

*2021-22 East Ramapo School District
Budget Analysis and Recommendations*

April 19, 2021

(REVISION #3)

Bruce Singer- NYSED Fiscal Monitor

Summary

Pursuant to the requirements of Chapter 89 of the Laws of 2016, as amended by Chapter 57 of the Laws of 2017 and Chapter 56 of the Laws of 2020, the East Ramapo Central School District (ERCSD or “the District”) in consultation with the Monitors that the Commissioner of Education appointed to the District, submitted to the Commissioner in March 2021 the District’s proposed budget for the 2021-22 school year. The following report summarizes the Fiscal Monitor’s (“the Monitor”) findings in regard to the 2020-21 current school year budget and the 2021-22 school year proposed budget. The report concludes with the Monitor’s recommendation that the Commissioner approve the proposed budget because despite the many fiscal challenges the District has faced in the 2020-21 school year, the Monitor is confident that the proposed 2021-22 school year budget is balanced, expands educational programming for students, and appropriately accounts for the substantial increases in State and federal aid that the District will receive in the 2021-22 school year.

2020-21 School Year Budget

The Monitor’s review of the ERCSD 2021-22 school year proposed budget started during fall 2020. The Monitor began by seeking to address the question of what the projected year-end (June 30, 2021) fund balance for the District’s 2021-22 school year budget would be. During October 2020, the Monitor posed this question to the Chief Fiscal Officer (CFO) whose response led to the Interim Superintendent, Dr. Ray Giamartino, uncovering a series of improper and non-standard budgeting practices, a significant revenue shortfall for the 2020-21 school year, and a lack of checks and balances in the District’s fiscal controls. At the time of the submission of this report in April 2021, the auditing of the 2020-2021 school year budget remains in process. While the auditing is being conducted, the Interim Superintendent and the District’s new Interim Business Official are working diligently to rectify the long-standing irregular fiscal practices that have been utilized in the District. To further the efforts of Interim Superintendent Giamartino to implement best fiscal and industry standard review (and auditing) practices, the Office of State Comptroller (OSC) and the ERCSD Internal Auditor, Tobin Associates, Certified Public Accountants (CPA), have been performing augmentative financial audits.

Interim Superintendent Giamartino has maintained a tenacious focus on both fiscal and instructional standards and has been relentless in seeking to rectify the many poor past practices of the ERSCD Business Office. Equally of note, between December 2020 and February 2021, three executive cabinet administrators have exited the District: The Assistant Superintendent for Human Resources retired December 31, 2020; the CFO resigned February 2021; and the Senior Accountant resigned December 2020. These departures resulted in a loss of institutional knowledge, which was exacerbated by the lack of coordinated fiscal standards of practice in the Business Office. Ms. Linda Macias, Interim Business Official, was appointed in February 2021 and has been working side-by-side with the Interim Superintendent and the Interim Executive Director of Grants and Program Accountability, Dr. James Maddison, to ensure that internal audits result in the development of an accurate 2021-2022 school year budget. Ms. Macias hard work and dedication needs to be acknowledged; especially given the limited technical support she has received.

This Monitor, in collaboration with the Interim Superintendent and his core team, has also uncovered discrepancies with the District Treasurer's report, which is now being audited. In his interactions with the Monitors, Dr. Giamartino has been more transparent and collegial than the prior administration and has made financial and other related information readily available. This openness and transparency by Dr. Giamartino is critical to understanding the Monitor's findings and recommendation to the Commissioner.

In January 2021, the CFO produced five-year budget projections based on voter support for various tax levy levels. These projections included the presumption that the current year school budget would result in a June 30, 2021 deficit of \$30 million. This was the first time that the CFO had informed the District administration and the Monitor that the District was at risk of ending the year with an extremely large deficit. Such a deficit could be catastrophic for the District as its resolution could require massive mid-year reductions in services and/or short-term borrowing that could adversely affect future year budgets.

The District immediately began conversations with Hawkins, Delafield, Bond Council; Capital Markets, Fiscal Advisors; and District administration, all sessions of which included this Monitor. These sessions led to the discovery that the District had not only been engaged in a years-long practice of underbudgeting certain District expenses but also that the immediate past CFO had sought to use \$22 million in anticipated Coronavirus Aid, Relief, and Economic Security (CARES) Act funding to address the 2020-2021 school year deficit, even though by law approximately \$16 million of that funding must be used to provide equitable services to nonpublic school students and thus would not be available to pay for public school expenses. Given that without an infusion of cash, the District would run out of money by the end of April 2021 and would be unable to meet its payroll and other obligations, the District administration determined that three debt instruments totaling \$36 million would be required to be issued - a Revenue Anticipation Note, a Deficiency Note, and a Budget Note - to address the 2020-21 school year revenue shortfall.

The CPA firm, Nawrocki Smith, has validated and confirmed the required cash flow for the three debt service instruments, which was prepared by the Interim Business Official. All cash flow requirements have been met to the legal satisfaction of Hawkins, Delafield, Bond Council, and Capital Markets, Fiscal Advisors. The cash flow validation has led to Bond Counsel and Fiscal Advisors recommending to the ERSCD Board of Education that it approve resolutions to issue the three debt service instruments. These resolutions were approved at the April 13, 2021 Board of Education meeting.

The Budget note was finalized at \$8.8 million, the Deficiency Note at \$12.2 million, and the Revenue Anticipation Note at \$15 million. These notes collectively equal five percent of the District budget and were issued at these levels in order to ensure the fiscal stability of the District for the remainder of the 2020-21 school year.

Nawrocki Smith has calculated that the Projected Year End - June 30, 2021 Fund Balance deficit will be -\$29.5 million. The year-end projected negative fund balance validates the financial information presented to the Board of Education beginning in January 2021. A complicating factor is that District leadership continues to find additional budget issues, including those related to the District's history of non-compliance with timely billing practices that have resulted in constricted reimbursements on the revenue side, presently inclusive of health services, foster care, and nonresident tuition.

The financial software of the District, WINCAP, does not currently reconcile to the voter defeated May (2020) 2020-21 school year budget, nor did the previous Superintendent or immediate past CFO reconcile the failed budget to align with the necessary Contingent Budget numbers. Because of the defeat of the proposed 2020-21 school year budget, a \$2 million reduction in that budget should have been made but was not. Reconciliation of the budgets will lead to better daily management controls. Nawrocki Smith and the Interim Budget Official are in the process of reconciling all accounts. Nawrocki Smith has been engaged to validate assumptions made by the ERSCD Business Office related to the 2020-2021 school year budget. This process is near completion.

OSC is currently auditing the 2020-21 school year budget as well as the 2021-22 proposed school year budget. As the OSC audit generally takes a few months to finalize, any recommendations or suggestions to improve internal controls shall be implemented in the 2021-22 school year.

In addition to the OSC audit, two additional audits of the 2020-21 and 2021-22 school year budgets are being conducted by the CPA firms Nawrocki Smith and Tobin Associates, which are performing internal audits.

Collectively, the results of these audits should give the District a high degree of confidence that any prior budgeting practice irregularities will be identified and a plan of action to cure improper or sub-standard budgeting practices will be developed and implemented.

Despite the challenges that the District has faced during 2020-21 school year that has led to the issuance of bond instruments mid-year, the Monitor has determined, as described in the next section of the report, that the 2021-22 school year budget will be balanced. Given that Nawrocki Smith has validated the June 30, 2021 Year End Fund Balance estimate, the Monitor is confident that there are sufficient funding sources through the issuance of the three debt service instruments and the additional State Aid to be received so that the instructional programs and level of personnel support planned for in the 2021-22 school year budget will not be affected by whatever is the ultimate determination regarding the 2020-21 end of year fund balance.

2021-2022 School Year Budget

The 2021-22 proposed budget is \$272,449,633 and includes a Tax Levy of \$154,490,227. The proposed budget is built to support the ERSCD mission of “educating the whole child by providing a healthy, safe, supportive, engaging, and challenging learning environment.” The proposed 2021-22 school year budget was approved by the ERSCD Board of Education at its April 13, 2021 meeting. The State enacted budget for the 2021-22 school year significantly increases State Aid for ERSCD. General State Aid increases by \$40 million from \$54 million to \$94 million. Additionally, the District is anticipating receiving \$66,418,114 in Elementary and Secondary School Emergency Relief (ESSER) funds authorized under the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act plus another \$150,445,511 under the American Rescue Plan Act. The use of these monies shall be accounted for in the Special Aid Fund. The revenues and associated expenditures shall be in accordance with applicable guidelines, rules, and laws.

Expenditure Analysis

The categories of expenditure that reflect the largest increase are as follows:

CARES Funds payable to Nonpublic Schools

This is a newly created budget line to account for the CARES funds that are used to provide equitable services to nonpublic school students (\$15.8 million). As of the writing of this report, the New York State Education Department had not yet approved the District’s CARES Act application. Upon approval of ERSCD’s application, the District will be entitled to receive an initial 20% payment, which will assist the District to address cash flow issues.

Transportation Expenses

The 2021-22 school year transportation budget reflects an increase of 26%, or \$9.3 million, over the 2020-21 school year budget. These increased transportation costs are due primarily to enrollment increases, underfunding of the 2020-21 transportation budget, and savings that were anticipated but not achieved during the 2020-21 school year that will carry over to the 2021-22 school year. The 2021-22 budget better estimates annual transportation expenditures as compared to previous budgets. For the past several years, nonpublic enrollment increases have averaged 1,500 students. These additional students cost approximately \$1.5 million to \$2 million annually above the initial transportation budget. Therefore, a placeholder of \$2 million has been added as

“Transportation – Enrollment Increase.” In total, the transportation budget has increased \$11.3 million (\$9.3 million + \$2 million). Transportation bids have been let, and rejected, due to the large increase in bussing costs as proposed in the bids. The District is currently reviewing all options.

Salaries and Benefits

The projected 2021-22 school budget includes \$168,531,692 for salaries and benefits, an increase of \$6,937,446 (4.3%) from the 2020-21 school year budget of \$161,594,246.

All existing instructional and non-instructional salary budget lines have been increased by 5% to account for level and step increases.¹ All benefit budget lines have been increased by 3%. The proposed 2021-22 school year budget includes money for unsettled contracts, salary increases, and unknown COVID cleaning overtime. There are sufficient monies in the proposed 2021-22 school year budget to account for these expenditures. The District is currently attempting to reconcile the Human Resources Department records with the Business Office records. Tobin Associates, CPA has made note of this issue in their Internal Audit dated June 30, 2020. The previous administration did not address this audit comment. This is in the process of being rectified.

Seven (7) new social worker positions have been budgeted to focus on student social-emotional and attendance-specific supports. These social workers will provide targeted student supports in the areas of social-emotional learning, Adverse Childhood Experiences (ACEs), student-parent-school partnerships, increasing average daily attendance, and reducing rates of incident-based behavioral recidivism.

The District has determined that in many schools, the District is overstaffed with either grade-level or science lab-based personnel. Consequently, the District is working to ensure parity across schools, grade-levels, and departments while simultaneously ensuring appropriate student supports remain in place. This “leveling” process will increase (master) scheduling efficiencies and allow the District to balance personnel needs through attrition.

Supplies, Materials, and Contractual Services

The projected 2021-22 school year budget includes \$28,434,103 for these categories, an increase of \$565,685 (2%) from the 2020-21 school year budget of \$27,868,418. The 2021-22 budget increase is related to purchase of mandated assistive technology devices and other special education related equipment.

All other supplies, materials, and contractual budget lines in the 2021-22 school year proposed budget are the same as in the 2020-21 school year budget. It must be noted that Interim Superintendent Giamartino made many drastic reductions in numerous (outside) contractual agreements during the 2020-21 school year with the targeted intent and result of building internal capacity among building- and district-based personnel. By reducing such expenditures by several

¹ In each contract there is a matrix that determines the increase in salary each employee receives for each year of service up to a maximum number of years. These are called steps. Staff who pass Civil Service examinations, complete additional educational credit, or earn a new degree may also be eligible for salary increases. These salary adjustments are called lane changes.

million dollars, allowing more resources to be focused specifically on building internal capacity through professional learning. Among the key topics being addressed are:

- Academic, Behavioral and Credit Attainment Goal and target setting
- Increasing student's average daily attendance and reducing rates of behavioral recidivism
- Modeling Action Plan Development
- Guiding the District Comprehensive Improvement Plan (DCIP) and School Comprehensive Education Plan (SCEP) processes
- Having Executive Cabinet team members develop their budgets using a zero-based budgeting framework as opposed to having external consultants drive the system.

These savings will be on-going during the 2021-22 school year. Contracts in the Transportation Office, Office of Federal Funds, and Instructional Office have all been reduced during the 2020-21 school year as well, and these savings will be carried forward to the 2021-22 school year.

Debt Financing

The proposed 2021-22 school year budget includes payments (principal and interest) of \$15 million for the Revenue Anticipation Note (RAN), \$12.2 million for the Deficit Note, and \$8.8 million for the Budget Note. These three debt instruments were necessitated in large part because ERSCD did not budget for the offset of CARES Act funding in State Aid during the 2020-21 school year. All three debt service instruments will be paid in full during the 2021-22 school year. Last summer, after Governor Cuomo announced the reduction in 2020-21 State Aid, this Monitor repeatedly cautioned the Board of Education and the prior District administration that the 2020-21 school year budget was not balanced; yet no remedial action was taken.

Revenue Analysis

State Aid

The New York State Budget was adopted on April 6, 2021 (as previously noted in this memo). State Aid for the District increased by \$40,045,872 from \$53,647,468 in the 2020-21 school year to \$93,693,430 for the 2021-22 school year. In addition, the District estimates it will receive \$66,418,114 of federal CRRSA funds and \$150,445,511 of American Rescue Plan funds, which the District must use by September 30, 2023 and September 30, 2024 respectively. The combination of the additional State and Federal aid bodes well for the fiscal stability of ERSCD over the next several years. This Monitor has cautioned the Board of Education that the Federal Stimulus monies are non-recurring revenues. The use of these additional monies must be judicious so as to maximize their impact over the next several years. The Monitor has cautioned the Board of Education that there is the potential for a future "fiscal cliff" if Federal stimulus aid is used to pay for recurring expenditures.

Tax Levy

The proposed Tax Levy reflects a zero percent increase. The Board of Education approved the staff recommendation that the current Tax Levy remain flat for the proposed 2021-22 school year budget. It would be extremely difficult to persuade the community to approve a tax levy increase

in a year in which the District has received millions more in State and federal revenue, especially given that the community has defeated three out of the five most recent budget proposals. The East Ramapo community is extremely hesitant to approve a tax levy increase. The contingent 2021-22 school year budget is equal to the proposed 2021-22 school year budget. No changes or reductions will be required in the event that the proposed 2021-22 school year budget does not receive voter support. As a result of no proposed increase in the tax levy, the amount of the anticipated revenue in the 2021-22 school year is \$154,490,227, unchanged from the 2020-21 school year.

Expanding Learning Opportunities for Students

As noted previously, the proposed budget provides for the hiring of seven new social workers who will address a priority recommendation of the State Monitors in their 2019-20 school year annual report.

The District will in the 2021-22 school year work to reestablish and reinstitute the District's athletic program. The 2021-22 school year proposed budget increases funding for athletics by \$62,622 to ensure that students and personnel have the necessary resources and instructional equipment to support applicable programming.

The District will also in the 2021-22 school year realign class and section counts, by grade level, by school, to ensure more efficient assignment of personnel, which should result in reduced class sizes in a number of grades in some schools.

The District has budgeted to significantly increase enrollment in the 2021-22 school year in the District's Extended School Year programs for students with disabilities and Expanded School Year for students in grades K-12. New options will be provided, and all programs will be inclusive of literacy and numeracy development as well as credit recovery for secondary students. Models will be reflective of arts integration; Expeditionary Learning; bilingual development; physical movement; and Science, Technology, Engineering, Arts and Mathematics (STEAM) instruction, all undergirded by social-emotional learning-based programming. Examples of Expanded School Year options that may be offered include:

- Fine and Performing Arts Academy
- Digital and Media Institute
- Expeditionary Adventure Academy
- Science Exploration Academy
- Bridge to the Finish Line/Secondary Credit Recovery and Credit Attainment
- English as a New Language Enrichment

The District is finalizing an updated agreement with Rockland Community College to provide students opportunities to enroll in dual credit courses, with the goal of expanding the program to allow ERSCD students to be able to obtain an Associate's degree upon graduation. from high school.

Overall Summary and Recommendations

Pursuant to Chapter 89 of the Laws of 2016, as amended by Chapter 57 of the Laws of 2017 and Chapter 56 of the Laws of 2020, this Monitor recommends that the Commissioner of Education approve the ERCSD 2021-22 school year proposed budget without amendment as the Monitor finds that the proposed budget is balanced within the context of revenue and expenditure estimates and mandated programs, expands educational programming for students, and appropriately utilizes the increased aids the District will receive. Such has been explicitly supported and confirmed by outside audits and CPA partners and a comprehensive review completed and affirming such vis-à-vis the Office of the New York State Comptroller.