

Red Clay Community Financial Review Committee
Monday, January 10, 2011

Meeting Minutes:

The Community Financial Review Committee met on Monday, January 10, 2011 at 6:30 PM in the Brandywine Springs School Teachers Lounge.

Members in Attendance:

Jane Rattenni – Committee Chair
Jill Floore– Red Clay Chief Financial Officer
Bill Doolittle – Community Member
Les Hendrix – Community Member
Kelly Krapf – Teachers Union Representative
Larry Miller – Community Member
Cathy Thompson – Board of Education
Kim Williams – Board of Education

Others in Attendance

Jack Buckley – Board of Education

I. Introduction and Opening Comments:

Mr. Miller opened the meeting and welcomed the Committee. After a review of the December meeting minutes, Mr. Doolittle moved to accept them as written and Ms. Williams seconded.

II. Financial Reports

Ms. Floore distributed the monthly Financial Reports. Local revenue has 97%. Last month the discussion reflected that we were much lower. This is our tax receipts, choice income, interest, gate receipts and the senior tax rebates. Last month it tracked significantly lower, in the 80 percentile because our tax and choice payments weren't received at that time. They are now all in; the only item remaining is senior tax rebate which is why it is still slightly short of the 100% number.

The second point of note is the Charter payments. The state and the business managers decided charter payments should be recorded as revenue reductions rather than expenditures. We didn't "spend" the money and don't want that figure to show up as an expenditure. The state now processes as budget transfers from our funds. It is taken directly from the district and paid to the charter. The dollar amounts don't change, but it is an accounting process. It is also now reflected that way in the final budget.

For the final budget, the indirect estimate has gone up. That is the amount that we charge on all Federal funds. We are allowed to charge a certain amount on indirect costs on federal grants for personnel, payroll and all administrative functions and that is 8%. We

are higher than last year based on the one-time federal funds. Mr. Miller asked if the Race To The Top funds be subject to the indirect and the answer is yes.

Our income from fees is about where they were from last year. The 75% for Division 1 salaries is the largest one. They prefund everything from 75% of last year's money. They have to fund the obligation to 100%. It is done on a cash flow basis. It may look as a negative, but it is not of concern to us. We are nearly identical where we were last year. Mr. Doolittle felt we were looking higher on Division III revenues. Ms. Floore agreed and stated there will be an estimated increase to Division III as a result of needs based funding. Ms. Krapf asked about FY10 actuals. One was particular to December vs. November. It is a running tally on each year so it does change each month but the final did not change.

There was not too much of note on the expenditure side. Division 1 salaries we show at \$45 million on state salaries. Last year at this time we were \$38 million. We are \$2.2 million higher. State stabilization funds are used this year to cover the old Minner teachers. The appropriations were charged last month but when they were corrected, it did not change the operating unit. That has been identified and will be corrected. We would be moving over \$3 million from both state and from local operating units. The state stabilization funds cover both sides of the equation depending on what type of teacher it is covering. We also have more people in the schools as a result of academic excellence and salaries increased. We hope to have a confirmation next month when the changes are made. We were quicker to move it last year which is why the comparisons are off but it is a new financial system and the process takes longer. Mr. Miller stated that you cannot just look at one line to see the salaries. When the state stabilization funds are expended, it will be fewer lines to look at together.

Mr. Hendrix asked about the state stabilization and when will they be 100%. Ms. Floore stated it would be September 2011 to pay teacher's salaries and as the funds expire in September. Ms. Rattenni asked about next year's budget. Ms. Floore explained that State stabilization will be gone but Ed Jobs will be there to take some of the hit from the loss of funds.

On expenditures, we are at 50% of the fiscal year. In the past we had rules on how much you could spend, i.e. 30% in the first quarter and we had no carryover allowance. Now that we have carryover, we no longer have those restrictions. Departments, not just schools, follow this. It is simply how the manager or principal has chosen to use their budget.

Mr. Doolittle asked about Transportation next year. The speculation is a cut is coming with a cost share of 90/10, but it is just speculation at this time. Right now we fund \$1.8 million from the local side for transportation. We will receive the governor's information in time to prepare the budget for next year. The governor's recommendation comes out the end of January but the final budget is not completed until June 30. Ms. Floore stated that DFAC will continue to meet, and the state's revenue projections play out through the end of the year. We make our own recommendations and Dr. Daugherty, with the other

superintendents, becomes our lobbyists in Dover. There are some discrepancies in what is being portrayed. The state feels that they should not completely fund Transportation. However, we fund \$1.8 million in local transportation, so we feel we are sharing the funding of the program already.

Mr. Hendrix asked about District Wide Services encumbered but not spent, Line 83. Ms. Floore asked the committee to look at the detail breakout on Page 9. Part of that has to do with the charter payments. We are a net higher due to choice but net lower due to charter. Mr. Hendrix asked then what happens to the money budgeted for the charter. Ms. Floore stated that the line will disappear and it will be a revenue reduction. Choice has never been an expenditure. Mr. Doolittle asked about how it will read to those looking at taxes and expenditures. We will change the payment header to reflect the change to a revenue transfer rather than an expenditure.

Ms. Floore stated that our facility lease appears over budgeted. We are getting rent back from the tenant. We have encumbered the entire amount. Every time we receive the tenant rent, we use that as an expenditure reduction against the payment.

Mr. Hendrix asked about the \$5 million change. Was that put before the BOE prior to being implemented? Ms. Floore stated that it is reflected in the final budget presented to the BOE for approval. Other school districts in the state may not have this swing as they may have been showing charter payments as revenue reductions already.

In follow up to Ms. Williams' security question from last month, Ms. Floore stated that all of the elementary schools were completed prior to the start of school. The high schools were completed after the start of school, so that is the reason the payments came through later. These were specific items run through the referendum. A question was asked of the district office move. Those expenditures reflected changes made to the building, i.e., walls put up, air flow handlers, parking lot changes, etc. No new furniture or cubicles were needed as it was brought over from Linden Park. This would have had to occur in whatever year the district office moved but was moved up because of the sublease agreement with tenants at Linden Park.

Ms. Williams noted a jump in page numbers in the reports. Ms. Floore explained that by Friday the month end reports had not closed. Therefore, we ran what we had available on Friday. The federal reports were run today (Monday).

In looking at 2009, Ms. Williams believed that the school improvement funds for Warner were expended. Ms. Floore stated that they called DOE and they reopened and changed the end date so we could not lose the \$4,100. The federal funds closing on 12/31/10 had to be encumbered, but we can clean up the actual charges through March. Payroll cannot be encumbered. Ms. Thompson asked about the Off The Streets grant. The balance will be used as clean up for the first 3 months. In April, Ms. Roberts will give a presentation showing that we have used the funding. In 2011, we are in the early stages of expenditures to the new consolidated grants. Title I is at 15%. In ARRA, we are now beginning to approach completion dates. All of these expire September 2011 which is a

hard date. That 3 month clean up of expenditures takes it through 12/31/11 and not after. Ms. Rattenni asked if the only grant not included in the federals is the state stabilization. That is correct as it included in our operating budget. Ms. Rattenni asked if it was true that it would not be renewed. Ms. Floore stated that it won't be renewed but that we are hopeful the state will reinstate the funds as part of their general fund support.

Debt programs we are exactly where we were last year. We set the tax rate directly to pay the debt payments. Minor cap is two-year funding. We always have 2 years at the same time so the current year can appear low depending on the schedule of projects. Minor cap is always in reserve for incidentals – blown boilers, etc. We use summer months to do these projects as we have no students and the weather is better.

Looking at tuition, the consortium is for alternative seats to house expelled students. Unique alternatives is used for students placed out of state. First State School is the school at the hospital. We are consistent at 98% of local revenues received. We are slightly lower than we were at this time last year as we have not processed the senior tax rebate from the state, similar to the operating funds. We have not sent out the bill for tuition programs. If someone from Christina comes to one of our tuition programs, we bill that district for that student's tuition. We also pay about \$2 million to other districts when we send a child to one of their tuition based school, i.e. The Delaware Autistic Program. The billing process happens in early spring. It is significantly higher than the regular school program. It is based on the cost of the program. We can only bill for the local portion of that tuition. Mr. Doolittle asked about the state stabilization money in tuition programs, do we need to change the tax rate. Ms. Floore stated that she didn't believe it would be necessary. Some things were written out of the state budget, LEP program and into state stabilization and the hope is that it will be written back into the state budget. The programs can absorb \$700,000 swing without a tax rate increase based on the contingencies.

Page 7 is Meadowood (note: Division 54 write Meadowood). The one area of note is 61.4% of local salaries. Ms. Floore will be recommending a change and increase due to the cost of salaries. Ms. Floore stated it may not be simply more teachers, but teachers with more experience. Ms. Rattenni asked what revenue these schools hit. Ms. Floore answered they are tuition programs. Because a number of programs are supported by the tuition tax, the revenues are reported under tuition but the expenditures are broken out by program.

Ms. Floore distributed the FY 2011 Final Budget and presentation. In the past, a preliminary budget was done in the spring. Now, due to the timing of our information from the state, we are preparing our preliminary budget in August. This does provide for fewer swings in budget numbers for the final budget.

Unit count is the way students are counted. This is changing to a different formula called needs-based where instead of specific categories, students are counted based on the level of need. The three categories are basic, intense and complex. 5 years ago they put several districts on a pilot for needs based. Brandywine has been one. They have to count under

traditional and needs based but they've been funded on needs based. To make sure the state hasn't had a significant budget impact, each year they could only gain by 3 units. This is the second year Red Clay has been in the pilot. To be fully funded on needs-based, a district would be considered to be on formula. However, Red Clay is the only district that is not on formula.

Looking at Page 3 of the presentation, Red Clay's traditional count went up 18 from last year. The number of students is 202 higher than last year. Our needs based allocation based on our count is 1,084 units. Because of the cap, we can only get 1,046 which is a difference of 38 units. Ms. Williams reiterated that we keep growing each year. Ms. Floore stated it isn't just the growth that is factored in, but the difference is the switch from traditional to needs based funding. Because of our special schools and our complex population, we are funding those 38 units out of our tuition funding. Mr. Buckley asked if we are currently employing those 38 units. Ms. Floore stated we are supporting our schools through tuition funds. If we got funded 38 additional units, and we hired 38 additional people, you would see our tuition tax impacted due to the cost of the local share.

Mr. Doolittle asked if the February needs based legislation passes, we would all be need based funding. Ms. Floore stated that we are advocating for the bill. Mr. Hendrix asked who asked for the change in legislation. Ms. Floore stated it was a finding from the federal Department of Education about restrictive and least restrictive environment. Because of the way the tuition tax was funded, there is an incentive to place a student in a special school. Mr. Doolittle stated it wasn't a law suit but a complaint.

Continuing in the final budget presentation, Ms. Floore reported in Choice enrollment there is an increase in number of students attending Red Clay and a decrease in Red Clay students attending other districts. Due to the multiple ins and outs of students, Choice is shown as net revenue; revenue because more out of district students attend Red Clay than vice versa. The estimate is just over \$2 million. Each year a sending district which spends more, i.e. Brandywine, per pupil, we only receive what we would spend and the rest goes to the state. If a sending district spends less, we only receive what they would spend. We receive the income directly from the sending district and then a portion of the payments made to the state. Last year, we didn't receive the state allocation until FY11. Therefore, it is a one time revenue source written in this year.

Charter enrollment changes are listed in the presentation. We have increased our sending population by 62. Odyssey is in Red Clay but next year will be a state charter. It represents the number of Red Clay students attending those schools. For charter schools, Red Clay's payment is made based on the local spending per pupil in the district. Mr. Hendrix asked if a state charter has a lower spending per pupil. Ms. Floore stated we pay Red Clay's local per pupil regardless of what school they attend. Ms. Thompson pointed out that its advantageous for a charter school to choose students from the higher paying districts. Mr. Hendrix asked if we paid our own charters. Ms. Floore answer yes. A charter could have a wide swing in revenues depending on where a student resides. For

our charter payments in total, the estimate increased \$480,000 over last year. Again, the transfer shows in revenues, not in expenditures.

For revenue highlights, Ms. Floore reviewed each line that increased by over \$100,000. Income from fees was reduced as we are not seeing the number of outside groups using our facilities. Summer schools are an actual as it reflects last summer. Indirect cost is increased directly related to the ARRA and stimulus money. The most significant item is the \$5 million change from expenditure to a revenue accounting for charter payments. Ms. Thompson stated it is more of an accounting change, not a charter change, and the language should reflect that in the presentation. Ms. Floore agreed to note that in the presentation.

For state revenues there are two factors for estimating in the final budget –one is enrollment changes and the second is the fact that we have gone through 6 months of the year and have that experience. These are strong indicators of where we stand in spending. But Ms. Floore stated this year is slightly different because of the new financial system. Each month we are finding corrections that should be made, not based on errors but based on how purchase orders and operating units converted in the system. For projections, Ms. Floore relied heavily on last year's numbers. Ms. Floore and the business office staff will be reviewing each operating unit to make monitor the conversion and coding of expenditures. Mr. Hendrix asked if the conversion and operating system was noted in the final budget. Ms. Floore stated it is listed on Page 2 of the presentation. She clarified that she has confidence in the expenditures that have been charged, but they may not be charged in the correct operating unit.

Mr. Buckley would like a point in the budget presentation on excellence units and how it was a policy decision. Ms. Floore stated it is listed on Page 8, 4th bullet down which lists a \$455,000 revenue decrease due to academic excellence cash in.

Division II had an increase of \$160,000 strictly based on formula and unit growth, including the needs-based pilot. Even though the district is not fully on formula, it is credited for more needs-based units than under traditional count. Accordingly, the Division III estimate reflects an increase of \$688,000. Additional programs, \$26,000 for Groves, CSCRIP went down by \$20,000 due to Medicaid reimbursing less than prior years. The largest is \$455,000 drop instead of cashing in our excellence units this year because we're deploying those units out to the schools. Therefore, we are receiving less revenue from the state from the cash in. On excellence, you can cash in a certain number. The preliminary budget listed 18 which is the number we cashed in last year, but based on staffing at the schools we ended up cashing in 5. If you don't cash in, you get those units funded as teachers. If you fund as a teacher, we need to also fund those teachers local share of salary so there is a double swing that is the cost of the local share of salaries as well as the lost revenue from the cash in. If your district is strapped, cashing units is a way to generate additional revenue. Ms. Williams asked that if you cash them in, do you use the money for salaries. Ms. Floore explained that there is specific language in code directing a district what the money can be used for. Ms. Floore explained this is the first year she's been with Red Clay that they did not cash in the

maximum number of units. Mr. Buckley stated that once you reach a level of service, the public will continually expect that service. Ms. Floore agreed. She believes next year the same staffing levels should be available due to the Ed Jobs funding, but the year after that becomes questionable depending on the other available revenues.

On the expenditure side Ms. Floore reported that Research & Assessment is not a cut but the reduction reflects a moved to Race to the Top funding. This includes test coordinators for the new DCAS.

Mr. Doolittle asked with the federal programs and how they are run, if we have a final unified budget. Ms. Floore stated because of the differences in fiscal years and funding cycles, we have historically used a federal budget and an operating budget. If at any point a federal program is cut, we have to decide to if the program should be kept how it would be funded. Ms. Floore said the district will have discussions regarding the testing coordinators and their funding when Race to the Top expires in 2014. Preschool programs are also in there.

For School Improvement listed on Page 11, we received more allocations for state grants for school improvements based on the schools AYP. The amounts reflected a cut this year; formerly they were allocated \$50,000 per school.

Minor adjustments have been made to Transportation reflecting a net increase of \$65,000. Funds have been moved from contractor to Red Clay Transportation. On IBU 97, prior year accounts payable, Ms. Floore has revised that number down. This is also where the Charter payment \$4.7 million expenditure comes in. The reason it's not exactly \$5 million is on the revenue side its \$5.3 and the expenditure side was \$4.7. The reason is we had more charter students so there would have been a difference from preliminary budget to final budget. One is zeroing out the preliminary number. Ms. Williams asked regarding last years budget in district wide services was something was moved out? Ms. Floore believes it is incorrectly showing the preliminary FY10 number rather than the final FY10 budget and will review it.

In summary, if the charter change in accounting didn't occur, the actual change in the budget would be \$108,000 increase on a \$163,158,000 budget. On Page 12, this shows the current year revenues over expenses are changing by \$147,000. Finally, the projected balance is changing because we are closing out the state stabilization funds that we have carried over. It was a one time carry over.

Mr. Buckley asked about the programs under IBU 99. Legal was in the former Deputy Superintendent's budget. So that budget went down, and legal is now broken out because it is no longer managed in that budget. Mr. Hendrix asked if district office was part of district wide services. Ms. Floore answered that is the lease, the actual building move was a separate line item. Security used to be in maintenance but it reports to the schools now so it is broken out separately.

Ms. Floore reported the Tuition budget summary had only minor changes.

Mr. Buckley asked about Page 12 and the carry forward balance. In real terms without state stabilization, we would have \$21 million. We are taking in about \$1 million that we are not spending which contributes to the carry forward. The addition of the one time funds for state stabilization contribute to the carry forward for one year. The district stretched those funds so that it didn't create a dramatic funding cliff when they expired. Overall, the stimulus funding has been very helpful to this district, especially to maintain staffing levels.

Ms. Rattenni asked if there were any additional comments to add to her BOE report. Ms. Rattenni asked if we should include our recommendation that Red Clay support the house bill that moves Red Clay to needs based funding. Mr. Hendrix asked for a motion to support the house bill and Ms. Williams seconded. All agreed. Rattenni will also note in her report that the Committee supports the change in charter accounting. Mr. Doolittle moved to support the final budget as presented for the board's consideration. Mr. Hendrix seconded. Ms. Williams will read the committee's report into the Board minutes.

III. Old business

An updated resume of Lynn McIntosh was distributed. The Board will make a motion to confirm her appointment to the committee.

The committee discussed having transportation present at the March meeting. Ms Rattenni asked if that was timely in the changes made by the state. February's meeting will include a review of the February 1 financial position report by Ms. Floore.

Mr. Hendrix asked if there was any update to the scheduling of training. There have been no updates at this time.

IV. Public Comments

There were no public comments at this time.

V. Announcements

The next CFRC meeting will be held Monday, February 7, 2011 in the Brandywine Springs Teachers Lounge at 6:30 PM.

VI. ADJOURNMENT

The meeting adjourned at 9:10 PM.

Respectfully Submitted,

Laura Palombo

Recording Secretary