

# Hendrick Hudson Central School District

## Financial Condition

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**JULY 2019**

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Hendrick Hudson Central School District

### Audit Objective

Determine whether District officials adequately plan and monitor the District's finances to ensure fiscal stability.

### Key Findings

- The Indian Point Nuclear Power Plant (Indian Point) is expected to shut down beginning in 2020 with a potential revenue loss of over 30 percent to the District within five years. District officials have updated their multiyear financial plan but their projections for operating surpluses may be unreasonable.
- Cost saving measures have been implemented and the Board engaged the services of a third-party consultant to prepare a report on the effects of the revenue loss and measures to take. According to District officials, the Board has decided not to take action until factual, reliable information is obtained. Due to this, no additional cost savings measures have been taken.

### Key Recommendations

- Update the multiyear financial plan to consider past trends.
- Consider more immediate cost saving measures to ensure fiscal stability.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

Hendrick Hudson School District (District) is located in Westchester County and serves the Town of Cortlandt and part of the City of Peekskill.

The seven-member Board of Education (Board) is responsible for the general management and control of operations. The Superintendent of Schools is the chief executive officer responsible for day-to-day management. The Assistant Superintendent of Business manages the business operations.

Indian Point is located within the District. The District and the plant owner, Energy, entered into a payment in lieu of taxes (PILOT) agreement, which provided the District with over 30 percent of its revenues during the audit period.

#### Quick Facts

2017-18 Expenditures	\$73.8 million
2018-19 Appropriations	\$79.5 million
2018-19 Indian Point Revenue	\$23.6 million

### Audit Period

July 1, 2017 – October 31, 2018. We extended the scope to 2013 for financial trend analysis.

# Financial Condition

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The closing of Indian Point was announced in January 2017. The shutdown of the first of two nuclear reactors will begin in 2020. The shutdown of the second nuclear reactor will be completed in 2023. Since the announcement, District officials have been keeping current on the status of the closing and assessing the negative financial impact the closing will have on the District while maintaining services at current levels.

## **What Is Sound Financial Condition?**

Financial condition may be defined as the ability to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis. A school district in good financial condition generally maintains adequate service levels during fiscal downturns, identifies and adjusts to long-term economic or demographic changes, and develops resources to meet future needs. A vital tool in maintaining sound financial condition is a multiyear financial plan. A multiyear financial plan should project revenues and expenditures for several years into the future using past trends for operating results as well as emerging changes in circumstances. It projects what will happen to a district's ability to pay for and provide services, given a set of policy and economic assumptions. These projections help policymakers assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital investments. Given the potential decrease in revenue as a result of the Indian Point closure, using a multiyear plan is even more essential for financial planning.

District officials should monitor financial condition and adjust the multiyear financial plan based on the long-term economic impact of business or plant closings or other foreseeable changes that affect district revenues or expenditures. By using a multiyear plan, District officials can make advance assessments of the need for cost saving options or other measures that can be taken.

## **Multiyear Financial Plan Overestimated Projected Surpluses**

Due to the planned shutdown of Indian Point, District officials are faced with losing approximately \$22 million in revenue within five years. If additional funding sources are not found, the revenues needed to balance future budgets will need to be raised through real property taxes. As a result, District officials have updated the multiyear financial plan. This plan is reevaluated each time the District obtains more information regarding Indian Point's closure. The revenues and expenditures are projected through the 2030-31 school year.

**Figure 1: Indian Point PILOT Amounts**

Year	Amount	Cumulative Amount of PILOT Decrease	Percent PILOT Decrease
<b>2019-20</b>	\$24,218,920	\$0	
<b>2020-21</b>	\$20,997,804	\$3,221,116	
<b>2021-22</b>	\$13,858,551	\$10,360,369	
<b>2022-23</b>	\$6,425,328	\$17,793,592	
<b>2023-24<sup>a</sup></b>	\$2,621,534	\$21,597,386	89.18%

<sup>a</sup> PILOT should remain the same in future years.

The multiyear financial plan contains the recommended elements. The budget projections include an approximate 2 percent year-over-year increase with the exception of 2020-21, which shows a decrease of approximately \$800,000. District officials have conservatively estimated the revenue sources including additional State aid and funding from the Electric Generation Facility Cessation Mitigation Program, which was created by New York State and is administered by Empire State Development to offset property tax loss from plant closures that are greater than 20 percent of the previous year. The District will be eligible to receive these funds from 2022-23 through 2028-29. District officials conservatively estimate receiving \$17.5 million over the five years. The multiyear financial plan includes using \$5.5 million in operating surpluses over the next two years to fund a tax stabilization reserve. The estimates also show a use of fund balance and operating surpluses in each year's projected budget. Despite these measures, the District projects that the tax levy increases will be significantly higher than in the past for approximately eight years. The increases will not cause the District to exceed the real property tax cap because the District's levy limit<sup>1</sup> will increase dollar for dollar to PILOT revenue losses due to the Indian Point closure. However, this change will have a significant impact on tax rates for District residents.

<sup>1</sup> Chapter 97 of the Laws of 2011, see <https://www.osc.state.ny.us/localgov/realprop/pdf/legislationsummary.pdf>

**Figure 2: Projected Real Property Tax Levy Increase**

Year	Increase
2019-20	2.66%
2020-21	3.52%
2021-22	6.75%
2022-23	9.33%
2023-24	10.53%
2024-25	9.36%
2025-26	3.02%
2026-27	3.80%
2027-28	2.14%
2028-29	2.06%

District officials' projections of operating surpluses in 2019-20 through 2028-29 may be unreasonable. These projected surpluses, which will be used to fund the ensuing year's budgeted appropriations, range from \$1.5 million (approximately 1.8 percent of the budget) to \$4 million (approximately 5 percent of the budget). Although District officials provided a rationale for the figures used, the projected surpluses appear high when compared to the operating results<sup>2</sup> for the last five years. The average operating surplus for the audit period is approximately \$1 million, and two of the five years experienced operating deficits.

The multiyear financial plan reflects the District's position of taking no action until more definitive information is obtained. Based on past trends, if the Indian Point closure proceeds as planned, the projected surpluses may not be feasible which will require real property tax levies that are higher than projected. Due to financial uncertainties related to the closure of Indian Point, District officials update the multiyear plan on a regular basis. The multiyear financial plan has been updated since the end of audit fieldwork.

### **Cost Savings Measures Have Not Been Fully Realized**

Since the Indian Point closure was announced, the Board has monitored financial condition and reduced certain expenditures to prepare for the significant loss of revenue. The District is reducing staff by attrition,<sup>3</sup> reducing summer school offerings, reducing materials and supplies, and freezing equipment purchases. In addition, it has begun discussions of plans to redistrict by switching from

<sup>2</sup> The calculation used to determine operating results was revenues and other financing sources less expenditures and other financing uses because this reflects the change in fund balance. The District's calculation is revenues less expenditures.

<sup>3</sup> The gradual reduction of employees by not replacing those who leave

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a neighborhood school model to the Princeton Plan.<sup>4</sup> If approved by District voters, this will take place in 2020-21. District officials estimate that consolidating services at grade level will save between \$2.5 and \$3 million resulting in an overall budget decrease of approximately \$800,000.

The Board engaged the services of a third-party consultant to prepare a report that will provide information on the effects of the revenue loss from the closure and measures the District can take to adequately shoulder the loss. This report is scheduled to be presented to the Board in August 2019. According to District officials, the Board has decided not to take action until more definitive information is obtained. Due to this decision, no additional cost savings measures have been taken.

### **What Do We Recommend?**

The Board and District officials should:

1. Update the multiyear financial plan to consider past trends for operating results, modified for changes anticipated from the closure. District officials should also reconsider the estimated surpluses projected for 2019-20 through 2028-29.
2. Consider more immediate cost-savings measures to ensure the fiscal stability of the District when the revenues from Indian Point significantly decrease.

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<sup>4</sup> Neighborhood school model is based on geographic location. The Princeton Plan is based on grade level.

# Appendix A: Taxpayer Complaints

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In addition to our audit of Financial Condition, we reviewed the following complaints from taxpayers:

1. We received a complaint regarding the installation of an electric car charging station installed at the District Administrative Office for personal use.

Conclusion: We interviewed District officials regarding the charging station and reviewed financial records pertaining to the charging station in question.

The charging station in question is an outside electric car charging outlet installed at the rear end corner of the District offices. It is a small outlet, and the approximate cost to the District was \$250. District officials stated that this was part of the District's Go Green Initiative that included working with other municipalities, agencies and non-profit organizations to provide low-cost access to charging stations.

According to the email from the Superintendent that was included in the complaint, a lock was installed on the charging outlet in May 2018 until a pay station can be installed. Examiners observed that the charging outlet is locked. In addition, examiners have observed each day on-site that the charging station is not being used.

Due to the immaterial cost of supplies used for the installation and observation that the charging outlet is locked and not being used, we did not proceed with further testing and inquiry.

2. We received a complaint regarding the District's handling of a death threat to a Hendrick Hudson CSD student from a student at another district following an athletic event after normal school hours.

Conclusion: We reviewed the complaint, interviewed officials and examined District policies. The other district had the responsibility to report this threat to SED as a Violent and Disruptive Incident and, if appropriate, report the threat to law enforcement. The District responded to the death threat as soon as it was made aware by contacting the appropriate personnel at the other district and notifying the parent by 9 a.m. the morning after the threat occurred. District officials followed its school safety plan and offered, multiple times over the next few months, to meet with the parents to address their concerns in greater detail.

A portion of the complaint included the denial of a FOIL request by the District and other district whose student made the threat. We reviewed the FOIL requests and the denial responses from both districts. Based on the wording of the FOIL request, both districts responded appropriately.

In order to properly assess the FOIL complaint, we reviewed the Dignity for All Students Act (DASA)<sup>5</sup> and the District's Policy which outlines all the procedures for reporting DASA incidents. The individual principals in each school are responsible for collecting and reporting data regarding material incidents of discrimination and harassment with a district-wide Dignity Act Coordinator who oversees all DASA incidents in the district.

We found that the District's reportable incidents are collected, investigated and reported by each individual school principal. The reports can be accessed by the District's Superintendent who reviews, verifies and classifies the incidents accordingly as DASA or VADIR (Violent and Disruptive Incident Report). He submits the reports to NYSED. During the 2017-2018 school year, 39 incidents were reported as in the table below:

**Figure 2: School Safety and the Education Climate Incidents 2017-2018 School Year**

Incident	Frank G Lindsey Elementary School	Hendrick Hudson High School	Furnace Woods Elementary School	Blue Mountain Middle School	Buchanan-Verplanck Elementary School	Total
<b>Assault - Physical Injury: Total</b>						
<b>Number of Incidents</b>	0	2	0	0	0	2
<b>Weapons Possession: Routine Security Check</b>	0	1	0	0	0	1
<b>Weapons Possession: Other</b>	2	3	0	0	1	6
<b>Discrimination, Harassment, and Bullying</b>	0	4	3	16	0	23
<b>Cyberbullying</b>	0	2	0	0	0	2
<b>Use, Possession, or Sale of Drug</b>	0	3	0	0	0	3
<b>Use, Possession, or Sale of Alcohol</b>	0	2	0	0	0	2
<b>TOTAL</b>	2	17	3	16	1	39

The Superintendent further stated that the Board of Education adopted a policy that will address student personal expression off campus that brings disruption to the school.

<sup>5</sup> See: <http://www.p12.nysed.gov/dignityact/>

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3. We received a complaint alleging that the District is not providing proper evaluations of special education students as per Part 200 of the Regulations of the Commissioner of Education. The complaint alleges that a school psychologist is requiring evaluations/re-evaluations to be done at his private practice.

Conclusion: We interviewed the Executive Director of Pupil Personnel Services who outlined the District's procedures for identifying, evaluating and re-evaluating students who require special education services. A recent change in the procedures for evaluations allows parents to choose between the student's school building psychologist and a second school psychologist as named by Administration, giving the parents the option to select what they feel is best for their child.

4. We received a complaint that there are occurrences of harassment and intimidation by District Administration.

Conclusion: We reviewed the complaint and interviewed District officials regarding the complaints. We attempted to speak with involved employees; however, no employees would agree to be interviewed.

Based on the interviews with District administrators and a Board member, we determined that the District is aware of and is addressing complaints and instances of harassment and intimidation.

5. We received a complaint that the District was improperly terminating employees for speaking out against District officials and administration.

Conclusion: We reviewed the complaint and interviewed District officials. According to District officials, the employee in question was in the process of being terminated on a job-specific performance evaluation and behavior in violation of contract, not for speaking out against District Administration in private texts.

6. We received a complaint of meal shaming<sup>6</sup> at the high school.

Conclusion: Meal shaming is prohibited pursuant to Section 114.5 of the Regulations of the Education Commissioner. We reviewed the complaint and the corresponding emails between the parent, the building principal and the Food Services Director. We interviewed the Food Services Director regarding the procedures for handling students with money owed on their account and the acceptance of cash payments. The District has a meal charge policy that was in the process of being revised at the time

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<sup>6</sup> Meal shaming is the practice where children are publicly humiliated in front of their peers by adults for not having money for lunch.

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of the complaint.<sup>7</sup> The policy addresses meal charging at the elementary and middle school only. There is no charging of meals allowed at the high school. Examiners visited the cafeteria in question on March 26, 2019 to determine if the posting of notices stating that the students have to check balances on their lunch accounts before taking lunch as asserted by the Food Services Director was completed. Examiners found that signs were posted. Based on the communications between the parent and responsible District staff, some of which occurred over weekend days when schools were not in session, we determined that the District responded appropriately and timely to the complaint by communicating to the parent what the plan of action would be to ensure that an incident like this did not happen again.

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<sup>7</sup> The policy was adopted on February 27, 2019.

# Appendix B: Response From District Officials

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## HENDRICK HUDSON SCHOOL DISTRICT

**JOSEPH E. HOCHREITER**  
*Superintendent of Schools*

**ENRIQUE CATALAN**  
*Assistant Superintendent for Business*

**LAURA G. NEIER**  
*Executive Director of  
Educational Support Services*

**MARGARET RULLER, Ed.D.**  
*Executive Director of  
Curriculum and Instruction*

**LISA SCHUCHMAN**  
*Executive Director of  
Pupil Personnel Services*

June 14, 2019

***Via Certified Mail, Return Receipt, Regular US Mail  
and email to Muni-Newburgh@osc.state.ny.us***

Mr. Tenneh Blamah, Chief Examiner  
Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Dear Mr. Blamah,

This letter is a response to the State of New York Office of the State Comptroller's Report Examination 2019M-24, which covers the period from July 1, 2017 through October 31, 2018. The Board of Education of the Hendrick Hudson Central School District, the Superintendent of Schools and the Business Office are very appreciative of the work that was performed in our school district by the State Comptroller's Office. The comments and suggestions are welcomed, in-depth, and insightful and will help the Hendrick Hudson Central School District and its administration prepare for the fiscal impact of the closure of the Indian Point Nuclear Power Plant. The Business Office highly respects all members of the State Comptroller's team, their knowledge, comments and suggestions.

In January of 2017, the Hendrick Hudson Central School District awoke to news that the Indian Point Nuclear Power Plant was planning to cease operations within the following three years without any prior knowledge of a possible closure. For the next several months, the District met with Entergy executives, State and federal representatives and legislatures and SED representatives, as well as the Governor's office to better understand the situation and take informed actions. Unfortunately, for over a year the District received very little concrete information from these agencies due to the uncertainty of the situation. As news started to become available, the District began to plan for the shutdown and the financial ramifications of the closure of the Indian Point Nuclear Power Plant. The Board of Education and administration started reducing expenses by decreasing staff by attrition, cutting most equipment purchases, restructuring collective bargaining agreements, reducing summer offerings and decreasing all purchases of materials and supplies district-wide. In addition, the Board of Education hired the firm of Castallo & Silky, LLC to begin a district-wide review of school operations. The study and recommendations will be presented to the Board of Education during the summer of 2019.

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HENDRICK HUDSON SCHOOL DISTRICT

The District is hopeful that this study will identify additional means by which it can reduce its expenses without impacting educational opportunities for students.

The State Comptroller’s audit began September 12, 2018 and ended at the beginning of January 2019. During this audit period, the District received additional information from the State regarding the potential increase of funds through the Electric Generation Facility Cessation Mitigation Program. In addition, the District, in conjunction with the Town of Cortlandt and the County of Westchester, began negotiating with Entergy a possible amendment of the existing PILOT Agreement. These two events may have substantial positive effects on the future finances of the District. However, due to the uncertainty of these results, the District decided to project all revenues and expenses based on a conservative and “most likely” scenario, reflecting information available as of October 2018. The District is committed to updating its projections as new information becomes available.

It was important for both the Board of Education and administration to get an independent audit to ensure that the District is ready to face the imminent closing of Indian Point Nuclear Power Plant and all the financial ramifications that the closure will have on the District and community as a whole. In addition, it was important for the Business Office to be able to compare the State Comptroller’s methodology of projecting future revenues with the District’s methodology to ensure the District effectively prepares for its future.

Sincerely,

Barbara A. Pettersen  
Board of Education President

## Appendix C: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board meeting minutes, resolutions and policies to gain an understanding of financial processes and to determine whether the Board adopted multiyear financial plans and pursued potential cost-savings measures.
- We reviewed the Board-adopted general fund budgets to determine whether they were realistic and structurally balanced by comparing the adopted budgets from 2013-14 through 2017-18 to actual results of operations.
- We analyzed changes in revenues, expenditures, results of operations and fund balance for 2013-14 through 2017-18 to document trends.
- We reviewed the 2018-19 budget and used trend analysis to project the results of operations as of June 30, 2019.
- We analyzed District projections to determine reasonableness.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to our audit work, we reviewed several taxpayer complaints. To do this, we interviewed District officials; reviewed District policies and procedures, SED requirements, cash disbursements related to the electric car charging station, incident reporting to SED, and emails pertaining to the specific components of the complaint; and made observations to determine whether assertions made by District officials had occurred.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Clerk's office.

## Appendix D: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

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