

May 28, 2018

*The Washington Board of Finance has developed a memorandum that addresses revenue/expense projections for the Region 12 AgSTEM program. These revenue/expense projections are based primarily on the January 2018 AgSTEM update released by the Region 12 Board of Education. Among its other duties, the Board of Finance evaluates town budgets developed by the Selectmen and by the Board of Education relative to the tax implications of these budgets and their projected demands on taxpayers. It is not in the purview of the Board of Finance to directly develop town or education budgets, or to comment on the desirability/undesirability of any given project. Accordingly, the following memorandum focuses on possible future tax consequences for Washington taxpayers in relation to the Board of Ed's estimated revenue/expense projections of its Region 12 AgSTEM program.*

The Region 12 Board of Education released an AgSTEM update on January 18, 2017 which included financial projections over a 20-year period. The financials included student enrollment projections of 102, 122, and 139. Each projection assumed 20 Region 12 students, with the remainder consisting of Out-of-Region students. Each projection included the revenue generated by state payments and tuition payments by sending towns. Also included were the estimated operating costs and the debt costs for the project. Using the Region 12 estimates, losses (expense over revenue) were projected as \$2,066,091 for 139 students, \$5,375,964 for 122 students, and \$9,210,828 for 102 students over the 20-year life of the project. These numbers do not include an individual contribution of \$1,000,000 that will be made to the project.

Operating costs for the Project were estimated as \$18,600,055 given 139 students, and \$18,370,647 assuming either 122 or 102 students. This indicates that operating costs are fixed and will not decline with lower enrollment numbers.

The AgSTEM Update stated that the goal is an enrollment of 139 students. However, there is concern on the part of some town residents that enrollment will be less than 139 students, and that 102 students may be a more realistic projection. There is also concern that enrollment in the AgSTEM Program may be lower than 102 students.

Given that it is the responsibility of the Board of Finance to prepare the town budget and to set the property tax rate, projections of future town budgets and future estimated tax rates is our responsibility. As Region 12 has projected possible significant expense over revenue for operation of the AgSTEM program, it is reasonable to extend their projections to include possible decreases in enrollment numbers as well as increases in projected operating costs. **For example, assuming 75 out-of-region students, program expense over revenue would amount to approximately \$10,742,708. 70 out-of-region students results in approximately \$11,831,987 in expense over revenue, and 65 out-of-region students in expense over revenue of \$13,282,437 over the life of the AgSTEM program.** These projections assume 20 Region 12 students, so total enrollment would be 95, 90, and 85. Of course, these estimates would need to be checked against cost and revenue projections of Region 12. In any case, the

possible increase of expense over revenue if AgSTEM enrollment is lower than projected would infer substantial tax increases for Region 12 tax payers in coming years.

This possible expense over revenue projection only covers the risk of fewer than expected enrollees of out-of-region students; the estimates do not include possible increases in operating costs. It is difficult to make estimates of operating budgets for complex projects over a 20-year period. However, an estimate can be made by taking the Region 12 estimates and increasing them by specified percentages. Region 12 total operating cost estimates for the Project are \$18,370,647 over 20 years. Each one percent increase in the total operating budget amounts to \$183,700. Thus, an increase of 10% would add \$1,837,000 to the operating budget, and an increase of 25% would add \$4,592,500. Such outcomes would add significantly to the expense over revenue projected for the AgSTEM project. For example, the total expense over revenue for the 102-student scenario would be \$13,803,328 given an increase in operating costs of 25%. This would result in an average increase per year of about \$690,000 to the school budget.

The costs associated with the AgSTEM project will also increase the taxpayer cost per student. Current cost per student without the AgSTEM project are now \$32,100 and could rise to \$36,023 by the end of the school year 2027-2028. **If the costs of the AgSTEM project are included, cost per student are estimated to start at \$36,758, and could reach approximately \$45,901 by the end of the project.**

It is the responsibility of the Board of Finance to make taxpayers aware of large projects that may significantly affect the tax rate. This is true for any large-scale project, including the Region 12 AgSTEM project. The Board of Finance should work closely with Region 12 to confirm current and future school budgets and should keep the taxpayer aware of the possible effects of these budget projections. In the case of Region 12, the taxpayer should be made aware that the Region 12 School is an agent of the state, and as such has autonomy in preparing its budget. The Town of Washington is a municipal agency and has no legal basis to formulate or change the school budget. It does have the right, on the other hand, to request that the school justify its budget in relation to the town's needs or the town's ability to fund the school budget. Quoting from the Connecticut Handbook for Board of Finance,

*"The areas in which the Board of Finance may reduce board of education requests have been limited by the courts. In the respect Connecticut courts have declared that:*

- 1. The town board of education acts as an **agency of the state** in charge of education in the town and is beyond the control of other (agencies) or in incurring necessary expense except as the statutes limit board functions.*
- 2. The board of finance cannot refuse to include in the budget a sum reasonably adequate for the performance of the duties required by law with respect to education, nor can it refuse to recommend a sum reasonably adequate to make effective the reasonable exercise of discretion conferred by statute on the board of education with regard to education.*

*This principle was reiterated in the Stamford Case as follows: Where the board of education requests an appropriation for a purpose which this statute require it to perform or which the statutes give it discretion to perform, the board of finance may not refuse to include an appropriation in the budget for this purpose. The board of finance may reduce the amount requested for such a purpose only when the request exceeds the amount reasonably necessary to accomplish the purpose; in reducing a request the board of finance may take into consideration the educational needs of the town, its financial condition,*

*and other expenditures it must make. The court further states that the board of finance must exercise its sound judgment in determining whether, or the what extent, expenditure requests of the board of education are larger than the town can afford. If the board of finance properly exercised its discretion and the budget is approved by the town, the board of education has no power to exceed the appropriations made. “*

In the case of the AgSTEM project, Region 12 taxpayers passed the project in a town referendum, the State of Connecticut reviewed and approved the project and gave the town a grant to help defray project costs, and the town’s relevant committees have approved the project. Connecticut State law does not give the BOF the right to deny requested funding for the project. The BOF can, on the other hand, working with Region 12, make the town taxpayers aware of possible project costs given a range of parameters.