New York State Education Department

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MaryEllen Elia, Commissioner

BALANCED BUDGET

A Report on the East Ramapo Central School District

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New York State
EDUCATION DEPARTMENT
Knowledge › Skill › Opportunity

Balanced Budget

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Commissioner's Charge to the Monitors

On August 16, 2016, State Education Department Commissioner MaryEllen Elia appointed Charles Szuberla and reappointed Dr. John Sipple as monitors ("Monitors") for the East Ramapo Central School District ("District"). The 2016-17 school year monitoring initiative built on the work conducted by State monitors since June 2014 and included working with the Board of Education (Board) and District leadership to implement Strategic Academic Improvement and Fiscal Improvement Plans; improve fiscal and budgetary planning; and provide oversight as required by Chapter 89 of the Laws of 2016.[1] In addition, the Monitors oversaw the District's successful passage of a $58 million bond proposition to fund badly needed capital repairs and projects. This report focuses on the current fiscal condition of the District.

Fiscal Improvement Plan

The East Ramapo Central School District mission states:

"As a unified community, the East Ramapo Central School District is committed to educating the whole child by providing a healthy, safe, supportive, engaging and challenging environment."

On September 26, 2016, Commissioner Elia approved the District's long-term strategic academic and fiscal improvement plan, which contained a comprehensive expenditure plan ("improvement plan"). Thereafter, the District implemented the improvement plan to manage resources more effectively. The improvement plan was developed with three goals in mind:

1) Educating the whole child.
2) Improving and maintaining the physical environment of schools and grounds.
3) Implementing a solid resource management system.

Building on the Work of the 2015-16 School Year

The District began the 2016-17 school year with a General Fund unassigned fund balance on July 1, 2016 of $4,150,436, an increase of $2,747,868 from the unassigned balance of $1,402,568 reported on June 30, 2015, compared to a negative $6.6 million (-3.3%) fund balance in fiscal 2014 following four years of consecutive operating deficits. On June 30, 2016, the District had $4,150,436, or 1.8%, of its subsequent year's budget reflected in unassigned fund balance.

The August 2017 preliminary auditor's report shows the District ended the 2016-17 school year with a General Fund unassigned fund balance on June 30, 2017 of

[1] Chapter 89 of the Laws of 2016 was amended by section 48 of Part YYY of Chapter 59 of the Laws of 2017.

$8,488,151, an increase of $4,337,715 from the unassigned balance of $4,150,436 reported on June 30, 2016. The increase is a result of $2,430,866 in higher than projected revenues and $1,906,849 lower than projected expenditures as a result of higher than anticipated state aid and conservative budgeting.

It should be noted that New York State law allows school Districts to maintain up to 4% of the ensuing year's budget, exclusive of the amount assigned for the subsequent year's budget, as unassigned fund balance. For East Ramapo, the allowable amount is $8.97 million. The District is moving into the 2017-18 school year with a healthier unassigned fund balance of 3.6%, of the 2017-18 school year's budget.

The District's $8.7 billion tax base has recently stabilized and is expected to remain stable over the next several years. The District's tax base is comprised largely of the Town of Ramapo (85% of the tax base) as well as smaller portions of the Towns of Clarkstown and Haverstraw in Rockland County. The District's full valuation has declined at a five-year average annual compound rate of 0.6% in fiscal 2016, which is a significant improvement over 3.6% five-year average decline in fiscal 2015. The District's full value grew 8% in the 2016-17 school year, driven primarily by a decline in major tax appeals, recovery of the housing market coupled with residential and commercial growth.

The public school enrollment is currently 8,547 students and the District anticipates continued modest enrollment growth. The District also has a significant private school population of over 24,700 students, which is projected to continue to grow at 4% to 5% annually. As special education, instruction and transportation costs continue to rise, given increasing enrollment trends, financial operations will remain stressed.

In school years 2015-16 and 2016-17, the District restored several programs and services that it had previously eliminated. In the 2016-17 school year, expenditures rose to $217 million, as the District began to reinstate school programming, including music, arts and athletic programs as well as full-day kindergarten. The District has restored a net total of 105 full-time faculty positions since 2013.

District management initiatives, including properly classifying students and implementing response to intervention programs, reduced the District's special education population from more than 2,100 students in 2015 to 1,900 in the 2016-17 school year, where management expects it to stabilize. As a result, the District expects special education costs to stabilize in the near term. Special education costs reached approximately $63 million in the 2016-17 school year, accounting for 29% of total expenditures, down from 31% in 2015-16. The District slightly reduced its net operating costs for special education after it received $4.8 million in federal IDEA grant funds for 2016-17.

District transportation costs continue to increase due to a growing nonpublic and public school student population. In school year 2016-17, transportation costs increased to $31.1 million, or 14.4% of operating expenditures, compared to $28.7 million or 13.5%

in school year 2015-16. The District expects 5% growth in transportation contract costs per year. The District continues to outsource the majority of student transportation, which is less expensive than owning buses and contracting directly with drivers. The District's state share of approximately 73% on expenditures helps to offset a large share of transportation costs.

The District has issued tax anticipation notes since fiscal year 2013, with amounts varying between $15 million and $17 million, driven by the timing of federal grant reimbursements. The District issued $15 million in tax anticipation notes during the 2016-17 school year. The District anticipates continuing the practice in the near to mid-term. The multiple instances of note borrowing exposes the District to market access risk and interest rate fluctuations.[2]

The District participates in the New York State Teachers Retirement System (TRS) and the New York State and Local Employees Retirement System (ERS), two multi-employer, defined benefit retirement plans sponsored by the State of New York. For school year 2016-17, employer contributions to the plans totaled $14 million, or 6.5% of general fund expenditures. The District provides other postemployment benefits (OPEB) to retirees, the cost of which will remain modest given the financing of OPEB on a pay-go basis. In 2016-17, the District contributed $10 million to OPEB costs, or 4.6% of operating expenditures.

The 2017-18 voter approved budget includes an increase of 3% over 2016-17 and includes no appropriation of fund balance. Property taxes will provide 67% of the District's revenues in 2017-18 while state aid continues to increase, and accounts for 30% of revenues compared to 23.7% in 2010-11. The balance of revenues consists largely of federal aid. Voters have been reluctant to pass budgets in excess of the State levy cap. Voters rejected budgets that included levy increases in excess of the cap in each of the last two years.

Enhanced Programming in the 2016-17 School Year

The 2016-17 voter-approved budget built upon the progress made in 2015-16. The 2016-17 voter-approved budget included:

- Four additional full-day kindergarten classes;
- Instrumental Music or Band or Chorus for Grade 6 Students;
- Visual Arts for Grade 5 Students;
- Increased After-School Music/Arts Enrichment Offerings;
- Enhanced professional development for staff;
- A new Ninth Grade Academy;
- Mentors for Senior High School Students;
- A "STEAM" Science, Technology, Engineering, the Arts, and Math program at Kakiat School starting with the seventh grade;

[2] Moody's Investor Services, Inc., July 2017

- Literacy through Engineering program at Kakiat School; and
- One full-time position to facilitate a strong attendance initiative.

The following programs were requested by the Superintendent but were not included in the budget submitted to the voters:

- Literacy through Engineering program at grades 1-6; and
- Gifted and talented programs for all grades.

Transportation for nonpublic students on days when the public schools are not in session was not included in the budget.

During the 2016-17 school year, the District was eligible for $3 million in reimbursement from State grant funds pursuant to Chapter 89 of the Laws of 2016. The funds were used to fund full-day Kindergarten for all public school students and for the partial restoration of elementary school arts programs.

A $2,497,895 federal School Improvement Grant funded creation of an International Baccalaureate (IB) Program at Chestnut Ridge Middle School which is a Priority School. The full project period for the grant is five years.

The District also received two My Brother's Keeper (MBK) grants. A $150,000 MBK grant for Family and Community Engagement Program is being used to support increased academic achievement and college and career readiness of boys and young men of color while fostering the development of effective relationships with families to promote the success of all students.

A $44,135 MBK Challenge Grant is being used to develop and execute coherent cradle-to-career college strategies aimed at improving the life outcomes for boys and young men of color and develop and sustain effective relationships with families toward the goal of success for all students. Continuation of funding of both MBK projects is contingent upon progress toward meeting achievement goals, leading indicators, fidelity of implementation of required model actions, and maintenance of all grant requirements.

Improved Internal Controls

As noted above, the District generated a 2016-17 budget surplus. To ensure future budgets remain in balance, the District implemented an accounting policy and vigorously monitors expenditures and strengthened the financial management practices:

- All decisions for hiring new staff are made after a thorough assessment of the District's budgeted resources and are based on realistic cost projections;
- The Board receives a list of monthly budgetary reports showing underspent and overspent amounts for each budgetary account;

- District seeks and obtains written or verbal quotations for items not subject to competitive bids;
- The Business Office monitors, analyzes and assesses on an annual basis the District's long-term liabilities including but not limited to compensated absences;
- The Board retained Scholastic Transportation to review the transportation operation and identify strategies to reduce costs and improve efficiency;
- Fuel reports are reviewed by employee/vehicle for excess usage;
- New bus contracts charge the District on a per pupil (as opposed to per bus). Student headcounts are monitored by the Transportation Department to ensure accuracy;
- The Benefits Department is using *WinCap* to track billing for health insurance reimbursements;
- The payroll clerk is comparing totals from time cards to the number of hours input to the payroll edit hours;
- The Purchasing Department is consolidating and cleaning up vendors in the *WinCap* system. The process is expected to be completed by mid-January 2017;
- The District conducted live payroll distributions in two schools in February 2017;
- The Health insurance invoice from NYSHIP is now reconciled to benefit department reports monthly instead of quarterly;
- The Director of Facilities began implementation of a new system to ensure maintenance work orders and field use scheduling are consistently entered into the software application for proper tracking. Implementation of the new system will be completed in October 2017;
- The District researched the cost-benefit of the *WinCap* online time card software (*WinCap Web*) and determined it will be a cost saver. On August 8, 2017, the Board approved the District's request to have the South Central Regional Information Center (SCRIC) at Broome-Tioga BOCES handle *Wincap* software, data, safety and technical support. The BOCES servers will replace the Districts 14-year-old servers. The District will engage with the SCRIC over the next four months to come up with an implementable time card package;
- The District examined the time spent on different areas of maintenance to determine if the District is over or under staffed in any area. A new plan will be in place in October 2017;
- The Monitors worked with the District to ensure preventive maintenance was included in the 2017-18 budget; and
- The District also retains an accounting firm as the internal auditor to look at specific areas of risk each year.

Liabilities

The District addressed the following outstanding liabilities in the 2016-17 school year.

- In 2011-12 the District used approximately $641,000, in lunch funds for capital expenditures that did not receive prior approval by the Department. In addition, there was another $80,000 of disallowances for other years. The district has

begun a payment plan to repay the Education Department $103,000 annually for the next 7 years.
- The District has an ongoing unresolved issue with the Ramapo Central District about the processing of claims for parentally placed nonpublic students with residence in East Ramapo. On June 21, 2016, the District filed an application for “administrative review of a claim for payment” with the Education Department. The amount involved is $183,645 for the fiscal year 2013-14 and 2014-15.
- In April 2016, New York State Insurance Reciprocal (NYSIR) decided to drop coverage for District. This decision negatively impacted the District as it had to seek new insurance coverage in a very short time frame. There was no single insurer that offered to commit to insuring the District. The District’s insurance costs increased by over $900,000 on an annual basis starting July 1, 2016. The District has applied to become self-insured for claims under $100,000 which will reduce premiums.
- In 2011, the District entered an energy performance contract with Johnson Controls, Inc. to install numerous energy efficient controls and devices throughout the District's buildings. It appears a contract was never signed and approved by both parties. The District was unable to secure financing for the project and was unaware that work had commenced. Johnson Controls claimed to have done close to $1.9 million of work. The District believed it should not be required to pay Johnson Controls the required amount as funding was not secured prior to Johnson commencing work done. This matter proceeded to mediation. The Board approved agreement between the District and Johnson Controls to pay $1 million over a five-year period starting in fiscal year 2017-18. The District’s 2017-18 proposed budget will include the first payment of $200,000.

Implementation of Chapter 89 of the Laws of 2016

Chapter 89 of the Laws of 2016 required the District to create three major plans in collaboration with the community stakeholders and the state monitors:

1) Long-term (2016-2020) strategic academic plan;
2) Long-term fiscal improvement plan; and
3) Expenditure plan outlining the use of the $3 million in State funding, which the District used in the 2016-17 school year to implement full-day kindergarten and restoration of arts programs in the elementary schools.

The 2016-17 educational investments funded with the $3 million in State funds were aligned with the State Monitors’ Recommendations 8 and 10 included in the December 14, 2015 “Opportunity Deferred” report. Both the fiscal improvement plan and the comprehensive expenditure plan for the additional $3 million in State funds were developed in compliance with Chapter 89 of the Laws of 2016 and in consultation with the State monitors.

Together, the three plans addressed the core areas identified as needing improvement, either by state-appointed monitors or by the District and community itself through the root-cause analysis exercise that was conducted during the development of the strategic academic plan. The strategic academic plan provides measurable objectives and explicit strategies to address areas where improvements were needed, including but not limited to:

- Financial stability;
- Academic opportunities and outcomes for all students;
- Education of and accelerated rates of success for students with disabilities;
- Education of and accelerated rates of success for English language learners; and
- Compliance with applicable state and federal laws and regulations.

The fiscal improvement plan aligned fiscal resources with strategic academic plan, noted risks and liabilities, identified internal control improvement opportunities and examined long-term fiscal sustainability.

The Commissioner of Education approved the District's plans on September 26, 2016. Full-day kindergarten for all students and arts programming started October 6, 2016. The District submitted an expenditure report in June 2017 and received its funds prior to the end of the school year. The enacted 2017-18 State Budget continues the $3 million in State funding (section 48 of Part YYY of Chapter 59 of the Laws of 2017).

Recognition of Improved Fiscal Condition

Two groups, the State Comptroller and Moody's Investor Services, Inc., recognized the district's improving fiscal condition. The Comptroller rates and groups districts into one of four fiscal risk categories: Significant Fiscal Stress, Moderate Fiscal Stress, Susceptible Fiscal Stress and No Designation. The Comptroller upgraded the categorization of East Ramapo from significant stress in the prior two years to moderate fiscal stress in January 2017.

Primary reasons for the District's upgrade include restoration of fund balance and several years of balanced budgets. The Comptroller's report on East Ramapo's fiscal condition may be found on the Comptroller's website.

Moody's Investor Service upgraded the outlook for the District from negative to stable for general obligation bonds in July 2017. The District's Baa2 bond rating remains and reflects ongoing weakness in the District's financial position, despite recent balanced budgets. Due to limited liquidity, the District has been a consistent issuer of cash flow notes to fund operations until receipt of state grants. The rating accounts for the District's substantial tax base, average wealth levels, and minimal debt burden with rapid amortization of principal.[3] Moody's stable outlook reflects expectations that the balanced financial operations achieved over the last several years are sustainable.[4] Moody's expects the District's debt position to remain manageable given a low net direct debt burden of less than 0.4% of full value, including bond anticipation notes to be refinanced long term over the next several years, and expected amortization of 100% of principal, not including BANs that will be refinanced, within 10 years.[5] Moody's also expects the debt burden to remain manageable at 2.9% of full value when overlapping obligations are incorporated.[6]

Future reviews by Moody's will focus on the District's ability to build and maintain adequate reserves as it improves funding of discretionary programs and borrows to pay for facility maintenance that has been deferred over the last several years. Moody's also reported:

The District's credit strengths include:
- Substantial tax base;
- County remits full property tax levy to District; and
- Low debt burden with rapid amortization of principal.

The District's credit challenges include:
- Limited reserves;
- Reliance on state funding;
- Reliance on cash flow borrowing;
- Limited revenue raising ability; and
- Very large nonpublic school population.

The following factors could lead to an upgrade:
- Sustained trend of surplus operations resulting in improved reserves and liquidity; and
- Decreased reliance on cash flow borrowing.

The following factors could lead to a downgrade:
- Further deterioration in financial position; and
- Significant increases in debt burden.

Additional information about the district's credit is provided on Moody's website.

School Facility Improvements

The District's voters approved bonding $58 million in capital projects and $1.1 million in EXCEL projects on December 6, 2016. The projects address the District's most critical

[3] Moody's Investor Services, Inc., July 2017
[4] Moody's Investor Services, Inc., July 2017
[5] Moody's Investor Services, Inc., July 2017
[6] Moody's Investor Services, Inc., July 2017

infrastructure needs. The projects are divided into three phases and are slated to be completed by November 2020. To date, the District has issued $19 million in bond anticipation notes for the first phase of the project, which it plans to roll over for the next three years before converting to long-term debt. The current state building aid ratio, which assists with offsetting some of the debt burden, is 56.4%. The tax impact of the projects will be minimal due to the retirement of existing debt and reimbursement by the state. The Board selected the GEA Group to serve as construction management firm to oversee the construction. In addition, the Board created a broad-based Bond Committee to keep the community informed of the status of the facility improvement projects.

Major elements of the school facilities renovation program include:

- Window replacements at Spring Valley High School, Summit Park Elementary, Ramapo High School, Fleetwood Elementary, Chestnut Ridge Middle School, Kakiat Elementary and the administration building;

- Window hardware replacements at Eldorado Elementary, Hempstead Elementary, Elmwood Elementary and Lime Kiln;

- Roof replacements or renovations at the District's 14 schools and administration building;

- Skylight replacement at Chestnut Ridge Middle School and Kakiat Elementary;

- Boiler replacements in Fleetwood Elementary, Pomona Middle School, Summit Park Elementary, Chestnut Ridge Middle School, Grandview Elementary, Hempstead Elementary, Elmwood Elementary, Kakiat Elementary, Lime Kiln Elementary, Ramapo High School, Eldorado Elementary and Administration Building;

- Replacement of heating/ventilation units at Lime Kiln Elementary, Eldorado Elementary and Chestnut Ridge Middle School;

- Bleacher replacement at high school athletic fields, broken sidewalk replacements, installation of artificial turf fields at Spring Valley High School and Ramapo High School;

- Upgraded security system, renovations in K-8 classrooms to add science labs and special education classrooms and installation of a Wi-Fi network for every classroom and office; and

- Windows and doors at Kakiat and Fleetwood elementary schools.

2017-18 Adopted School Budget

The 2017-18 school budget is fiscally in balance with project revenues of $231,084,269 and expenses of $231,084,269. The tax levy will increase by 1.48% versus 1.69% for the 2016-17 school year budget. The budget does not exceed New York State's maximum allowable tax levy increase which is calculated by the State Comptroller's Office. The 2017-18 tax levy is $151,461,007. The general fund will increase by 2.99% for full-day kindergarten and elementary arts programs. The budget continues the trend of adding and strengthening the academic program but does not include an allocation for transportation to nonpublic schools on days that public schools are closed.

Noteworthy budget additions for 2017-18 include:

Summer Academies:

- Instrumental music summer camp for 400 students in grades 4-8
- Computer sciences summer academy for 250 students in grades 2-8
- Health sciences summer academy for 250 students in grades 2-8
- Extended school year program for 266 students in grades K-8
- Students with interrupted instruction program for 60 students in grades 9 and 10

Programs for Strengthening Elementary Education Instruction:

- Maintains full-day kindergarten
- Expands "The Arts" instruction (3 teachers)
- Expands English as a New Language (ENL) and bilingual instruction (5 teachers)
- provides new academic standards facilitators

Programs for Strengthening Middle Education Instruction:

- Expands "Arts" instruction
- Provides additional ENL instruction (3 teachers)
- Provides New Academic Standards Facilitators
- Adds Grade 8 to Kakiat STEAM program
- Balances enrollment in the middle schools

Programs for Strengthening High School Graduation and Readiness for College and Careers:

- Reframes the high school schedule
- Additional support for effective instruction (8 teachers)
- Implements collaborative teacher model
- Provides new academic standards facilitators
- Expands ENL and Bilingual instruction (4 teachers)
- New schedule for all students which frees up more time for elective classes

Programs for Strengthening Special Education Instruction:

- Creates 24 collaborative classes for Grades 3-12
- Increases clinical services in the areas of speech and language, occupational, behavior specialists

Recommendations

In addition to continued focus on improving instruction, the monitors have several recommendations to improve transparency and communication regarding the District's fiscal matters.

We recommend the Board and Administration create a Budget Advisory Committee. The role of a Budget Advisory Committee is to provide advice and direction and meet periodically to examine the entire budget. While the Board of Education has final approval authority for the budget presented to the voters, creating a Budget Advisory Committee can improve transparency, foster greater communication and trust, and help build community support for the school budget.

We suggest a committee with the following structure:

- Members consist of Board members and community representatives.
- Committee members appointed by open vote of the Board as openings occur.
- Members serve fixed terms and receive no compensation for their services.
- Members reside within district, are registered to vote, and are not district employees.

Second, we recommend that the District develop a regular form of communication to share the many improvements the school district is making to improve academic opportunities for its students. This may be accomplished by a school newsletter and/or posting additional information and videos related to student activities, student achievement and the school facility improvements on the District's website.

Third, we recommend that the District review the nonpublic student textbook loan program and work with nonpublic school administrators to develop a list of approved textbooks.

Fourth, we recommend the Board convene a working group to look at issues regarding nonpublic school transportation including options for better alignment of the public and nonpublic school calendars.

Finally, we have seen that while some polling sites are overcrowded, voter turnout at other sites is surprisingly low. The monitors request that the Board work with us to convene community meetings this fall to gather input from the entire community to help inform them as to whether any changes to polling site locations are needed.