

Subject: Understanding Our Financial Situation and the Path Ahead

Dear South Country Community,

We want to begin by acknowledging the very real angst and frustration being felt across our South Country community. We understand how difficult and unsettling this moment is, and we believe it is important to provide clear context regarding the financial challenges our district is facing and what they mean moving forward. With the recent release of the New York State Office of the Comptroller's report, we also want to ensure our community understands how its findings fit within this broader context.

The situation we find ourselves in today did not happen overnight. Rather, it is the result of multiple factors that have developed over time. Between 2005 and 2010, the district undertook capital projects that were supported by high levels of state aid. However, that aid was structured over a shorter period than the financing of the projects themselves. As a result, the district continues to carry debt service costs without the same level of state aid revenue to offset them, creating a long-term structural imbalance.

A significant decision point came during the 2022 budget development process. At that time, the allowable tax levy increase was approximately 7.76 percent, which would have largely eliminated the projected gap and potentially created a modest surplus. In an effort to minimize the impact on taxpayers, a significantly lower tax levy increase of approximately 1.75 percent was proposed. While this reduced the immediate burden on the community, it relied on one-time resources rather than recurring revenue. The Office of the State Comptroller similarly noted the district's reliance on non-recurring funding sources to support ongoing expenditures, a practice that contributed to the continuation of the structural imbalance.

Concurrently, staffing levels were not sufficiently adjusted in response to declining enrollment, and federal COVID relief funds were used to support recurring expenditures, including salaries and programmatic costs. The Comptroller's report specifically highlights the risks associated with using temporary funding sources to support ongoing obligations. While this approach allowed the district to maintain programs in the short term, it masked underlying imbalances that became fully evident once those funds expired, leaving ongoing obligations without sustainable revenue to support them.

These underlying issues converged during the 2024–2025 fiscal year and resulted in a budget shortfall of just under 3.5 million dollars being identified by the independent external auditor at the conclusion of the fiscal year. The convergence was further exacerbated by inadequate budget assumptions in key areas such as special education, transportation, and employee

benefits. The Comptroller's review similarly found that significant revenue and expenditure estimates in prior budgets were not reasonable and did not reflect actual cost trends, particularly in high-cost areas.

The district's audited financial statements further noted that *"Budget estimates for several expenditure categories were not sufficient to cover actual 2024–25 spending due to a combination of ineffective budgeting practices and unanticipated cost increases. Key areas of underestimation included central services, teaching – regular school, programs for students with disabilities, occupational education, teaching – special schools, and employee benefits. The lack of accurate projections and timely corrective action resulted in the District's internal controls over budgeting and expenditure monitoring being ineffective in 2024–25."* The Comptroller's report reinforces these findings, noting that budgets were developed using unrealistic estimates and that expenditures were not consistently monitored and adjusted throughout the year. Because these conditions were identified after the close of the fiscal year, there was no opportunity to take corrective action within 2024–2025, requiring the district to absorb these costs and resulting in the operating deficit we are now addressing.

It is important to emphasize that the findings of both the external audit and the Comptroller's review are aligned. Both identify the same core issues: the use of one-time revenues to fund recurring costs, insufficient trend-based budgeting, and a lack of timely monitoring and adjustment of expenditures.

Since August 2025, the district has taken significant and deliberate steps to address these issues. Through a comprehensive recovery plan, financial oversight has been strengthened, including a transition in leadership within the business office and the engagement of Mr. John Belmonte, who brings more than 35 years of experience in school finance. In collaboration with the State Education Department and the Office of the State Comptroller, the district has made strides in correcting the ineffective budgeting and monitoring practices identified in both the audit and the Comptroller's review and implemented stronger internal controls to ensure more accurate forecasting, oversight, and fiscal accountability moving forward.

The recommendations outlined in the Comptroller's report—particularly the need to align recurring revenues with recurring expenditures, rely on trend analysis, and closely monitor budget performance—have already been incorporated into our work and will be reflected in the latest draft of the 2026–2027 budget. Our focus moving forward is on ensuring a structurally balanced budget grounded in realistic and responsible assumptions.

As part of the district's long-term recovery, the Board of Education has requested Special Act legislation from New York State that would allow the district to finance the existing deficit over

time, under strict oversight and accountability measures. If approved, this would provide a pathway to stabilize the district while continuing to make responsible adjustments over time.

It is also important to be clear about the alternative. If the Special Act legislation is not approved, the district would be required to identify an additional reduction of more than 6 million dollars for the 2026–2027 school year, on top of the 8.3 million dollars already proposed.

At that point, the district would no longer be making incremental or efficiency-based adjustments. We would be required to make decisions that fundamentally and permanently reduce what our schools can offer. This would mean significantly larger class sizes across all grade levels, including at the elementary level. It would mean the loss of additional teaching positions and student support staff. It would mean fewer courses, fewer opportunities, and fewer supports for students. Many of the programs that families have come to expect would no longer be sustainable.

These would not be temporary adjustments. These would be changes that would fundamentally alter the educational experience in South Country, and once lost, they would not be easily restored.

The district is actively exploring every available option to avoid this outcome. This includes identifying additional cost reductions, examining operational efficiencies, and considering revenue options, including the potential of exceeding the tax levy cap in order to preserve core academic programs and student opportunities.

These decisions are not taken lightly. At the center of this work is a continued commitment to all of our students and to maintaining a high-quality educational experience in South Country.

The district will continue to provide updates and appreciates the community's engagement and support. A Budget Forum will be held immediately following the April 15 Board meeting, and community members are encouraged to attend.