



---

## Rush-Henrietta Central School District

[www.rhnet.org](http://www.rhnet.org)

May 13, 2016

Edward V. Grant, Jr., Chief Examiner  
Division of Local Government and School Accountability  
Office of the State Comptroller  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, New York 14614

Dear Mr. Grant:

We wish to acknowledge receipt of the findings and recommendations outlined in your recent “Report of Examination” of the Rush-Henrietta Central School District for the period of July 1, 2012, through October 30, 2015. Some of your observations will assist us in improving our practices so we have already implemented changes.

While we value the opinions of the Comptroller, we would like those reading the audit report to understand that in general, the budget comments focus solely on single-year budgeting practices without regard to a long-term strategy that has served our district and taxpayers well for many years.

At the most local of levels, a Board of Education must balance its responsibility to be both fiscally responsible to the community and to deliver sound educational programs to students. At the same time, the board must abide by the many constraints placed upon us by state and federal laws, regulations, and mandates. The Rush-Henrietta Board of Education, elected by the local residents, spends a great deal of time developing budgets that balance all of these priorities.

In fact, the board’s strategic multi-year practice has enabled the district to deliver a 2015-16 true value tax rate that is 2 percent lower than the 2005-06 tax rate, continue to have the lowest tax rate in the county, and maintain one of the lowest debt levels in the state. With more than 75 percent of our residents approving our budgets in each of the past five years, our community members recognize the value of our stable tax rates and continued fiscal responsibility. Moody’s continues to affirm our Aa2 credit rating, despite our dwindling fund balance and even Gov. Cuomo has recognized our good fiscal processes, awarding our district with a \$1.9 million Management Efficiency grant.

While the recommendations may result in a single-year tax levy reduction, they will result in significant changes in later years. Instead, the Rush-Henrietta Board of Education believes our residents prefer a stable, consistent, and predictable tax rate.

### **Financial Management**

A critical factor in the budget-setting process is the parameter that state law does not allow the board to exceed the budget. Using historical averages as suggested by the Comptroller, would have significant impact on students in years where expenditures trend above average. If a rainy day is not planned for – and suddenly arrives – this could result in severe mid-year program reductions for students. Therefore, similar to many fiscally healthy school districts, our Board of Education incorporates flexibility into the budget. This flexibility is funded with “appropriated fund balance” (accumulated savings) rather than increasing the tax levy. Please note, the appropriated reserves and fund balance has decreased by almost 50 percent from the 2012-13 budget to the 2015-16 budget as the district continues to tighten budgeting processes.

We find the comment in the report that states, “The Board should include any planned transfers for known capital projects in its adopted budgets to provide a more clear and comprehensive illustration...” to be illogical. Residents see each proposed capital proposition, including planned reserve transfers, separately so they explicitly understand what they are approving. If we also budget the planned reserve transfers in our operating budget it would make the operating budget opaque and grant the same spending authorization twice for a single project.

### **Budgeting and Fund Balance**

For decades, the Rush-Henrietta Board of Education has endorsed - and our district voters have approved – propositions for the establishment of Capital Reserves to be funded by “any and all state aid.” The district has a long history of paying cash, and avoiding millions of dollars in financing fees, for most of its capital projects. This has been accomplished, with voter approval, by directing all state aid from prior capital projects into capital reserves for future capital projects. Since the intent was not to use this money for operating expenses, they were not budgeted for in the General Fund. Although the board endorsed, and the voters approved, this process the district agrees it could be even more transparent by also including these amounts in the budget. Effective immediately, we will budget both the anticipated building aid to be received and the associated transfer to capital.

In addition, the district was awarded \$3.9 million in governor’s performance grants over a three-year period. During the second year of funding, the Comptroller ruled these revenues must be accounted for in the General Fund. This, combined with the uncertainty of the annual renewal and timing, made it impossible to budget these in the General Fund. If these were properly excluded from the “underestimated revenue,” calculation the real difference is closer to 3 percent rather than the 16 percent to 23 percent portrayed.

To put this further in perspective, the \$35.2 million in budget variance noted in the report is only 5 percent of the total \$643 million revenue and expenditure budgets for the three years. Furthermore, if we reduce the \$35.1 million by transfers to capital reserves and supplemental performance grants, the total variance is \$22.4 million, or 3 percent. We do not deem this to be unreasonable.

Figure 2 shows the proper way to calculate Unrestricted Fund Balance. This clearly demonstrates that the district is in statutory compliance. Figure 3 as presented in your report is creative, but contrary to State Education Department guidance on how to calculate this. Our auditors assure us we are in compliance with the statutory requirements as defined by SED and shown in Figure 2.

### **Reserves**

Each year, the Rush-Henrietta Board of Education reviews and adopts a “Strategic Plan for Use of Reserves.” This shows each reserve, establishes a targeted reserve amount, and explains the proper legal requirements to fund the reserve. Figure 2 in the Audit Report shows “Restricted Funds” or reserves have decreased in excess of 50 percent during the audit period. Since reserves are not a

recurring revenue stream, the district does not consider it fiscally prudent to utilize them for ongoing operational expenses. This is why Unemployment and Retirement reserve balances haven't been utilized in the past three years. They are intended for unusual, infrequent circumstances and not for recurring operational expenses.

Year-end surpluses are used to fund reserves or applied to the ensuing year's budget to reduce the need for a tax levy increase. This is criticized in the Comptroller's report. As you should know, it is impossible to precisely budget exact spending amounts so there will be variances. Incredibly, following the Comptroller's guidance would have us unnecessarily expending funds so as to not have a surplus; we consider this to be an unwise use of taxpayer funds. More prudent is to direct these surplus funds to reserves as the board is legally entitled to do for more thoughtful future use.

### **Separation Payments**

Another area reviewed by the Comptroller was separation payments made to employees when they leave the district's employment, either through retirement or resignation. Most separation payments are in accordance with the district's Collective Bargaining Agreements that cover the vast majority of the district's employees. It is the responsibility of the Board of Education to review and approve all Collective Bargaining Agreements prior to their implementation.

More than 1,100 employees work full time for the district so it is impossible to include all possible scenarios and conditions in a single document. This is especially true in a complex environment covered by union contracts, state Civil Service law, and federal and state labor and tax laws. It is occasionally in the best interests of the district to enter into a unique type of separation agreement. These are always approved by the Board of Education, just as the board has to approve all Collective Bargaining agreements. The district's attorney assures us these types of unique agreements are under the legal purview of the Board of Education.

Finally, the report mentions the vacation carryover days allowed under the CBA as long as they are approved by the Superintendent. Traditionally, the Superintendent had delegated this responsibility to the Human Resources department but to ensure there is no confusion the Superintendent will approve these directly as recommended in the report.

The Board of Education will certainly take into consideration the Comptroller's observations and opinions as it continues to formulate the strategic financial and instructional priorities for the district.

Very truly yours,



Diane McBride  
President, Board of Education



J. Kenneth Graham, Jr., Ph.D.  
Superintendent of Schools