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June 5, 2020

Lesli Myers-Small, Superintendent
Rochester City School District
131 West Broad Street
Rochester, New York 14614

Report Number: B20-2-5

Dear Superintendent Myers-Small and Members of the Board of Education:

Earlier this year our office performed a review of the Rochester City School District's (District) 2018-19 and 2019-20 adopted budgets¹ which noted several budgeting deficiencies. Subsequent to the release of our review, several interested stakeholders again requested that this office provide a similar independent review of the District's 2020-21 proposed budget. Future reviews will be completed by an independent State Monitor² installed in the District by the New York State Education Department pursuant to language included in the State's 2020-21 budget bill.³

Summary

We commend the Superintendent⁴ and Board for the actions they have taken to improve the accuracy of budget projections in the 2020-21 budget and advance the District's overall financial condition, especially in light of the challenges caused by unexpected revenue reductions due to the economic fallout resulting from the COVID-19 pandemic. We found revenue projections to be substantially accurate. However, appropriations for charter school tuition are underbudgeted by approximately \$1.5 million and salary and substitute costs will have to be closely monitored to stay within budgeted appropriations. Additionally, the budget remains structurally imbalanced because District officials are relying on City Council to approve a waiver to the City charter for the use of \$10 million for operation expenditures rather than capital purposes. Therefore, absent recurring additional revenue, appropriation reductions will be necessary for future budgets to be structurally balanced.

¹ <https://osc.state.ny.us/localgov/audits/schools/2020/rochester-br-20-2-1.pdf>

² <http://www.nysed.gov/news/2020/state-education-department-appoints-dr-shelley-jallow-monitor-rochester-city-school>

³ L 2020, ch 56, Part C, as amended.

⁴ Superintendent Dade, who was responsible for preparing the preliminary budget, submitted his resignation from the District on April 23, 2020 which the Board accepted and resolved effective May 18, 2020.

The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following question related to the District's proposed budget for the upcoming fiscal year:

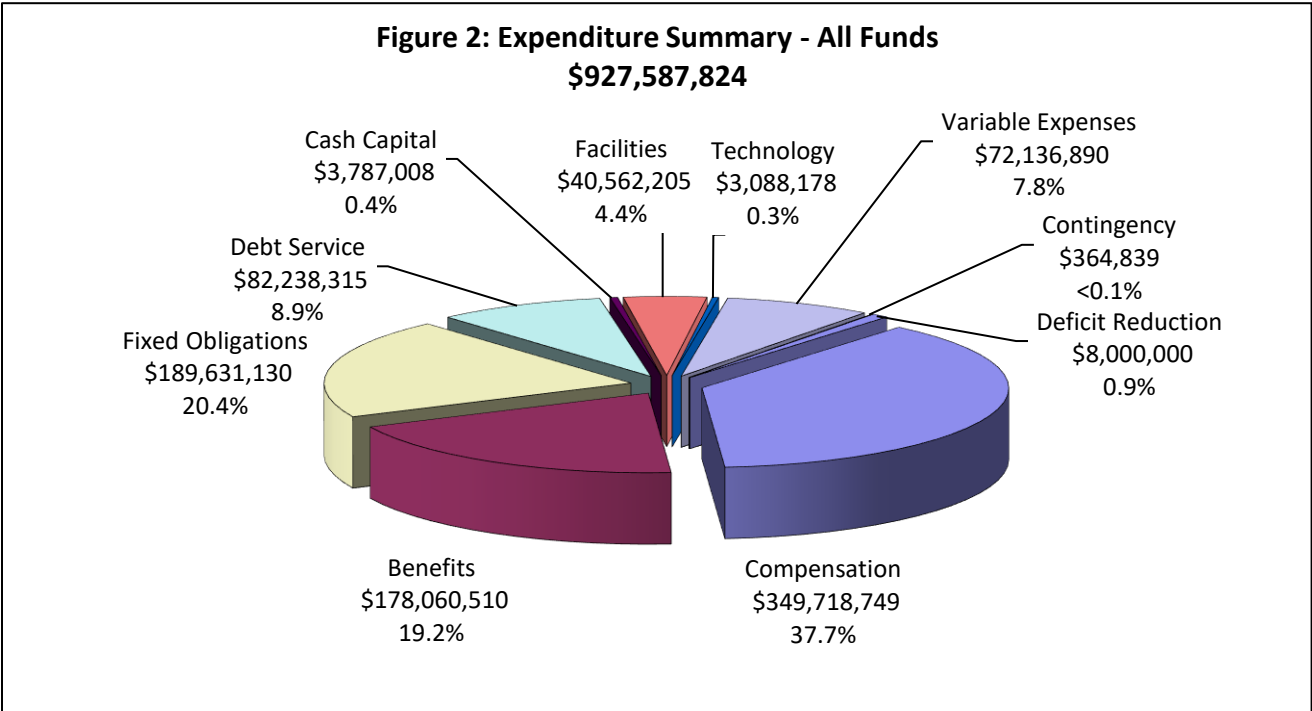
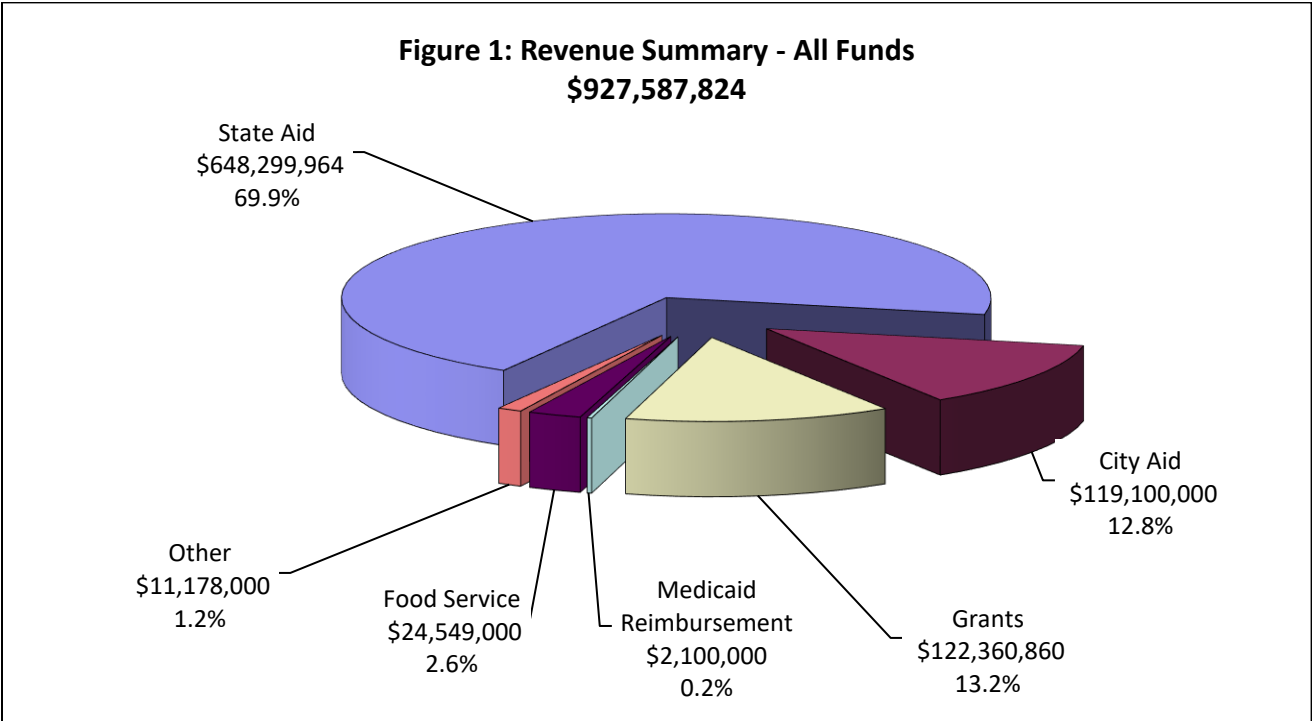
- Are the significant revenue and expenditure projections in the District's proposed budget reasonable?

To accomplish our objective, we reviewed the proposed budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimates were realistic and reasonable.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided. While we considered the effects of the COVID-19 pandemic on the District's finances and its 2020-21 budget projections, revenues may change after the date of this letter, possibly with little notice. District officials will need to monitor revenues closely and reduce appropriations in the 2020-21 budget plan if estimated revenues are not realized.

The District's proposed 2020-21 fiscal year budget totals \$927,587,824⁵ and represents a decrease of \$6,609,835 from the amended 2019-20 budget. The budget encompasses the District's spending plan, which includes funding for more than 24,000 students, a workforce of over 5,600 employees and the operation of over 60 schools and programs.

⁵<https://www.rcsdk12.org/cms/lib/NY01001156/Centricity/Domain/92/Budget%20Book%202020%20Proposed%20Interactive.pdf>



Full-Time Equivalent Positions – The budget includes 5,602 full-time equivalent (FTE) positions for 2020-21. However, District officials budgeted a negative \$14.3 million “turnover vacancy” with the assumption that 275 of these positions will remain vacant for the year, leaving a net funded fill level of 5,327 FTEs. The District’s current 2019-20 fill level is 5,624 FTEs and a reduction-in-force of 262 FTEs was planned, which would result in a net funded fill level of 5,362 FTEs.

Assuming there are no additional hires, the 2020-21 budget as currently constructed has 35 fewer FTEs, totaling a cost of approximately \$2 million. While 35 fewer positions is manageable with attrition and proper monitoring, District officials must closely monitor fill levels and the related budget lines and make necessary budget adjustments throughout the fiscal year to ensure that the budget is not overexpended. In addition, the 2020-21 budget includes approximately \$5.7 million to cover these vacancies with substitutes, which appears reasonable if the District strictly adheres to the controls implemented in November 2019 to reduce substitute expenditures.

Charter School Tuition – The budget includes appropriations of \$95.8 million for charter school tuition for 2020-21. We found appropriations for charter school tuition to be underbudgeted by approximately \$1.5 million. This was due to an error in calculating the 2020-21 tuition rate per student. New York State’s formula for tuition changed subsequent to District officials creating the preliminary budget. However, the passage of the State budget set the final formula and was known prior to the Board’s adoption of the final proposed budget. If actual charter school enrollment figures trend close to projections, District officials will have to make budget adjustments accordingly to balance the budget.

City Charter Waiver – The adopted budget is not structurally balanced because it relies on a waiver to the City charter to balance the budget. The budget assumes that City Council will waive the City charter requirement that \$10 million of the City’s funding to the District be spent on cash capital.⁶ If City Council does not approve a waiver to the cash capital requirement allowing these funds to be used for operating expenditures, the budget will need to be modified accordingly. We note that this is the second year in a row that such a waiver has been sought in order to address the District’s fiscal situation. While such a waiver may help District officials meet short-term fiscal needs, it does so at the expense of delaying long-term capital needs. Additionally, projects pushed out to the future may prove more costly. As District officials work to develop the required multiyear financial plan⁷ with the newly appointed State Monitor, they should ensure future budgets are structurally balanced.

⁶ The direct outlay for capital items, most typically equipment purchases.

⁷ L 2020, ch 56, Part C Section 5

Figure 3

Part C of Chapter 56 of the Laws of 2020 provides, in relevant part:

§ 5. Financial plan. 1. No later than November first, two thousand twenty, the board of education, the superintendent and the monitor shall develop a proposed financial plan for the two thousand twenty--two thousand twenty-one school year and the four subsequent school years. The financial plan shall ensure that annual aggregate operating expenses shall not exceed annual aggregate operating revenues for such school year and that the major operating funds of the district be balanced in accordance with generally accepted accounting principles, and shall consider whether financial and budgetary functions of the district shall be subject to a shared services agreement with the city. The financial plan shall include statements of all estimated revenues, expenditures, and cash flow projections of the district.

As previously reported, the District's precarious financial condition, despite multi-million dollar mid-year cuts, required an additional \$35 million advance of future State aid in order to balance the 2019-20 budget. This advance will result in a reduction of future State aid payments of approximately \$1.17 million per year for the next 30 years. Also, in order to meet the cash flow needs for the 2020-21 fiscal year, the Board recently approved a resolution authorizing the issuance of up to a \$100 million revenue anticipation note (RAN). This is twice the amount of the RAN issued during 2019-20.

District officials must diligently monitor cash throughout the fiscal year to ensure that when the revenues for which the RAN is issued are received, they are earmarked and reserved to repay the note when due. Additionally, the RAN does not come without cost as the projected interest owed on the RAN will exceed \$1.2 million. Improving the District's overall financial condition will improve cash flow and help to prevent paying more interest than necessary.

Due to the continuously evolving circumstances caused by the COVID-19 pandemic, the adopted State budget authorizes the State Budget Director to reduce aid as necessary at given times throughout the year should the State budget be deemed out of balance.

Figure 4

Fiscal-Year 2021 Enacted Budget Financial Plan^a

Reductions Authorized if Certain Conditions are Met

In awareness that FY 2021 collections from taxes and other receipts are likely to fall materially below the level needed to fund authorized disbursements, the Enacted Budget grants the Budget Director the authority to reduce aid-to-localities appropriations and disbursements by any amount needed to achieve a balanced budget, as estimated by DOB. In addition, the Director is authorized to withhold and reduce specific local aid payments during the fiscal year. The budget is deemed out of balance for the fiscal year, and the Director's powers are activated, if actual tax receipts are less than 99 percent of estimated tax receipts, or actual disbursements are more than 101 percent of estimated disbursements, as measured at three points during the year (April 1-30, May 1-June 30, and July 1-December 31).

^a Document available at: <https://www.budget.ny.gov/pubs/archive/fy21/enac/fy21-enacted-fp.pdf>

District officials should develop a plan to balance the budget in the event revenue projections are not fully realized.

What Do We Recommend?

The Board and District officials should:

1. Closely monitor expenditures especially for salary and substitute costs and charter school tuition and make budget modifications as necessary to ensure a balanced budget.
2. Develop a plan to balance the budget and reduce expenditures in the event State aid is reduced in accordance with the provisions outlined in the State budget.
3. Work with the State Monitor to develop comprehensive multiyear financial plans with structurally balanced budgets that:
 - Include realistic estimates of revenues and appropriations based on historical trends or other known factors.
 - Comply with the Board's fund balance policy and restore necessary reserves.
 - Fund long-term operating needs, goals and objectives, and discontinues the practice of delaying cash capital expenditures in order to finance recurring expenditures.

We hope this information is helpful as you adopt the upcoming budget. If you have any questions on the scope of our work, please contact Edward Grant, Jr., Chief Examiner of our Rochester Office, at (585) 454-2460.

Sincerely,

Elliott Auerbach
Deputy Comptroller

cc: Van Henri White, President, Board of Education
Cynthia Elliott, Vice President, Board of Education
Ricardo Adams, Commissioner, Board of Education
Beatriz LeBron, Commissioner, Board of Education
Amy Maloy, Commissioner, Board of Education
Willa Powell, Commissioner, Board of Education
Natalie Sheppard, Commissioner, Board of Education
Marisol Ramos-Lopez, Clerk of the Board
Dr. Shelley Jallow, State Monitor
Annmarie Lehner, Chief of Staff
Robert Franklin, Chief Fiscal Officer
Brian Pack, Budget Director
Anissa Henry-Wheeler, Auditor General
Hon. Lovely Warren, Mayor
Hon. Loretta C. Scott, President, City Council
Hazel Washington, City Clerk
Robert Scanlon, Chief of Staff, City Council
Hon. Carl E. Heastie, Speaker of the State Assembly
Hon. Andrea Stewart-Cousins, Temp. President and Majority Leader of the State Senate
Hon. Liz Krueger, Chair, Senate Finance Committee
Hon. Shelley Mayer, Chair, Senate Education Committee
Hon. Helene Weinstein, Chair, Assembly Ways and Means Committee
Hon. Michael Benedetto, Chair Assembly Education Committee
Hon. David Gantt, Local State Assembly Representative
Hon. Harry Bronson, Local State Assembly Representative
Hon. Richard Funke, Local State Senator
Hon. Joseph Robach, Local State Senator
Hon. Michael Razenhofer, Local State Senator
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Shannon Tahoe, Interim Commissioner, State Education Department
Sharon Cates-Williams, Deputy Commissioner, State Education Department
Edward V. Grant, Jr., Chief Examiner, Rochester Regional Office