INSURANCE ESTIMATES IGNORED

District budgeted far less for self-insurance fund than was recommended by its own analysts

RCSD BUDGET GAP

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The Rochester City School District on Tuesday confirmed one major factor in its unforeseen $50 million budget gap: a self-inflicted $16.4 million shortfall over two years after budget officials ignored internal analysts’ recommendations for the district’s self-insured health and dental insurance fund.

After five years of steady surpluses in the fund — which pays employees’ medical bills directly without an insurance company — the district unaccountably revised its annual cost estimates downward two years in a row against the advice of its own analysts, budgeting for a negative trend even as costs continued to rise.

From 2017 to 2019, a healthy surplus was exhausted and a smoothly running operation derailed.

“We saw health care escalating and thought, to be on the safe side, we should budget a little more,” Association of Supervisors and Administrators of Rochester President Tim Cliby said of the 2017-18 budget. “They just didn’t do it.”

RCSD spokesman Carlos Garcia on Tuesday confirmed the figures, which were provided by leaders of three district unions, and said the selfinsurance fund has emerged as an area of interest as the district attempts to discern what went wrong.

In particular, he said, finance officials are trying to resolve an apparent discrepancy in how actual health care costs in 2018-19 were recorded and reported.
Reserves drained

Compared to its general budget, the self-insured health and dental insurance fund was, until recently, the picture of health. From the first year of self-insuring in 2012 until 2017, the fund ran annual surpluses totaling nearly $12 million. Compared to traditional insurance, district and labor leaders estimate self-insuring has saved nearly $100 million.
The self-insurance fund is overseen by a contracted administrator plus a committee including representatives of the district and its four bargaining units. John Pavone, who represents the Rochester Teachers Association, provided financial documents summarizing its seven years in existence.

To summarize: In 2017/18 and again in 2018-19, the district budgeted far less for the self-insurance fund than its own analysts recommended, according to Pavone, Cliby and Dan DiClemente, president of the support staff union BENTE.

In 2017-18, district staff recommended a 3% budget increase; instead, the final budget cut the spending estimate by 4%.

The following year, staff again recommended a 3% increase over the previous year’s actual expenditures; this time the budget cut it by 5%.

Over two years that created a $16.4 million deficit, even though costs were rising along a fairly predictable trajectory.

That coincides with then-Superintendent Barbara Deane-Williams aggressively adding teachers in reading and special education, among other places, even in the face of a structural budget deficit.

The problem could have been addressed, at least in part, by using some of the fund’s ample account balance. According to a document that Pavone provided and the district did not dispute, the self-insurance fund balance was about $11.8 million in June 2017.

Instead, all three labor representatives said, the district used much or all of the self-insurance fund balance to cover costs in its general fund.

When the self-insurance fund costs exceeded the low budgeted number, there was no money available to pay bills. The district may then have drawn money out of the general fund back into the self-insurance fund, relocating but not eliminating the budget hole.

“Part of our concern is they used the surplus without our knowledge,” DiClemente said.

Garcia did not comment on the question of where that fund balance went, or how the insurance fund’s expenses were covered after it went into the negative. He said the district’s own internal review is going back five fiscal years.

Still unanswered is the most mystifying question: not only where the missing money went, but how its loss apparently went undetected.

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