

Hancock Central School District

Non-Resident Student Tuition

APRIL 2022



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

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Report Highlights

Hancock Central School District

Audit Objective

Determine whether Hancock Central School District (District) officials established non-resident tuition (NRT) rates in the best interest of District taxpayers.

Key Findings

Officials did not establish NRT rates in the best interest of District taxpayers. We found:

- While the Board can contract for a lesser amount than SED's calculated NRT rate, it approved NRT contracts between the District and Wayne Highlands School District (Wayne Highlands) without performing a cost-benefit analysis.
- Over the past three school years, the Board approved Wayne Highlands NRT rates that were less than the New York State Education Department (SED)'s maximum allowable NRT rates and actual Board of Cooperative Educational Services (BOCES) costs by a total of \$1.29 million, or an average of \$430,000 each school year.
- While officials informed District taxpayers about contract renewals, tuition rates and total expected revenue, officials did not inform taxpayers whether the costs to educate non-resident students are recovered by the revenue generated from the tuition charged.

Key Recommendation

- Perform a cost-benefit analysis and determine if the benefits of educating Wayne Highlands students outweigh the costs of educating those students.

Except as specified in Appendix A, District officials generally agreed with our recommendations. Appendix B includes our comment on an issue raised in the District's response.

Background

The District serves the Towns of Deposit, Hancock, and Tompkins in Delaware County. It is governed by an elected five-member Board of Education (Board).

The Superintendent of Schools (Superintendent) is responsible, along with other administrative staff, for managing day-to-day operations under the Board's direction.

The District contracts with Wayne Highlands, located in Pennsylvania, to allow its high school students (grades 9-12) to attend the District. The two school districts' superintendents negotiated the current three-year contract which expires June 30, 2023.

2020-21 Quick Facts

Enrollment	
Resident	267
Non-resident	44
Total	311

NRT Revenue	\$228,400
Total Appropriations	\$11,671,074

Audit Period

July 1, 2018 – June 30, 2021. We extended the audit period back to July 1, 2005 to review historical trends of contractual tuition rates.

Non-Resident Tuition

How Should Officials Establish Non-Resident Tuition Rates in the Best Interest of District Taxpayers?

New York State school districts can admit non-resident students upon consent of the school board and board-adopted terms. Those terms include charging tuition for non-resident students at board-established rates. The New York State Department of Education (SED) provides for a maximum allowable NRT rate¹ for non-resident students based largely on the cost to educate all students in grades K-12, allocated proportionately among student categories: grades K-6 and 7-12. The formula presents the rate as a net cost per student and considers only necessary costs, such as teacher salaries, and excludes costs such as transportation and community services.

When contracting to provide services to a neighboring school district, officials should perform a cost-benefit analysis to compare the potential benefits of having non-resident students attend a school district, with the added costs associated with educating those students. Based on that analysis, school district officials should then determine the appropriate tuition rate to charge. Furthermore, school district officials should be transparent with taxpayers about their process for how they determined the appropriate rate, since the approval of the annual budget includes revenue generated from NRT and the real property tax levy.

The District adopted a written NRT policy that established tuition charges to reflect the cost to educate a student, and to be no less than SED's NRT rate.

Officials Did Not Perform a Cost-Benefit Analysis and Approved Contract Rates Significantly Less than SED's Rates

The Board approved NRT contracts between the District and Wayne Highlands without officials performing a cost-benefit analysis that compared the added costs to educate Wayne Highlands students with potential benefits. The NRT contract provides for tuition rates annually with additional charges for students that attend Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (BOCES) occupational courses.

In the absence of any cost benefit analysis, we compared the rates associated with the District's contract with Wayne Highlands to SED's NRT rates. We found that the contract rates differed significantly from SED's NRT rates by a total of \$1.17 million (Figure 1 and Figure 2).

New York
State school
districts can
admit non-
resident
students
upon consent
of the school
board and
board-
adopted
terms.

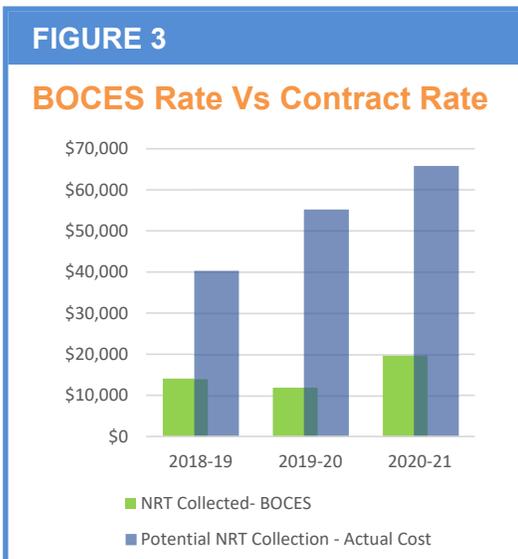
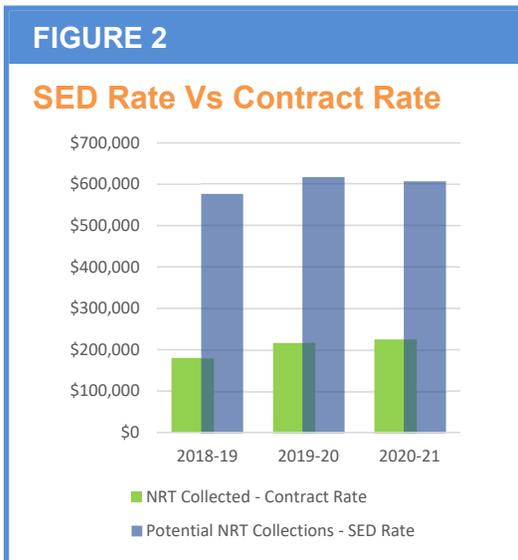
¹ This rate is commonly known as the Seneca Falls formula and was first established in 1949.

Figure 1: Difference Between SED Rates and Contract Rates

School Year	SED NRT Rate per Student	Contract Rate per Student	Difference	Average Number of Students	Cost Difference by School Year
2018-19	\$15,536	\$4,866	\$10,670	37	\$394,790
2019-20	\$14,163	\$5,000	\$9,163	44	\$403,172
2020-21	\$13,751	\$5,138	\$8,613	44	\$378,972
Total					\$1,176,934

In addition to the tuition for Wayne Highlands students attending the District, several students also participated in BOCES occupational education programs. According to the contract, Wayne Highlands pays the District additional tuition for costs incurred for the students attending these programs. However, we found that the contract rates did not fully cover the BOCES costs incurred for those Wayne Highlands students enrolled in the BOCES programs by a total of \$115,000 (Figure 3).

Over the past three school years, the difference between the NRT rates and BOCES costs and the contract rates total \$1.29 million, or an average of \$430,000 each school year. This amount represents approximately 11 percent of the average real property tax levy during this time.² We reviewed historical information back to the 2005-06 school year to determine how the District's contractual rates compared with SED's maximum allowable NRT

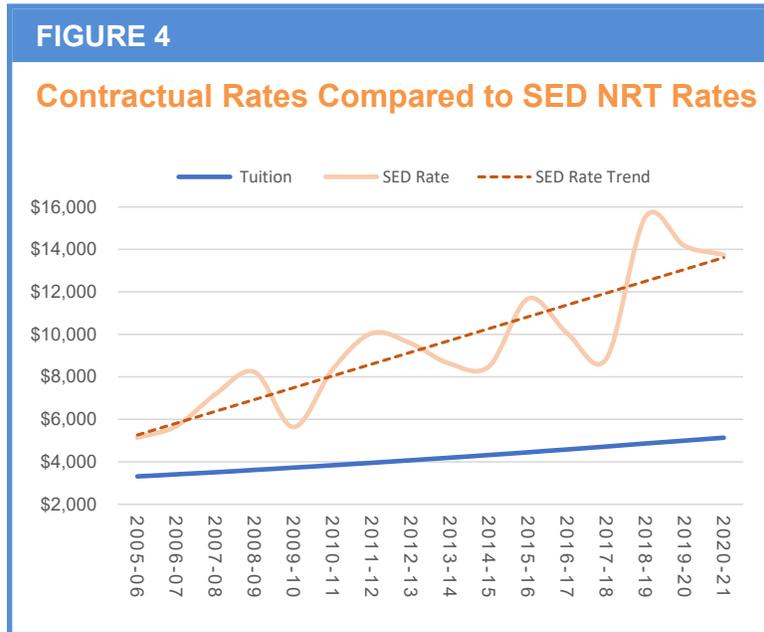


² The District's tax rate increased an average of less than 1 percent over the last three years.

rates. We found that the SED rate per student has increased an average of 8 percent per school year during this time, while the contract rate per student increased an average of 3 percent per school year (Figure 4).

Board members told us that while they did approve the rates, they relied on the Superintendent to negotiate the contracts. The Superintendent told us he negotiated the rates and the contract had to be approved by both school districts. He also told us this was a long-standing arrangement in place before he

became Superintendent over 20 years ago. Both the Board and Superintendent said the District would lose programs if Wayne Highlands students did not attend the District. However, when we requested information to support this assertion, they did not provide us with any support for which programs would be affected or how they would be affected.



Officials Were Not Transparent with District Taxpayers Regarding the Costs of Educating Wayne Highlands Students

We reviewed publicly available information such as newsletters, budget information, Board meeting minutes and policies to determine whether sufficient information was available to District taxpayers regarding the cost of educating Wayne Highlands students. We found that District officials informed the taxpayers about contract renewals, tuition rates and the total expected revenue. However, they did not inform taxpayers of the basis used to determine NRT rates, including whether the costs to educate Wayne Highlands students are recovered in the tuition revenue generated from the contract.

The District adopted a written NRT policy that outlines criteria for accepting non-resident students and includes a section that states that tuition charged shall be established by the Board and shall reflect the cost to educate the particular student and that the charges shall be no less than specified by the Regulations of the Commissioner of Education.

While the District can contract for a lesser amount than SED's calculated rate, the District's policy requires a rate at least equal to it.³ We spoke with four Board members and two were aware that a written NRT policy existed. Two Board members knew that the rates charged to Wayne Highlands were significantly less than the SED rates.

Without performing a cost-benefit analysis comparing the added costs to educate Wayne Highlands students to potential benefits received, officials cannot determine the appropriate NRT rate to charge Wayne Highlands. Furthermore, they have no information to present to taxpayers to support the agreed upon rates.

What Do We Recommend?

District officials should:

1. Perform a cost-benefit analysis and determine if the benefits of educating Wayne Highlands students outweigh the costs of educating those students.
2. Determine the appropriate tuition rate to charge based on the cost-benefit analysis and share the process of determining the rate with taxpayers.

The Board should:

3. Periodically review the NRT policy and revise, as necessary, to ensure the policy reflects its intentions.

Two Board members knew that the rates charged to Wayne Highlands were significantly less than the SED rates.

³ The validity of the NRT contract with Wayne Highlands is beyond the scope of our audit.

Appendix A: Response From District Officials

Hancock Central School District

The Wildcat Pledge: We nurture and empower each learner's unlimited capacity to become a responsible citizen with a promising future.

Our Vision: Striving for excellence as an innovative, advanced and reflective school community.

Core Beliefs:

- **Our mindset:** We do whatever it takes to ensure continuous growth because we believe each of us can learn.
- **Collaboration:** We work better together, always.
- **Innovation:** We embrace creativity and advancing technology.
- **Integrity:** We trust, respect, support and care for one another.
- **Learning environment:** Our approach is engaging, learner-centered and adaptable to individual needs.
- **Student centered:** We put students first.

March 15, 2022

**Hancock Central School District Response to New York State Comptroller's Office Audit
Period: July 1, 2018–June 30, 2021
"Non-Resident Tuition"
Terrance P. Dougherty, Ph.D.**

The Hancock Central School District recently completed a comprehensive audit of "Non-Resident Tuition" with the New York State Comptroller's Office. Throughout the audit process, HCSD officials fully cooperated with the field auditors, believing the audit process could only serve to improve District policy development and implementation, communications procedures, and enrollment controls. Superintendent Dr. Terrance P. Dougherty commented, "We take the audit process seriously and fully intend to utilize its recommendations to assist our efforts to strengthen policies, procedures and professional practices."

The audit reported three findings: one indicated that the HCSD Board of Education approved Non-Resident Tuition (NRT) contracts with the Wayne Highlands School District without performing a cost-benefit analysis; a second noted that the Board approved NRT rates that were well below the New York State Education Department's (NYSED) maximum allowable NRT rates; and the third finding reported that District officials failed to notify taxpayers whether the costs to educate non-resident students were recovered by the revenue generated from the tuition charged.

With respect to the lack of a cost-benefit analysis, the District is appreciative of the financial cost-benefit model the Comptroller's Office has presented in the audit report. That said, it is our deeply held belief that this analytic prototype falls short of holistically calculating the comprehensive cost-benefit impacts of the non-resident tuition agreement the Hancock Central School District has with Wayne Highlands. Specifically, we believe measures of cultural, historical, geographic, demographic, and especially programmatic impacts must be included in any attempt to comprehensively transact an accurate, reliable, and valid cost-benefit analysis. Moving forward, during the 2022-23 school year, the District intends to develop and employ an evaluative cost-benefit analysis tool that incorporates all of these vitally important variables. This combined quantitative and qualitative framework will also provide useful data that will address the audit's third finding, which speaks to HCSD's failure to fully apprise our constituents as to whether the costs to educate non-resident students are recovered by the revenue generated from the tuition charged. The findings of this study will be widely reported to the community.

The HCSD Board of Education takes very seriously its responsibility to establish fair, consistent, and competitive NRT rates, with the Wayne Highlands School District being the largest customer, by far. That said, the District remains deeply committed to ensuring the ongoing enrollment and attendance of non-resident students from Wayne Highlands, a practice that informally started in 1888, with the earliest recorded official contract between the parties dating back to 1960. In fact, since 1960, in good faith, the Wayne Highlands and Hancock Central School District Boards of Education have negotiated countless successor agreements that have always kept pace with the rate of inflation as measured by the Consumer Price Index (CPI). In response to the Comptroller's audit findings, HCSD intends to diligently work toward closing the gap that exists between our current NRT relative to the New York State Education Department's maximum allowable figure in the next negotiations cycle with Wayne Highlands during the 2022-23 school year.

See
Note 1
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In closing, the District remains dedicated to transparency, informing our resident taxpayers on all matters, but especially those specifically relating to sound fiscal management, including the status of the NRT contract with the Wayne Highlands School District. Our non-resident attendees from Pennsylvania, whom we seamlessly absorb into our student population, greatly contribute to the culture, life, fabric, and vitality of our educational enterprise, and, in a very real sense, we have always viewed them be Hancock “kids.”

We are grateful to the New York State Comptroller for undertaking this study and remain indebted to our community stakeholders who continue to demonstrate unfailing support, confidence, and trust in our school district.

Terry L. Whitt
President
Hancock Central School District Board of Education

Terrance P. Dougherty
Superintendent
Hancock Central School District

Appendix B: OSC Comment on the District's Response

Note 1

The report does not present a cost-benefit model. We compared the cost of the SED's NRT rates to the NRT rates in the District's contracts. Our comparison does not include an analysis of benefits that the District may consider, but rather recommends the District do its own cost-benefit analysis.

Appendix C: Audit Methodology and Standards

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 gained an understanding of the NRT contract by reviewing the most recent contract and interviewing District officials.
- We compared SED's NRT rates for the audit period to the NRT rates in the District's contracts with Wayne Highlands to determine the differences.
- We obtained BOCES invoices for occupational education programs, refund of prior school year expenditure reports, the total number of District students and the total number of Wayne Highlands students who participated in the BOCES program. We then compared the BOCES costs for Wayne Highlands students to the contract rates to determine the differences.
- We compared the calculated differences to the real property tax levy to determine the potential impact on the levy. We also determined whether the real property tax levy increased or decreased over the past three school years.
- We interviewed Board members and reviewed budget letters, policies, and Board meeting minutes to determine whether the District performed a cost-benefit analysis to educate non-resident students and whether District taxpayers were adequately informed of the basis used to determine NRT rates.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

The Board has the responsibility to initiate corrective action. 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-a (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 next 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. The CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/files/local-government/publications/pdf/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/local-government/required-reporting

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

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