



City of Rochester

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Rochester, New York 14614-1284
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Lovely A. Warren
Mayor
Loretta C. Scott
City Council President

September 29, 2019

TO THE COUNCIL

Ladies and Gentlemen:

Pursuant to Section 5-6 of the City Charter, we hereby call a special meeting of the City Council to be held on **Monday, September 30, 2019 at 2:00pm** at the City Council Chambers, City Hall, 30 Church St., Rochester NY 14614. The agenda for the meeting shall be:

Resolution endorsing emergency action on State Home Rule legislation to stabilize the finances of the Rochester City School District.

The legislation would establish a fiscal stability authority to oversee the fiscal management of the Rochester City School District due to recent budgetary concerns. Respectfully, we are requesting that the Council take action at a special meeting on the resolution listed above.

Respectfully submitted,

Lovely A. Warren,
Mayor

Loretta C. Scott,
President





City of Rochester

City Hall Room 308A, 30 Church Street
Rochester, New York 14614-1290
www.cityofrochester.gov

Introductory No
352

Lovely A. Warren
Mayor
Loretta C. Scott
President, City Council

September 29, 2019

TO THE COUNCIL

Ladies and Gentlemen:

Re: Resolution for state action regarding the
Rochester City School District

Council Priority: Deficit reduction and long term
financial stability

Transmitted herewith for your approval is legislation requesting the New York State Legislature, the New York State Department of Education or any other entity designated by the Governor to immediately establish financial control over the Rochester City School District. The City of Rochester is the third largest city in New York State and through decades of prudent fiscal management the City has a stellar bond rating. Now due to the financial decisions made solely by the Rochester City School District the long standing fiscal stability of the City of Rochester is threatened and the ability to provide a constitutionally mandated educational environment for children, families and teachers may not be achieved without state intervention.

In September 2019, it was revealed that the District has a budget shortfall of approximately \$30 million for the 2018-19 budget. Beginning next month, the New York State Comptroller's office is planning to audit the finances of the District. To date, the School District has failed to adequately explain or quantify the budget deficit. It is our understanding that the District has used all its reserves plus \$30 million in additional spending which will bring total overspending to between \$30 and \$50 million for 2018-19 fiscal year. Given the School District spending overruns, we are concerned that the 2019-20 budget may also be overspent, compounding this problem for the children and families of the School District as well as the City's taxpayers.

On September 26, 2019 the City was notified by Moody's that Moody's existing "Aa3" debt rating for the City was under review based on "recent reports that the City School District, ... incurred a \$30 to \$50 million budget shortfall, ... far exceeding our expectations." The chronic mismanagement and overspending of the School District, unrestrained by appropriate State monitoring, now endangers the City's ability to responsibly fund its own capital projects. Any increased borrowing costs, absent appropriate State reimbursement, will be directly borne by our City taxpayers. Further, the City is constrained by its 2% tax cap limitation, limiting our ability to raise revenues and thereby emphasizing the need for State intervention.

In an October 2018 report commissioned by the District, former Erie-2 BOCES Superintendent Rick Timbs and former Spencerport Superintendent Michael Crumb reviewed financial data from four fiscal years—2014-15, 2015-16, 2016-17 and 2017-18—and found an overall failure to plan ahead and systematic overspending in a culture "where leaders have had minimal concern for the District's budget." This culture is so ingrained that the District's employees "expressed varying concerns about the ability to reform the practices for budgeting and staffing."

In analyzing budget data, Dr. Timbs and Mr. Crumb found that the District's "current budget development protocols, accountability standards and expectations do not result in sound budget forecasts for subsequent budgets," and that the District's underlying culture "does not take into consideration its financial resources and ability to sustain programs."

The report found that the District has no "short-term or long-term financial plan". There are numerous changes made to the District's budget throughout the year, driven by administrators' constant requests for additional budget allotments. In addition, the Report found that, for the 2016-



2017 fiscal year, the District failed to reconcile its own account codes, as more than 20 percent had negative balances at the end of the fiscal year. The report comes to the conclusion that "it cannot be overstated that the attitudes and beliefs of the District's constituencies must begin to realize that the funding for the District is not unlimited."

Chronic financial mismanagement and substandard student performance levels caused the New York State Education Department to investigate the governance of the Rochester City School District in 2018. As a result of the investigation, Distinguished Educator Dr. Jaime Aquino released a report which detailed 106 findings and 84 recommendations necessary to support and advance improvements for the Board of Education and District to provide equitable access to high-quality education for all students.

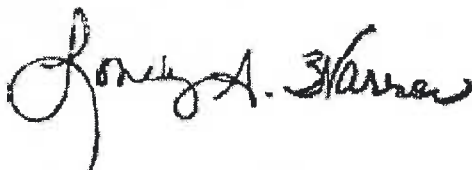
The Distinguished Educator's report also echoes many of the same concerns stated by Dr. Timbs and Mr. Crumb. Dr. Aquino found that the District "does not collectively own the responsibility for financial monitoring, leaving the burden of addressing budget cuts on the Chief Financial Officer." In addition, Dr. Aquino found that, more than four years later, no significant actions had been taken to address serious financial issues presented to the Board on May 1, 2014, including the fact that District expenses were growing faster than District revenues. Dr. Aquino found that most District stakeholders, including the Board, "lack any real understanding of the serious implications of the [budget's] structural deficit". Despite the Chief Financial Officer's warning to the Board that without action, "the District's finances will hit rock bottom within three-to-five years," Dr. Aquino found that no one in the District, including the Board, appears to have "approached this challenge with a sense of urgency."

Following the release of his initial report, Dr. Aquino released two quarterly reports, the most recent of which, dated May 30, 2019, notes that while some progress has been made by the District in implementing its action plan to address Dr Aquino's findings, the progress is limited, and substantial challenges remain. Of the concerns that continue to "hamper progress," first and foremost is the "Board's lack of understanding of its role as a governing body, and its subsequent inability to act as [a] unified body."


A review of the District's January, April, and May 2019 financial reports reveals that the District has continued systemic overspending and reliance on budgetary re-allotments. Further, in discussing the District's financial situation at a February 19, 2019 special meeting, the District's Chief Financial Officer stated that the District was on target. Later, during a May 14, 2019 Board meeting, the Chief Financial Officer stated that the 2018-19 budget was on track to be balanced at the end of the year. During a July 11, 2019 phone call with Moody's, the District failed to convey any budgetary or financial discrepancies. School District officials appear to have fraudulently represented to Moody's Investors Service that the School District would use only \$10,000,000 of the \$20,000,000 fund balance budgeted for the 2018-19 fiscal year.

The Rochester City School District is in a state of severe fiscal crisis, caused by its history of chronic mismanagement and habitual overspending that cannot be resolved absent assistance from the State. Without immediate financial and budgetary control from the State, the District will likely continue to take action to jeopardize its own long-term fiscal health, and has already threatened the fiscal wellbeing of the City, which could lead to negative consequences for City taxpayers.

Respectfully submitted,



Lovely A. Warren
Mayor



Loretta C. Scott
President, City Council

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Resolution No.

Resolution endorsing emergency action on State Home Rule legislation to control and monitor the finances of the Rochester City School District

WHEREAS, the fiscal mismanagement and excessive spending of the Rochester City School District directly threatens the financial stability of the City of Rochester;

WHEREAS, the City's credit rating has been threatened based upon the School District's unbudgeted excessive expenditures;

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Rochester:

1. City Council hereby finds and declares that the School District is facing a severe fiscal crisis that threatens the City's financial and fiscal stability and that this is a crisis that cannot be resolved absent assistance from the State.
2. Based on the School District's demonstrated chronic mismanagement and habitual excessive spending and possible withholding of information to national debt rating agencies, the City respectfully requests that the State of New York institute immediate structured and monitored financial constraints on the School District.
3. Recent Court decisions have made it clear that the State controls all matters related to education. Because the School District's unfettered spending and subsequent misrepresentations have threatened the City's "AAA" and "Aa3" debt ratings, the City respectfully requests that the State reimburse the City for any additional borrowing costs directly resulting from lack of oversight and control regarding School District spending.
4. This resolution shall take effect immediately.