,600 teachers in the pool at some point this year, and that's now down to 800.

But those who remain will cost the city an estimated \$100 million in salaries. That's a huge, wasteful expenditure that doesn't help our students succeed. More than a quarter of these teachers have been disciplined for bad behavior. Almost half of them have not even submitted a job application or attended a recruitment fair in the past year. That's unacceptable. We simply can't afford to foot a \$100 million bill on teachers who aren't even interested in teaching.

So, I'm prepared to make an offer. If you're a teacher who can't find a permanent job in our schools after a year, we will offer you a generous incentive to resign and pursue another career. It would reduce a significant burden on our budget, allowing us to divert millions of dollars back to schools. I am encouraged that the UFT has expressed a willingness to discuss this proposal and that talks are underway.

Another way we're identifying new efficiencies is with our contracted services. To be clear, 98 percent of our contracts are with vendors that provide direct student services and school support services. By and large, these services are mandated or essential to our operations and it's most efficient and sensible to handle with external partners. And given the size of our system and economies of scale, we're able to get many goods and services at a much lower price point.

One area where we'll be doing this in a big way is school busing. As you may recall, last fall, for the first time in over 30 years, the DOE released a school busing request for bid (RFB)—in this case for pre-kindergarten students. The DOE took over responsibility for pre-K busing in 2006,



**Department of
Education**

but was prevented from releasing a bid due to ongoing litigation, which was finally resolved in June 2011. And in November 2011, we released the RFB.

In response, a major local union resorted to threats of a citywide strike, but we didn't blink and issued the RFB anyway. Today, the results are clear: nearly 50 busing companies responded to our RFB at price points that will provide significant savings for our students. In the coming weeks, we look forward to announcing the proposed contracts, and this fall we are going to open up all our busing contracts to competitive bidding.

We're going to exercise that same kind of vigilance with all our new contracts as well. Earlier this month, I issued a systemwide freeze on all new tax levy contracts and encumbrances of \$100,000 or more. Moving forward, new contracts, as well as those up for renewal, will require my approval. This change in process will allow closer scrutiny of spending in order to ensure the Department operates as efficiently as possible. All DOE contract managers were required to attend mandatory trainings where in-depth guidance was provided on ensuring contract compliance, scrutinizing invoices, and reporting contractors who fail to comply with their obligations or engage in inappropriate behavior.

In the end, every dollar saved is another dollar that can be used to provide academic, enrichment, and support services for our students. Let me give you a real-life example.

Since becoming Chancellor, it has become apparent to me that one area of student support that could benefit greatly from further expansion is physical and mental health services. We all know healthy students perform better academically.

So today, I'm proposing to create 20 new health and mental health centers at middle and high school campuses over the next three years. These new centers will provide on-site primary care and mental health services, helping to keep our kids healthy, secure and in school. We currently have 126 school based health centers serving over 150,000 students and their services are highly valued by principals and parents. We will immediately begin work with school administrators, parents, city and state health agencies and health providers to identify school buildings where we have interest, need and space.

To stretch limited dollars to fund this important initiative, we are putting up \$30 million in capital funding to build state-of-the-art clinics in our buildings in order to attract providers and outside grants with the requirement that no DOE tax levy funding be required to operate these clinics on a day-to-day basis. To further leverage this investment, we are asking providers and the State Department of Health to consider having these clinics not only serve students in the building in which they are located but students in a nearby building as well.

While I've been able to highlight some new initiatives, our schools still face notable fiscal constraints and challenges. And our work will be all the more challenging in the school year ahead, as we raise the bar even further with the continued implementation of the Common Core standards and move towards college and career-readiness.



**Department of
Education**

Despite these challenges, I'm more hopeful and optimistic than ever. Our students' progress has not wavered, even in tough budget times. Every time we have raised the bar, our students have met the challenge and I'm confident they will do it again thanks to the dedication of our parents, teachers, principals and school support staff. New York City continues to show the nation how to turn around a large urban school district, and we should all be proud of our collective accomplishments.

In conclusion, I look forward to working with the Council as the City's budget process moves forward in the coming weeks. I have had numerous meetings and conversations with members of this Council in recent weeks. Council and DOE staff have also met, and will continue to meet, on a regularly basis to discuss our Financial Status Reports and other budget and non-budget related matters. While we may not always agree, I always welcome constructive conversations and collaborations on behalf of our City's students and families. With that, thank you again for the opportunity to testify today, and I am happy to take your questions.