



Comments on the Preliminary Proposed Budget 2014-15 April 7, 2014

The League of Women Voters of Scarsdale (the “League”) thanks members of the Board of Education (the “Board”) and District Administration (the “Administration”) for addressing questions on the 2014-15 Preliminary Proposed School Budget dated March 10, 2014 (the “Budget”) at the League’s informational meeting held on March 17, 2014.

The League appreciates the opportunity to comment on the Budget. This statement reflects the consensus of League members on the topics included in this statement discussed at a League consensus meeting held on March 17th.

The Budget currently anticipates a 3.07% total budget growth and overall tax levy growth of 4.08%. The corresponding property tax rate is estimated to increase 3.93% for Scarsdale residents and 1.59% for Mamaroneck residents. Externally driven costs, such as retirement system contributions and health insurance costs, and staff additions based on student enrollment growth, account for the most significant proportions of total budget growth. The League acknowledges the positive impact of last year’s renegotiated teacher contract, which includes a salary freeze and health insurance “premium equivalent” contribution,¹ on containing budget growth for 2014-15.

The League supports the Budget for the 2014-15 school year and recommends that the community vote “yes” to approve the Budget on Tuesday, May 20th. The League offers its views and recommendations regarding certain budgetary items as well as the budget process, and we hope that our comments and recommendations will be considered as the budget is revised and finalized.

I. Reserves

A. Health Insurance Reserve.² In connection with the determination that the maintenance of a health insurance reserve fund does not comply with applicable state law, the Board elected to eliminate the fund in its entirety this year, rather than over a number of years as permitted, applying \$750K of the fund to the undesignated reserve and using the remaining

¹ “This ‘premium equivalent’ is an estimate of what the plan’s benefits would cost if we attempted to purchase the current plan in the insurance marketplace. Since the District’s plan is self-insured, there is no actual premium cost.” In addition, according to the District, “Employees have a high out-of-pocket contribution to their own health care relative to those in other districts, whether self- or industry-insured.” See “Scarsdale Public Schools Health Insurance” ePaper: <http://www.scarsdaleschools.org/site/Default.aspx?PageID=15946>.

² In 1988 the District switched from a traditional Empire-insured health plan to a self-insured, “user-payer” health care model. Since then, the cost-saving features of the Scarsdale Health Care Plan have worked to moderate rising health care costs and to reduce significantly Scarsdale residents’ health care related tax burden. For example, the District has realized an estimated \$5.5 million in cost savings over the last two decades. At the same time, the plan has added a considerable level of financial risk to the District due to excessive claims volatility. From 1990 until this year, the District managed this volatility with a combination of stop-loss insurance and a Health Insurance reserve fund. “This reserve was reported annually to New York State, disclosed in the annual financial statements, reviewed and approved by the District’s external auditors and auditors from New York State’s Office of the Comptroller.” See “Scarsdale Public Schools Health Insurance” ePaper. We understand that the District was informed two years ago that maintaining this reserve was not valid.

\$777K to offset tax growth for 2014-15. The League is concerned about the District's long-term ability to manage risk in the absence of a health insurance reserve. **The League supports the Board's intention to review the District's options and recommends, in particular, that the Board explore both the costs and benefits of joining a consortium of self-insured districts.**³

B. Undesignated Reserve Fund. The Budget proposes an undesignated reserve balance of approximately \$5.25 million or 3.53% of next year's budget, below the 4.0% maximum allowable under State law. The League notes its concern about the level of undesignated reserves, as the uncertainty surrounding the use of the reserve looms larger in light of unpredictable costs such as:

- Unanticipated large health insurance claims. As noted above, the Board has elected to eliminate the health insurance reserve fund in its entirety.
- Teaching positions to cover student enrollment. Historically, the Board has included one or more unassigned positions in the budget to meet unanticipated increases in student enrollment; however, it did not include any unassigned positions in the Budget.
- Costs that remain unknown for 2014-15, including special education and Teacher Retirement System contribution costs.
- Tax certiorari settlements that cannot be met through use of the Tax Certiorari Reserve, as occurred this year with the Quaker Ridge Golf Club tax certiorari settlement. We acknowledge, however, that we do not know whether tax certiorari claims will decrease generally as a result of the village-wide revaluation.
- Unbudgeted costs associated with the conclusion of contract negotiations for six District bargaining units.

The level of the undesignated reserve fund takes on additional significance since the District's credit rating can be negatively affected if either the undesignated reserve or total fund balance drops below a certain threshold, an important factor in the District's ability to issue bonds in the future.

II. Staffing

The League supports the inclusion in the Budget of eight additional teaching positions to meet student enrollment growth at the elementary and high school levels, while maintaining both elementary class size practice and the historical high school class size norm of no more 12% of classes each year with over 25 students. We note however the absence of an undesignated teaching position in the Budget (see Undesignated Reserve Fund above).

The League notes further that the Budget could compromise the quality of our education by not restoring positions funded in previous budgets, such as an Elementary Helping Teacher in English Language Arts, a second Middle School Librarian, and a Middle School Computer Teacher (.5). **The League reiterates its earlier recommendation that the Board seek additional community input on these decisions. The League suggests that the Board engage the community as well on issues that in previous years may have invited "community controversy," such as those items identified in Dr. McGill's**

³ "Under state insurance law, health consortiums are required to maintain fairly large reserve funds, sometimes as high as 25 percent of their total expected claims.... The amount required may be far in excess of actuarially sound requirements." New York State School Boards Association, "Can Health Insurance Consortiums Rein In School District Health Care Costs?" September 2009: <http://www.nyssba.org/news/reports/2/>.

February 6, 2014 memo to the Board, including the Teen Center and security at Greenacres field.⁴

III. Budget Process

One of the Board's key goals this year has been to respond to the requests from the community for improved transparency in the budget process.⁵ The League endorses this Board goal, and it is in this spirit of support that we offer our comments and recommendations regarding the following areas:

A. Availability and Accessibility of Information. The League commends the Administration and the Board for numerous improvements in the availability and accessibility of budget related information. We appreciate that informational outreach began earlier this year, with educative fall reports on various topics related to the proposed 2014-15 budget. We note, in particular, that this year's Administration reports, including new school level reports, as well as the Board's presentation of the proposed budget, were focused and streamlined so as to provide complex budget information to the public in a more digestible and intelligible format. The League further commends the Administration and the Board for making all budget related materials, including links to all documents and recordings of budget presentations and meetings, promptly available online and readily accessible via direct link from the home page of the District website.

B. Approach to Budget Process. The League has supported the approach that was used by the Administration and the Board in the last several years to prepare school budgets with the primary focus on maintaining and enhancing an excellent school system, while also recognizing the current economic pressures on residents.

During this year's budget process it became apparent that the Board's approach to the budget process had changed and that it had in the fall, according to Board President Seiden, "made the tough call ahead of time" and "sent the signal in advance" to the Administration "to come in with a very careful budget."⁶ The League notes this divergence from the past approach in which the Administration has proposed a budget that funds education "as it ought to be," as the Superintendent has stated, and upon which the community has relied to inform it of the District's coherent vision of what is required to fulfill the mission of the Scarsdale Schools.⁷

The League notes further that the public was neither prepared for nor informed in advance as to the rationale for this change in the Board's approach. The League also notes that the Administration's list of possible "enhancements" to the budget came at the request of members of the community and was made available to the public, along with a list of possible further reductions, when the Administration presented its proposed budget.⁸

⁴ "Program Reductions (DRAFT 2)": <http://www.scarsdaleschools.org/site/Default.aspx?PageID=15945>.

⁵ Board President Suzanne Seiden, Budget Study Session 1, February 3, 2014.

⁶ Seiden, Budget Study Session 4, February 12, 2014.

⁷ The League Board also commented on this change in approach at the February 10, 2014 Board meeting.

⁸ Superintendent Michael V. McGill, memo to the Board dated January 31, 2014 regarding Program Enhancement.

The League reiterates its concern, expressed at the March 24, 2014 Board meeting, that the Board ensure it receives community input on the Budget. As the League has noted, at the time the community is traditionally asked to provide input, the budget discussion appears already to have been circumscribed by Board and Administration choices made within a set cost parameter in which, for example, items included in the Budget were said to require a trade-off with items excluded from the Budget.

The League also notes its concern that the Board endeavor to gain an accurate and current read of the community's priorities regarding what is funded in the Budget. We encourage the Board to elicit widened input of the community so that it may be guided in its decision-making by a broad-based majority of the community and not by just of a few individuals who faithfully attend meetings but who may not reflect the views of many in the community.

The League recommends that the Board now seek community feedback on (1) the decision to propose a budget that contemplates a tax levy that is less than the tax cap, and (2) the effectiveness of this year's approach in (a) promoting community understanding of what is needed to preserve and enhance Scarsdale's excellence in education, and (b) encouraging broad community engagement in the annual budget process to ensure the budget accurately reflects current community priorities and goals.

C. Scarsdale Schools Education Foundation (SSEF) Role and Procedure in Funding District Projects. The District has stated its intention that the SSEF "supplement, not supplant" its obligation to fund essential school programs and facilities. The League is concerned about the potential reliance on the SSEF for funding what may be considered essential to a Scarsdale education. **The League recommends the Board provide the community with a better understanding of the role and procedure of the SSEF in funding District projects, with the goal of elucidating the difference between the SSEF supplementing, as opposed to supplanting, District funding of projects. The League also looks forward to a clarification of the Board's gift policy with respect to the SSEF as we have previously requested.**

D. Impact on Next Year's Budget. The League understands that past and present budget decisions will have significant impact on future budget choices. We learned from this year's budget discussions that, due to increasingly tight budgeting, drawn down reserves, the elimination of the health insurance reserve, and the recurrent use of surplus to offset tax levy growth in order to remain under the tax cap, the community will likely face next year a proposed budget that will require either a tax levy in significant excess of the State calculated tax levy limit or significant cuts to current programs and staffing levels. Certainly, with a Budget that proposes tax levy growth under the allowable tax cap and modest budget growth, the starting place to develop the 2015-16 budget will be lower than the starting place if the Budget did not exclude certain items.

According to the Administration, if current projections for budget surplus are accurate, by the end of next year the District will have a deficit of about \$1.6 million, which would mean

over 1% added to the tax rate.⁹ The Administration further predicts that, without added surplus next year, by July 2015, the \$5.25 million in undesignated reserves “will actually be down to something like \$3 million – a \$2.1 million deficit, unless taxes are raised, or expenses cut,”¹⁰ with undesignated reserves likely depleted in three to five years if the District continues to try to keep tax levy growth below the tax cap.¹¹ In addition, the Board’s decision to use approximately \$777K of funds from the eliminated health insurance reserve to offset tax levy growth for 2014-15 leaves a substantial revenue “hole” in the 2015-16 budget.

The League recommends that the Board engage the public right away in conversation about the challenges to be faced during next year’s budget process as well as about the community’s values, priorities and goals with respect to a Scarsdale education. We understand that the District is in the process of developing a strategic plan to develop a community vision for our schools and suggest that perhaps this conversation can be undertaken in that context.

In conclusion, we thank all the members of the Board and the Administration for striving to meet the best interests of our children. The League looks forward to the release of the Board’s final budget iteration and tax levy resulting from having considered comments made by the community.

Sincerely,

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⁹ Business Manager and Treasurer Jeff Martin, Budget Study Session 4, February 12, 2014. According to Mr. Martin, a revenue shortfall greater than \$1m resulting from reduced prior year surplus accounts for about .32% of tax growth in the 2014-15 budget, an increase that could have been closer to 1% if the Board did not use \$777k from the dissolved health insurance reserve to ameliorate tax growth.

¹⁰ Assistant Superintendent for Business Linda Purvis, Budget Study Session 4, February 12, 2014.

¹¹ Purvis, Community Budget Forum 2, January 29, 2014.