

Red Clay Community Financial Review Committee
Monday, February 9, 2009

Meeting Minutes:

The Community Financial Review Committee met on Monday, February 9, 2009 at 6:30 PM in the Brandywine Springs School faculty lounge.

Members in Attendance:

Paul Lloyd – Committee Chair
Michael Bank – Teachers Union Representative
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, George McDowell - Red Clay Facilities Manager, David Mitchell, Mitchell Energy, and Leah Davis - Board Member.

Introduction and Opening Comments:

Mr. Lloyd reviewed the agenda and introduced attendees. Mr. McDowell introduced David Mitchell from Mitchell Energy who works with Red Clay as an energy resource broker.

II. Old business

The minutes of the January meeting were reviewed. Mr. Woods moved to accept the minutes as amended and Ms. Rattenni seconded. The motion was carried.

Ms. Floore confirmed two dates are being considered for an audit committee meeting. Mr. Lloyd explained that the charter audits have been distributed to committee members as an example of what our contracted audit may look like. It was clarified that it will cover fiscal year 2008, July 1, 2007 through June 30, 2008.

This week in Red Clay aired this week with the Community Financial Review Committee as guests. Mr. Lloyd suggests that other members participate the next time they are asked to appear.

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

III. New Business:

Mr. McDowell distributed Energy Management Guidelines. This is a summary of what his office is trying to do in the buildings. In heating and air conditioning, the occupied cooling setting is 76 degrees and heating is 70 degrees with a 2 degree swing up or down. These guidelines are distributed to staff in September of each year. Right now we have saved \$3.5 million through energy conservation and \$3 million through energy procurement. Mr. McDowell also distributed a chart on green house gas emissions. In the last year we have lowered ours by 4478.6 metric tons. We have saved money and lowered the carbon footprints of our buildings. We are largely working with Energy Star and in 2007 we became an Energy Star partner. Energy Star is part of the Environmental Protection Agency and we have earned an Energy Star rating. We are protecting the environment through our energy performance. To calculate energy star, the base year 2003-2004 is used. We use an environmental agency manager that compares us with our own base year as well as other schools throughout the country. A 50 rating would be the average building, 75 and above is considered "labeled" or earning an Energy Star. Eighteen of our schools earned this label. We have earned an Energy Star Leader Award as a district for dropping 20% in energy usage and the Leaders Top Performance Award due to our overall rating of 76. We are being conservative to implement the policy guidelines working with the facilities and maintenance departments within our buildings. Mr. McDowell personally audits the utility bills in the district. He has found discrepancies that he works to resolve. The labeled buildings are also listed on energystar.gov. Eligible buildings can be profiled on the website. Mr. McDowell had some of those profiles he distributed for viewing. Prior to Mr. McDowell coming on board, the district had already started the idea of purchasing electricity from third-party vendors. He met with our energy broker, Mr. Mitchell, and put together the first purchases in May 2006. In residences, there has been a 59% increase in energy costs. The district was looking toward 119% potential increase. Initially, state agencies were told that they could not go out to the bidding process. We were the first to do so. Now other state agencies do the same, and we work closely with them. We use a portfolio approach. We have 7 current vendors bidding. We have 2 groupings – day ahead and fixed price. With a fixed price, we have long term range up to 3 years and we have a shorter term up to a year. Some will be up for bidding again in June. Prices at this time look promising. The savings are listed on the Red Clay Electric Procurement Savings summary also distributed. Ms. Floore pointed out that a budget can go up even though there is a savings or cost avoidance.

Mr. McDowell explained that Red Clay is now purchasing natural gas for several of our schools. This is the time that it made sense to switch these schools over to natural gas. The schools were chosen for their larger size. Delmarva has a phone line directly to the school to have daily checks on purchases made through the third party. We have seen a savings of \$60,000 at this time. We've had a few initiatives we've been working on. One is a PLC charge – a demand charge. We pay how much electricity we use, but we also pay on how fast we use it. In June of 2007, FERC implemented the reliability pricing model increasing PECO charge of over 1200%. It cost the district \$19,000 a month Jan-Dec 2008. Putting in that charge – it was 1% - and then rose significantly.

Experts stated that we should worry about demand. Mr. McDowell worked with Mr. Mitchell on the demand portion. The rates are based on what is used Monday-Friday between 4:00-6:00 PM on the 5 hottest days of the summer. This sets your demand rate for the next Jan-Dec. We now have a/c at all of our schools; our usage has increased by our peak demand by 10% years 2005 to 2008. We were able to decrease our PLC by 24% by turning off the big chillers at 3:00 PM. We notify the schools when a high heat day is coming and ask if they can turn off anything else. The offices in most cases have their own units so the chillers aren't used. We limit the number of schools we use for summer school. We also control the school use by outside groups and use a/c only when needed and avoid the peak hours. Reduction to date is \$100,000 with an additional \$70,000 expected with these plans in place. We have also worked with the Technology Department shutting down unused computers or monitors. Monitors unused for 20 minutes will now shut off. At 6:00 PM all computers are turned off. Technology performs any upgrades needed and then at 10:00 PM all computers are off until the next working day. So far, that appears to save us about \$16,500. This information is also listed on the Electric and Natural Gas chart distributed. Budgets are based on Delmarva's predictions listed on the chart. We have not had a firm bill from the vendor at this time. This information is submitted to Ms. Floore on a monthly basis.

Looking toward the future, we have a completed contract for our first district solar energy system in a school building. We turn over any grants we are eligible for to the company, and they obtain the credits. They install and maintain the equipment over the next 20 years. We pay for this contract. We are signing a contract at 9 cents/kwh. Mr. Lloyd asked what the payback would be. Mr. McDowell says our advantage is that the company puts up the money to do the initial job. The price that we're paying is cheaper than regularly purchased electric. We will produce 94,000 kwh; this is only 1 – 2% of what is used in this building. We will look to cut back on the usage in the building. Mr. Buckley stated that if we did it on our own, the payback is within 6 years. However, we cannot come up with the initial capital funding. We are co-oping buying the electricity from this company, and they are using our roof. Even though it is a similar rate, we are saving 3 cents/kwh. Most schools' rate class is "mass general service." The savings also is seen in the transportation costs. For BSE the cost is 13 cents/kwh, and we are paying 9 cents/kwh. Mr. McDowell stated that there are other schools in the state using this program, but that energy is used strictly for science labs. This is the first in the state for general use. The program requires a flat roof with a 20 year life. Mr. McDowell did an assessment of the schools looking for no penetrations as everything is above the roof. Mr. Suiter was concerned that we would have to remove the equipment to replace the roof and place it back. Mr. McDowell stated that the company has accepted the roof. Mr. Miller asked that we look into any extra benefits coming through with the new programs, that we have a share in it.

Mr. Bank asked about the Energy Star buildings. Why is the school on Telegraph Road so low? Mr. McDowell explained that we go through a curve in major construction. Essentially, the initial savings lies with shutting down boilers. When we bring them back online, the system starts high until it is stabilized and then it comes back down. At this time, Telegraph Road is still very high and they are working on the problems. January is

a high month for bills. Those bills have not been seen as yet. Heritage Elementary's rating dropped. It was in the 90s before construction. Heritage is a labeled building as it was rated over 75 before construction. Once all of the systems are stabilized, they will once again be energy efficient. Meadowood saw a total replacement of boiler and a/c system so they now earn an Energy Star label. Mr. Buckley asked if we have something tied to the square footage. Mr. McDowell explained that square footage is part of the grading formula. The ratings are kwh used by square footage. BSE has not rated as well as it should. That is due to the 4 trailers sitting outside. That square footage is added into the equation.

Mr. Lloyd asked about the procurement savings. Mr. McDowell explained that these savings are due to purchasing from a third party. Mr. Lloyd asked about going into an aggregation pool, why go solo. Mr. McDowell said we tried that before. We compared what we are doing vs. what the pool is currently doing. We have done \$300,000 better than the pool. We did know they got a better price on some things, and we then joined those contracts. We can go with some and not with others. But once you've signed on, you are on for the duration of the contract. Mr. Mitchell stated we bought early and saved more money than the aggregated group. He feels it is best to try different types of buys. Mr. Lloyd asked if he is hedging bets to protect us from long term contracts. Mr. Mitchell stated that we tried to reach a point of overall lower risk. We have different things that help us to get lower prices. We do not want to gamble putting all of our ideas in one place. Mr. Lloyd agreed that staying out of the aggregated pool helps in staying away from the larger use groups. He asked Mr. McDowell about the larger a/c systems. Does Red Clay have a central control that can control all schools? Mr. McDowell stated that we have that in most buildings. He can dial in from his office or home to half of the schools. We will have all buildings online once the construction is completed. We are trying not to place all of the a/c on at the same time every morning. It depends on occupation and zones used. Right now we are trying to zone buildings. We have 2 systems, Allerton and Johnson. Most of our schools have Allerton. We have 2 companies servicing the schools (depending on the system the school has). The systems will talk to one another. It is not always smooth. Our district maintenance crew has been trained on the systems. One staff member is learning the computer aspects of the controls.

Mr. Buckley asked if we have any programs to upgrade lighting. Mr. McDowell stated that there is a state mandate that the lighting has to be Energy Star rated. All of the lights are being replaced. He hopes to get to the elementary gyms shortly.

Ms. Floore mentioned the tie-in to the monthly reports. The additional utility expenditures report contains electricity and gas as well as telephone, water, sewer and security. It shows how costs have increased from 2006. All of the detail from IBU 38 matches the amount in the budget and is sorted by object code.

Red Clay has not yet seen the cost of water runoff. Mr. Woods felt that those figures were out. Mr. McDowell put together the figures of what we are to expect. They put the figures out but did not collect. One point was \$50,000 for Wilmington H.S. Mr.

McDowell would like to challenge this as certain campuses do have sports fields, and we should not be charged 100%. Mr. Woods asked about green roofs in the city schools to lessen this cost.

Mr. Suiter asked about security. Mr. McDowell does not handle security. That is handled by Brian Moore. Ms. Floore stated that it was a referendum initiative to place cameras in buses and the transportation yard for vandalism as well as the ADT systems in the schools. Part is regular maintenance.

Mr. Lloyd thanked Mr. McDowell and Mr. Mitchell for their presentation. If we have questions, please contact Mr. McDowell.

Mr. Bank asked about Brian Moore taking over as Security Chief. Ms. Floore will follow-up at the next meeting.

Ms. Floore presented the monthly financial reports. Mr. Lloyd stated that 58.3 is the target for this month with a variance to 88.3. In terms of revenues, Ms. Floore explained those funds with carry-over balances. The budget reflects some of how much you will spend each year and how much you will carryover from the previous year. Only the (*) accounts carry over and the actual amounts are listed on the side of the report for the committee to see. All other funds start with new appropriations with the July 1st start of the fiscal year. The opening balance is local expenditures, Fund 8000. That local balance carries over year to year. In the budget, the opening balance is reported separately, as a matter of practice. She cautions not to over budget when including a prior year as it can artificially drop revenues in the future.

Mr. Suiter asked about \$800,000 in indirect costs. Ms. Floore described it as anticipated revenue and what is the allowable charged to federal grants. So far we have received over \$400,000. Mr. Suiter pointed out, if we receive the whole \$800,000, the actual at the end of the year would be \$1.1 million due to the carry-over. Ms. Floore agreed and explained that artificial \$1.1 million would not be a true reflection of what is received in the current fiscal year.

She reported on local funds we are in receipt of 98% and we may go over 100% due to exceeding the 2.5% delinquency factor. Tuition receivable will be realized in June. The state frontloads our funding for most sources, but particularly for Division I salaries will move them over when necessary so the state receives the interest on the yet unused funds. In summary, the revenue figures are very strong. Other districts are seeing the same returns without significant delinquency as we are part of the same tax pool.

Mr. Lloyd asked about foreclosures. Ms. Floore stated that we have built in a 2.5 % delinquency factor in all tax categories. Mr. Lloyd asked about giving money back to Colonial and Christiana. Ms. Floore stated there are two pieces- the first from the tax pool allocation factor and the second from the state's equalization rate. The equalization money given to us is money from the state and is somewhat proportionate to what we lose in the tax pool. She did the exercise last year and concluded the amount lost to the

district is gradually decreasing and we are growing out of the tax pool. In expenditures, no single encumbrance is outside budget for the year. Mr. Buckley asked about minor capital. Ms. Floore said it is reported separately later in the report and is also tracking appropriately.

Under Federal programs we are in the process of finalizing. There are no new encumbrances but we are paying for expenditures already provided.

In terms of the stimulus, she reported we no little about the rules but know there are certain areas that have been designated as receiving funding and these are Title 1 and IDEAB. However, these are limited term funds and will likely have very specific uses and allocations. Mr. Buckley suggested that when funds are received we put in place a similar process to the referendum so we know how and where funds are spent. Ms. Floore agreed that it will have to be singled out as we currently do will all other federal funds.

Ms. Floore reported tuition programs show a similar revenue of receipt 97%. The State revenue gave us more money in the match for unique alternatives due to more students qualifying for special education aides and support. For minor capital, monies can be used in the year it was given, but can also be used over 3 years. Sometimes you need the money to budget a major project. Mr. Lloyd asked if we are allowed to let some of the monies build up to a future project. Ms. Floore stated yes.

In Division 54 and Division 58 utilities, Ms. Floore has consulted with Mr. McDowell will lower the encumbrance in April once the winter month's costs have been realized. Division 58 related services shows encumbrances for speech and therapist contracts.

Mr. Lloyd asked about the IBU 57 lease for Linden Park. We are going to be \$42,000 over budget. Ms. Floore stated we do have a locked in price but the cam charges for common areas can change. Last year we received a bill about a miscalculation on the lease holder's part and we had to pay the overage. That is the fluctuation we are concerned about. We will change the encumbrance to reflect the true amounts. However, she noted that this line does not reflect all leases facilities in the district as we lease our transportation facility. They would all show under one object code but in the budget are listed by their program areas so the lease for transportation falls under IBU 77.

In IBU 97, the expenditures for A.I. Dupont High School reflect the revenue generated by the school. All of the high schools have gate receipts for sporting events. The process for the funds is we first pay the service (ticket takers, etc.) and then the rest is available for the school to spend. Expenditures are expensed out of IBU 97 and they can only spend what they have. They can save it and roll over for a year. They must clear all purchases through the business office. Gate receipt revenue is not equalized through the schools. Mr. Bank asked about Linden Hill showing revenue. Ms. Floore stated that is a coding error and needs to be adjusted*. Brandywine Springs has start up costs these past 3 years for each new grade they added. Conrad has the same. Conrad's is more as it includes varsity athletics.

In discussing the Financial Position Report, two documents were distributed. Ms. Floore believes the DOE report is confusing as it rolls all the local funds together as if they are 100% discretionary. There are also several errors that report funds that she is looking to get changed. Ms. Floore zeros-out the lines of money that are no longer available. To prepare the report, she makes the assumption that every department will spend 100% of their budget. The true picture is that many may not, but the point is they are able to. This report shows what happens if we expend to 100% of budget (worst case scenario) in order to estimate available salary funds for the summer months. DOE uses this to make sure we will have the carry over we need. If not, it would lead to the reinstatement of the Financial Recovery Team. Ms. Floore stated the report shows there is sufficient carry forward balance estimated for the end of the fiscal year.

Mr. Lloyd asked for any new business. Mr. Suiter asked about the committee's role in establishing a list of potential cuts. Mr. Suiter stated that we are here to advise the board. Mr. Buckley believes the suggested cuts should come from the administration. Ms. Floore stated that she doesn't feel comfortable making a list at this time without knowing where the cuts will be targeted as they are state funds and not local funds. She also made that the federal programs are separate and are not anticipating cuts. Things like adjusting the number of school days comes from the legislature as that is state code. The district cannot do anything that is not in concert with them. Mr. Lloyd asked if there were discretionary cuts. Ms. Floore stated we have acquired the necessary local funds, so it has to be the interplay between state-funded positions and programs. She gave the example of after school activities. They were supported by referendum and restored. If the state decides to cut Division II funds which support during the day operations, the board may make the decision to divert those funds to address education services first.

Mr. Lloyd is concerned that the newspaper is reporting that the sky is falling in the way of public education. Mr. Suiter stated there is a lot of misinformation right now. Ms. Davis stated that much of it is lack of background knowledge and a pet peeve of where the district should not spend their money. Ms. Floore stated that as community members, we can all give suggestions and input to the Governor, Jack Markell, via a website or multiple town meetings.

Mr. Miller recommends we proceed slowly, participate and be patient with the process as this is different in proportion than anything he has seen before. The Board will have to work with the administration and the committee will provide support as appropriate. Mr. Lloyd stated that message we should communicate to the public is there are too many unknowns at this time. In terms of developing a timeline, Ms. Floore stated May 15 is a cut off date as teachers' contract renewals come into play. They must be notified if the position is cut.

IV. Announcements

Mr. Lloyd asked if the Committee had anything to take back to school board. There was none.

The committee's next meeting will be Monday, March 9th. The focus will be on transportation with a presentation from George Middleton. We will also see a referendum review.

V. ADJOURNMENT

The meeting adjourned at 9:25 PM.

Respectfully Submitted,

Laura Palombo

Recording Secretary

Action Items

1. L. Palombo - Ken Woods nametag.
2. Response on maintenance reorganization.
3. Linden Hill revenue – coding error to be adjusted.
4. Follow-up on potential town hall meeting
5. George Middleton to present in March.
6. J. Floore to provide referendum breakdown in March.