The Rochester City School District's Recent Financial Presentation Does Not Fully Add Up

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I reviewed recent information about the financial condition of the Rochester City School District (RCSD), particularly a presentation dated October 20, 2020.[1] I do not dispute all aspects of the presentation, nor would I dispute that RCSD faces potential financial challenges, including but not limited to the ongoing fallout of the COVID-19 pandemic. However, to the extent that it purports to show a $199 million deficit for the district, the presentation does not fully add up; it is misleading or wrong to identify some items as constituting a "deficit." Moreover, *preliminary data for fiscal year 2020, which ended on June 30, indicates a general fund surplus, not a deficit.*

<u>Components of the Claimed Deficit</u>

Despite the board presentation's labeling, the items marked in red do not add up to a $199 million deficit. In fact, *all* items mentioned on pages 2 and 3 of the presentation, not just those shown in red, add up to $199.3 million. The following are the most significant categories:

1) An $86 million loan from the City of Rochester, characterized in the board's presentations as "revenue anticipation notes" (RANs), essentially money borrowed from the city to manage cash flow. It is not uncommon to borrow against expected revenues. While this is a *liability* on the board's books, i.e., an amount owed, it is not proper to characterize it as a *deficit* (an actual shortfall or difference between revenues and expenditures occurring over some time period). A June analysis from the State Comptroller's Office which is implicitly somewhat critical of the ongoing use of these RANs acknowledges that the RANs are not a deficit per se, and that their *cost* reflects the potential interest incurred, not the headline amount:

   > "District officials must diligently monitor cash throughout the fiscal year to ensure that when the revenues for which the RAN is issued are received, they are earmarked and reserved to repay the note when due. Additionally, the RAN does not come without cost as the projected interest owed on the RAN will exceed $1.2 million. Improving the District's overall financial condition will improve cash flow and help to prevent paying more interest than necessary."[2]

   Given that the actual amount of RANs was apparently $86 million, interest costs should be less than the ballpark figure given in the Comptroller's estimate for up to $100 million in RANs. In fact, information provided to the union in September 2020 shows receipt of RAN revenues totaling $85.6 million in August 2020 and projects payment of $86.1 million in June 2021. The difference of less than $500,000 (after rounding) is the true cost of the RANs.

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[1] https://go.boarddocs.com/ny/rochny/Board.nsf/files/BUKUZH750B0A/$file/Finance%20Committee%20Meeting%2010.20%20Updated%20Presentation.pdf.

[2] https://www.osc.state.ny.us/files/local-government/audits/pdf/rochester-br-20-2-5.pdf.

2) An amount of $69.9 million to replenish the district's general fund balance. Although I agree that a low fund balance is not ideal, rebuilding it is not mandatory, does not represent a deficit per se, and should not be prioritized over district students, services, or workers. That would be like adding to a savings account while starving. *A recommendation to add to fund balance is not really a deficit. Although relevant in the long run, this should not be a priority.*

3) An amount of $20.6 million to replenish "assigned" resources, including those slated to be used to support active employee health insurance, retiree health insurance, and workmen's compensation. Assuming "assigned" is meant the way it is normally used in public finance, these are resources which are tentatively, but not irrevocably, designated by RCSD top management for certain purposes. As I argued in the previous item with reference to replenishing the general fund balance, restoring assigned resources should not be the primary priority during an economic downturn, and would shortchange other important district needs.

The board's $199 million deficit figure is composed primarily of items 1-3 above. As such, I would strenuously dispute whether the total amount can legitimately be characterized as a "deficit." On the contrary, the vast majority of the "deficit" does not require immediate action or cutbacks, and the RAN revenues are mainly a cash-flow management tool. I am not saying RAN funding is ideal or optimal, but it is not what is generally meant by "deficit." *Acting to restore fund balances would be a policy choice, not required by accounting rules or state guidelines.* Restoring these balances should not be an altar on which student services and jobs are sacrificed.

<u>Preliminary Data for Fiscal Year 2020 Does Not Show a General Fund Loss</u>

Interestingly, preliminary data for fiscal year 2020 shows $791.2 million in general fund revenues and only $733.7 million in general fund spending. This level of expenses in the general fund is hugely reduced from the $810.4 million figure for fiscal year 2019. Although available information does not make this entirely clear, it appears that the mid-year transition to remote learning may have kept some expenses unusually low. Capital expenses, for example, decreased quite considerably, from $12.9 million in fiscal year 2019 to just $2.8 million in fiscal year 2020.

If these general fund revenue and expense figures for the recently concluded fiscal year prove correct, there will have been a significant surplus of $57.5 million in the fund, equal to a strong 7.8% of the fiscal year's expenses. I would not necessarily count on this outcome, for many reasons, including a recent historic pattern of deficits. *In any case, the $199 million estimate is at best highly imprecise. It does not persuasively justify cuts in student services or employee layoffs.*

<u>Summary</u>

The district's projected deficit is not a true deficit, and consists of items which may be important, but are not immediately required or inevitable under state or public finance guidelines. The district should not cut services for its students and the livelihoods of its employees on this basis and should acknowledge that draconian cuts would be a policy decision, not a clear necessity. The district may indeed face financial challenges, but its ballpark deficit estimates do not add up.