Williamsville Central Schools
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Dr. Darren J. Brown-Hall
Superintendent of Schools
dbrown-hall@williamsvillek12.org

March 30, 2023

Ms. Melissa Myers
Office of the New York State Comptroller
Chief of Municipal Audits
295 Main Street, Room 1032
Buffalo, New York 14203

Dear Ms. Myers,

The New York State Comptroller's audit findings on our District's budget and reserve methods state that we did not manage fund balance and reserves effectively and therefore levied more taxes than needed. The Comptroller's report further states that the District overestimated appropriations thereby resulting in operating surpluses. The Comptroller's report further assumes that when the District appropriates fund balance and reserves in its revenue budget, it is doing so because it is projecting a budget deficit. Lastly, the Comptroller's report is based on calculations that compare appropriations (budget) to actual expenses. The District does not agree with these conclusions and will state the reasons for our disagreement in this response. However, the District has reviewed your findings in an objective manner and will address aspects of your recommendations with the intent on further improving the District's accounting and budgeting processes.

It is very important to state that this audit's review period included two COVID-19 impacted school years, 2019-20 (close-down in March 2020) and 2020-21 (a partially remote learning year that included core instruction only). These were not typical years of operation which resulted in significantly lower expenses versus appropriations. It is important to also state that the finances in these years were supplemented with federal grant funding which reduced general fund expenses.

The District's response to the audit will address four major financial audited areas. The first area will be the adoption of realistic budgets where the Comptroller report reviews appropriations versus actual expenses. The second area that will be addressed is to respond to the identified areas of cumulative budget variances. Our third area of response will address the use of appropriated fund balance and reserves and the fourth area is the refunding or replenishment of reserves. We conclude our response to this audit with a summary on the District's position regarding the audit findings.

The District's response to overestimated appropriations

1. **Appropriations to actual expenditures, Figure 1**

The Comptroller's report on page 4, Figure 1, states that the District overestimated appropriations by an average of 6.25% over four years. However, it is important to state that this included 2019-20 which was the year of the COVID-19 state-wide school district close-down. Aside from paying salaries, the district was essentially closed after March 19, 2020 – June 30, 2020. Not only did this shut-down eliminate many expenses, it also resulted in the then Governor Cuomo publicly stating that school district could anticipate a 20% reduction in state aid in their 2020-21 school budgets. The District initiated a term plan that froze all school spending unless it was for emergency purposes. This was done purposely to allow for the potential use of additional fund balance and reserves to be available for use in the next school year. Additionally, the District did not expend funds for school bus transportation. This was a significant savings since regular home to school, field trips, and athletic trip costs were not incurred by the district.

In the 2020-21 school year students returned to school in the middle of the COVID-19 pandemic. This school year was not normal. The District did not have normal school year operating expenses. This year initially began with remote learning and a hybrid model for student learning. Parents had the choice of keeping their children home for remote learning, sending them to school for two days a week and having them home for two days of the week for remote learning. Students were not in-school on Wednesdays (asynchronous instruction occurred). This learning model did not result in normal school year expenses. Other examples on how COVID-19 impacted our expenses were through program adjustments that limited student extracurricular activities including sports, field trips and certain in-school and after-school student instructional programs. All of these items had a major impact on why the District had lower expenses in these two years. It is also relevant and important to state that the Federal grant funding, FEMA funding as well as New York State's Cares Act funding which was provided to the district by Erie County were all accounted for as required, in the special aid fund, not the general fund. In total, Williamsville received total grant allocations of $14.5 million dollars that were available for use over a multi-year period of time beginning in the 2020-21 school year. The receipt of these funds reduced the actual expenses that would have been included in the general fund. There was no preparing for COVID-19 throughout the entire world and the District could not anticipate the receipt of the grant funding or the total impact COVID-19 would have on our budget. It is also important to state that each federal grant requires that the District create a plan for continuing to fund the grant paid expenses when the grant funds end. This fact required the District to maintain budgets in the succeeding years such as 2021-22. This causes variances in budgets that will not be there when the federal grants end. The fact that the District's variance from appropriations to expenses are greater in 2019-20, 2020-21 is reflective of impact COVID-19 had on our district including the use of federal grant program funding. Additionally, when reviewing the 2018-19 in figure 1, a year prior to COVID-19 and a more normal year after COVID-19, 2021-22, the overestimation percentages are 3% and 4%. These are not unreasonable budget variances for a district that has a combined revenue and expense budget of $400,000 million dollars.

Addendum to Cumulative Budget Variances, Figure 1

The District would like to share another perspective that includes important factual information on actual revenues less actual expenditures versus the Comptroller's comparison of appropriations versus expenses.

Per Annual External Audit	2018-19	2019-20	2020-21	2021-22	Cumulative
Actual revenues	$ 185,381,337	$ 189,856,901	$ 188,374,369	$ 202,004,696	$ 765,617,303
Actual expenses	$ 170,791,952	$ 165,842,403	$ 175,057,644	$ 179,036,633	$ 690,728,632
	$ 14,589,385	$ 24,014,498	$ 13,316,725	$ 22,968,063	$ 74,888,671
Transfers	$ (14,189,156)	$ (9,470,774)	$ (18,134,402)	$ (27,916,732)	$ (69,711,064)
Net change in FB	$ 400,229	$ 14,543,724	$ (4,817,677)	$ (4,948,669)	$ 5,177,607
					0.36%

The information shows the actual performance of our budgets in a different light. First, actual versus actual is what generates fund balance. Fund balance is not generated from appropriations less actual expenses. The information above shows the change in fund balance as reported in the District's annual audit reports. The net change in fund balance over four years was $5,177,607 or 0.36%. It is important to state that transfers represent debt service payments including bond anticipation note paydowns. Debt paydown was a recommended option to our District by the New York State Comptroller in a past audit. These paydowns save the district taxpayer millions of dollars in interest payments. In the prior two fiscal years, paydowns totaled $21 million dollars. Assuming a 4.0% interest payment on this debt, the district saved taxpayers $6.7 million dollars over a thirteen-year period-of-time. The transfer line also includes utilization of capital reserve funds that were saved by our district as a result of past fund balance savings. The capital reserve allocations were approved by our community for use in our music improvement and security capital projects. The total amount was $25,699,930. The ability for the District to save dollars and apply them to these projects eliminated borrowing and resulted in debt interest savings of $8.1 million dollars. To recap, utilizing budget savings resulted in saving taxpayers $14.2 million dollars in interest payments.

The District's response to specific budget variance areas

1. <u>**Cumulative Budget Variances. Figure 2**</u>

The audit references several specific areas in figure 2 regarding higher overall appropriation to actual expenses. First, it is important to state that these percentages are the summation of four years.

Figure 2, Cumulative Budget Variances 2018-19 - Through 2021-22 in millions (Average Variance per year)					
				Cumulative	Average Annual
Program with Disabilities	$ 80.90	$ 68.50	$ 12.40	15.3%	**3.8%**
Teacher salaries-regular school	$ 291.90	$ 280.60	$ 11.30	3.9%	**1.0%**
Hospital, Medical and Dental Insurance	$ 76.40	$ 65.10	$ 11.30	14.8%	**3.7%**
Plant Operations	$ 41.10	$ 33.50	$ 7.60	18.5%	**4.6%**
Retirement Contributions	$ 12.30	$ 9.80	$ 2.50	20.3%	**5.1%**
Occupational Education'	$ 11.00	$ 8.60	$ 2.40	21.8%	**5.5%**
Total	$ 513.60	$ 466.10	$ 47.50	9.2%	**2.3%**

When you review these areas for the average annual variances it reflects a normal budget cycle plan variance for these areas. Each of these areas is an integral part of every budget development cycle. The ability to adequately budget each of these areas for the related expenses must essentially address the upcoming fifteen-month period of time. This requires some budget flexibility.

Program For Students with Disabilities

The program for students with disabilities annual variance is 3.8%. The most important district goal for our special education program is providing students with programs that fit their needs. These programs are reviewed on an annual basis for our students. Student needs change as do program offerings. Program expenses also change. Our district has seen the cost for placing our students in an educational program increase $699,532 from 2018-19 to 2021-22. In recent years, these costs have increased over the budgeted amount. It is important that the District maintain a reasonable budget appropriation in our special education area to support students needs. The District believes that the 3.8% annual percentage is reasonable especially upon the factual increases the District has seen in this program area.

Teacher salaries - regular school

The report shows that teacher salaries have an annual appropriation to expense variance of 1%. The District believes this is an acceptable budget.

Hospital, Medical and Dental Insurance

The audit states that the District had excess dollars budgeted in hospital-medical expenses. It is important to state that the District is self-funded for these expenses and New York State does not currently authorize school districts to establish reserves for self-funded health insurance plans. The District does budget a amount higher amount to cover unanticipated increases in actual costs. The hospital medical expense area was impacted by COVID-19. During COVID-19, elective surgeries and medical procedures were not available. This resulted in expenses being lower than normal. However, in 2021-22, the expenses increased by more than $2 million dollars. At the end of the 2021-22 year, our budget surplus in these codes was $136,746. This represents a 0.007% percentage of expense over the budget appropriation amount. The large increase experienced in 2021-22 effectively justifies and validates the past budget practice of providing a 3.7% annual variance in these codes to respond to unforeseen medical expenses from our self-funding plans.

Plant Operations

The district's plant operations are another area cited in this audit as having overestimated appropriations. The COVID-19 issues impacted this area as well. From lower energy costs due to the shut-down, use of grant funds for cleaning/disinfecting supplies and the fact that staff changes in this area directly related to COVID-19 have resulted in unfilled positions. The district is continuously advertising for facility positions. The labor market in this area is weak and like other school districts and the private sector, workers are difficult to come by. The District requires these positions to maintain our schools and school sites. In the last few years the department has been under staffed by over 30 positions on a daily basis. This directly reduces salary costs reported in the plant operations budget. In the current school year, hiring and retention have improved slightly and the District is hopeful to be close to full staffing in the 2023-24 school year. As for the other facility budget areas, inflation has impacted supply costs, service costs, and especially energy costs. The 2022 annual inflation rate was 6.5%. To date, in 2023, the current inflation rate is 6.0% over 2022. The inflation rates impact higher costs for supplies and services that the facility area must purchase to complete their work. Aside from salaries and supplies, the largest expense in this area is utilities. Per the February

2023, Bureau of Labor Statistic report, electricity costs have risen 12.9% and natural gas rose 14.3% over the last 12 months. Past district budgets as well as future budgets must recognize that there could be increases in utility costs. The ability for the District to have sufficient budgets in these areas to address these increases supports past, current and future budget methodology. The 4.6% annual variance in this area is reasonable considering the current inflationary impact on energy costs and the fact that we expect to fill our current staff vacancies.

Retirement Contributions
Our District is required to participate in both New York State retirement system plans. The plan contribution percentages vary each year and they are set by these plans. As a result of this fact the rates fluctuate each year. This creates a budget decision on whether to adjust the budgeted amount each year creating a yo-yo effect or to budget this in a smooth manner which minimizes the overall impact of budget changes in the annual budget development process. The District has been informed that the percentages have increased for both systems for the 2023-24 budget. The current budget methodology reduces or eliminates the need for major budget increases that negatively impact our overall budget development process. The District will review this area closely in future budgets and make adjustments based on changes in the contribution rates and with consideration given to the usage of our retirement reserve fund.

Occupational Education
The occupational education variance is the result of the District transitioning the salary budgets in this area from a central functional budget code to school-based budget codes as required by the school transparency report requirement. The variance due to this issue is approximately $1.5 million dollars. The salary budget was in occupational education and the expenses were recorded in school budget codes. This budget item has been corrected in the 2023-24 budget.

The District's response to fund balance and reserve planning and replenishment

2. **Appropriated Fund Balance and Reserves**

This audit makes a statement that appropriated fund balance is not needed. The District has been transparent in explaining to our community each year how and why appropriated fund balance and reserves are used in our budget within the annual long-range financial plan. This plan is presented at the December Board of Education meeting and the written plan specifically addresses this on pages 21 and 22. An excerpt is provided here.

"The usage of appropriated reserves and fund balance in school district budgets can be a source of confusion because many times a school district will generate surpluses at the end of the fiscal year.

The term fund balance may be defined as the total amount of revenue that exceeds the total expenses incurred by a district at the conclusion of the fiscal year. End of year fund balance may be allocated to various reserves and accounts based on New York State laws.

When fund balance and reserves are appropriated as a revenue in the operating budget, it is done with an understanding that they are considered temporary revenues. In other words, once expended, there is no guarantee that the District will be able to provide the same amount of revenue from fund balance/reserves in future budgets. Essentially, it is like using your savings account to pay your mortgage and utility bills. These monthly expenses *will continue every month as long as you own your home. Once you have exhausted your savings, you still must pay your monthly mortgage and utility bills. To balance your budget without your savings, you must increase your income or reduce other expenses to pay for the mortgage and utility expenses.*

It is important to understand that fund balance appropriations provide budget protection. This item is relevant to statements made by the Office the New York State Comptroller who frequently state that when school districts do not use these funds they are over-taxing their communities. This statement does not consider the fact that if a district were to use these appropriations instead of tax dollars, essentially, reducing the tax levy, they will eventually have a revenue deficit situation when their fund balance amounts are exhausted. Interestingly, the lack of fund balance would likely result in the Office of the State Comptroller categorizing the district as being in fiscal stress."

Another district point regarding the budgeting methodology for fund balance and appropriated reserves is that if the District removed the revenue from these items it would balance its budget by reducing a similar amount in the expense budget. This budget would eliminate all flexibility to respond to increases beyond the budget amounts in each category. It would also eliminate the ability for the District to proactively implement financial planning in the future. These adjustments would not impact the tax levy, it would be the same amount."

The District provides full transparency prior to each budget development cycle when it comes to reviewing fund balance and reserve appropriations with our community. However, if fund balance/reserve appropriations are removed from the revenue budget, similar reductions are required to be removed from the expense budget. These changes eliminate the ability to respond to unknown expenses or a reduction in revenues such as mid-year state aid reductions, lower revenues in other categories, instruction program changes, utility increases, special education student placements, and the implementation of pilot programs to determine the full potential of a new program. Can a reduced budget manage these items, yes, however it would mean eliminating other budget areas and reallocating dollars that would negatively impact the district in the short and long-term periods.

The District's response to reserve funding

3. **<u>Funding and replenishment of reserves</u>**

The replenishment of reserves is something that the District shares with our community in the annual property tax report card, June reserve authorization Board agenda item, full reserve disclosure report in November and as part of the long-range reserve forecast that is presented at the December Board of Education meeting. The accounting process followed by the District conforms to accepted principles. The reserve expenses that have an appropriation amount are closed out into the reserves at year-end. A stable long-range reserve plan must consider annual changes in reserve category funding needs and this is done for each reserve during the year-end process. The District documents reserve balance changes and refunding amounts. In pertinent situations, documentation from external consultants provide the District with future monetary exposure to such self-funded areas as workers compensation. In other situations, the District follows reserve law, such as the tax certiorari reserve. Based on this information our reserve balances change each year. The Comptroller's report takes issue with the District's process to refund reserves. However as stated in our methodology above, our refunding considers historical, present and future information. If we do not fund reserves and therefore deplete their balances, we would not be in a fiscally responsible position to respond to future financial conditions within the applicable reserve. Lower reserve balances would also detrimentally impact the

District's stellar Aa1 bond rating. An important attribute on maintaining this rating is our fund balance and reserve balances. Reductions in this rating would increase our borrowing costs and this would negatively impact our taxpayers.

Summary

The District has shared and defended the budget development methodology it uses for the annual budget process. The information in this audit must consider the fact that two of the four years were impacted by COVID-19 and this resulted in greater budget variances between appropriations and actual expenses. However, referencing figure 1, a 3% over estimation in 2018-19 and a 4% over estimation in 2021-22 is not unwarranted when it comes to the significant revenue and expense challenges facing a school district that has thirteen schools with 9,558 students. A school budget is a single year financial plan that must consider long-term financial planning as well. Williamsville's revenue is generated by three major areas which are state aid, sales tax revenues, and the tax levy. The tax levy is restricted by the New York State tax cap law. Once the amount is established, it cannot change. Sales tax is dependent on the spending of our local community which varies based on the economy. State aid amounts are susceptible to changing at any time, this occurred in the 2009-10 budget. The District lost over 7 million dollars due to the economic impact of the recession. Williamsville must always plan for the next state aid reduction and the other economic impact items affecting our revenue in order to protect our instructional programs.

The District's long-range plan clearly states our position on using fund balance and reserves in our annual district budget. As stated in the referenced information, it protects the District from unforeseen issues. One such unforeseen issue is presented by the Office of the State Comptroller. The New York State Comptroller's March 2023 Report on the State Fiscal Year 2023-24 Executive Budget states that *"DOB projects shortfalls in revenues and increases in spending, particularly in Medicaid and school aid, over the financial plan period. As a result, projected outyear gaps have grown to $5.7 billion in SFY 2024-25, $9.0 billion in SFY 2025-26, and $7.5 billion in SFY 2026-27." In this same report, the Comptroller states the following "The Office of the State Comptroller has advanced a proposal to strengthen the New York State's statutory rainy day reserves. The plan, which provides a disciplined, consistent approach to building these reserves, would help to ensure that more robust reserves are built over time to be available during the next economic downtown or catastrophic event."*

It is clear that the Comptroller is concerned about the future economic condition of the State of New York and they make a point to recommend that the State allocate surpluses to reserves. It is not the intention of the Williamsville Central School District to comment on the State's finances. Our goal is to continue to be fiscally responsible with our taxpayer funds. Williamsville has responsibly provided reserve and fund balance planning in each budget. The District has not exceeded the legal limit of 4% for unassigned fund balance in any year. Our reserves as stated in this report were properly established and funded. Our District has shared reserve information with our Board of Education and the Community in a transparent process which provides multiple reports and opportunity for public discussion on these important financial assets and budgetary appropriations. Our process and methodology for accessing and budgeting these items is clearly stated in our budget development process. The District reviews all revenue information each year and determines the amount of fund balance and reserves that are needed for the new budget. In the 2023-24 budget the District has reduced these allocations by $2,430,000. This was possible due to the full implementation of

Foundation aid. The District is always considering the impact our budget has on our taxpayers. In the 2023-24 budget the large increase we are receiving in foundation state aid has allowed us the opportunity to reduce the tax levy by $1,853,636 below our tax cap limit. Our District's finances are not only based on planning, they are based on action and these two revenue budget adjustments for the 2023-24 budget validate our purpose to balance budgets while considering taxpayer concerns.

Office of the State Comptroller's Recommendations

The District always reviews each of the Comptroller's recommendations with care and it will do so with each item in this report.

1. We will review our revenue and expense budget appropriations. Our fund balance and reserve appropriations will be adjusted based on short-term and long-term financial factors.
2. As stated, the District has reduced these amounts in the 2023-24 budget by $2,430,000. This was done prior to receiving this audit. This financial action shows the integrity of our district.
3. We will review our reserve fund balance policy against the applicable laws and make adjustments that are necessary to show that our district is transparent and complies with all funding requirements for fund balance and reserves.
4. The District is reviewing provisions provided to it by the Comptroller for inclusion in the adopted budget. The District has no issue with implementing these items as long as the funding levels will provide for the necessary fluctuations that may occur within a school year.

Sincerely,

Dr. Darren Brown-Hall
Superintendent of Schools

Mr. Thomas R. Maturski
Assistant Superintendent
for Finance and Management Services