

Appendix A



286 Whittamore Road
Mailing Address:
Post Office Box 395
Middlebury, Connecticut 06762-0395

Telephone 203•758•1743
FAX 203•758•1908

Dear Mr. Stowell and Mr. St. John:

April 20, 2016

Thank you for your written communication dated February 16, 2016. Over the last couple of years we have worked hard to improve communications with the member towns, and have a relationship where open verbal communications were the norm. Since your initial communication to us was written, we felt its best that we respond in writing so that we can respond to your comments and points in detail. While there were no specific questions in your letter, we do feel we needed to respond accordingly.

As with municipal budgets, the Board of Education works diligently to develop a sound budget that meets the needs of the district, eliminates and contains costs where possible, and is affordable to the taxpayers. As you mention it is a daunting task, and one that takes time and care in developing. Just as the town goes through this process annually, so does the Region.

You mention that unlike a town that once the Board of Education passes a budget we are guaranteed the funds required to carry out the budget from the two towns. This is not completely accurate, for we too are victims of mid-year cuts by the State of Connecticut and reductions in anticipated revenues. While we are given an estimate of the funding that will be provided to us by the State, it is only after the budget is adopted and we are mid-way into the fiscal year that we too learn that the State will reduce their funding to the Region. So we too are impacted directly by drastic cuts to aid provided boards of education by the state, just as aid to municipalities are reduced mid-year. We are no different. It is a sad state of our state's finances, but one we have lived with for the last couple of years and have adjusted accordingly to operate within our adopted budgets despite the cuts in revenue.

One such example is Excess Cost Sharing. Excess Cost is funding to boards of education to assist in the cost of special education students. It is intended to be that once a local board of education expends 4.5X the per pupil expenditure on special education costs for a student, the state funds the excess. I am sure you are familiar with this during your years as a business manager for a regional school.

In the last couple of years, the state has reduced their funding of Excess Cost to Region 15, which is often done well after the region's budget has been adopted and often the reduction in funding is realized in the third or fourth quarter of the local fiscal year. This reduction results in the Region having to absorb the loss of revenue, and to do so within the approved budget. In short we too absorb cuts from the state within our approved budget.

Unlike a municipal budget that has the ability to have and build up a fund balance that a municipality can draw upon at any time to cover any shortfall from revenue or unanticipated expenses, a regional board of education is not afford the ability to have a fund balance, and we must reduce spending in that given year to make up for the loss of revenue in that given year. This forces the Region to make up the shortfall from within the adopted budget.

Last year was the first year that we listed the anticipated revenue in such detail on a summary page as shown in **Attachment 4A**. While the district has been applying the revenue as such in some cases for over a decade and in some cases almost two decades, it was listed as such in the budget document last year in an attempt to make the application clear to all, and more transparent. Prior to this it was identified within the appropriate line item contained within the adopted budget document.

In **Attachment 4B**, we added to **Attachment 4A** the year in which the region started applying the anticipated revenue to the appropriate expenditure line, and that would be the same year that those object codes were NET of revenue. As you can see, budgeting Net of Excess Cost started in FY96-97, and budgeting Net for Friends Together Program started in FY99-00, Pay for Play in FY02-03, ERate in FY03-04, Parking in FY06-07, Magnet School in FY07-08, and Public Transportation in FY14-15.

Budgeting net absolutely reduces the member town's contributions to the annual budget by the anticipated revenue. No one is losing or paying more as a result of budging Net. The towns required allocation is Net of anticipated revenue with the liability being placed on the Region should the budgeted anticipated revenue be reduced. If there is a desire to modify the budget from Net to Gross, we can consider that change and discuss it. The down side needs to be recognized and understood by the member town's Boards of Finance before such a change is made.

Currently, by budgeting Net the Region develops a budget with expenditures and anticipated revenues from a number of sources. The adopted budget contains anticipated revenue figures. The result is the budget figure allocated to the member towns per the ADM is net of revenue, meaning the share of the budget to each member towns get the benefit of the anticipated revenue but no risk or liability should the adopted anticipated revenue be reduced.

By budgeting Net, the Region takes on the sole responsibility should any of the anticipated revenue contained in the budget be reduced or eliminated during the fiscal year. We feel that should the state reduce aid to one of the identified revenue sources, the board of education should work to make it up within the adopted budget. We reduce spending to make up for any shortfall in revenue. This is the result of budgeting Net. We have never sought additional funding from member towns to make up any shortfalls in revenue.

Therefore, just as the towns have revenue numbers that may get reduced or modified after the local budget is adopted and are required to make up the difference within their operating budgets, we feel that by budgeting Net should the state reduce revenue to the board of education or any other revenue be less than estimated, it is our responsibility and obligation to live within our adopted board of education budget and reduce our expenses accordingly.

Should we budget Gross, everyone needs to understand the concerns and the downside to the town's budgets as a result of budgeting Gross. Should we budget Gross, we would budget the expenditures without the anticipated offsetting revenue, and the revenue figures would be on the revenue side of the adopted budget. This would be easy for the board of education and place all the responsibility and burden of any modification or reduction to revenue on the member towns.

Region 15 does have a capital reserve fund established in accordance with the above, and the funding of this fund has been made from within our adopted operating budget and with fiscal year end surplus in the operating fund. The status of the capital reserve fund is contained within the annual audit that is filed each year with the member towns. The statute allows for the annual appropriation to such fund shall be included in the share of net expenses to be paid by each member town.

The capital reserve is one of the allowable funds a regional school board can retain. This fund is essential in that Region 15 is responsible for buildings, equipment and content valued at \$119,783,410, and the maintenance and repair of said properties. Maintaining nine locations requires capital investment into each location, ongoing and long term. While a town has a fund balance they can draw upon should a problem arise within a town, the board of education funds ongoing maintenance in the operating budget, and major repairs and improvements from the capital reserve.

This reserve, and the ability to fund it from fiscal year end surplus, allows for us to plan and fund major improvements from within our budget and not have to issue debt to cover such improvements. It also requires the board of education to live within an approved budget and properly and adequately plan for major improvements.

The taxpayers and the member towns all benefit from the board of education maintaining and investing in our plant and facilities. Should we not maintain the property adequately, people would criticize the board of education for not maintaining our property and buildings. Then fixing neglected items would cost the taxpayers more down the road. Doing so requires capital, and this is exactly why the state passed legislation to allow regional boards to have a capital reserve fund, and Region 15 has such a fund and utilizes it to maintain the property it is required to maintain as a board of education.

If we returned any and all surpluses from our operating budget to the member towns and we needed to complete a repair that was outside our operating budget or fund a long term capital liability or improvement, we would have to ask the member towns for an additional appropriation, or seek a referendum to borrow funds to complete such action. Currently we live within our adopted budget and have never asked for an additional appropriation. Just as a town has to maintain its assets, so does the region. Just as important, we need to maintain our schools so they are conducive to learning and reduce our liability.

Some items that were completed and funded from the capital reserve fund over the last three years:

Middlebury Tennis Courts at MMS

Boilers at Two Schools

Roof at RMS

Ongoing Asbestos Abatement Projects (District Wide)

Conversion to Natural Gas from Oil at Two Locations

Parking Lot Repairs

Pool Repairs at PHS

Tennis Court Repairs at PHS

Oil Tank Replacement per State Guidelines

Initial Year Cost of Turf Field Replacement

Sec 10-51b allows for a regional board of education to create a reserve fund for accrued liabilities for employee sick and severance benefits. This fund is called the "reserve fund for employee sick leave and severance benefits". The aggregate amount of annual and supplemental appropriations by a district to such fund in any one fiscal year shall not exceed the actuarial recommended contribution from the annual district budget for such fiscal year. NO payments shall be made to the fund which will cause the amount of such fund to exceed the accrued liability for such employee benefits as determined by the district's annual financial statements, except for the addition of interest and investment earnings with respect to amounts held in the fund. Annual appropriations to such fund shall be included in the share of net expenses to be paid by each member town. Supplemental appropriations to such fund may be made from estimated fiscal year end surplus in operating fund.

Given the new requirements to identify and create a fund to absorb OPEB, the district has been proactive and utilized what is authorized per statute to fund the district's liability with appropriations from within the districts net expenses. In this case the district is funding OPEB liabilities, and should all surpluses from within the operating budget be returned to the member towns, the district would be criticized for not funding its long term obligations and not complying with OPEB requirements, and justifiably so. This would be an issue with rating agencies, and more importantly not being fiscally prudent.

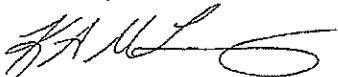
So we are funding the identified long term liability from within our budget, and any and all surpluses are going into either the capital reserve or the reserve for employee sick and severance, which are completely allowed by statute, and that is now being challenged and a request is for us to ignore those responsibilities and liabilities and return the funds to the member towns.

This would only result in the towns having added funds in their fund balance and the board of education not fulfilling its financial responsibility to maintain our buildings and property and ignore our post employment responsibility and liability. Then the Region would be criticized by the member towns and residents for not meeting our responsibilities in these areas.

Keep in mind Region 15 is a Board of Education and its own board of finance as well and has navigated these troubling times within our adopted budgets. It has maintained the largest assets in the two towns, funded the short and long term liabilities within the district, and provided a quality education to its citizens. Just recently US News published its ranking of the nation's top 21,000 public high schools for 2016, of which 25 were from Connecticut. Pomperaug Regional High School was ranked 792 out 21,000 nationwide, putting Pomperaug in the top 4% of the 21,000 ranked public high schools. Pomperaug is among the top 25 schools in Connecticut.

Feel free to contact me if you have any questions and would like to discuss anything further.

Sincerely,



K. A. McLiverty
Director of Finance/Operations