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May 5, 2021

Dr. Raymond J. Giamartino, Jr., Interim Superintendent
Members of the Board of Education
East Ramapo Central School District
105 South Madison Avenue
Spring Valley, NY 10977

Report Number: B21-5-4

Dear Interim Superintendent Giamartino and Members of the Board of Education:

Pursuant to Chapter 89 of the Laws of 2016, the New York State Department of Education (SED) is required to appoint up to three monitors to the East Ramapo Central School District (District) to provide fiscal and academic oversight. Included in the monitors' duties are to attend monthly Board meetings, monitor financial condition and annually review the District's proposed budget. In February 2021, the two appointed monitors (one fiscal and one academic) expressed concerns that the 2020-21 fiscal year budget may be under-funded by approximately \$25 to \$30 million. In response to those concerns, District officials, SED officials, and members of the New York State Legislature requested our Office to complete a financial review, which led to our review of the District's proposed budget for the 2021-22 fiscal year.

Summary

The current Fiscal Monitor was appointed by the SED Interim Commissioner on March 5, 2020. Initially, the Fiscal Monitor was unable to obtain timely responses from District officials to his information requests and was not provided access to the computerized financial systems until October 2020. Further, while the Fiscal Monitor told us that he discussed budgetary concerns due to potential reductions in State aid and increases in transportation contracts with the former Business Official (who resigned in February 2021) as early as November 2020, timely action was not taken to address these concerns in the 2020-21 budget. As a result, District officials are projecting a 2020-21 operating deficit (where total expenditures exceed revenues) of approximately \$22.5 million.¹ Included in the District's projection are \$24 million in appropriations that District officials determined can be funded by federal grants through the special aid fund. Without this additional federal aid, the 2020-21 projected fiscal year operating deficit may have exceeded \$46 million. The operating deficit has caused cash flow concerns to the point

¹ District officials engaged an accounting firm on March 23, 2021 to assist them in developing these projections.

where the District does not have sufficient funds to pay regular operating costs for the remainder of the fiscal year. The District plans to issue an \$8.8 million budget note and a \$12.3 million deficiency note to provide cash for operations. The repayment of these notes plus interest of \$132,800 are included in the 2021-22 budget. The current interim administration is providing information to the Fiscal Monitor allowing him to review the District's financial condition and provide more timely feedback.

2021-22 Proposed Budget

Our review of the 2021-22 budget considered District officials' projections in response to the impact of the COVID-19 pandemic (pandemic) and planned federal aid including (CARES – Coronavirus AID, Relief, and Economic Security Act; CRRSA – Coronavirus Response and Relief Supplemental Appropriations Act; and ARP – American Rescue Plan). Based on the results of our review, we found that the significant revenue and expenditure projections in the 2021-22 proposed budget are reasonable. However, while the total budget is balanced, the District is relying on one-time federal aid amounts to fund regular teacher salaries, which are recurring costs the District will have after the federal aid has been spent. While it may be reasonable to do so in the current economic environment, absent recurring additional revenue, substantial appropriation reductions will be necessary for future budgets to be structurally balanced.

Further, due to the projected operating deficit for the 2020-21 fiscal year and continuous evolving circumstances caused by both costs related to the pandemic and additional aid becoming available, District officials should carefully monitor revenues and expenditures and make adjustments to the budget as needed throughout the year as more information becomes available. For example, the District should closely monitor the general fund's results of operations for the remainder of 2020-21 and take corrective action to control the projected operating deficit. In addition, the District should also consider the potential impact in 2021-22 of the settlement of any of the District's nine collective bargaining units and 48 transportation contracts that have or will be expiring at the end of 2020-21. Once these contracts are renegotiated, District officials should make any needed budgetary amendments.

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

- Are the significant revenue and expenditure projections in the District's proposed 2021-22 budget reasonable?

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

amount of fund balance appropriated in the proposed budget to be used as a financing source and determined whether the amount of fund balance was available and sufficient for that purpose.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

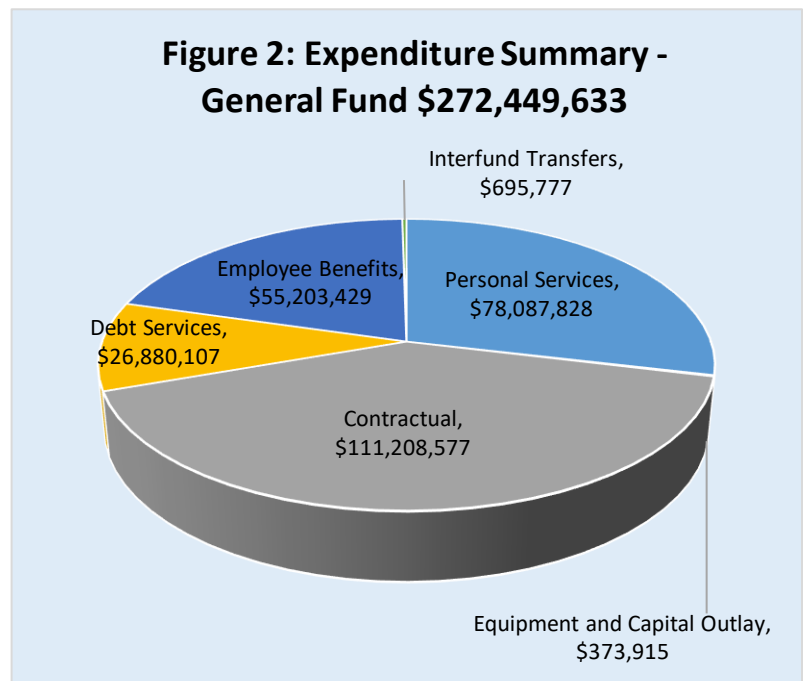
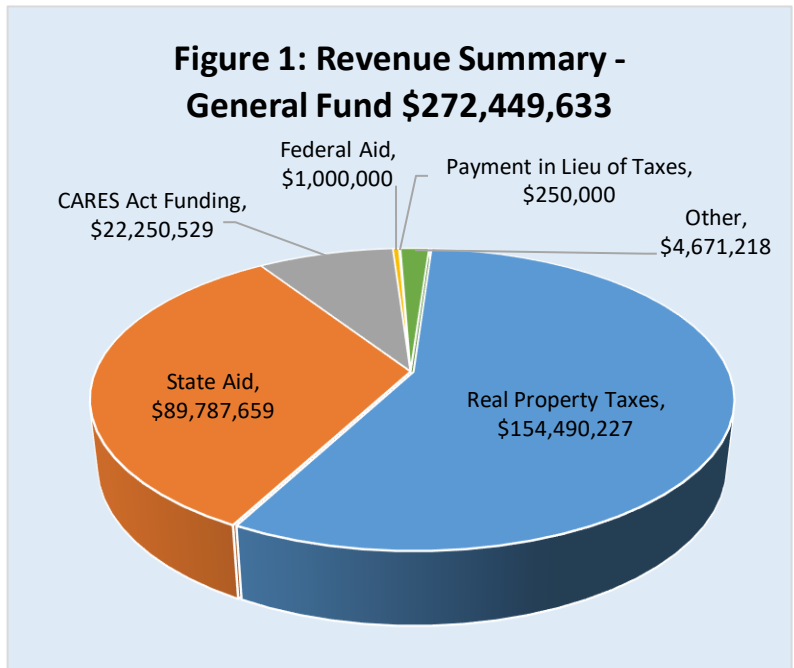
The District did not appropriate fund balance for 2021-22, due to the projected operating deficit in the current year. The proposed budget submitted to our Office is summarized in Figures 1 and 2²:

Our review disclosed the following findings which should be reviewed by District officials for appropriate action. District officials should consider our recommendations in addressing the District’s current financial condition.

Use of One-Time Federal and State Aid Revenues

One-time revenues, particularly large amounts generated from one-time aid, should not be used to finance day-to-day operations or recurring expenditures. Instead, they should be restricted to one-time expenditures, such as capital improvements or contributions to debt reductions or reserve funds. The use of non-recurring or one-time revenues to support recurring expenditures may be appropriate to address the District’s current financial concerns and offer a solution for balancing the budget.

However, using one-time revenues to finance on-going operations is a short-term solution and only temporarily defers the need to address overall structural budget imbalances.



² The appropriation of \$78 million for personal service includes a negative appropriation of \$34.5 million for salaries the District has identified to be funded by Federal Aid.

The District is projected to receive \$66.4 million in CRRSA funding. District officials identified \$34.5 million in projected regular teacher salaries for 2021-22 in the general fund that they feel are covered by the CRRSA aid. Since the CRRSA aid is required to be accounted for in the District’s special aid fund, the District is identifying these expenditures as a negative appropriation account line in the 2021-22 general fund proposed budget. The District did this to allocate these payroll expenditures to the District’s special aid fund, where the corresponding revenue will be accounted for when received. Our review was focused on whether there was a budgetary provision to pay these salaries and did not include an assessment of this accounting treatment. Payroll expenditures that are reoccurring and not for a temporary program should be funded with reoccurring revenues to prevent unfunded costs in future budgets.

The 2020-21 Enacted State Budget included a pandemic adjustment of \$22,137,987, reducing the District’s State aid by the same amount in CARES Act funding allocated to the District. While District officials have submitted an application for this funding to SED, they do not anticipate receiving it prior to the end of the 2020-21 fiscal year, contributing to the projected 2020-21 operating deficit. The District has included this aid in the proposed 2021-22 budget. The accounting treatment of this funding as a 2021-22 revenue instead of as a receivable at year-end was not within the scope of our review.

Using one-time revenues, such as CRRSA Act and CARES Act funding, is a short-term solution. The District will need to apply for this funding and will need to be cognizant that these are one-time revenues, and only temporarily defer the need to address structural budget imbalances. Further, given the inherent nature of these revenues that may not be realized in a timely manner, the District should monitor the budget throughout the year to ensure sufficient funding is available when needed. Part of this budget monitoring should be cash flow projections to make sure cash will be available when needed throughout the year.

Collective Bargaining Agreements (CBAs)

As of the time of our review, nine of the District’s 13 CBAs have expired, as detailed in Figure 3, which cover the salaries and wages of approximately 1,100 District employees. The District faces potential significant increased salary and wage costs when these agreements are settled.

Figure 3: CBA Expiration Dates	
Bargaining Unit	CBA Expiration Date
Building Administrators’ Association	6/30/2018
Association of Educational Secretaries	6/30/2019
Certified Occupational Therapy Assistants’ Unit of the East Ramapo Central School District	6/30/2020
Custodial Association	6/30/2020
Maintenance, Transportation, Special Services and Security Employees' Union	6/30/2020
Instructional Supervisors’ Association	6/30/2020
School Nurses' Association	6/30/2020
Occupational Therapists’ Registered Unit of the East Ramapo Central School District	6/30/2021
Teachers’ Association	6/30/2021

District officials should consider the potential financial impact in the event that any of the CBAs are settled in 2021-22 in excess of the budgeted amounts.

Transportation Agreements

Transportation contracts are negotiated at the beginning of each school year after the adoption of the budget. Contractual transportation appropriations in the 2021-22 proposed budget totaled \$46.7 million, which appear reasonable based on the current year contracts and prior year trends. However, District officials should monitor the transportation expenditures and make timely budget amendments in the event the transportation agreements are settled in excess of the budgeted amounts. During the 2020-21 fiscal year, the Board of Education (Board) approved the transportation contracts in November 2020 and exceeded the budgeted amounts by approximately \$5.2 million. The Fiscal Monitor told us that he raised this concern with the former Business Official in November 2020. However, the Board did not take action to address the budget gap, which contributed to the projected 2020-21 operating deficit. For future years, the District should consider negotiating these contracts prior to adoption of the budget so the actual contractual amounts could be provided for in the budget.

American Rescue Plan Act and Coronavirus Response and Relief Supplemental Appropriations Act

The Federal American Rescue Plan Act (ARP) of 2021 and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) of 2021 will provide substantial aid to school districts in the upcoming fiscal year. At this time, the timing of the receipt of funds from ARP and CRRSA is uncertain. Once received, the funds will come with restrictions on what they can be used for. District officials should be mindful of these restrictions as they budget and plan for the use of the funds.

Tax Cap Compliance

General Municipal Law Section 3-c establishes a tax levy limit on local governments and school districts. The law generally precludes local governments and school districts from adopting a budget with a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, unless at least 60 percent of District voters approve a tax levy that exceeds the statutory limit.

In adopting the 2021-22 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 properly overrides the tax levy limit prior to adopting the budget.

We request that you provide us with a copy of the adopted budget.

Recommendations:

The Board and District officials should:

1. Closely monitor revenues and expenditures and make budget modifications as necessary in a timely manner to ensure a balanced budget.
2. Continue providing timely financial information to the Fiscal Monitor and work with him to develop structurally balanced budgets that include realistic revenue estimates and appropriations based on historical trends or other known factors, such as recent settlement of contracts.

We hope that this information is useful as you adopt the upcoming budget for the District. If you have any questions on the scope of our work, please feel free to contact Gary Gifford, Chief Examiner of the Glens Falls Regional Office, at (518) 793-0057.

Sincerely,

Elliott Auerbach
Deputy Comptroller

cc: Linda Macias, Interim School Business Official
Kathi Kivi, District Clerk
Bruce Singer, Fiscal Monitor
Denise M. Lowe, Academic Monitor
Sarah Chauncey, District Superintendent – Rockland BOCES
Betty A. Rosa, Commissioner, State Education Department
Elijah Reichlin-Melnick, NYS Senate
Kenneth P. Zebrowski, NYS Assembly
Michael Lawler, NYS Assembly
Lisa A. Reynolds, LGSA Newburgh Regional Chief Examiner