

## A MESSAGE FROM COMPTROLLER H. CARL McCALL

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*Dear School District Official:*

*The message being sent to local governments and school districts all across New York State is "do more with less." But as you well know, that is not an easy task. Increased demands and dwindling resources have made providing basic government services increasingly difficult.*

*In response to this problem my office has developed \$MART (State Comptroller's Municipal Advisory Review Teams). This program is designed to help local governments and school districts become more efficient by finding ways to enhance non-real property tax revenues and to contain or reduce expenditures while still providing necessary services.*

*My staff has worked with officials and staff from your school district to review district operations and develop recommendations to find savings and efficiencies. Prudent fiscal management, sound fiscal policy and a commitment to work together has enabled us to serve the taxpayers more effectively by making better use of our limited resources. Toward this end, I look forward to continuing to work with your school district and all other local governments and districts throughout the state. I hope that the success of this review will encourage you to seek out and implement additional cost savings and revenue enhancements for the benefit of your residents.*

*If my office can be of assistance to you or if you have any questions concerning this review, please feel free to contact Norman E. Bagley III, Chief Examiner of our Syracuse Area Office at (315) 428-4192.*

*Sincerely,*

*H. Carl McCall*



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## EXECUTIVE SUMMARY

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Local governments and school districts throughout the State continue to face significant fiscal constraints. Increased demands and dwindling resources make providing basic services increasingly difficult. In response to these challenging times, there is a need to reevaluate operations. Participating in a **\$SMART** review is a positive initiative on the part of school district officials and will ultimately benefit the taxpayers of the Morrisville-Eaton Central School District.

**INTRODUCTION**

**PURPOSE AND SCOPE** The purpose of **\$SMART** reviews is to make recommendations so that local officials can consider ways to enhance revenues other than real property taxes and contain or reduce expenditures. Our reviews will also serve as a means of sharing “best practices” with other local governments and school districts, and identifying and recommending changes to statutes to improve cost effectiveness.

Participation in **\$SMART** is voluntary and this review was requested by school district officials. Members of the Office of the State Comptroller's (OSC) staff worked together with Morrisville-Eaton Central School District officials and staff in reviewing the following areas: payroll and personal service costs, cash management and intermunicipal cooperation.

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### ROLES OF PARTICIPANTS

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OSC reviewed the previously noted areas and is including in this report recommendations resulting from the review. These recommendations were discussed with management and their input was considered in preparing this report. In making the recommendations we considered the cost/benefit to the school district. However, it is the responsibility of school district management to review these recommendations and implement those which they deem appropriate.

The response of school district officials to this review is included as an addendum to this report. We commend school district officials for availing themselves of the opportunity for a **\$SMART** review and thank them for their cooperation.

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### SUMMARY OF RECOMMENDATIONS

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This report contains recommendations, which if instituted,

should provide savings or increased non-property tax revenues. The annual estimates are based on current costs and the school district's current level of activity. The five year aggregate estimates use the annual estimates as a base, but anticipate an annual increase in health insurance costs of three percent. The anticipated rise in costs is based on a review of actual health insurance cost increases from 1993 through 1996 and our discussions with school district officials which confirmed that health insurance costs could reasonably be expected to rise by three percent annually. For convenience of the reader, the recommendations which are more fully addressed in the Recommendations Section of this report are summarized below:

RECOMMENDATIONS	ESTIMATED SAVINGS/ INCREASED REVENUE	
	Annual	5 Year Aggregate
<p><b><u>Payroll and Personal Services Costs</u></b>            Opportunity 1 - Contributions for Health Insurance</p> <p>Changing the contribution rates toward the cost of health insurance premiums for all covered employees can save the school district money.</p>	\$28,300 to \$34,300	\$150,600 to \$182,500
<p>Opportunity 2 - Offer an Option Which Provides a Payment in Lieu of Health Insurance Benefits</p> <p>The Board of Education should consider initiating an incentive program whereby any employee currently receiving health insurance benefits, paid in part or in full by the school district, can elect to give up this benefit and receive a cash reimbursement in its place.</p>	\$27,200 to \$81,600	\$144,500 to \$433,500
RECOMMENDATIONS	ESTIMATED SAVINGS/ INCREASED REVENUE	
	Annual	5 Year Aggregate
<p>Opportunity 3 - Promote the School District's Flexible Benefit Plan</p> <p>If school district officials more actively promote the flexible benefit plan of pre-tax payroll deductions offered to employees, school district savings could be</p>	\$2,400	\$13,000

<p>achieved. In addition, school district employees would benefit by being able to report a lower taxable gross income on their annual federal and state tax returns while still enjoying the same level of benefits and pay that they had before enrolling in the flexible benefits plan.</p>		
<p><b><u>Intermunicipal Cooperation</u></b>          Opportunity 1 - Contract with Municipalities to Construct Athletic Fields</p> <p>The Board of Education should consider contracting with a neighboring town to construct any new school district athletic fields using town equipment and operators.</p>	<p>\$86,500 (one-time savings)</p>	<p>\$86,500</p>
<p>Opportunity 2 - Seek Municipal Partners to Share the Use and Cost of the School District’s Fuel Facility</p> <p>The Board of Education should consider seeking municipal partners willing to use the school district’s fuel facilities. By contracting with the municipalities, the school district could recover a portion of its administrative costs associated with this facility.</p>	<p>The potential monetary benefits of such an agreement could not be practically estimated until the school district identifies appropriate municipal partners and negotiates the terms of the agreement.</p>	
<p style="text-align: center;"><b>RECOMMENDATIONS</b></p>	<p><b>ESTIMATED SAVINGS/ INCREASED REVENUE</b></p>	
	<p><b>Annual</b></p>	<p><b>5 Year Aggregate</b></p>
<p><b><u>Cash Management</u></b>          Opportunity 1 - More Effective Investing of School District Moneys</p> <p>The school district business administrator should consider combining the available cash balances for investment purposes. These moneys could be invested in the higher yielding TIMM account to realize higher interest earnings.</p>	<p>\$30,500</p>	<p>\$152,500</p>
<p>Opportunity 2 - Request Proposals for Banking Services</p> <p>School district officials should review their banking needs and current relationships with depositories. After determining their needs, school district officials should seek banking services competitively by requesting comprehensive proposals.</p>	<p>Any attempt by us to quantify the benefits to the school district of competitively seeking banking services would not be practical before school district officials review their banking needs and receive proposals to meet these needs.</p>	

<b>TOTAL</b>	\$174,900 to \$235,300	\$547,100 to \$868,000
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## PROLOGUE

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### BACKGROUND

\$SMART reviews are one of the Office of the State Comptroller's (OSC) partnership programs to help local governments and school districts review their operations to look for improvements in how business is conducted. Every dollar of additional non-real property tax revenue or reduced cost has the effect of minimizing the need for additional local property taxes. During these reviews we also worked with local officials to identify proposed amendments to or the elimination of laws and regulations that lead to inefficiencies.

Participation in a \$SMART review is voluntary and was requested by the Board of Education adopting a resolution requesting a review.

### GOALS

Working together with school district officials, the goal of \$SMART reviews is for OSC to present recommendations on ways school districts can enhance revenues other than real property taxes and can contain or reduce expenditures. Consistent with this goal, the objective of this review was to make recommendations for the Board of Education's consideration. We considered both legal requirements and internal control concerns in preparing our recommendations.

### ROLES OF PARTICIPANTS

This \$SMART review has resulted in recommendations, specific to the Morrisville-Eaton Central School District, which are presented in this report. These recommendations have been discussed with school district officials and a draft report was made available for their review.

It is the management responsibility of school district officials to review the recommendations contained in this report and determine the best method of addressing them. It is also the school district official's responsibility to evaluate the cost/benefit and public policy considerations before implementing any recommendation. This Office will be available to provide technical assistance in implementing the recommendations.

The \$SMART review differs in a number of respects from an audit. An audit requires, among other procedures, sufficient testing of transactions to determine the facts and support any conclusions. In a \$SMART review, OSC staff depends to a great extent on information provided by local officials. Tests are not conducted, except when the information presented is not consistent with other data or facts. The quality of recommendations made depends to some extent on the accuracy and quality of the information provided. \$SMART reviews are also limited to issues that are likely to result in positive cost/benefit. For these reasons, this report does not represent OSC's opinion on school district operations.

## **METHODOLOGY**

During the conduct of the \$SMART review, OSC staff met with school district officials to identify pertinent records that were needed to perform this review, to identify specific areas to be reviewed, and criteria to be used in evaluating activities.

In determining the areas to be reviewed, consideration was given to the Board of Education's initial request for participation in \$SMART. Based on this request, an overview of certain operations was obtained. As a result of this process and discussions with school district officials, this review was limited to the following areas: payroll and personal service costs, intermunicipal cooperation and cash management.

OSC worked with the school district staff to review the identified areas. Procedures used in performing this review included surveys, interviews with local officials and staff; observation of operations; review of records, documents, controls and procedures; and, comparative analysis with similar entities, when applicable.

OSC reviewed the specific areas noted and reported recommendations. \$SMART review procedures were performed on current operations and were completed on October 29, 1996.

## **RESPONSE FROM SCHOOL DISTRICT OFFICIALS**

A written response from school district officials is included in the Appendix to this report. School district officials are encouraged to prepare a plan of action to address the recommendations contained in this report. OSC staff is available to assist in providing additional technical assistance to implement the recommendations.

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## **RECOMMENDATIONS**

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### **BACKGROUND**

The Morrisville-Eaton Central School District's general fund budget for the 1996-97 fiscal year amounts to \$7.9 million including appropriations totaling approximately \$4 million for personal services and \$680,000 for health insurance benefits for

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### **PAYROLL AND PERSONAL SERVICES COSTS**

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current and retired officials and employees. The school district currently employs about 150 instructional and non-instructional employees. Of these, approximately 120 receive health insurance benefits. The school district also pays a portion of the health insurance benefits for about 60 retired employees.

As part of our \$SMART review, we performed the following preliminary survey procedures related to personal services and payroll processing costs: reviewed independent audit reports and corrective action taken; performed analytical procedures of the school district's personal service costs, staffing levels, overtime hours and costs; and, reviewed various payroll documents and employee contracts.

Consideration was given to the school district's initial request for participation in \$SMART. Based on this request, an overview of certain employee benefit related issues was obtained through survey, inquiry, comparative analysis and a review of certain records and reports. Based on the results of the planning phase, our review of the payroll and personal service costs area was limited to the following objectives:

- ◆ Helping school district officials find ways to reduce the costs associated with employee group health insurance coverage.
- ◆ Identifying ways of reducing the school district's share of Social Security and Medicare payroll taxes.

Information gathered while performing our preliminary survey procedures included the following:

## **Employee Health Insurance Benefits**

The school district provides health insurance coverage for its employees which includes both dental and hospital and medical insurance benefits. Instructional, administrative and certain non-instructional staff may enroll in either the Traditional Health Benefit Plan or a Preferred Provider Organization Plan (PPO). Non-instructional employees hired after November 14, 1994 that choose to enroll in the school district's health insurance coverage are required to select the PPO Plan. Eligible employees in both plans may apply for two types of enrollment; individual coverage, which provides protection for the employee only, and family coverage, which provides protection for the employee, his or her spouse and eligible children. Rates for both hospital and medical, and dental insurance differ slightly depending on the individual's status as either an instructional, non-instructional or retired employee.

The average rates in effect for the 1996-97 school year are as follows:

### Traditional Plan

Individual Hospital, Medical and Dental -	\$2,882 per year
Family Hospital and Medical -	6,781 per year
Family Dental -	280 per year

### Preferred Provider Organization Plan

Individual Hospital, Medical and Dental	\$2,037 per year
Family Hospital and Medical	4,964 per year
Family Dental -	280 per year

Health insurance benefits are negotiated as a part of contracts between the school district and its two union negotiating units. In addition, the school district provides health insurance benefits for the non-union administrative personnel through individual agreements between the employees and the Board of Education.

The school district also participates in a flexible benefit plan which enables employees to have payments for medical and child care expenses deducted from their gross pay prior to taxation. Employees are allowed to make the election to participate in this plan once each year. Currently about 22% of school district employees have elected to participate in the flexible benefit plan.

As a result of our review of the above-mentioned payroll and personal service costs objectives, certain opportunities came to our attention that could result in decreased costs to the school district. The annual estimates are based on current costs and the school district's current level of activity. The five year aggregate estimates use the annual estimates as a base, but anticipate an annual increase in health insurance costs of three percent. The anticipated rise in costs is based on a review of actual health insurance cost increases from 1993 through 1996 and our discussions with school district officials which confirmed that health insurance costs could reasonably be expected to rise by three percent annually. Our specific recommendations follow. These recommendations may be susceptible to negotiation in the union and employee contracts.

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**OPPORTUNITY 1      CONTRIBUTIONS FOR HEALTH INSURANCE**

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**RECOMMENDATION**      **Changing the contribution rates toward the cost of health insurance premiums for all covered employees can save the school district money.**

**DISCUSSION**      We surveyed eight neighboring school districts regarding the health insurance coverages provided to their officers and employees. Currently, the Morrisville-Eaton Central School District pays 100 percent of the cost of each employee's individual plan health insurance coverage. However, we found that four of the eight school districts surveyed pay less than 100 percent of this cost. These four schools paid an average of 90 percent of the cost of the individual plan health insurance coverage. In addition, four of the eight neighboring school districts surveyed pay 85 percent or less of the cost of health insurance coverage for an employee's dependents (family plan). While the Morrisville-Eaton Central School District pays 85 percent of such costs for instructional employees, the school district currently pays 90 percent of the cost of the family plan health insurance coverage for non-instructional employees. By reducing the amounts contributed toward the cost of employees' health insurance coverage, the school district will realize substantial savings each year.

To estimate the potential savings, we computed the savings that would result from the following school district options based on current employee enrollments in individual and family plan health insurance coverages:

Option 1 Lower the rate paid toward the cost of individual plan health insurance coverage to 90 percent.

Annual Savings \$28,300

Option 2 Lower the rates paid toward the cost of individual plan health insurance coverage to 90 percent and toward the cost of family plan health insurance coverage to 85 percent.

Annual savings \$34,300

In determining the amount the school district may desire that its employees contribute toward health insurance premiums, the district should consider this opportunity in conjunction with Opportunity 3 - Promote the School District's Flexible Benefit Plan.

**ESTIMATED BENEFITS** By reducing the rate paid toward the cost of individual plan health insurance coverage for all employees to 90 percent (Option 1), or by doing this while also reducing the rate paid toward the cost of family plan health insurance coverage for non-instructional employees to 85 percent (Option 2), we estimate that the school district could realize annual savings of approximately \$28,300 to \$34,300. When the previously discussed 3 percent annual increase in health insurance costs is factored into our savings estimate, we project that the school district could achieve an estimated savings of between \$150,600 and \$182,500 over the next five years.

We note that the Superintendent and Board of Education must negotiate the recommended changes in contribution rates with its two union negotiating units to achieve the above mentioned savings.

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**OPPORTUNITY 2 OFFER AN OPTION WHICH PROVIDES A PAYMENT IN LIEU OF HEALTH INSURANCE BENEFITS**

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**RECOMMENDATION** The Board of Education should consider initiating an incentive program whereby any employee currently receiving health insurance benefits, paid in part or in full by the school district, can elect to give up this benefit and receive a cash reimbursement in its place.

**DISCUSSION** During our review, we surveyed nine neighboring school districts concerning their health insurance incentive programs. We found

that three school districts offer a buy-out payment program whereby the school district provides some form of payment to the employee in lieu of providing health insurance. With one exception, the remaining school districts surveyed are also considering this type of program. This type of program has advantages because it would be voluntary on the part of the employees and would not involve any additional cost to the school district or employees. The Board of Education could offer the buy-out program in various ways such as a flat rate payment to employees electing to decline health insurance benefits or as a percentage payment of the school district's cost for the employee's health insurance coverage.

If Morrisville-Eaton Central School District can achieve the same results as the other school districts surveyed that have implemented such a program, at least 10 percent of employees would be likely to accept some type of program option offering a cash payment in lieu of receiving health insurance benefits. The majority of married employees electing such a program would likely have spouses who work and have the option of receiving health insurance. While the spouse's health insurance coverage may not be as inclusive or may be more costly than that offered to the school district employee, the cash reimbursement may make the change in health insurance coverage attractive to the school district employee.

The following is a summary of school district savings that could be achieved from a buy-out incentive paying employees either 25 percent or 50 percent of the school district's annual health insurance cost to insure them. The computation assumes that either 10, 15 or 20 percent of eligible employees would accept the buy-out incentive.

Percentage of Employees Electing the Program	First Year Savings From a Buy-Out Program Offering the Following Percentages of the School District's Cost	
	25%	50%
10%	\$40,800	\$27,200
15%	61,200	40,800
20%	81,600	54,400

**ESTIMATED BENEFITS** By offering one of the above noted program options and having an employee participation rate from 10 percent to 20 percent, the school district could realize annual savings ranging from \$27,200 to \$81,600. At these amounts annually, we estimate the savings over five years, after including the aforementioned 3 percent annual increase in health insurance costs, would range from \$144,500 to \$433,500.

Before implementing this recommendation, management should determine whether a plan offering cash payments in lieu of health insurance benefits needs to be negotiated with the two unions representing school district employees. We also recommend that the school district contact the Internal Revenue Service or a tax advisor to determine the employee tax implications, if any, of instituting this recommendation.

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### **OPPORTUNITY 3 PROMOTE THE SCHOOL DISTRICT'S FLEXIBLE BENEFIT PLAN**

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**RECOMMENDATION** **If school district officials more actively promote the flexible benefit plan of pre-tax payroll deductions offered to employees, school district savings could be achieved. In addition, school district employees would benefit by being able to report a lower taxable gross income on their annual federal and state tax returns while still enjoying the same level of benefits and pay that they had before enrolling in the flexible benefits plan.**

**DISCUSSION** While the school district currently offers a flexible benefit plan of pre-tax payroll deductions to its employees, currently only about 22 percent of school district employees participate in the plan. The flexible benefit plan offered by the school district allows employees to include their share of hospital and medical insurance and dental insurance premiums, estimated amounts for child care expenses and estimated amounts for unreimbursed medical expenses as pre-tax deductions. The estimated amounts for child care expenses and unreimbursed medical expenses are determined by the employee once each year. The chosen amount is the maximum which can be made as a pre-tax payroll deduction during the year and if the amount deducted is not used by the employee during the year, it is forfeited. Paying for eligible medical and child care expenses through the flexible benefit plan has the effect of reducing the employee's taxable income and the school district's cost of Social Security and Medicare taxes.

An example of how a school district employee may benefit by utilizing the pre-tax options of the flexible benefit plan follows. For the example, we will assume that the employee has a gross annual income of \$42,000, contributes annually \$400 for hospital and medical insurance premiums, \$300 for dental insurance premiums, and has \$3,600 deducted to be used for day care and unreimbursed medical expenses.

	<b>Without Flexible Benefit Plan</b>	<b>With Flexible Benefit Plan</b>
Gross Annual Compensation:	\$42,000	\$42,000
Less Pre-Tax Expenses:		
Hospital/Medical Insurance Contribution		400
Dental Insurance Contribution		300
Day Care and Unreimbursed Medical		_____
<u>3,600</u>		_____
Gross Taxable Income:	\$42,000	\$37,700

Additionally, the school district realizes a savings since pre-tax deductions would not be subject to the school district's share of Social Security and Medicare taxes. In the example above, the school district's savings would be \$329 annually for this employee, the difference between Social Security and Medicare taxes on the wages of \$42,000 and \$37,700.

**ESTIMATED BENEFITS**

The actual savings that could be realized by the school district would be dependent on the number of additional flexible plan participants. We could not practically estimate the number of non-participating employees with child care costs and unreimbursed medical expenses, nor could we practically estimate how much these employees are paying for their child care and unreimbursed medical expenses. However, to provide some perspective, an estimate of the potential school district savings on Social Security and Medicare taxes from merely the non-participating employee's health insurance contributions (assuming all non-participants enrolled in the flexible benefit plan) totals over \$2,400 annually. At this amount annually, we estimate the savings over five years, after including the aforementioned 3 percent annual increase in health insurance costs (employee health insurance contributions would increase by the same

percentage), would be about \$13,000. Additional savings from any pre-tax child care and unreimbursed medical expenses deductions of new participants should also be realized by the school district. Further, we note that the school district's potential savings would be even greater if the previously discussed Opportunity 1 recommendation is implemented by the school district.

## INTERMUNICIPAL COOPERATION

### BACKGROUND

The boundaries of the Morrisville-Eaton Central School District encompass seven towns and one village in Madison County. In addition, Madison County has a highway garage located within the village. These municipalities have trained employees and a variety of specialized equipment. The close geographic proximity of these municipalities should help facilitate intermunicipal activities.

As part of our \$SMART review, we performed the following preliminary survey procedures related to intermunicipal cooperation: reviewed audit reports and corrective action taken; reviewed existing intermunicipal agreements; interviewed school district and other municipal officials; and surveyed other school districts for examples of successful cooperative intermunicipal arrangements.

Consideration was also given to the school district's initial request for participation in \$SMART. Based on this initial request and our discussions with school district officials, we reviewed the school district's operations trying to identify opportunities that could save the school district money and improve its efficiency through cooperative intermunicipal arrangements. Based on our survey, we presented certain potential objectives for their consideration. As a result of further discussions with school district officials, our review of the intermunicipal cooperation area was limited to the following intermunicipal cooperation objective:

- ◆ Helping school district officials identify ways to effectively share equipment and services with other municipalities located within the boundaries of the school district.

Information gathered during our preliminary survey included the following:

### **School District Athletic Fields**

The school district currently has athletic fields located on its elementary and high school grounds. In addition, the school district uses the State University of New York's (hereafter referred to as SUNY Morrisville) athletic fields located near the elementary school. School district officials told us that SUNY Morrisville is expanding its athletic department and therefore will be using the fields more. As a result, the school district may have only limited access to SUNY Morrisville's athletic fields soon and be forced to construct additional athletic fields of its own.

School district officials informed us that the grounds at the high school are adequate in size to accommodate the construction of any necessary athletic fields. In addition, they believe that locating the new athletic fields at this site would save the school district transportation costs. In 1993 the school district received plans and cost estimates from a firm of landscape architects for the construction of various athletic fields at the high school site. A review of these plans and cost estimates and our discussions with school officials disclosed that the soil at the high school site is primarily clay. The clay soil significantly increased the 1993 projected cost of the athletic fields due to the large amount of drainage work needed to prepare the subsurface during construction. Due to the unexpectedly large costs of constructing the athletic fields in 1993, school district officials decided to delay constructing the needed athletic fields.

### **School District Fuel Tanks**

As part of a capital project approved by voters in 1993, the school district removed its old in-ground fuel tanks and replaced them with new above-ground tanks. School district officials expressed an interest in sharing these new fuel tanks with the surrounding municipalities.

As a result of our review of the above-mentioned intermunicipal cooperation objectives, certain opportunities came to our attention that could result in decreased costs and additional revenues to the school district. Our recommendations follow:

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## OPPORTUNITY 1 CONTRACT WITH MUNICIPALITIES TO CONSTRUCT ATHLETIC FIELDS

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**RECOMMENDATION**      **The Board of Education should consider contracting with a neighboring town to construct any new school district athletic fields using town equipment and operators.**

**DISCUSSION**                      We asked the school district officials to select those athletic field projects that they felt would satisfy the school district's future needs from the various projects listed in the architect's 1993 plans. They selected two new 180' x 360' playing fields and an improvement to the existing field hockey site on the north end of the high school grounds. We discussed the 1993 plans and estimates for these projects with a local highway superintendent. He informed us that the proposed construction work was of a nature routinely performed by municipal highway departments (e.g., stripping and removing surface material, drainage work, hauling and placing gravel subsurfaces, and grading and seeding topsoil). Further, he felt that most average highway departments could construct the selected fields for the school district. We have been told by various architects that this type of intermunicipal arrangement has been pursued successfully by other school districts. The only concern would be the possible need for increased oversight by the clerk of the works.

To facilitate our analysis of the costs involved in constructing the proposed athletic fields, we obtained the current construction equipment rental rates paid to private contractors by the New York State Department of Transportation in Madison County. The prevailing wage rates for construction equipment operators in Madison County were also obtained from the New York State Department of Labor. In addition, we surveyed two local highway departments to determine the average rates they charge other local governments for highway equipment and operators. We found that the average municipal rental rates for construction equipment and operators were approximately 32 percent less than rates charged by private contractors for similar equipment with operators.

The architect's 1993 plans showed the estimated construction costs of the athletic field projects selected by school district officials to be approximately \$299,000. To estimate the current costs of these projects, we contacted an architect employed by the firm that prepared the 1993 plans and he told us that average project costs have increased about 4 percent per year. In addition, we noted that the estimated costs contained in the architect's plans did not separately identify the costs of materials such as gravel, topsoil and drains. We were told by a different firm of architects that, based on

past experience, municipalities can often save 20 to 25 percent on the costs of materials compared to a private contractor. Considering the 32 percent savings for construction equipment and operators and the 20 to 25 percent savings on the cost of materials, we have used an overall municipal savings rate of 28 percent in our calculations. This percentage was used since the majority of the estimated project costs are attributable to the costs of renting construction equipment with operators. The following chart summarizes the potential savings that could be realized if the school district were to contract with a local municipal highway department to construct the selected projects:

<b>PROJECT</b>	<b>PRIVATE SECTOR</b>	<b>MUNICIPAL AGREEMENT</b>	<b>SAVINGS</b>
2 New Playing Fields (180' X 360')	\$271,200	\$195,300	\$75,900
Field Hockey Site Improvements	37,900	27,300	10,600
<b>TOTAL</b>	<b>\$309,100</b>	<b>\$222,600</b>	<b>\$86,500</b>

**ESTIMATED BENEFITS** By entering into an intermunicipal agreement with a local town highway department to construct the selected athletic fields instead of hiring a private contractor, we estimate that the school district could save approximately \$86,500. In addition, the town doing the work may further benefit since it would realize increased revenues by performing services that are not normally billable.

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**OPPORTUNITY 2 SEEK MUNICIPAL PARTNERS TO SHARE THE USE AND COST OF THE SCHOOL DISTRICT’S FUEL FACILITY**

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**RECOMMENDATION** The Board of Education should consider seeking municipal partners willing to use the school district’s fuel facilities. By contracting with the municipalities, the school district could recover a portion of its administrative costs associated with this facility.

**DISCUSSION** In our discussions with school district officials, we were informed that the school district recently installed five new above-ground fuel tanks, including a 2,000 gallon gasoline tank and a 6,000 gallon diesel fuel tank. In addition, during interviews with certain town officials, we discovered that at least two of the seven towns

encompassed by the school district's boundaries currently need to replace their old fuel tanks. We further note that the school district's fuel facility is located approximately three miles from the highway garages of the two towns needing to replace their fuel tanks.

School district officials should study, evaluate, and discuss the various options available to them for sharing the use of the fuel facility. The school district could enter an intermunicipal agreement with one or more of the surrounding municipalities to share the fuel facility jointly for a fee (e.g., per gallon surcharge, flat fee). This fee should provide the school district with an equitable reimbursement of some of its operations and maintenance costs, as well as an amortized portion of the original acquisition and installation costs. The surrounding municipalities (at least the two towns needing to replace their fuel tanks) would benefit since they could avoid the costs of acquiring, installing and maintaining their own fuel facilities.

**ESTIMATED BENEFITS** Seeking municipal partners to share the fuel facility will result in additional revenues being realized by the school district. However, the potential monetary benefits of such an agreement could not be practically estimated until the school district identifies appropriate municipal partners and negotiates the terms of the agreement. We were further hampered in our efforts to estimate the benefits of such an agreement since school district officials could not supply us with certain fuel facility cost information.

## **CASH MANAGEMENT**

**BACKGROUND** During the 1995-96 fiscal year, the school district received moneys in excess of \$8 million from such sources as real property taxes, state sources and other miscellaneous revenues. State sources represent about 68 percent of school district revenues. In addition, real property tax receipts comprised approximately 29 percent of the above-mentioned cash receipts and were collected primarily during the first two months of the fiscal year. The remaining school district cash receipts were collected throughout the fiscal year.

School district expenditures for the 1995-96 fiscal year exceeded \$8.2 million and, when considered individually, were very diverse as to type and amount. Instruction costs totaled about 60% of the 1995-96 expenditures. These costs and the remaining expenditures,

generally for pupil transportation, employee benefits, and general support, were disbursed throughout the fiscal year.

As a result of the differing collection schedules for significant school district receipts and the diverse types and amounts of monthly expenditures, the amounts of cash available for investment purposes fluctuates each month. For example, the combined average of the beginning and ending month cash balances for the accounts examined (listed below) during the 1995-96 fiscal year ranged from \$1.4 million (December 1995) to \$2.2 million (April 1996).

In order to provide guidance in managing the school district's pool of available cash, the Board of Education has adopted a written investment policy. The policy authorizes the school business administrator to invest moneys not immediately needed for school district expenditures and addresses safety, liquidity, yield and compliance with state laws as primary investment objectives. Along these lines, the Board of Education has authorized the business administrator to invest in several types of investments that include savings accounts, certificates of deposit and money market accounts.

School district moneys are on deposit in two separate banks. The bank accounts range from standard checking accounts earning no interest to money market accounts and certificates of deposit earning between 1.25 and 5.85 percent annually. The school district has no formal banking service agreements stating service charges or interest rate offsets with the depositories, and has not formally requested proposals from the various banking institutions. During the 1995-96 fiscal year, the school district's principal investment vehicles were money market accounts and short term certificates of deposit (CD). The school district earned approximately \$38,700 of interest from its investments during the 1995-96 fiscal year for the accounts examined (general fund checking account, building and renovations and additions checking account, general fund money market account, capital fund treasury indexed money market account, general fund saving account, capital library fund account and capital reserve savings account).

In determining the areas to be reviewed, consideration was given to the school district's initial request for participation in \$SMART. Based on this request, an overview of certain school district operations was obtained through survey, inquiry, comparative analysis, observation and review of certain records and reports. Based on the results of the planning phase, our review of the school district cash management function included the following objectives:

- ◆ Increasing interest earnings.
- ◆ Monitoring of cash balances.

In an effort to determine whether school district revenues derived from interest earnings could be increased using uncomplicated investments, we analyzed the receipts, disbursements and cash balances of the general and capital funds from July 1, 1995, to June 30, 1996. Our analysis assumes that available cash balances are deposited in the treasury indexed money market accounts with a 1995-96 interest rate of 4 percent. Since moneys deposited in this account are available upon request, our analysis assumes that all school district moneys are fully invested in the treasury indexed money market account. Moreover, we note that the other school district accounts (including 21 trust fund bank accounts) not included in our analysis could be invested similarly to further increase earned interest income.

As a result of our review of the above-mentioned cash management objectives, certain opportunities came to our attention that could result in decreased costs and additional revenues to the school district. Our recommendations follow:

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**OPPORTUNITY 1      MORE EFFECTIVE INVESTING OF SCHOOL  
DISTRICT MONEYS**

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**RECOMMENDATION**      **The school district business administrator should consider combining the available cash balances for investment purposes. These moneys could be invested in the higher yielding treasury indexed money market account to realize higher interest earnings.**

**DISCUSSION**              During the 1995-96 fiscal year, the school district did not always invest available cash balances in higher yielding investments such as the treasury indexed money market account and CDs. Generally, the school district kept significant amounts of cash on deposit in either regular money market or negotiable order of withdrawal (NOW) accounts. School district investments in CDs, in most circumstances, were limited to capital and expendable trust fund moneys.

**ESTIMATED BENEFITS**      Our aforementioned analysis of the school district's 1995-96 cash receipts, disbursements and balances revealed that interest earnings could have been increased significantly by employing an easy investment strategy. We estimate that if the business administrator

had routinely invested moneys in the higher yielding treasury indexed money market account (rather than NOW accounts and regular money market accounts yielding lower interest earnings), 1995-96 interest earnings could have been increased by approximately \$30,500. Barring dramatic shifts in economic conditions, we estimate that the school district could increase interest earnings over a five year period by approximately \$152,500.

We believe that even greater interest earnings could be achieved if school district officials estimated cash activity and balances in greater detail, and then invested the available moneys in longer-term investments such as three and six month CDs. However, school district officials should weigh the cost of preparing and managing a more complex investment program such as this to the benefits of additional interest earnings before embarking on such a program.

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## **OPPORTUNITY 2 REQUEST PROPOSALS FOR BANKING SERVICES**

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**RECOMMENDATION**      **School district officials should review their banking needs and current relationships with depositories. After determining their needs, school district officials should seek banking services competitively by requesting comprehensive proposals.**

**DISCUSSION**              The Board of Education has traditionally allowed several banks to be used for school district deposits. The school district has 35 bank accounts (21 are trust accounts) in two different local banks. These bank accounts have varying interest rates and levels of service. We were informed that school district officials did not seek any of the current banking services competitively. On occasion, the school district does pay direct charges for current banking services. We note that frequently banks will not directly charge school districts for banking services. Further, in addition to the direct charges being paid by the school district, common business practice suggests that indirect bank charges are reflected in the interest rates received on school district deposits and investments or in the banking service levels provided.

**ESTIMATED BENEFITS** Seeking competition to meet the school district's banking needs will help facilitate a comparison of banking service costs. In addition, competitive proposals may improve the interest rates the school district receives on its deposits and investments. However, any attempt by us to quantify the benefits to the school district of competitively seeking banking services would not be practical before school district officials review their banking needs and receive proposals to meet these needs.

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## **APPENDIX**

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The school district officials response to this \$MART Review can be found on the following page.

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### **SCHOOL DISTRICT OFFICIALS' RESPONSE**

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