

3-YEAR FISCAL RECOVERY PLAN BORROWING OPTIONS

**SOUTH COUNTRY CENTRAL SCHOOL DISTRICT
PLANNING BASIS: STRUCTURAL DEFICIT FINANCING**

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BIG PICTURE FIRST - WHY THIS MATTERS

New York school districts are not **legally permitted to operate with structural operating deficits**. Any solution must:

- 1. Restore budgetary balance**
- 2. Be legally permissible under NYS law**
- 3. Maintain credibility with NYSED, OSC, rating agencies, and voters**
- 4. Avoid compounding structural imbalance**

Any financing option must be combined with documented, recurring corrective actions to avoid compounding long-term imbalance and fix the problem!

EXECUTIVE SUMMARY – FISCAL RECOVERY SNAPSHOT

Current Fiscal Challenge: Structural Deficit

Borrowing to address structural operating deficit estimated at \$10.0M - \$12M. Structural deficit driven by a combination of ongoing structural cost pressures and insufficient prior budgetary corrections.

Legal Requirement

New York State law does not permit school districts to carry operating deficits.

Timely corrective action is required to restore fiscal balance and maintain fiscal solvency.

Recovery Paths Evaluated

Short-term state authorized deficit financing paired with phased expenditure reductions;

**State-authorized long-term deficit bonds/notes with a managed recovery plan;
Immediate pay-as-you-go correction through significant near-term reductions.**

Key Message for Decision-Makers

Regardless of the recovery path selected, all options require recurring expenditure reductions to achieve long-term fiscal stability!

FISCAL CONTEXT AND PLANNING ASSUMPTIONS

- **STRUCTURAL DEFICIT TO BE ADDRESSED:**
 - **2024–25 OVER-EXPENDITURES ACCOUNTED FOR IN RECOVERY PLAN AND ANTICIPATED 2025-26 UNDERBUDGETED EXPENDITURES AND REVENUE SHORTAGES**
 - **TAX LEVY GROWTH ASSUMED AT OR BELOW THE TAX CAP (~2%)**
 - **STATE AID ASSUMED FLAT TO MODEST GROWTH**
 - **FUND BALANCE LARGELY EXHAUSTED; GOAL IS TO REBUILD RESERVES AND RESTORE PROFITABILITY TO GENERATE FUTURE ANNUAL SURPLUSES BY END OF YEAR 3 OR AS SOON AS POSSIBLE THEREAFTER.**

OPTION A: NO BORROWING: PAY-AS-YOU-GO CORRECTION

- **NO BORROWING; ELIMINATE DEFICIT THROUGH IMMEDIATE REDUCTIONS**
 - **TOTAL RECURRING REDUCTIONS OF \$10.5M**
 - **ESTIMATED STAFFING IMPACT: 30–35 FTE IN YEAR 1**
 - **HIGHEST IMMEDIATE IMPACT ON PROGRAMS AND CLASS SIZE**

NOT A PRACTICAL OPTION

Based on review and discussion with Bond Counsel, this option is for a shorter term and more than likely will not be a feasible option without more severe expenditure reductions.

OPTION A: NO BORROWING: PAY-AS-YOU-GO CORRECTION

PROS:

- AVOIDS ADDITIONAL DEBT AND INTEREST COSTS
- PRESERVES FUTURE BORROWING CAPACITY
- DEMONSTRATES IMMEDIATE FISCAL DISCIPLINE AND SELF-CORRECTION
- NO RELIANCE ON STATE AUTHORIZATION

CONS:

- ESTIMATED STAFFING IMPACT 30-35 FTE IN YEAR 1, WITH LIMITED ABILITY TO RELY ON ATTRITION FOR STAFF REDUCTIONS
- HIGHEST AND MORE IMMEDIATE IMPACT ON INSTRUCTIONAL PROGRAMS, CLASS SIZE, AND SERVICES PROVIDED
- BIGGER RISK OF OPERATIONAL DISRUPTION FOR PROGRAMS WITH REDUCED STAFFING LEVELS

OPTION B : BUDGET NOTE

What it is:

A short-term borrowing instrument issued to cover a current-year cash shortfall caused by an accumulated operating deficit - unexpected expenditures not budgeted and revenue shortfall.

Key Characteristics

- **Typically: 1-2 year repayment plan**
- **Cannot exceed 5% of District budget (limited borrowing)**
- **Requires Board action + legal opinion**
- **Often scrutinized heavily by OSC and auditors**
- **Must be repaid from future budgets – borrowing cost will be higher due to current situation.**

OPTION B: BUDGET NOTE:

BEST USE CASE

BRIDGE FINANCING WHILE:
IMMEDIATE REDUCTIONS ARE
IMPLEMENTED!

A MULTI-YEAR CORRECTIVE
PLAN IS ADOPTED!

LABOR CONCESSIONS OR
STRUCTURAL CHANGES ARE
MADE!

• PROS

- ✓ FASTEST TO IMPLEMENT
- ✓ AVOIDS IMMEDIATE PROGRAM DISRUPTION
- ✓ STABILIZES CASH FLOW
- ✓ FAMILIAR TO NYS SCHOOL FINANCE PROFESSIONALS

• CONS

- ✗ BUDGET NOTE NOT TO EXCEED 5% OF BUDGET
- ✗ TWO-YEAR REPAYMENT PLAN
- ✗ DOES NOT FIX STRUCTURAL IMBALANCE
- ✗ REPAYMENT REDUCES FUTURE BUDGET CAPACITY
- ✗ REQUIRES FINANCIAL STATEMENT DISCLOSURE AND AUDITOR EVALUATION OF THE DISTRICT'S RECOVERY PLAN
- ✗ RATING AGENCIES WILL VIEW AS A WARNING SIGN

OPTION C: SPECIAL ACT LEGISLATION (DEFICIT BONDS/NOTES)

What it is

State Legislature–approved authority allowing the district to issue Bond Anticipate Notes (short term obligation) and/or long-term bonds to amortize an operating deficit over a longer period, usually 10–15 years but can be repaid sooner.

District can seek special legislation to allow for Bond Anticipation Notes for 5 years or can on its own limit the term of any issued deficit bonds to 5 years.

Key Characteristics

•Requires:

- Legislative sponsors**
- Governor’s approval and substantial fiscal oversight by NYS**

OPTION C: SPECIAL ACT LEGISLATION (DEFICIT BONDS/NOTES)

BEST USE CASE

WHEN:

**DEFICIT IS TOO LARGE TO
ABSORB IN 1-2 YEARS**

**IMMEDIATE CUTS WOULD BE
EDUCATIONALLY
CATASTROPHIC**

**DISTRICT COMMITS TO DEEP
STRUCTURAL REFORM**

**BOARD ACCEPTS HEIGHTENED
SCRUTINY**

- **PROS**

- ✓ **SPREADS REPAYMENT OVER MULTIPLE YEARS**
- ✓ **LOWEST ANNUAL BUDGET IMPACT**
- ✓ **PROVIDES MAXIMUM FISCAL BREATHING ROOM**
- ✓ **PAIRED WITH STATE OVERSIGHT AND STRICT RECOVERY PLANS**

- **CONS**

- ✗ **POLITICALLY SENSITIVE**
- ✗ **TIME-CONSUMING**
- ✗ **PUBLIC PERCEPTION RISK**
- ✗ **SIGNALS SEVERE FISCAL DISTRESS**
- ✗ **LONG-TERM INTEREST COSTS**

OPTION C: SPECIAL ACT DEFICIT BONDS/NOTES + MANAGED RECOVERY

- **STATE-AUTHORIZED \$10.0M - \$12.0M DEFICIT BONDS/NOTES AMORTIZED UP TO 5 - 15 YEARS**
 - **ANNUAL DEBT SERVICE APPROXIMATELY \$2.30M - \$2.75M (AT 4.75%)**
 - **RECURRING REDUCTIONS TOTALING ~\$10.5M BY YEAR 3**
 - **ESTIMATED STAFFING IMPACT: 20-25 FTE IN YEAR 1 WITH PHASED REDUCTIONS THEREAFTER**
 - **REQUIRES STATE APPROVAL**
 - **COMES WITH SUBSTANTIAL STATE OVERSIGHT**

PRACTICAL RECOMMENDATIONS FOR SOUTH COUNTRY CSD

- **ALL OPTIONS REQUIRE RECURRING EXPENDITURE REDUCTIONS TO RESTORE BALANCE**
 - **BUDGET NOTE OPTION IS 'NOT' VIABLE SINCE TYPICALLY HAS A 1-2 YEAR REPAYMENT PLAN.**
 - **SPECIAL ACT BONDING MINIMIZES EDUCATIONAL IMPACT AND REQUIRES STATE APPROVAL AND SIGNIFICANT OSC/SED OVERSIGHT!**
 - **SPECIAL ACT LEGISLATION BECOMES BEST SOLUTION BASED ON THE FISCAL SITUATION.**
 - **AN ESTIMATED \$10.0M - \$12.0M BORROWING IS OPTIONAL BUT WILL REDUCE DISRUPTION!**
 - **"NO-BORROWING OPTION" CARRIES THE GREATEST SHORT-TERM INSTRUCTIONAL AND COMMUNITY IMPACT.**

WHY A BOND/NOTE MAKES SENSE

Recommendation: OPTION C: Special Act Legislation for Bond Anticipation Notes for 5 years or limit the term of any issued deficit bonds to 5 years; combined with disciplined, phased budgetary reduction!

“Bond/Note” financing is the best balance of:

- Budget predictability - creates a fixed annual cost
- Fiscal credibility - demonstrates a defined deficit paydown plan
- Reasonable/manageable interest cost when borrowing period minimized

SPECIAL ACT LEGISLATION: 3-YEAR FINANCIAL IMPACT \$10.0M - \$12M BORROW

Category	Year 1 (2026-27)	Year 2 (2027-28)	Year 3 (2028-29)
BAN Note (5 YR): Estimated Debt Service	\$2.30M - \$2.75M	\$2.30M - \$2.75M	\$2.30M - \$2.75M
Required Recurring Reductions	\$4.0M	\$3.5M	\$3.0M
Tax Levy Increase	~2.0%	~2.0%	~2.0%
Staffing Impact (FTE)	20-25	8-11	5-8
Fund Balance End of Year	~\$0	~\$0.5M	~\$1.0M

THIS IS A MUST: MANDATORY COMPANION TO ANY FINANCING OPTION

Multi-Year Corrective Action Plan (Required Regardless)

A structural recovery plan aligned with NYSED and OSC expectations.

Common Elements

- Opening labor agreements for concessions
- Staffing realignment / attrition
- Program consolidation
- Transportation and BOCES optimization
- Health insurance plan design changes
- Maximize revenues where possible
- Multi-year tax levy strategy (within cap or override)

Pros

- ✓ Addresses root causes
- ✓ Improves credibility
- ✓ Required for any borrowing approval

Cons

- ✗ Politically difficult
- ✗ Requires sustained discipline

COMMON MISCONCEPTION TO AVOID WHEN BORROWING A BOND/NOTE!

**Is the deficit gone
because we borrowed?**



NO!



**The deficit is financed,
not eliminated.**

?????? QUESTIONS ???????