

# Memo

To: Board of Education  
From: John Bierwirth  
Date: February 4, 2014  
Re: 2014-15 Budget

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For the first time in four years, the budget message for 2014-15 is a positive one. This does not mean that we will be able to reinstate the roughly 100 positions we cut over the 2011-12, 2012-13 and 2013-14 school years, re-establish the suspended class size guidelines which had been in use for decades or, most importantly, bring back all of the services and programs for students which have been eliminated or reduced over the past three years. It does, however, mean that for 2014-15, no further cuts are necessary and that some small steps can be taken in a positive direction.

We recommend that (a) no further cuts be made in programs and services beyond those already made in prior years and (b) improvement in class sizes be given the highest priority for the limited funds which are likely to be available. This recommendation is not to slight or diminish the very real needs of all of the other areas which have suffered cuts or the pressures these cuts have placed on students, staff and parents. These programs, services and positions would not have been in the budget in the first place if they had not been important. They are still just as valuable as they ever were and their loss affects us every day. The rationale for our recommendation is simply that making a step in the direction of reducing class sizes is an explicit and significant step in bolstering the quality of the relationship between teachers and students which is at the heart of the instruction process.

This budget memo is divided into three sections:

**A. 2014-15 Draft Budget**

1. Overview
2. Tax cap calculation for 2014-15
3. Growth factor
4. Employer pension contributions
5. Health Insurance
6. Status of Tax Certiorari case
7. State Aid Estimate
8. Debt payment schedule
9. Elementary Class Sizes 2014-15

- B. Proposed Capital Bond Issue**
- C. Preliminary Projections for 2015-16, 2016-17 and 2017-18**
- D. Cuts Made in 2011-12, 2012-13 and 2013-14**

## **A1. Overview**

As indicated, this is the first positive message in four years. We will not need to make any further cuts and we should be able to make a small number of restorations. This is due to the combination of several key factors.

- (1) The employee contribution rates for the two retirement systems (TRS and ERS) are still increasing, but more modestly. Furthermore, given the strong increases in equity markets, it is possible that both rates are at or near a peak.
- (2) The increase in health insurance for calendar 2014 (the last half of the 2013-14 fiscal year and the first half of the 2014-15 fiscal year) turned out to be considerably less than anticipated as late as the end of November 2013. As was the case back in 2012, we believe that the rate increase has been artificially suppressed by New York State. This may mean that the underlying costs for 2014 will be greater and that we are, therefore, likely to return to a higher rate of increase in 2015. However, this is very much to our benefit for the moment.
- (3) At this point we have no new expensive mandates from New York State on top of APPR, increased testing, etc. We still have substantial costs associated with these mandates in the area of professional development as we need to provide strong support for our teachers to help students meet and surpass the new higher standards. However, it does not appear that we will be hit with anything substantial in addition in 2014-15.
- (4) Although final numbers are not in, we have received a number of retirements.
- (5) Contracts for the Administrators and the Teachers Association expire on June 30, 2014. We have only budgeted for those increases required by law (commonly known as "Triborough").

Cumulatively, these factors have alleviated most of the pressures which have caused the budgeting process for the last three fiscal years to be so difficult and which resulted in cuts of roughly 100 positions and the reduction or elimination of many programs and services.

As we have planned for over a decade, we are recommending a new capital bond issue in the amount of \$3,500,000. The size of this bond issue will produce bond interest and principal payments no larger than the bond which is being retired June 2015. This will mean that there will be no bump in the tax levy between 2014-15 and 2015-16 as a result of the new capital program.

The items in the bond issue are very similar to what any homeowner experiences. No matter how well a roof is maintained, for example, it eventually needs to be replaced. We are extremely fortunate that the roof at the Middle School will be almost 30 years old

by the time it is replaced. This is far longer than one would expect a flat roof to last but the District made a wise decision in the quality of the roof it selected decades ago and it has been well maintained since. The same is true of other items in the capital bond issue. Addressing these needs now will allow us to maintain our buildings in good condition and minimize annual maintenance costs.

## **A2. Tax Cap Calculation for 2014-15**

The tax cap number is set by New York State for all school districts each year. The cap for 2014-15 is 1.4648%. The tax cap is less than 2% since the rate of inflation as calculated by New York State is less than 2%.

## **A3. Growth Factor**

The tax cap formula includes what the law refers to as the “growth factor”. This is calculated by New York State annually for every school district, town, village, County, etc. in the State. The factor is intended to allow for new construction (in the State’s words bricks and mortar) to be added to the tax base in the tax cap calculation.

The growth factor for Herricks for 2014-15 as calculated by New York State is 1.0035%.

## **A4. Employer Pension Contributions**

As indicated earlier, the employer contribution rates for the teachers’ and employees’ retirement systems may be at or near a peak. As you can see from the chart below, rates for the TRS have swung widely since 1978-79. (Rates for ERS have moved in a parallel fashion.)

1978-79	21.40%
1979-80	22.49%
1980-81	23.49%
1981-82	23.49%
1982-83	23.49%
1983-84	22.90%
1984-85	22.80%
1985-86	21.40%
1986-87	18.80%
1987-88	16.83%
1988-89	14.79%
1989-90	6.87%
1990-91	6.84%
1991-92	6.84%
1992-93	8.00%
1993-94	8.41%
1994-95	7.24%
1995-96	6.37%
1996-97	3.57%
1997-98	1.25%
1998-99	1.42%
1999-2000	1.43%
2000-01	0.43%



2001-02	0.36%
2002-03	0.36%
2003-04	2.52%
2004-05	5.63%
2005-06	7.97%
2006-07	8.60%
2007-08	8.83%
2008-09	7.63%
2009-10	6.19%
2010-11	8.62%
2011-12	11.11%
2012-13	11.78%
2013-14	16.25%
2014-15 anticipated	17.25-17.75%

In the future, New York State, along with all other states in the country, will be required to calculate adequacy of pension fund reserves according to new rules established by the Government Accounting Standards Board (GASB). According to GASB, New York State's teachers and employee retirement systems are well funded, but not 100% funded. Over the next couple of years, first the State and then individual districts will have to report the shortfall. While there is no requirement that a State's pension system be fully funded, there may be pressure to keep pension system contribution rates from declining rapidly as they did during the late 1980's and 1990's in order to build New York State reserves up slowly to a GASB fully funded level.

#### **A5. Health Insurance**

As indicated earlier the increase in the cost of health insurance premiums for calendar 2014 is considerably less than anticipated just a few months ago by the State Health System. We believe that, as in 2012, this increase is artificially depressed due to the use of reserve funds accumulated years ago. We have estimated the increase for January – June 2015 at an annual rate of 6% for budgeting purposes for the 2014-15 budget.

2007-08	\$8,505,856
2008-09	\$8,749,920
2009-10	\$9,093,358
2010-11	\$9,774,178
2011-12	\$10,058,487*
2012-13	\$10,180,391
2013-14 (projected)	\$10,563,215
2014-15 (projected)	\$11,021,078*

\*Artificially depressed by New York State

#### **A6. Status of Tax Certiorari Case**

In October 2010, Nassau County adopted a law making school districts, towns, etc. responsible for the cost of property tax settlements. Since the County has been and still is responsible for setting the assessments in the first place and since Nassau County has historically had a very poor record in this area, school districts sued to stop implementation of the law, at the very least until the County was able to clean the system up.

On January 4, 2012, the Supreme Court decided in favor of the County and against school districts. School districts appealed the decision. That appeal has not been decided.

The average school district's share of settlements is \$960,000 per year. Since Herricks has very little commercial property, settlements in Herricks historically have totaled considerably less than that. \$300-\$400,000 is probably a reasonable estimate.

In case the appeal by school districts against the County was unsuccessful, the Herricks Board of Education placed \$350,000 in a reserve for 2012-13. These funds remain in that reserve. No additional funds have been added to the tax cap reserve in subsequent years and in light of the progress made on the appeal, we do not recommend placing any more money in the reserve for 2014-15. Please be reminded, however, that the danger is that if school districts are ultimately unsuccessful, Herricks would need to come up with \$350,000 times the number of years no payments have been made to the reserve. At this point, that potential liability is \$700,000.

#### **A7. State Aid Estimate**

Final State Aid estimate figures for 2014-15 will not be known until the New York State Legislature approves a budget for the next fiscal year and the Governor signs it. By law, this is due no later than April 1 each year. After decades of missing this deadline the State government has produced an on time budget for the past several years so we hope to have a final number by then or earlier.

During the third week of January, Governor Cuomo published his recommendations for the State budget including State Aid for school districts. The projected increase for Herricks was \$422,000. That is the figure that we are recommending that we use until a final approved figure is available. We believe that this number is sufficiently solid and that it is highly unlikely to be reduced. These funds are included at the end of the proposed 2014-15 budget. They have not been allocated to any specific budget line, although our recommendation is that they be used to add teaching positions in order to reduce class sizes.

#### **A8. Debt Payment Schedule**

Attached please find the debt payment schedule for 2014-15 and subsequent future years.

# HERRICKS UFSD - DEBT SCHEDULE

2008 Ban/Bond

\$7,799,110

less \$1.3 mil

Excel aid

\$6,499,110

Projected\*

Total Annual

Debt Service

(In Budget)

Total (Revenue)

32%

Net District

Share

State Aid

Estimated

\$273,244

\$400,964

\$304,794

\$304,794

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## A9. Elementary Class Sizes 2014-15

We have prepared an initial anticipated class size chart for 2014-15. The elementary class sizes as of January 28, 2014 are on the lower half of the chart.

### Key points:

1. We are assuming the same kindergarten enrollment for 2014-15. Actual numbers will start coming in during March but we continue to get kindergarten enrollment until Labor Day.
2. There are currently a total of 66 elementary sections in the three elementary schools. (This does not include self-contained special education classes such as STRIVE and ID classes.) We are budgeting for 66 for 2014-15 although only 63 have been placed at this point. We are not calling for or budgeting for a reduction.
3. We have used the de facto guidelines in use the past couple of years, after the long-standing class size guidelines were suspended.
4. As currently projected, six classes would be over the historical caps. Using the three currently unallocated positions would leave us still over the historical cap.



**PROJECTED ELEMENTARY GENERAL EDUCATION ENROLLMENTS**  
**2014-2015**

	CURRENTLY SUSPENDED GUIDELINES	CENTER	DENTON	SEARINGTOWN
K	22	73 (24, 24, 25)	86 (22, 22, 21, 21)	65 (22, 22, 21)
1	24	73 (24, 24, 25)	86 (22, 22, 21, 21)	65 (22, 22, 21)
2	24	72 (24, 24, 24)	103 (22, 21, 21, 20*, 19*)	52 (26, 26)
3	24	76 (25, 25, 26)	108 (25, 25, 24, 18*, 16*)	66 (22, 22, 22)
4	27	79 (26, 26, 27)	105 (22, 22, 21, 20*, 20*)	80 (27, 27, 26)
5	27	74 (24, 25, 25)	96 (31*, 22, 22, 21)	90 (23, 23, 22, 22)
	NUMBER OF SECTIONS	18	27	18

**CURRENT GENERAL EDUCATION ENROLLMENTS**  
**AS OF 1/28/14**

	CURRENTLY SUSPENDED GUIDELINES	CENTER	DENTON	SEARINGTOWN
K	22	73 (24, 24, 25)	86 (22, 22, 21, 21)	65 (22, 22, 21)
1	24	72 (25, 24, 23)	103 (22, 21, 21, 20*, 19*)	52 (18, 18, 16)
2	24	76 (26, 25, 25)	108 (25, 25, 24, 18*, 16*)	66 (23, 22, 21)
3	24	79 (27, 26, 26)	105 (22, 22, 21, 20*, 20*)	80 (27, 27, 26)
4	27	74 (25, 25, 24)	96 (31*, 22, 22, 21)	90 (23, 23, 22, 22)
5	27	92 (24, 23, 23, 22)	121 (25, 24, 24, 24, 24)	86 (29, 29, 28)
	NUMBER OF SECTIONS	19	28	19

\* INDICATES LANGUAGE IMMERSION CLASSES

## **B. Proposed Capital Bond Issue**

After years of discussion and refinement, the Board of Education approved the capital bond issue to be submitted to the voters along with the draft 2014-15 budget at the time of the budget vote on May 19, 2014. The specific items in the proposed capital bond issue are outlined in the following chart.

CAPITAL PROJECTS FOR MAY 2014 (To replace expiring bond payment)

**Middle School Roof**

Full rip and install new TPO or SBS roofing	72,100 sf	@	\$	24	\$1,730,400
Install new stainless steel chimney cap	1 ea	@	\$	20,000	\$20,000
Replace 2 skylights, domes only	2 ea	@	\$	1,500	\$3,000
Alternate to replace the main office and special ed/ nurses office rooftop units	1 ea	@		\$40,000	\$40,000

**Denton Roof**

Full rip and install new TPO or SBS roofing	6100 sf	@	\$	24	\$146,400
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**Middle School Boiler**

Replace original boiler with two new HB Smith boilers including asbestos abatement, expansion tanks, etc.	1 ea	@	\$	510,000	\$510,000
Alternate to replace the newer Easco boiler with a third HB Smith boiler	1 ea	@	\$	190,000	\$190,000

**District wide infrastructure upgrade**

District Wide upgradte to infrastructure for technology					\$176,000
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Sub total \$2,815,800

Contingency \$529,950

Total direct cost \$3,345,750

Indirect cost

Legal, Architect, Engineer, Bond counsel \$140,000

Sub total \$3,485,750

Alternates if money is available after bids are received

Alternate to upgrade MS cafeteria A/C	\$180,000
Alternate to repair blacktop at Denton	\$80,000
Alternate to repair blacktop at Center	\$80,000
Alternate to upgrade playground at Searingtown	\$80,000



### **C. Preliminary Projections for 2015-16, 2016-17 and 2017-18**

At this time last year, the preliminary budget predictions for future school years seemed relatively straightforward based on current law, existing contracts, Triborough and guidance from the two State Retirement Systems and the New York State Health Insurance Plan.

2014-15 turned out to be better than projected. Despite a tax cap lower than 2%, the increase in the TRS rate was much lower than expected due to extraordinary returns in the market and the increase in health insurance rates was depressed probably due to the use of the remaining funds in the extra reserve as had been done once before.

Looking forward now, the good news is that the pension contribution rates may be at or near a peak but health insurance increases may return to normal. Salary increases due to Triborough, existing contracts, health insurance and payments to the two pension systems are likely to add up to \$2-3 million per year taking most or all of the allowable dollar increase under the tax cap before State Aid.

### **D. Cuts Made in 2011-12, 2012-13 and 2013-14**

Over the past two years, the Board of Education has made substantial cuts to the budget. The cuts made in 2011-12 totaled \$5.5 million, including reductions of 62.8 positions. These cuts were partially offset by the need to budget over \$1 million in unemployment insurance that year for staff members who had lost their jobs yielding a net reduction of \$4.5 million.

For 2012-13 the Board of Education made additional cuts totaling just under \$2 million, including an additional 20 positions. For 2013-14 the Board of Education made additional cuts. These cuts brought the cumulative reduction in staff to over 80 positions.

#### **2011-12 Budget Cuts**

In total, 62.8 positions were cut:

Administrators	3
Teachers	35.3
Teaching Assistants/Teacher Aides	8
Bus Driver	1.5
Clerical	8
Facilities staff	3
High School Monitors	<u>4</u>
Total	62.8

#### **Elementary**

- Elementary math/science coordinator (1.0)
- Elementary CSE chair (1.0)
- Reduction of lead teachers from 0.5 to 0.25 (0.75 total)
- Elementary science kit consultant (part-time)

- Elementary Gemini (1)
- Eliminate classroom positions due to falling enrollment (8.0, later reduced to 6.0)
- Elementary speech teachers (1.5)
- Elementary library clerks (3)
- Elementary special education (3)
- Eliminate homework help
- Teacher aides (7)
- Teaching assistants (2.0)

### **Middle School**

- Classroom/student services (6.5)
- Art/world language co-teaching (0.3)
- Teaching Assistants (1.0)
- Clerical (1)
- Reduce Athletics
- Library clerk (1)
- Teaching Assistants (2.0)

### **High School**

- Special Education (1)
- Classroom teaching/student services (8.5)
- Music (1.0)
- Clerical (1.0)
- Monitors (4.0)
- Reduce Athletics
- Reduction in AIS services
- Teaching assistants (0.5)

### **Other**

- Reduce technology equipment (district-wide) (\$96,000)
- Geese Off (later restored)
- Texts/supplies/STAC consultants (\$183,000)
- Reduction in library books (\$20,000)
- District office clerical (2)
- Cleaners (2)
- Grounds (1)
- Maintenance (1)
- Reduced outside security
- ESL K-12 (1)
- Administrative positions K-12 (3)
- Bus driver (1.0) and bus aide (1)
- Saturday Recreation (later restored at no net cost to budget)
- District contribution to Teacher Center

## **2012-13 Budget Cuts**

### **Elementary**

- 4 classroom positions
- 5 teaching assistants for large class size mitigation (later reduced to three)

### **Secondary**

- 2 grade 6 classroom positions
- 3.5 positions Grades 7-8 due to elimination of Grade 8 teams
- 4.4 positions at the High School (0.8 positions added at Shelter Rock Academy. Positions paid for through tuition students from other districts.)

### **Other**

- 4 positions in the Facilities Department (resulting in modified cleaning schedules and reduced building hours)
- Reduction in clubs and activities K-12
- Increase in fees for building usage by community groups
- Reduction in interscholastic and intramural athletics budget
- Elimination of participation in Tri-State Consortium

## **Cuts Made in 2013-14**

For 2012-13 the Board of Education made additional cuts totaling just under \$2 million, including an additional 20 positions. For 2013-14, the Board of Education made additional cuts totaling \$2.3 million. These cuts brought the cumulative reduction in staff to 99 positions, not including coaching, clubs and activity positions.

### **Elementary**

- 9 classroom positions

### **Secondary**

- 9 classroom positions

### **Other**

- Removed sewer tax
- Reduced supplies and equipment for facilities
- Removed purchase of new bus
- MS Boston Trip
- Frost Valley
- Athletics, including most assistant coaching positions, third teams at the Middle School and JV II teams at the High School