

Red Clay Community Financial Review Committee
Monday, September 16, 2013

Meeting Minutes:

The Community Financial Review Committee met on Monday, September 16, 2013 at 6:30 PM in the Brandywine Springs School Conference Room.

Members in Attendance:

Jane Rattenni – Committee Chair
Steven Fackenthall – RCEA Member
Jill Floore – Red Clay Chief Financial Officer
Victoria Kent – Community Member
Lynn MacIntosh – Community Member
Larry Miller – Community Member
Michael Piccio – Board of Education Member
Kim Williams – Community Member

Others in Attendance:

Ted Ammann – Red Clay Assistant Superintendent
Ed Gregory – Community Member
Michael Matthews – RCEA President
Tom Pappenhagen – Community Member
Heidi Roue – Community Member

I. Introduction and Opening Comments:

Ms. Rattenni opened the meeting welcoming everyone and introducing new members.

II. Minutes

After a review of the August meeting minutes, Mr. Miller moved to accept them and Ms. Williams seconded. The motion carried.

III. Financial Position Report

Ms. Floore distributed a copy of the financial position report. There are a number of resources for new members. We have several tasks required of the Committee and training for those members. Ms. Floore announced there is a new training October 23rd at New Castle County Vo Tech at 6:00 PM. Every district is required to have a CFRC. Each operates a little differently. We had our committee prior to that State requirement. The overall purpose is the financial position report supplementing with reports and presentations of various departments.

We are funded part by the State and part in local funds in addition to federal funds. Because local sources are independent of the State, there was no way for the State to know what was happening on the local level. This is one of the safeguards in place to make sure we do not run out of funding. It is required 4 times a year. We are on a fiscal year end of June 30th. We must have sufficient balance to take us through the deposit of taxes in the fall. The tax warrant goes out in July with the taxes due September 30th. The majority of our payment will be in October, but we get late payments as well. Those moneys are used in the existing year. The purpose of the report is to see what is on hand at the end of the fiscal year. Also, to make payroll and vendor payments through to the taxes deposit. You can see on the report that we have our carryover balance of over \$17 million but that dwindles in the months leading up to tax receipts. State code states you need 1 month of payroll, \$3.9 million. That isn't enough to take you through October 15th. At the same time you also receive State funds that can be used for the start-up of school and salaries. This is a cash analysis of cash flow on October 15th. Nothing is due on that date. If it was negative, there would be a red flag. We do get delinquent tax payments every month of the year so there is some revenue in early fall but not much.

\$10.3 million is our projected balance on 10/15. The real meaning is we can make payments through the fall. Last year our ending balance was \$20 million. We are in deficient spending. It is planned. In general, our tax assessments are reassessed for additions and extensions. We see a .5% increase in assessments annually. On the expense side, we see an average 3% increase. The referendum process means that every cycle jumps the revenue line up to catch up to expenses because the two slopes rise at different rates. We are in a surplus initially when the referendum is passed and then over time revenues move below expenses. The last one we passed was 2008 for operating expenses. The Board is working with strategic plan and other committees to hold off on spending while enhancing our programs and education. The Board was given the presentation on finances with an estimated referendum in 2016.

Ms. Rattenni made a motion to accept the Financial Position Report. Ms. Williams made the motion to pass and Mr. Piccio seconded.

IV. Monthly Reports

Ms. Floore explained that the monthly report has been revised and refined over the years to highlight different funding sources and revenues. The purpose is to focus on whether we are on track. One source often can't be combined with another source, so adding them together would provide a false sense of security for local funds balances. We track how much we are spending on a fiscal year basis. Federal funds are on separate pages as they are on a different fiscal year. This report tells us if we are on track for expenses and revenue.

The top revenue is split from local and state funds. The beginning is a mirror of the financial position report. The State funds 75% of last year's allocations to start the year. This helps as we don't receive our taxes until later in the fall. The State prefunds on July 6th. Then, on the local side we have only received \$368,000 as the taxes have not been

deposited as yet. We have 52.5% of revenue for this year so far. The cycle is the same every year. There are delinquencies built into the budget. When those delinquent payments are made more often than expected, the revenue will then tip over 100%.

For those interested in becoming a member or current members who would like more information on the budget detail, Ms. Floore is available to meet with them one on one.

Ms. Kent stated Marbrook, Richey and Highlands are spending faster than last year. Ms. Floore explained that all schools got new copiers. In the past, the copy charges were in the print shop line and then were distributed. This year all of the purchase orders were done for the entire year at all schools and in each department. It used to be a base charge and a click charge. Now with the new leases, there are no click charges and therefore predictable and known. Ms. Kent noted the 60% in the copy center will be adjusted. Ms. Floore stated those are print jobs that need to be charged back to the department or school. Shortlidge is very low at this time. Ms. Floore stated that the 2 last columns are what happened in FY13 and the rest of the columns are for FY 14 (our current fiscal year).

Mr. Piccio asked if a school can go over. Ms. Floore stated that the system will allow it, but we will catch them through reports and approvals. They are never allowed to go over. Mr. Piccio asked how the budget for a school is figured. Ms. Floore explained that they are determined through the unit count and based on a formula. Per unit not just the number of students but also those students with a special needs by category. The State funds us per unit. Ms. Floore explained one of the reasons if the schools have the same number of students, their budgets different is due to the fact that schools are allowed to carry over 15% of their budget for the following year. This is so they can spend it over the summer or for a large project the following year. We follow the schools and project managers to make sure they are handling their budgets appropriately.

The summer school is high, but it finished. We use what funding we take in.

On the encumbered side, legal bills are encumbered in full. We could have encumbered some now and then more later, but it makes for more paperwork. You cannot encumber salaries.

Overall we are at 13.8% expended. Higher than last year. Partly because of copier leases. We are where we expected to be 2 months into the school year. Ms. Williams asked if we used any contingency last year. We did not.

The next few pages are federal grants and they are broken out separately. We have 50 separate program fundings. We cannot use funding from one for another. Coding and allowances are the trackers for these programs. None of this funding is available for local salaries. Some are grants are through the State and some are even more specific. They are on a federal fiscal year. We have a presentation at this committee each year reviewing these grants. Ms. Kent asked about 21st Century Part 2. Ms. Floore stated we are trying to reopen the funding. It was a purchase that was canceled and the funding

went back into the program but was not able to be used because of the closing date. We are trying to reopen the funding to use that money.

The opening date of the grants is August. We can start spending on FY 14 now, but we are still spending down FY 13. We can spend out of 2 grants at the same time. They are more like a 15 month appropriation. Partnership schools are Stanton, Marbrook and Lewis, and Warner is a focus school. Ms. Williams asked if they were naming more schools. Ms. Floore explained she believed that they are moving away from that and the funding was incrementally reduced each year.

There are 2 types of grants. One is a straight grant, application and award. RTTT was done through application from the State and then school districts applied. That funding is expiring FY13-14. Some things that are funded will be going away. Preschool teachers and academic deans are funded from that grant. The consolidated grant is a formula grant based on census data and population. We do not write those grants. Title III is for students for which English is not their first language. Title I is specifically to support high poverty schools. We use them for reading support in high need schools. The 1003G is RTTT money, which is federal money but that was when the State did the rubric of schools not on the bottom, but schools having the fastest slope to the bottom. They defined Partnership Zone schools. The schools then had to develop a plan based on models for the State. Sometimes the fundings cross as serving the same student. However, we cannot take funding from one for anything other than its intent. Mr. Pappenhagen asked about the 1003G some have an end date of 2015. Our grants are 2014 but some also came through stimulus money. At the Board meeting there will be a presentation that the district is applying for \$25 million new RTTT grant application.

Mr. Matthews read the 300 page document. He was critical of the original RTTT program. This grant that is currently being filled out will continue to fund the most worthwhile programs that were programmed in to the RTTT. If we do get this grant which goes to 5 years, are we looking forward to fund these programs when the 5 years are done? If we don't get it, would we be looking at referendum funding for the deans? Ms. Floore answered any time we have positions fully funded by local funds, they are unsustainable and she doesn't believe the district should take on. Especially non-classroom positions. She will not recommend going to referendum solely for locally funded positions. We need to go to referendum to do what we are doing currently as our expenditures rise more quickly than revenue. New initiatives can be part of the conversations with the School Board prior to referendum.

Ms. Williams stated that the preschool programs are not funded by the State. We are working through the Stars Program and the 21st Century Grant for the extended time and teaching assistance during the day. Right now it is funded through RTTT and they are part of the new application. Ms. Kent asked about the initiative of the Governor to expand early education. Ms. Floore stated that is not necessarily a school district program but a daycare and not with a highly qualified teachers. Mr. Miller stated that the significant part of the issue is that you don't want daycare but an early childhood program. This means more expense as it requires fewer students in a classroom and a

learning process. Those positions would have to go to the district. It makes for a complex problem for the Board and administration. Ms. Floore stated there are always problems with grant funding. It's best to do "one time" things with the funding because of the sustainability issues. This year we went through a reduction in staff and next year we will as well. In the last 5 years, we have had more funding from the government stimulus programs which are now ending.

The last category is our tuition funds. Current expense is what the local taxes fund. There are tuition funds for special needs students and ELL. If the public said "no" to a referendum, how could we fund legally required programs for these students. This tax was instituted for those programs: Meadowood School, RPLC, and Central School as well as ELL, NCC consortium (expelled students we are required to provide education), unique alternative in schools outside our district, and those students in First State School at Wilmington Hospital. The revenues received included the carry forward balance. It shows 119% as we were in error in unique alternative programs outside the State. The State funds 70% and we fund 30%. We had a number of students already this year. Mr. Matthews asked if these are an unfunded mandate. Ms. Floore stated these cases are shared with the state and the expenses are divided but there still is a significant expense at the local level.

We are currently 17% expended and encumbered which is on track.

Minor capital is at 0. The State doesn't put in their 60% until we put in our 40%, and we don't get our taxes until October. We still have FY13 funding. Most of that work happens over the summer when schools are empty.

The next pages are Meadowood and another for RPLC/Central. The last page is one operating unit. Referring back to Page 2, Line 44, District Wide Services. The last page is a breakdown of everything in that unit. In 2008, this is the line item Red Clay lost track of. Now, we track it much more closely. That year we did go over budget with substitute teachers. Last year we came close but did not go over.

Ms. Floore asked the RCEA representatives how they felt about the Kelly Services as our new substitute teacher service. The RCEA members feel there are no problems at this time. Ms. Floore stated that there are no shortages at Shortlidge and Warner.

Ms. Williams asked how long a teacher has to wait after they retire and want to come back as a substitute. Ms. Floore stated that is 6 months. It is dictated by the IRS pension rules. There were briefings statewide. Ms. Rattenni made the motion to accept the financial reports, and Ms. Kent seconded, motion carried.

V. Presentation Major Capital

Dr. Ammann distributed major capital improvement update information. The first project on topic is the ESCO program. This is the project with the State energy utility and Trane. We have a contract with Trane. They do the work, and they guarantee that we will save

enough money on utilities to pay for the contract. They began work in May and we just signed an application for payment of \$9 million. The total project \$18.5. The second portion takes longer. Building envelope requires the doors all close tightly. They are 99% completed. The water conservation is almost complete. A.I. DuPont boilers and chillers are complete. The remaining work is in progress, mostly the controls. We have had no injuries or security incidents. Extremely positive comments from custodial staff and principals having this company working with our schools and students. Not only are the schools more energy efficient but they are looking brighter.

Ms. Williamson asked about the overheating at AIHS. Dr. Ammann stated that the A.I. DuPont project is now starting after the last referendum. Phase 1 is complete in the hallways during the summer when the students were not there. We then do the next 4 classrooms at a time relocating teachers and students. 2 more classrooms have been added as well. All main corridors are done and the annex will be done October 1. Ms. Williamson asked about the trailers. Dr. Ammann stated they will be here through the remainder the construction next summer and then it will be a "closed campus".

AIHS total project budget is going extremely well and has had few change orders. Some change orders have actually been credits. Mr. Miller asked if any of the security measures have been upgraded. Dr. Ammann explained the last referendum increased security, not necessarily this project. This project may include new doors, etc. but they would have the same measures we have currently in place. The building was ready for students on time. All employees on the construction crews must have a background check. Mr. Miller asked if the criminal background checks were state or nationwide. Dr. Ammann stated that the one he read, did include other states. They had to go through the State police program. Ms. Williams asked if our teacher/Para substitutes had to have them. Yes, and if substitutes went with our new company, many had to have them again.

We take an active role in the projects. We hire construction managers. But we also have internal managers on the projects. They are notified of any issues and any problems have been addressed.

Cab Calloway is our next project. The auditorium has been gutted. Bid pack A is the non-glamorous jobs such as bathrooms, sprinkler, and elevator. The elevator will be done next summer. The pool will also be done next summer. The Fire Marshal has passed all that has been completed. Next summer is still on schedule for the unveiling of the theater. \$12.5 million project. \$1.8 million is completed. The bulk of the cost is the theater seating, lighting, etc. \$471,000 contingency which has not been spent. We may have the black box, additional area behind the theater. We don't know if we will have it. When we are done with demolition, we will know. Mr. Fackenthall asked if the facilities committee makes that decision. Dr. Ammann stated yes it will be a change order it was not part of the original decision. An architect gave it as an option. If there is money available we will consider it. With demolition there are many things we may not have anticipated. The contingency won't cover the entire black box. It would add beyond the back wall of the school. Mr. Pappenhagen asked about the current black box. Dr. Ammann stated that was a classroom and will be returned to such. Ms. Williams asked if

the money could go to another project. Dr. Ammann stated that once everything is totally completed it could be used for the projects on the same Certificate of Need approved by the State. They are on schedule and have no injuries or security issues with this project.

Ms. Rattenni stated that turning the current black box back to classroom space will be an added expense. Dr. Ammann stated that would be minor capital expense.

The new school is now formally named William F. Cooke Elementary School. The majority of the contracts will be awarded the next Board meeting. The agency reviews are done. We had 10 days of erosion and sediment work done before the building permit. We are up against winter construction. Work is being done by DNREC and grading.

Record plan approval is early October and then actual site work will begin. Also, attendance zone work will be done through a committee the Board will appoint. Mr. Fackenthall asked if that committee will work in conjunction with the inclusion special education students. Dr. Ammann stated that they will be included in those planning sessions. Ms. Kent asked about future construction being considered in our feeder patterns. Dr. Ammann stated yes. Our CN included all developments and construction currently approved in our district. Mr. Williams are asking about adding Kindergarten the first year and then other grades. Dr. Ammann stated that is in discussion. August of 2015 is the proposed opening date. Ms. Kent asked if all the concrete will be poured in time. Dr. Ammann stated that we hope to start October 15 and there are some winter concrete programs.

Project budget was \$20,134,200 with \$.5 million contingency. Current cost estimate is slightly over project budget by \$31,000 but that includes the contingency.

Mr. Miller stated it is an impressive list of projects. Deferred maintenance is an issue. How much do we have? Dr. Ammann does not have a current number. Mr. Michalski has listings of routine maintenance on a rotating schedule. We have done a facilities' assessment. On our last referendum, we did not do everything but what was identified as having the highest priority.

Ms. Rattenni thanked Dr. Ammann for his presentation

VI. Old Business

In a follow-up from the last meeting, there is a packet labeled financial planning. The Board policy regarding financial management is included but it does not speak to the budget. Number 3110 is Smyrna's board policy on a reserve funding. The second is a draft from Appoquinimink. The CFO of Appoquinimink does not believe it will pass at this time. Our district builds in a contingency line. \$786,000 is the unplanned expense line. The hope is that it is not touched.

Looking to Smyrna's, the Board approved budget must project 10% of projected of State Division 3 money plus local funds. Any effort to spend that 10% would go to a Board

vote. Appoquinimink's was not passed but it is similar. Ms. Floore asked NCC business managers, and they all have contingencies but not necessarily reserves. Ms. Kent stated that \$700,000 seems a lot but may not purchase even a roof. Smyrna's is about \$2 million. Ms. Floore stated that it seems small without anything in the bank. Right now our balance is \$17million. Next year we'll have \$14 million. You need to be closer before you can go for a referendum that will pass. Ms. Kent stated that we cannot know what federal mandates will be given as in the special education for the summer program that went over. We may have more students who require even further care. We are reactionary. Ms. Floore stated that there is also a contingency in the tuition budget for that reason as well. Mr. Pappenhagen stated that was part of the referendum for Christiana discussion and said that could help in a referendum bid.

Ms. Rattenni explained that having that funding would be prudent but it would need to address those unforeseen emergency and deferred maintenance. Mr. Miller doesn't feel it's our role to advise the Board as to policy but it is our role to relay our concerns to the Board. We have 28 schools and within those schools are specific systems to be maintained. What if all of the issues happened at the same time. We need to detail what the consequences of having the funding is reserves. Ms. Floore is concerned about spending the existing balance twice. The balance is already spent on budget increases of a minimum of 3% a year. Doing no new initiatives or issues, that \$17 is still spoken for so establishing an untouchable reserve would put the district out to referendum sooner.

VII. CFRC Openings

We appreciate the interest in our Committee. If you have a continued interest, please give us a letter of intent. The Board will vote on the appointment. Ms. Floore stated that the Committee decided that the 2nd Monday of the month will be our meeting date. If there is a holiday, it will be 3rd Monday.

VIII. Announcements

The next CFRC meeting will be moved to Monday, October 14, 2013 in the Brandywine Springs Teachers' Lounge at 6:30 PM. We are scheduled for a Race to the Top Presentation.

IX. ADJOURNMENT

The meeting adjourned at 8:38 PM.

Respectfully Submitted,

Laura Palombo

Recording Secretary