

Red Clay Community Financial Review Committee
Monday, December 8, 2008

Meeting Minutes:

The Community Financial Review Committee met on Monday, December 8, 2008 at 6:30 PM in the Baltz Elementary School library.

Members in Attendance:

Paul Lloyd – Committee Chair
Jack Buckley – Red Clay School Board Member
Jill Floore– Red Clay Chief Financial Officer
Larry Miller – Community Member
Jane Rattenni – Community Member
Doug Suiter – Vice Chair, Secretary Protem
Ken Woods – Red Clay School Board Member

Others in Attendance

Eric Loftus, Red Clay Financial Analyst, Leah Davis, Red Clay School Board Member, and Marcin Michalski, Red Clay Major Capital Project Manager. Community attendees: Kim Williams, parent and Forest Oak PTA president and John Czerwinski, Plumbers and Pipefitters Union.

Introduction and Opening Comments:

Mr. Lloyd opened the meeting, reviewed the agenda and introduced attendees.

II. Old business

The minutes of the November meeting were reviewed. Mr. Buckley reviewed questions regarding the allocation of units. Mr. Buckley asked if the Board of Education could have the Committee Minutes emailed to them after they are approved. Ms. Floore and Mr. Lloyd discussed who would provide the descriptions for the Expenditure Report. These would be provided in a follow-up email. Mr. Buckley moved to accept the minutes as presented and Mr. Woods seconded. The motion was carried.

Mr. Suiter provided an update on the PTA/PTO outreach efforts. He did visit with AI High School, Meadowood School and Highlands Elementary. Most of the feedback came from the Meadowood attendees. No one asked for additional information from the Committee during or after the meetings. He is coordinating with Yvonne Johnson to schedule additional meetings. Ms. Rattenni mentioned that Pati Nash was able to put out a blurb in our eNews. Also, she mentioned that the Brandywine Springs Elementary Newsletter is all online now, and a small piece in their newsletter may be helpful. Mr. Suiter reported he did get questions from the community regarding the News Journal article on the new school being related to the referendum. Mr. Suiter felt it was important to get the right information out as soon as possible, which he was able to do. Mr. Lloyd

stated that Mr. Buckley has been lobbying for representatives for the television program in January.

Audit Committee update: Mr. Lloyd asked about a meeting date. Ms. Floore stated it will be the first week of January but no set date is made at this time.

Mr. Lloyd asked for any old business. There was none.

III. New Business:

Marcin Michalski gave a presentation on major capital improvement programs. He distributed a Financial Status Summary to all attendees. A more detailed account booklet was given to the Committee Chairman. Because of the size of the booklet, only one copy was distributed. If anyone would like to review it, please see Mr. Lloyd.

The presentation was broken into three categories: schedule, budget and work product. The schedule of the major capital program started in 1997 when the state hired the JAED Company to do an assessment of all of the schools. The assessment was quite extensive per school district and it was prioritized. Red Clay used that assessment from 1997 in 2002 when the major cap program and scope of work was designed. Red Clay looked to update 25 schools at a cost of \$195 million. Over time, budgets were updated but the scope of work remained the same. The schedule distributed includes 2 graphs. The first graph shows when construction work began and finished. It is listed by school in the order of how the work progressed. There is a proposed start and actual start date. Six schools were delayed due to state financial reasons. The state delayed the bond sales by a year or so. When the project was initially bid, the bids were way over budget. The projects were then value engineered, redesigned, and went back out to bid. Then only 1-2 came in over budget. Pushing start dates back affected dollars. One other graph – in color – reads projected vs. actual at any given time from the beginning to end. The work peaks in the summer months. The program managers set it up for projects to come on board in the summer and take 2 years to complete. During the school year, less work would be done. Because of the changes in the budget and design changes, last summer the district had 16 schools having work being done simultaneously. Right now there are 5 schools in the closeout process, and one school, Wilmington campus, still in the construction stage slated to finish August 2009. As the report shows, there are still many projects with money encumbered. Mr. Michalski stated that he does not pay a company until a final representation document is received.

The way the program was structured, the architect who was in charge of the assessment was the architect hired by Red Clay. This was done by a bid process. District standards were established and all science labs, libraries, and mechanical/electrical equipment were to be the same in all schools. This was considered the 50% design development stage. The documents were then turned over to make it 100% design. A construction manager or design professional was then in charge for the entire project. The district prepurchased much of the equipment in 2002. All of the mechanical equipment for each school was bid in 2002 based on unit cost. The low bidder was selected and has been used since day

one for that particular item: AC, electrical, plumbing, boilers, clocks, building automation. Though, if only some of the system was being updated, it was given to the vendor that bid. If the entire program was being installed, a new bid was given.

Every dollar spent is listed in the booklet. Projects are listed in the order they were done and include a breakdown of the design budget vs. the total budget. The initial cost may have been \$18 million but the job may have been completed at \$19 million. This was due mainly to redesign. In some cases, the district also had to pay to redevelop the designs; the managing architect fee vs. the architect of record. In the construction report, the original budget vs. actual is itemized and what was spent per school. Construction budget \$163 million and actual \$161 million looks like it came in under budget, but other charges of audit fees, legal fees, custodial overtime (to move classrooms) must be factored in as well. Abatement was budgeted as 7 million and it is only 3 million. It was anticipated higher because it wasn't known what was underneath present walls and ceilings. The assessment team did not open walls to see what was there. Therefore, we were able to come in under budget. When all of the numbers come down, much of the over budgets were made up for by the lower abatement costs. Mr. Buckley asked if he was looking at a net project, things that were done. Mr. Buckley asked about the items in the referendum, are those things in this booklet. Mr. Michalski explained that there was a certificate of necessity given to the state and asked for in the referendum. Some items were not done due to finances yet other things were added due to necessity discovered in the renovations. Mr. Michalski stated that when the projects are completed, and everything is paid, we will be on target. The expenditures are still somewhat in flux. He explained that change orders may not have been processed, but the projections are factual to date on this report. Mr. Lloyd asked if we can go over budget on this once we hit \$195 million, or do we have to stop. Mr. Michalski stated that if we go over budget, it would be the Board's decision what to do. If we go under budget, we would go back to items that were deleted from a school and complete them.

Architects fees and engineer fees are listed. Brandywine Springs kindergarten rooms were added due to the need of full day KN, AI High School was not given a theater but the auditorium was restored and fewer classrooms added. Changes were made over the years. All change orders are in the detailed report given to the Committee.

The report details change orders and summaries into categories: school field conditions (ceilings and behind walls), errors and omissions, post agency changes (the Fire Marshall reviews the drawings before we go to bid). For example, the Fire Marshall gives his requirements, yet when he goes through the walk through, he may make additional requests. This along with owner requests (i.e., renovate one additional room, floor tiles, etc.) require change orders. The Committee copy lists each school's original budget and change orders as they are categorized. That booklet will come to the Board at the end of the project. The other information listed in errors and omissions is discussed with the Deputy Superintendent and attorneys. Red Clay will ask the architects for recompense for errors. It may not be the total amount, but depends on the percentage of the error. The district sends them a letter to begin negotiations. Since the school gets a betterment out of the work, error or not, they will not get the full amount. Red Clay generally asks

for 20% in costs due to a change in the original design. In a number of cases we have received services in exchange for the amount owed. Sometimes they choose to fight it. Some we had not paid in full, so we settled on an amount. Negotiations are made before it can go through the legal system often costing more money.

In the overview, Mr. Michalski included 3 charts. The first chart is the actual cost vs. the projected cost. The state allowed 3% escalation per year when we started this program. The blue is the construction escalation value. The squares show the actual escalation cost. Everything in the early years follows the projected increase. As we progressed, construction dipped down below the value until about start of 2005, when escalation took off and did not match the values. The green represents the prepurchased escalation. When the purchase orders were made it was 49% escalation. If we had waited 3 months, it would have been 63%. The following page provides the numerical figures corresponding to that chart. The last page is the actuals. If we did all of the work that was on the certificate of necessity, it would have cost \$211 million, not the \$195 million. We made 9.4 million dollars worth of changes including architect fees. Mr. Lloyd asked if schools that came later in the project suffered due to the escalation, were more things cut. Mr. Michalski said yes, some things that were projected did not get done, but they were the lowest priority items. Warner, for example, had classroom additions, but those classrooms were not needed due to restructuring of the school and redirection of students. Certain things were also done that weren't slated to be done. The first projects were under budget, the district used the money in other cap projects. Mr. Lloyd asked that if we were to do this again, what you would do differently. Mr. Michalski expressed concern due to escalation values; they are unpredictable. He would recommend doing the bigger projects first so escalation values would not affect the bottom line as much. If Wilmington campus was done first, it would have saved a greater amount. But it's also contingent upon the state and when they issue their bonds to us. Mr. Buckley said the scope of the project was so large that it could not have been completed in a manageable time frame. Bond issues play a large part in this economy. Mr. Michalski stated that in the future, he would pick a number of schools and a 3 year program. However, this is difficult and not favorable when seeking district-wide approval from the public. Mr. Buckley stated in this economy we have to work on only necessities. Mr. Michalski stated much of this construction was spent on internal workings. Much of our schools are now Star Energy Efficient. But, we still have leaking windows, and we're losing that energy. Roofs are needed. They are falling apart. Dickinson's roof was bid as \$1 million. It is not slated to be done. There are still critical needs, so the need for capital funding continues.

Mr. Miller stated similar to his experiences at DelTech, this program represents to the Board that the longer the project is to be done, the more it will cost. The state revenues decline and the bond bills will also. This document reflects costs that come with a deferred maintenance plan. Mr. Sewinski stated that 2007 quotes wouldn't hold in today's economy.

Mr. Lloyd asked if the architects are still on the job. Mr. Michalski said yes, on the Wilmington Campus project. It is the only project we structured differently. In other

schools there was one bid through a general contractor. For Wilmington campus, it was done differently because of the size of the project and Red Clay was concerned there wouldn't be enough bidders bonded by the state for the size of the job. So Red Clay chose a construction manager format. Nason is the manager, and each subcontract was bid separately. Nason is on site as well as the architect.

Mr. Czerwinski suggested the 20% recovery is very low. He feels that these errors have been happening for years and he is pleased that they are being challenged now. Mr. Woods asked if you were going to do a similar project, would you have it done when no students were in the building. Mr. Michalski explained that the district looked into it. One other district made a trailer city to move the students into while the school was being worked on. The trailers' costs were too great for the 5-6 years overall plan, and this wouldn't be possible to work on 16 schools at the same time.

Mr. Michalski completed the presentation and invited calls and/or emails if anyone had further questions.

Ms. Floore then started the monthly financial review. She began with the announcement that the Department of Education released Red Clay and Christina Districts from "Under Financial Review" by the Financial Recovery team.

Ms. Floore distributed an expenditure analysis of the referendum initiatives through 2008. She stated that in the cases where numbers are lower than 50% such as technology replacement, this is because we were waiting for collection of local tax receipts. Based on the timing of taxes, the district did not begin the year with funds from the referendum, so spending was strictly monitored through the fall and the collection of taxes. Now that the taxes are in, we will see these categories increase over the remaining months of the year.

There was an article in the News Journal which stated new referendum dollars were being used for a new school involving elementary children. Ms. Floore corrected that this was a reallocation of dollars. The dollars were in the budget for the Community School which was closed last year. Mr. Buckley complemented the reported and stated it was helpful to provide the community wants to ensure that the money allocated through the referendum is being used for those items. Mr. Lloyd would like have Ms. Floore's report electronically so it can be posted on the website and Mr. Buckley would like it included into Mr. Lloyds report to the Board. Mr. Lloyd asked for an Action item list be included into the minutes. Mr. Lloyd asked when the Committee would want to revisit this report. Mr. Buckley suggested quarterly, the next time being the March meeting.

Ms. Floore then distributed the monthly financial report. She reported we are on track with local tax receipts and have not seen a dip due to foreclosures as many have questioned. We are still waiting for the choice income as we are in importer of students. Even without the choice income, Red Clay has received 90% of local revenues. The state is now processing the remaining transfers for the allocations based on the unit counts received through the September 30th count process so we expect to see increases in the

next few months. The one outlier in state revenue is state Division I salaries and that is loaded as the state funds their share of salaries, so that is an item that ends at 100% by June 30. Mr. Buckley asked what our goal for revenues was. Ms. Floore stated our goal is 100%. Last year we exceeded 100% because there is a 2.5% delinquency factor built into the local tax estimates. Mr. Buckley asked if we always keep the cushion of expecting less if we continuously come in over through several years. Ms. Floore said it had not been consistent in the past and revisits it each time the budget is prepared.

On the expenditure side, the Committee commented on an increase for the Deputy Superintendent and legal fees. Ms. Floore explained how we have encumbered a large amount for the remaining year to retain the law firm for the year. Ms. Floore will include Summer School and State Mini Grants in the final budget and noted that both programs are revenue generating programs; they only spend what they bring in.

Mr. Buckley suggested transportation as a breakout presentation with Mr. Middleton in attendance, possibly in March.

Ms. Floore explained aspects of IBU 54 utilities; only some has been expended but the full year amount has been encumbered. In looking at Transportation which is higher than anticipated, she explained that the bus drivers for Meadowood are also trained as aides to participate in projects or life skills classes. Transportation pays the cost of the driver, but Meadowood pays the cost of the time of the aide. There's a bill back, possibly as much as \$15,000 which would reduce the expenditures number. She anticipates the district will also have a negative fuel adjustment due to the decrease in cost. Mr. Buckley asked about ELL salaries to be moved in IBU's. Ms. Floore explained that they have not been moved yet. They will be moved for the final budget and the next report to accurately reflect the expenditures under IBU28.

Mr. Lloyd had questions regarding IBU 72, and going over on a federal grant. Ms. Floore explained that it is an encumbrance and will be paid by FY09. The FY08 money closes out 12/31/08. Red Clay has the next 3 months to use the money up. In April we will be have another document for the accounting of the prior year cost and close out.

Ms. Floore reviewed IBU 58 which is over 100% encumbered. We spend more for contractual services as we cannot hire them as Red Clay employees. We are lower on salaries to balance it out. Mr. Lloyd asked if we anticipate increasing the related services budget to cover the shortfall. Ms. Floore stated no. There will be very little change in the final budget.

Mr. Buckley asked how our substitute program was going. Ms. Floore explained that expenditures are on target and at this point it does not warrant us to put the cap back on. Professional development has increased so the number of days is higher, but those costs are charged back to professional development.

Mr. Lloyd asked for public comments and there were none.

IV. Announcements

Mr. Lloyd asked if the Committee had anything to take back to school board. There were no other recommendations.

Our next meeting will be Monday, January 12th and we will review the final budget.

Ms. Floore stated that DOE was complementary of this group in their release of Red Clay from the FRT.

Mr. Lloyd asked if the Board would still like a CFRC presentation each month. Mr. Buckley stated a monthly report was required but he will discuss with the board if a presentation is also needed. Mr. Miller commented that with the fiscal problems the state is experiencing, Mr. Lloyd's presentations are needed on a monthly basis to show how the district is demonstrating that we are on track. Ms. Davis stated that a power point may not be needed but just to attend and state that we are on track. It would be reassuring. Mr. Lloyd will keep it short.

V. ADJOURNMENT

The meeting adjourned at 8:51 PM.

Respectfully Submitted,
Laura Palombo
Recording Secretary

Action Items

1. Committee Minutes email to the BOE
2. J. Floore to provide the Committee with category descriptions
3. J. Floore will set an audit committee meeting date
4. J. Floore to send the Referendum Report electronically to Mr. Lloyd
5. J. Floore to check on "flipped" numbers in the referendum report.
6. J. Floore to prepare an updated referendum report for the March 2009 meeting.
7. Utilities or Transportation IBU breakout in March
8. Mr. Lloyd would like the budget for the Unique Alternatives prior to posting it on the website
9. L. Palombo will send a package of handouts to Michael Bank at RPLC