



Enlarged City School District

"Committed to Excellence"

**Kaufman Center**  
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May 5, 2015

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Ms. Gabriel F. Deyo  
Deputy Comptroller State of New York  
Office of the State Comptroller  
110 State Street  
Albany, New York 12236

Dear Ms. Deyo:

Please consider this letter to be our formal response and Corrective Action plan associated with a recently conducted review of the Cortland Enlarged City School District's budget for the 2015-16 fiscal year.

**Finding #1 – Appropriations**

**Office of the State Comptroller statement:**

*The Board has a responsibility to taxpayers to estimate appropriations as accurately as possible to prevent the levy of more real property taxes than necessary to sustain District operations. Effective budget preparation requires an accurate assessment of spending needs and the means to finance those needs. It is important for spending estimates to be developed based on past expenditure trends, anticipating future needs and discretionary services planned for the ensuing year.*

*The District's proposed budget for payroll, health insurance, retirement, debt and utilities exceeded the District's supporting documentation for those items. Consequently, the District has overestimated appropriations by \$3.2 million as follows: payroll (\$1.2 million), health insurance (\$400,000), retirement (\$1.1 million), debt (\$175,000) and utilities (\$333,000). The majority of these appropriations are contractual obligations which District officials should be able to accurately estimate based on available supporting documentation. We recommend that the District create budgets that are reasonable and based on prior years' actual amounts with appropriate increase.*

**District's Response:**

As was explained to the Office of the State Comptroller's representative during the budget review, the District took several factors into consideration when developing the 2015-2016 budget for the above items. Specifically:

**Payroll** – While payroll expenditures are in part based upon contractual obligations, a variety of factors such as on-going labor negotiations, additional payments for staff development and extra hours for overtime result in a need to budget money beyond exact contract salaries. It is important to note that no dollar recommendation was offered by the Office of the State Comptroller's representative as to what a "reasonable" amount would be.

**Health Insurance** – The 2015-2016 health insurance rates have not been set, resulting in an estimated budget number of a 5% increase. Health insurance is a volatile number given the new requirements associated with the Affordable Care Act and the District's first year of expenses associated with it.

**Debt** – The District's debt service payments will total over \$3.5 million in the 2015-2016 school year for Capital Projects and Transportation Vehicles. These payments generate building aid and transportation aid and are estimated as closely as possible.

**Utilities** – The District is completing a school year that saw temperatures go down as utility costs went up. In addition, the District's natural gas and electricity contracts expire at the end of the 2014-2015 school year and the new contract unit pricing is an increase over the current contract resulting in the need to increase the utility budget to remain in line with anticipated costs.

**Variables** – No mention was made in the Office of the State Comptroller's letter about variables over which the District has no control. For example, on April 27, 2015 districts across New York State received a document entitled *Smart Schools Bond Act Implementation Guidance*. Embedded within this 21 page document is a statement that says: *Once an approved purchase is made and the request for reimbursement is received and approved, the New York State Education Department will authorize payment and the funds will be paid to districts within 90 days in most cases.* The Cortland Enlarged City School District allocation of funds is \$2,270,295; an amount the District must spend first and then request reimbursement.

Another section of the document states: *After consultation with the Office of the State Comptroller, supplemental guidance will be issued detailing the account codes to be used for Smart Schools Bond Act revenues and expenditures.* Because no information is currently available regarding the appropriate accounting for these funds, an assumption must be made that the expenditure will be made from the 2015-2016 General Fund and the revenue accounted for when received several months later.

**District's Corrective Action Plan:** The District appreciates review of the above mentioned items and will communicate more thoroughly with the next Office of the State Comptroller representative so he has a deeper understanding of the budgeting process.

### **Finding #2 – Reserve Funds**

#### **Office of the State Comptroller statement:**

*The District plans to use \$5 million of its reserve funds to help fund appropriations in the upcoming fiscal year, including \$2 million of its retirement contribution reserve fund. However, this reserve fund can only be used to pay for retirement contributions. The 2015-16 estimated cost for retirement contributions to the New York State and Local Employees' Retirement System totals approximately \$760,000. Therefore, using the remaining \$1.2 million to fund other expenditures of the District is not an appropriate use of this reserve. We recommend the District identify alternate sources of revenue or adjust their appropriations estimates. District officials should also analyze their planned use of reserve funds to ensure they will be able to legally use them as a financing source.*

**District's Corrective Action Plan:** Prior to June 30, 2015 a recommendation will be made to the Board of Education to align reserve funds to represent appropriate use. The District welcomes the Office of the State Comptroller's assistance to "identify alternate sources of revenue".

### **Finding #3 – Operating Deficit**

#### **Office of the State Comptroller statement:**

*Our estimate of revenues, excluding the use of fund balance and reserve funds, is less than our estimate of total appropriations by approximately \$2.3 million which would create an operating deficit for the third consecutive year. In fact, we estimate that from 2013-14 through our projections for 2015-16, the District will use \$6.2 million in fund balance and reserve funds. The District has significant balance in reserve funds that are*

*available for appropriations for specific; however, fund balance is a finite financing source that should not be relied on year after year. Continued reliance on using fund balance to fund District operations will eventually deplete fund balance. After considering the District's planned use of \$500,000 of appropriated fund balance for the 2015-16 budget, the District's unassigned fund balance for the 2014-15 year end is only \$200,000, or 0.4 percent of the ensuing (sic) year's appropriations. We recommend the District examine the use of fund balance and reserve funds as a recurring financing source and consider reductions in appropriations which, as stated previously, are overstated by about \$3.2 million.*

**District's Response:** The District does not dispute some of the numbers stated in Finding #3. However, when placed in a retrospective and prospective context a more accurate view emerges. From an historical perspective, in 2007 the State's highest court forced the State of New York (following a successful lawsuit filed by the Campaign for Fiscal Equity) to substantially increase financing to poor school districts; including the Cortland Enlarged City School District. In the 2008-09 school year, the District Foundation Aid funding increased minimally, in accordance with the above mentioned ruling. In the 2009-2010 school year to the present the New York State Court of Appeals ruling has been virtually ignored resulting in a loss of \$51,457,155 in aid to the Cortland Enlarged City School District. *(please see attached documents)* Additionally, from the 2009-2010 school year to present the District's Gap Elimination Adjustment (the amount of money taken from the District's state aid on an annual basis to balance the State Budget) equals \$9,713,963, for a total of \$60,861,118 in eight years. Given an average annual loss of approximately \$7,607,940 in state funding, it is easy to understand the challenges the Cortland Enlarged City School District and most other low wealth Districts have faced, and yet persevered.

**District's Corrective Action Plan:** The District will continue to monitor Campaign for Fiscal Equity legal activities and potential legislation that retroactively and prospectively makes the District whole for the above mentioned funds due.

#### **Finding #4 – Tax Cap Compliance**

##### **Office of the State Comptroller statement:**

*The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of the voters approve a budget that requires a tax levy that exceeds the statutory limit.*

*The District's proposed budget complies with the tax levy limit because it includes a tax levy that is within the limits established by law. In adopting the 2015-16 budget, the Board should be mindful of the legal requirement to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it obtains the proper voter approval to override the tax levy limit.*

**District's Response:** The District takes its legal responsibilities very seriously and on April 20, 2015 the Board of Education adopted a budget that complied with Chapter 97 of the Laws of 2011. Likewise, the District is hopeful that the State of New York will comply with the 2007 New York State of Appeals court ruling regarding the increase of funding to financially deprived school districts. No Corrective Action Plan is required on the part of the District. It should also be noted that the allowable tax levy limit for the 2014-2015 school year was 6.8% yet the District chose a rate of 2.9%; far below the "limit" calculated by the Comptroller.

In conclusion, while your recent budget review was not an audit but rather a snapshot in time, it should be noted that the last Office of the State Comptroller audit (2012) as well as the District's annual external audit provide a much more comprehensive and beneficial analysis. Through this process, the District continues to receive excellent financial reviews and in fact is complimented on our financial management. These documents are available for public review.

I believe I have adequately addressed all areas of the written review. Please feel free to contact me if you require clarification or further information.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Hoose".

Michael Hoose  
Superintendent of Schools

MJH/mjb

cc: Margaret Boice, Interim Director of Business Services  
Margaret Baccaro, Clerk of the Board  
J. Francis Manning, District Superintendent – BOCES  
Beth Berlin, Acting Commissioner, State Education Department  
Maria Guzman, Director, Office of Audit Services, State Education Department  
Andrew A. SanFilippo, Executive Deputy Comptroller  
H. Todd Eames, Chief Examiner  
CECSD Board of Education

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|--|--|---|--|---|---|
| Enter YOUR BEDS Code to the Right -->-->-->-->   | 110200   | <u>The Current Foundation Aid Formula - It has never come true, never been actually fully funded, and annually falls farther from the reality of it's own goals of equity, transparency and predictability.</u> |  |   | <div>SSFC</div> <div>THE STATEWIDE SCHOOL FINANCE CONSORTIUM</div> <div>Dedicated to Secure Equitable Funding for New York State Public Schools</div> |
| If You Need Help to find your district BEDS Code next tab below  | Sadly, it is possible to be <i>Poorer</i> and "Overfunded" or <i>Wealthier</i> and "Underfunded" based on the current formula, As Save Harmless grows for the Wealthiest Districts that are "Overfunded", an easy political remedy to the current Foundation Aid formula will be grow more remote. |   |  |   | Press <b><u>Control P</u></b> to Print Your Document and Graph  |
| District Name  | E(FA0198) 00 2007-08 FOUNDATION AID  | Z(FA0193) 00 2010-11 TOTAL FOUNDATION AID*  | Difference 2007-08 and 2010-11 Foundation Aid Fully Funded           | % Fully Funded (2010-11 Phase -In)            | OVERFUNDED FOUNDATION AID   |
| CORTLAND   | \$16,280,307   | \$23,758,311  | (\$7,478,004)  | 68.5%   | \$0   |
| County   | E(FA0198) 00 2008-09 FOUNDATION AID  | Estimated 2010-11 Foundation Aid Full*  | Difference 2008-09 and 2010-11 Foundation Aid Full                   | % Fully Funded (2010-11 Phase -In)            | OVERFUNDED FOUNDATION AID   |
| Cortland   | \$18,215,631   | \$24,531,537  | (\$6,315,906)  | 74.3%   | \$0   |
| COMBINED WEALTH RATIO (CWR) FOR 14-15 AID  | E(FA0198) 00 2009-10 FOUNDATION AID  | Estimated 2010-11 Foundation Aid Full   | Difference 2009-10 and 2010-11 Foundation Aid Full                   | % Fully Funded (2010-11 Phase -In)            | OVERFUNDED FOUNDATION AID   |
| 0.535  | \$18,215,631   | \$25,483,281  | (\$7,267,650)  | 71.5%   | \$0   |
| FRP LUNCH %, K-6, 3-YEAR AVG.  | E(FA0198) 00 2010-11 FOUNDATION AID  | Estimated Foundation Aid Full*  | Difference 2010-11 and Foundation Aid Full                           | % Fully Funded (Full Phase -In)               | OVERFUNDED FOUNDATION AID   |
| 0.537  | \$18,215,631   | \$27,107,998  | (\$8,892,367)  | 67.2%   | \$0   |
| CWR Decile 1=Lowest 10=Highest   | E(FA0198) 00 2011-12 FOUNDATION AID  | Estimated Foundation Aid Full*  | Difference 2011-12 and Foundation Aid Full                           | % Fully Funded (Full Phase -In)               | OVERFUNDED FOUNDATION AID   |
| 3  | \$18,215,631   | \$26,856,420  | (\$8,640,789)  | 67.8%   | \$0   |
| FRPL Decile 1=Highest 10=Lowest  | E(FA0198) 00 2012-13 FOUNDATION AID  | W(FA0001) 00 FOUNDATION AID BEFORE PHASE-IN*  | Difference 2012-13 and Foundation Aid Full                           | % Fully Funded (Full Phase -In)               | OVERFUNDED FOUNDATION AID   |
| 3  | \$18,324,924   | \$24,445,232  | (\$6,120,308)  | 75.0%   | \$0   |
| 2008 N/RC  | AD(FA0197) 00 2013-14 FOUNDATION AID   | W(FA0001) 00 FOUNDATION AID BEFORE PHASE-IN*  | OVER/UNDER FULL FOUNDATION AID                                       | % Fully Funded (Full Phase -In)               | OVERFUNDED FOUNDATION AID   |
| 3 - High Need Urban Suburban   | \$18,379,898   | \$25,122,028  | (\$6,742,130)  | 73.2%   | \$0   |
| 2003 N/RC  | AE(FA0197) 00 2014-15 FOUNDATION AID   | FULL PHASE-IN FOUNDATION AID*   | OVER/UNDER FULL FOUNDATION AID                                       | % Fully Funded (Full Phase -In)               | OVERFUNDED FOUNDATION AID   |
| 3 - High Need Urban Suburban   | \$18,640,142   | \$24,418,052  | (\$5,777,910)  | 76.3%   | \$0   |
| <div>SSFC</div> <div>THE STATEWIDE SCHOOL FINANCE CONSORTIUM</div> <div>Dedicated to Secure Equitable Funding for New York State Public Schools</div>  | Total Foundation Aid 2007-08 to 2014-15  | Total Full Foundation Aid Due 2007-08 to 2014-15  | Total Foundation Aid 2007-08 to 2014-15 Cumulative Over/Under Funded | Average % of Over/Under funding since 2007-08 | Fair or Not, Based on "Current Foundation Aid Formula": School District Cumulative Status   |
| SOURCE: Compiled by the SSFC from NYSED School Aid data  | \$125,847,653  | \$177,304,808   | (\$51,457,155)   | 71.0%   | (\$51,457,155)  |
| The Foundation Aid Formula is flawed and unacceptable. The disadvantage to less wealthy students and communities in NYS is profound. Everyone knows it; extensive research has found the current formula to be inappropriate and contrived. After 8 years no serious political will exists to fully fund the current formula or to create and fully fund what needs to and should exist- a sustainable formula demonstrative of equity, transparency and predictability. |  |   |  |   |   |

\*(Formula only w/o 12.55% min due to ensure all districts receive an increase as formula provided no increase, or other additions beyond the actual formula)



# Foundation Aid History 2007-08 to 2014-15

