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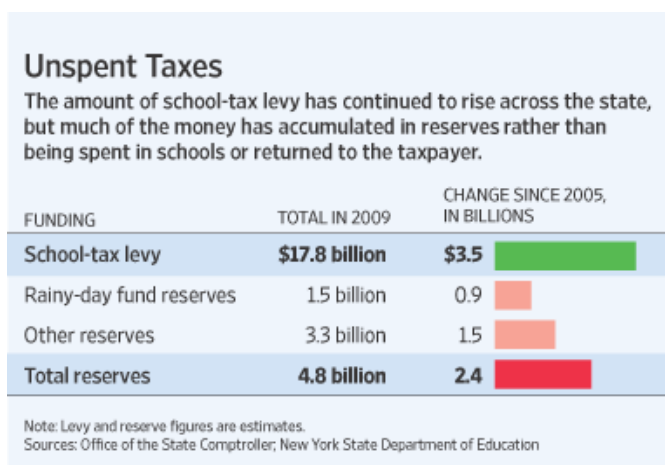
Schools Stockpile Taxpayers' Cash

By JACOB GERSHMAN

Hundreds of school districts across New York have violated state law by stockpiling billions of dollars that could have been used to lower property taxes.

The growth of these cash reserves coincides with a rapid rise in school taxes in suburban and upstate areas over the last decade. During that time, many districts drafted budgets each year based on inaccurate revenue estimates that produced a glut of surpluses.

Instead, districts have tucked away that money in an array of obscure reserve funds totaling \$3.3 billion, according to a recent state estimate.



About 60% of public school-students in the state are enrolled in districts that, unlike New York City's system, levy their own taxes and annually submit budgets to voters for approval. This year's budget election is May 18.

Under state law, these districts are allowed to store a limited amount of money in a rainy-day fund. To guard against hoarding, the state prohibits such funds from exceeding 4% of a district's annual budget.

To avoid hitting that cap, school boards have been depositing the extra cash into more restrictive reserve accounts in amounts far

greater than permitted under the law, according to state officials.

From June 2005 to June 2009, districts doubled the size of their rainy-day funds and other reserves to \$4.8 billion. Over that period, school taxes increased by \$3.5 billion, while the reserves grew by \$2.4 billion.

Five districts alone, Levittown and Bay Shore on Long Island, Fairport and Rush-Henrietta near Rochester, and Lancaster outside of Buffalo have a combined \$90 million in excess reserves, according to audits by the state comptroller's office. Their property taxes, which supply the districts with most of their revenue, have gone up by an estimated \$78 million, or 28%, between 2003 and 2009.

Lancaster officials couldn't be reached for comment, but the other districts said the money has helped them manage in a volatile economy, plan for retiree expenses and avoid steep tax increases.

"We never hid the fact that we were keeping these reserves," said Herman Sirois, the superintendent of Levittown. "I don't disagree with the comptroller, but the state is not very specific about how money should be retained."

The school tax burden, which represents about 60% of property-tax collections outside of New York City, has been a persistent complaint of suburban voters. In 2008, Westchester and Nassau homeowners paid the highest dollar value of property taxes among all counties in the U.S. — a median of \$8,900 and \$8,600, respectively — according to a recent study of Census data by the Tax Foundation, a nonpartisan research group in Washington.

While dozens of audits by State Comptroller Thomas P. DiNapoli have uncovered abuses of the reserves, school districts do not face any state sanctions for violating the laws regulating the funds.

"It is the responsibility of the districts to comply with the law," said a spokesman for the State Department of Education, which has encouraged districts to lower their balances.

"At a time when every dime counts, for taxpayers to see their money sitting idly in over-funded reserve accounts is not acceptable," said Mr. DiNapoli, whose first elected office was on a Long Island school board.

School officials argue that the growth in the reserves reflects a prudent precaution against ballooning health and pension costs, particularly at a time when Albany is retrenching and the expiration of federal stimulus dollars is over the horizon.

"We understand it's taxpayer money," said Mark Betz, assistant superintendent for business at Bedford Central School District, which has seven schools in northeastern Westchester. "Unless you can build up reserves with excess revenues, you're not going to have available annually those funds to offset the growth in costs."

Last year, officials at Bedford told taxpayers that the district had ended the year with a surplus of \$2.5 million it its \$115-million budget and would return most of the money to taxpayers. Weeks after voters approved the budget in May, the district revised its surplus estimate, raising the total to \$4.7 million.

Ultimately, Bedford last year stockpiled about \$2.7 million of that extra cash and returned \$2 million to taxpayers. From 2004 to 2009, Bedford's total reserves increased by \$5.4 million to \$10 million, while taxes grew by \$23 million to \$103 million.



Mr. Betz said the reserves allow Bedford to cushion against tax spikes. Voters, he said, tend to recoil at sharp increases, regardless how much the tax burden diminished in prior years.

"They don't care that you used the fund balance to keep the levy down in one year," he said.

But Phil Christe, an insurance executive in Mount Kisco and a longtime critic of the district's spending, disagreed.

"The problem isn't that there's a surplus," he said. "It's that they're not returning it to the taxpayer. They're treating excess taxes as profits."

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