

To: New York State Commissioner of Education, Dr. Betty Rosa
New York State Deputy Commissioner of P – 12, Dr. Kim Wilkins
From: Rochester Central School District Monitor, Shelley Jallow
Date: April 27, 2021, Resubmitted May 3, 2021
Subject: 2021-22 Proposed Budget

In accordance with Chapter 56 of the laws of 2020, the Rochester City School District (RSCD or “the District”) has provided me with the District’s proposed budget for the 2021-22 school year. This document represents my findings and recommendations regarding this budget.

On March 23, 2021, the RSCD superintendent submitted to the RSCD Board of Education (“the Board”) a proposed budget for the 2021-22 school year of \$836 million. Following a meeting with Commissioner Rosa, her staff, and the Monitor, the RSCD superintendent was directed to further reduce the District’s reliance on federal Stimulus monies to balance the RSCD 2021–22 school year budget. On April 23, 2021, RSCD submitted to the Monitor a revised proposed budget for the 2021-22 school year of \$840,274,960. The revised budget is currently under review by the Board. May 10, 2021 is the scheduled date for the Board to vote on the proposed 2021-22 school year budget.

The proposed budget was constructed by the RSCD Finance Department, with extensive input from the Superintendent’s Cabinet. I worked in a supportive role with the RSCD District Leadership; the RSCD Finance Department; New York State Office of the State Comptroller; and a commercial vendor, ForeCast 5, throughout the budget development process, which began with meetings held in October 2020.

2021-22 School Year Budget Findings

I find the proposed budget to be balanced, in the context of reasonable revenue and expenditure estimates. The increase of \$39.4 million in Foundation Aid that the District will receive in the 2021-22 school year has resulted in the elimination of the structural deficit for the proposed budget. The RSCD proposed budget has been constructed based on four core understandings:

1. Elimination of the RSCD budget deficit
2. Realignment of District resources to address declining student enrollment
3. Realignment of District resources to maximize student outcomes
4. Sustainability of fiscal stability

Many recommendations made in the Monitor’s academic and fiscal plans for increasing revenue and reducing expenditures were not implemented in time to have significant impact on the proposed 2021–22 school year budget. Staff reductions totaling 23 Full Time Equivalents (FTEs) in the 2021-22 proposed budget will have minimal impact on expenditures for a District

with over 5,500 employees. The initiation of school closures and mergers was not executed in time to impact the proposed budget. Strategies to retain and attract students to the District were not developed in time to impact the District’s declining K - 12 enrollment from 27,611 in 2016 to a projected enrollment of 22,974 for the 2021 -22 school year. Rather than reduce or eliminate programs that failed to show a positive impact on student or District outcomes, many such programs were simply transferred from the general fund to Title (i.e., Federal) funds.

The RCSD proposed budget for the 2021-22 school year is \$840,274,960. The table below outlines actual and projected revenue and expenditures for the 2017-18 to 2021-22 school year budgets.

	ACTUAL REVENUE / EXPENDITURE						BUDGET	PROJECTION			
	2017	2018	%Δ	2019	%Δ	2020	%Δ	2021	2022	DOLLAR CHG	%Δ
REVENUE											
Local	\$129,153,556	\$127,965,480	-0.92%	\$132,993,769	3.93%	\$129,836,597	-2.37%	\$132,343,093	\$129,390,096	(\$2,952,997)	-2.23%
State	570,312,469	590,171,399	3.48%	618,408,416	4.78%	677,366,733	9.53%	594,580,037	650,740,333	56,160,296	9.45%
Federal	4,623,637	2,130,183	-53.93%	5,174,789	142.93%	5,263,857	1.72%	32,742,792	27,044,261	(5,698,531)	-17.40%
Transfers In	671,529	9,889,124	#####	11,373,262	15.01%	804,135	-92.93%	2,066,682	33,100,000	31,033,318	#####
TOTAL REVENUE	704,761,191	730,156,186	3.60%	767,950,235	5.18%	813,271,322	5.90%	761,732,604	840,274,690	78,542,086	10.31%
EXPENDITURES											
Salary and Benefit Costs	425,264,061	444,181,784	4.45%	480,023,537	8.07%	437,136,444	-8.93%	428,311,623	461,345,441	33,033,818	7.71%
Other	284,508,842	304,372,288	6.98%	330,376,438	8.54%	300,525,999	-9.04%	333,420,981	378,929,249	45,508,268	13.65%
TOTAL EXPENDITURES	709,772,903	748,554,072	5.46%	810,399,975	8.26%	737,662,443	-8.98%	761,732,604	840,274,690	78,542,086	10.31%
SURPLUS / DEFICIT	(5,011,712)	(18,397,886)		(42,449,740)		75,608,879		0	0	0	
BEGINNING FUND BALANCE	70,830,018	65,818,306		49,636,366		7,186,626		82,795,505	82,795,505	0	0.00%
YEAR END BALANCE*	\$65,818,306	\$49,636,366		\$7,186,626		\$82,795,505		\$82,795,505	\$82,795,505	\$0	0.00%
FUND BALANCE AS % OF EXPENDITURES	9.27%	6.63%		0.89%		11.22%		10.87%	9.85%		
FUND BALANCE AS # OF MONTHS OF EXPEND.	1.11	0.80		0.11		1.35		1.30	1.18		

Projected expenditures for key areas, including charter school tuition, transportation, and staff compensation have increased. The financial and academic plans highlight the decreasing student enrollment in RCSD and the need to incorporate strategies to compete with charter schools for the return of RCSD students. These efforts have not been initiated, therefore charter school enrollment has increased, resulting in a proposed expenditure of \$106M in the RCSD 2021 -22 budget, up \$10M from the 2020 -21 RCSD budget. Teacher and civil service salaries have increased by a total of \$23M in the proposed RCSD budget for 2021-22.

Some policies and practices outlined in the financial plan have been initiated to address the rising costs of expenses. A contract with a new transportation vendor was negotiated and approved, charting a path away from the District’s total reliance on a single vendor for the transportation of secondary students. Expenditures for Board of Cooperative Educational Services (BOCES), Health/Dental Insurance, Unemployment, Workmen’s Compensation, TES Temporary Substitute Agency, and Special Education related expenditures such as tuition for

nonpublic schools and charter schools will no longer be processed in a direct pay platform separate from the District’s financial management system. This modified financial process will help the district with underestimating expenses based on trend data that did not accurately include these expenditures.

The table below outlines overall expenditures by sub-function.

	ACTUAL REVENUE / EXPENDITURE			BUDGET	PROJECTION	DOLLAR CHG	%Δ
	2018	2019	2020	2021	2022		
GENERAL SUPPORT							
Board of Education	\$569,721	\$935,175	\$493,625	\$558,110	\$555,951	(\$2,159)	0%
Central Administration	756,452	623,812	952,150	899,080	650,661	(248,419)	-28%
Finance	5,027,626	4,782,186	4,480,616	5,173,936	5,247,521	73,585	1%
Staff	7,226,126	7,287,273	5,722,684	8,054,409	7,613,858	(440,551)	-5%
Central Services	40,921,088	42,188,480	37,861,561	38,605,497	40,973,111	2,367,614	6%
Special Items	3,402,706	2,824,634	3,219,142	11,556,909	2,487,093	(9,069,816)	-78%
TOTAL GENERAL SUPPORT	57,903,719	58,641,560	52,729,777	64,847,941	57,528,195	(7,319,746)	-11%
INSTRUCTION							
Administration and Improvement	44,495,280	46,539,644	42,424,911	38,490,301	43,398,877	4,908,576	13%
Teaching	324,700,906	354,286,747	329,649,442	328,622,794	370,531,274	41,908,481	13%
Instructional Media	5,830,980	5,787,483	4,864,616	4,882,507	5,505,161	622,654	13%
Pupil Services	26,804,013	25,235,866	24,476,585	27,027,355	30,474,089	3,446,734	13%
TOTAL INSTRUCTION	401,831,179	431,849,739	401,415,554	399,022,956	449,909,401	50,886,445	13%
TRANSPORTATION							
District Transportation Services	6,529,321	6,845,163	6,818,291	7,326,683	7,465,342	138,659	2%
Garage Building	1,042,090	969,985	754,659	1,325,975	1,329,735	3,760	0%
Other	68,903,958	68,848,788	44,767,701	48,267,360	68,709,506	20,442,146	42%
TOTAL TRANSPORTATION	76,475,368	76,663,937	52,340,651	56,920,018	77,504,583	20,584,565	36%
OTHER EXPENDITURES							
Community Service	574,703	555,255	450,730	255,113	212,607	(42,506)	-17%
Employee Benefits	141,376,406	157,183,039	141,473,344	150,791,239	154,423,198	3,631,959	2%
Debt Service	4,578,557	4,309,109	2,788,752	10,692,282	7,887,488	(2,804,794)	-26%
Interfund Transfers	65,814,141	81,197,336	86,463,636	79,203,055	92,809,218	13,606,163	17%
TOTAL OTHER EXPENDITURES	212,343,806	243,244,739	231,176,461	240,941,689	255,332,511	14,390,822	6%
TOTAL EXPENDITURES	\$748,554,072	\$810,399,975	\$737,662,443	\$761,732,604	\$840,274,690	\$78,542,086	10%

Alignment to the Plans

The District has made some progress on most of the recommendations from the State Monitor’s Financial Plan. A few examples include:

- A renewed adherence to Medicaid policies, resulting in an increase of 96% in Medicaid Assistance Reimbursements for the District.
- Completion of a project management plan for the adoption of a new financial management system (ERP/HCM), including an allocation for the required funding.
- A reduction in principal debt by eliminating the need for a Revenue Anticipation Note (RAN) for the 2021-22 school year.
- A Moody’s credit upgrade for the city of Rochester and the District.

The District has been less successful implementing recommendations from the State Monitor's Academic Plan. A few examples highlighting some progress include:

- Funding allocated for 4 additional core content specialists to support the Office of the Chief Academic Officer.
- Adoption of core curricular materials upgraded to align with the New York Next Generation standards and assessments.
- Funding totaling \$2.9M has been allocated for a comprehensive assessment program.

Although the proposed 2021-22 school year is balanced and appears to make provisions for all current operations and mandated programs, it will need to be monitored closely to ensure that the District makes fiscally prudent decisions to adhere to the District's spending plan. It is also important that the Finance Department regularly document and report to the Board any changes in revenues or expenditures so that necessary adjustments may be made as soon as possible.

Recommendations

At this time, I recommend the RCSD proposed Budget for the 2021-22 school year be approved as submitted on April 23, 2021. I do not recommend that the Commissioner direct the Board at this time to make any amendments to the proposed budget.

Because of the District's history of failure to consistently develop a balanced budget, failure to implement the majority of the recommendations in the State Monitor's Fiscal and Academic Plans for reducing expenses, increasing revenue, and improving academic outcomes, as well as the magnitude of the fiscal management associated with receiving additional funding in excess of \$300 million, I recommend that the Commissioner take the following actions regarding the \$23M, Coronavirus Aid, Relief, and Economic Security Act (CARES); \$87M, Coronavirus Response and Relief Supplemental Appropriations Act (CRSSA) and \$197M, American Recovery Plan (ARP):

- Require payments as reimbursements rather than advance payments.
- Withhold authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance.
- Require additional, more detailed financial reports.
- Require additional project monitoring.
- Establish additional prior approvals before funds may be expended.

Issues beyond 2021-22

I caution that although the proposed budget appears to be balanced, the fiscal outlook for years beyond 2021-22 remains uncertain. The District continues to incur growing expenses in the areas of transportation, charter school tuition, staffing, debt, and contracted services while enduring a continuing decline in student enrollment. An example is staffing, when compared to the 2018-19 school year budget, the expenditures in the 2020–21 school year budget are reduced by 5%. However, when the proposed staffing expense for the 2021-22 school year is compared to the 2020-21 school year budget, the proposed expenditures for the 2021-22 school year is a 13% increase, despite the decline in student enrollment. The five bargaining units are all in the middle of negotiations with the District. The proposed budget includes a 2% increase for each RCSD bargaining unit. Any negotiations resulting in an increase to the compensation package above 2% will require significant adjustments to the proposed 2021 -22 budget and future RCSD budgets.

The recommendations for the fiscal and academic improvement of the District are still valid and should be implemented with fidelity. The District should continue efforts to effectively align District resources utilizing research and evidence based strategies to meet the needs of RCSD students.