

Red Clay Community Financial Review Committee
Wednesday September 17, 2012

Meeting Minutes:

The Community Financial Review Committee met on Monday, September 17, 2012 at 6:30 PM in the Brandywine Springs School Teachers Lounge.

Members in Attendance:

Jane Rattenni – Committee Chair
William Doolittle – Community Member
Steven Fackenthall – RCEA Member
Jill Floore – Red Clay Chief Financial Officer
Victoria Kent – Community Member
Lynn McIntosh – Community Member

Others in Attendance

Leah Davis – President, Red Clay School Board Member

I. Introduction and Opening Comments:

Ms. Rattenni opened the meeting welcoming everyone introducing our newest members, Steven Fackenthall and Victoria Kent. Required training for the new members of the CFRC was discussed as it is now available on November 5, 2012 at Wallace Wallen Center. If current members would like to attend, they are also welcome at the training but it is not required of them.

II. Minutes

After a review of the August meeting minutes, Ms. McIntosh moved to accept them and Ms. Davis seconded.

III. Old Business

Ms. Floore explained that we had hoped the Barbacane Audit would be complete. However, there is a discrepancy in the reports and we are working with them to identify the issue. When we do have the audit report, Frank DeFroda from Barbacane will be here to present and answer questions.

We had asked for a capital referendum update. The Board of Education has established a Facilities Committee. This committee reviews the projects, their finances for those projects and the awarding of the bids.

Their meeting was tonight at 6:00 PM so they could not attend our meeting. Dr. Ammann and Ms. Floore had discussed a joint meeting of the CFRC and the Facilities Committee. Next month, the Facilities Committee will be reviewing a performance

contract parallel with the referendum. We would be looking having our meeting at the same time. We could then break out for our monthly reports.

The Facilities Committee debated various project management strategies and came to a recommendation of having a construction manager. The first bids to go out were the construction manager. Based on a committee process including bid scores and interviews, it was decided to award the contracts to two firms- one for the new school construction which is Whiting Turner and one to EDIS for the renovations- the first of which are AIHS and the Cab Calloway auditorium. Then, the next RFP process was for the selection of architects- again at the three major projects. ABHA was selected for the Cab Calloway project, Becker Morgan was selected for the new school and Studio JAED for AIHS.

The facilities committee is currently working on their bylaws and establishing procedures for going forward that include review of change orders, financial reporting and more. It was decided the Facilities Committee would vet change orders based on a certain threshold.

The projects are well underway and Ted Ammann and his department have worked from the day after the referendum to begin this process. It was discussed the CFRC and Facilities Committee would meet together for the next meeting to hear a presentation on energy conservation efforts and how that ties into the referendum projects. The meeting was tentatively scheduled at Baltz The CFRC decided to meet at Baltz.

If you have questions, send them to Ms. Floore in advance and they will be placed on the agenda for this meeting. Mr. Doolittle asked what the process between the CM and the architect is. Ms. Davis asked about the project timeline and is it on the website. Ms. Davis has answered questions as to when these projects begin. Ms. Kent asked the architect and manager look at the plans, who the next approval and the check points is trying to pre-empt the change orders. Whiting Turner is giving their presentation tonight at the Facilities Committee. Ms. Rattenni stated that it is the architect who drives the process. We are in the earliest stages. Ms. Floore explained this is also a time of bringing in ideas from the school staff, students, etc. Much was done with that prior to the estimates coming in because the budgets are set prior to the referendum.

Ms. Floore then discussed the Lt. Governor's Report that was released on the Status of School Spending. Last year Red Clay fared very favorably in terms of ranking. This year we did not show so favorably as to what is spent on direct classroom instruction. Ms. Floore directed the Committee to the handouts last page of the report. Red Clay is the 2nd to the last district for the percentage of local funds spent on instruction. However, in the numbers, we are comparable to all of the other districts only 1% away from the others. We also have the lowest administrative costs in New Castle County. It is counterintuitive that the district would have the lowest administrative costs yet also the lowest instruction spend.

Ms. Floore summarized the process for collecting the data and explained how there is another section of "other" that is pulled out. You can see how the other for Red Clay is significantly larger than the other districts. To pull the data, they take the annual financial statement which pulls program codes. Certain codes are designated as non-instructional and they are pulled out into other. Because it is an automated process, the numbers pulled may not accurately reflect the correct categories and there is no process to challenge. Ms. Floore explained that three significant factors impacted the drop in percentage. Last year, we were the only district last year that still had state stabilization funds. We used them for local salaries. But those dollars, while classroom instruction, are pulled out. The sum was over three million dollars which can swing the overall percentages. It showed that we spent less on local salaries because a part came from federal funds. Our strategy all along was to stretch that money over the years. Rather than spend and lose it all at once, we did smaller amounts at a time so we could sustain it for 5 years. The year when we were still using the funds can explain why we had a swing from year to year.

The second main issue was that we contracted out our alternative schools. The account code is listed as a contract, as it is a contracted service. But it's not strictly contractual as we are buying schools and teachers, therefore it is instructional. That spend of almost \$1million can again contribute to the swing. Finally, last year we did several one-time playground and construction improvements around the district.. PTAs did a great job raising money for a playground but it's not enough. The McKean early childhood classroom is another example of strengthening the instructional program but these funds are coded as construction and therefore pulled out. The report did recognize that school districts are challenging the results for these reasons as it is not cut and dry. This year will be the same issue as we still have EdJobs money that will count against the local expenditures. However, saving that money will negatively impact the overall results. Additionally, we have continued to contract out two alternative schools. All the business managers are working with the Department of Education to ensure the data is accurately categorized for next year.

Mr. Doolittle asked if the tuition based dollars change the balance. Ms. Floore stated yes, absolutely. We received more state funding last year for instruction so fewer local dollars were used. Mr. Fackenthall asked were these funds state or local. Ms. Floore explained they are local dollars. Ms. Kent asked if everyone is working with the system or around the system. Ms. Floore explained that once we are all aware and in agreement of where the codes are being pulled from, it will at least be a level playing field.

Ms. Rattenni reiterated that the \$5.7 million is made up from the items listed above. Ms. Floore agreed and added that there are copiers that are considered instructional, school buses are not. Ms. Kent stated they should have a system that we all are the same across the board. Ms. Floore stated that we do have the new state financial system. Unfortunately, it was mapped against the old system. Mr. Doolittle asked if it will be changed as we build up our capacity of student sent to us from other districts in the balance to special education. Ms. Floore stated that this report does not count tuition dollars. In our case Meadowood and ILC are dropped off entirely. Mr. Doolittle asked if

we should code things differently. Ms. Floore won't recode to make the report more attractive but believes we should work with the Department of Education on how the data is categorized and pulled. We need to clarify why an item was purchased. Mr. Fackenthall asked if Para professionals in the special schools are instructional. Ms. Floore explained those special schools aren't included but the Paras in the regular schools would be included.

Finally Ms. Floore announced that Mr. David Blowman has just been announced as Deputy Secretary of Education. Mr. Blowman is the CFO from Brandywine School District. He will bring a wealth of experience in the school district to guide the policy decisions made in Dover.

IV. Monthly Reports

There are no monthly reports as the preliminary budget is to be presented to the Board of Education at this month's meeting. The budget has not been approved; therefore, we have no expenditures against the budget. We have been working under the numbers from last year. No one is deficit spending or in the negative. We will return with the monthly reports next month.

V. Financial Position Report

This report is required through Delaware code. When districts started having trouble years back, the DOE stated these projected balances should be known. There are three reports due a year. This one is for October 15th. We don't receive our tax money until October. We have to work from our current balance until those funds come through. Our balance projected on October 15th is \$26.3 million. That is strictly cash flow. This means we have enough money to pay our local salaries. We do get some taxes in September, but the largest deposit is in October. Some districts are having trouble at this time. One year we had to take a float loan to cover our salaries. \$3.7 million is what our local salaries run for one month. The main point from this report is that the district will have sufficient funds to cover payroll through October. The other pages are detail on what goes into those numbers as per taxes, state funds, etc. This also goes to the Board for their approval. The others are February 1st and May 1st projecting balances for June 30th.

VI. FY 13 Preliminary Budget

Ms. Floore began on Page 14. Last month we reviewed how the tax rates were established. The operating budgets are the funds for general budgets.

Ms. Floore reviewed the carry forward balances in state funds. In addition to what is on hand for local funds on June 30th, this is what is on hand for state funds with their expiration date. Some funding has 2 years to expend. Minor capital and professional development are good examples. Much of these programs take place in the summer

months. Mr. Fackenthall asked why the homeless transportation ends on September 30th is it because new funding begins at that time. Yes, one year funds normally expire on June 30th. But in the case of homeless funding, there is summer transportation. Ms. Rattenni stated that much state funds allow for those 3 months of expenditure. Ms. McIntosh asked about unique alternatives extensions. Ms. Floore explained that is the state share. The State overestimated and over encumbered. We cannot spend it so it will revert back to the state. It shows as available but is not for us to spend. Mr. Doolittle asked if in the glossary we could note the related services allocations.

Ms. Rattenni asked if we are mandated to pass the budget by a certain date. Why isn't the process begun earlier to be closer to the July 1st, the beginning of our fiscal year? Ms. Floore agreed September was late and preferred August. In July the meetings are sparsely attended and the tax rate is discussed at that time. The first time is the preliminary and the final is in January. Ms. Rattenni stated that adjustments made can change the plan a great deal. Passing the budget earlier in the fiscal year to align ourselves with the spending would be better. Ms. Rattenni would like to see a projection in June to begin the fiscal year on firmer ground. Ms. Floore stated that the state budget doesn't pass until June 30th. We have to wait for those numbers before a budget can be done. This last year it was bumped even later. Mr. Doolittle stated that footnotes can be made as to legislative impacts. Ms. Floore will look into putting it into the July Board meeting. Ms. Kent asked if there was enough data to predict a trend if done in July. Ms. Floore answered yes and several districts do that. The tax rate must be done by the 2nd Thursday in July. Ms. Floore will place that into a recommendation to the Board. Ms. Rattenni put forth the motion to vote to the review for the annual preliminary budget is moved up to July and then a final budget in December. Ms. Rattenni stated that improved efficiency would be had if it was done in June. Mr. Doolittle made the motion and Ms. Macintosh seconded.

Ms. Floore directed the Committee to Page 16 of the Preliminary Budget. Funding is broken down by how it is received. Taxes go up due to betterments done to a property- the tax rate is fixed as it is set by a referendum by the voters. Red Clay's last referendum was passed in 2008. At the same tax rate, we are expecting an additional \$283,000. Typically we grow by ½ percent. We used to have a 2% delinquency. This year we reduced it to 1% as New Castle County has been able to bring in more tax money on time. The next major local category is choice income. We are attracting more students from outside districts. We are paid by that sending district their local per pupil amount. Students also choose to attend other districts through choice. The net number means we are accepting more students in than are going elsewhere. Ms. Rattenni asked if that number would change after 30th count. Ms. Floore stated it would only be a minor change. Mr. Fackenthall asked if that number changes as students come in and out. Choice is closed at that point so no. For those students actually moving into the district, the funding is fixed based on September 30 count so we do not get additional funds. Ms. Kent asked what if a student gets released from a charter. Ms. Floore explained we do not have to take them in the feeder school. We have to provide a free and public education but the charter may have to keep them because they have signed a contract to attend the charter.

Choice income is really two pieces. The money we receive from a sending district. If it is less than our amount per pupil, we receive less as it is based on the sending district's spend per pupil. If it is more than ours, we only get our amount per pupil and the rest goes to the state. The state then divides the available monies and makes up some of the shortfalls from the lower per pupil sending districts. The payment from that funding does not come in until later in the year. We had a one time credit last year because we actually got the prior year money after the close of the fiscal year.

One of the biggest changes is the charter payments are going up by \$1.5 million this year. These are Red Clay students going to a charter. We give them our amount per pupil. Mr. Fackenthall asked about even the Charters overseen by Red Clay and Ms. Floore explained it was the same for students attending any charter school. Ms. Rattenni asked what is the majority school that the students are going into? Ms. Floore will have to get that information for you. Charter and DMA have a set enrollment. Mr. Fackenthall asked if a charter school student comes to Red Clay do we receive the charter payment into our regular school. Ms. Floore explained that you don't get money in but wouldn't have to pay the charter school for that student. Ms. Kent asked if there was an addition of charter schools. Ms. Floore stated there were additional charter approved each year as well as expansions such as Odyssey Charter. Ms. Rattenni asked if what we would pay is the same for each school but that charters can get differing amounts depending on the sending district. Charters get a different dollar amount from Brandywine, Christina, Colonial and Red Clay, as well as any other district around the state.

The local revenue is projected to decrease by approximately \$2.5 million. We ended FY 12 with \$23.8 and FY13 ends with \$20.5. We knew we would start to decrease this balance. In total, Ms. Floore estimates we have \$78 million to spend in local funds. On the state side, needs based funding gives more in Division 1 salaries than in the past due. Since 2008 we have talked about state cuts and our available revenues. Last year there was a lot of lobbying for a return as federal monies were expiring. We were fortunate the state funded the Education Sustainment Fund at \$3.2 million. We estimate \$5.5 has been cut in the past so it is not getting back to former levels but was a real start by the Governor and Legislature to tackle the issue. These are 100% state funds but they allow us discretion to use them for local salaries. In other additional programs, Transportation had a 10% cut. The number of routes grew, so we are receiving more, but we still need to put in a local share as well. School improvement \$209,000 reduction due to the funding being switched from state funds to Title 1 funds. In the future it will then be shown in the federal budget.

In related services, last year we cashed in a significant number of service units. Students earn a related service unit (speech, occupational therapy, etc.). We didn't hire staff; we cashed in the units and contracted out the staff. In some cases we cannot find therapists to hire as Red Clay employees. Many want higher rates, flexible hours, etc. This year, however, we were able to hire more of our own staff for those related services positions. Ms. Kent stated we saved money by hiring our own rather than contracting out. Ms. Floore also stated in many cases there aren't enough speech therapists out there to hire. Mr. Doolittle stated there is a governor's task force on this issue.

Total state revenue is projected to go up \$3 million. It is projected to go up \$8 million by final budget as the budget was done before all of the final settling of needs-based funding. We estimated conservatively last year because it was new. In FY13 we are still projected to go up by \$3.5 million in Division I salaries vs. actual FY12. Ms. Rattenni asked if the other districts are seeing this. No, we were the last to be placed on needs based funding and it was felt that we were the largest to benefit from it. Mr. Doolittle stated that it is still being refined and it will change a bit in the future. Ms. Floore explained that Mr. Doolittle works on the task force regarding these issues on special education and needs-based funding.

On Page 18. The expenditures are not too different. They are based on the 2008 referendum and the priorities. This year the district has been putting together a strategic plan, including college readiness, early literacy and reading readiness by 3rd grade, effective leaders and teachers, improved performance for ELL and Special Education students and parental involvement. This was a very lengthy process and they are still putting together the action plans. To further support the initiatives, Curriculum and instruction got a \$300,000 increase. Part of that is the professional development for the early literacy initiative. Mr. Comegys is very enthusiastic to begin his work in this department. Teacher of the Year has been moved from Accountability to Elementary and Secondary managers. Student services was increased by \$50,000 for an additional SRO. We are also working on a new program with Del Tech, training opportunities and dropout prevention. There is an additional \$44,000 as an estimate in increased revenue for adult education. Division 1 salaries- as revenues go up so do expenditures to have a net zero. Special services is alternative schools and the increase is the expansion of our program by 10 additional seats. We have 2 alternative programs. They were full and we need to expand them. We have two locations, one on Yorklin Road at the Center for Creative Arts and one located at Warner. The one increased is the one at Warner which is contracted with Providence Services.

Operations and utilities include the price of natural gas that is decreasing dramatically. Energy saving projects are working. We have a diverse portfolio in energy. We hoped to engage in a solar project with the state, but others were chosen. We will try again. Our program would be in the field between Heritage and Skyline schools.

School budgets go up and down as school budgets are allowed to carryover 15%. There may be a project that needs more funds and can be done from the carryover and the new budget. The formula is what you receive per the units you have in the school plus your carryover. Some are going up and some are going down. Going down means they have a smaller carryover than before. There were programs that went over budget, not by a lot. Lewis went over by \$1600. AIHS by \$284. This year it was the timing of the payroll. This year the payroll hit June 30th. EPER payments hit that payroll.

Ed Jobs funding of \$403,590 at first appears we have more money. Last year the state stabilization was budgeted there. It was not just local salaries; it included discipline money, LEP grant and such. It was \$2.8 million budgeted. Some of the \$3.4 million was

budgeted in other operating units. However, with EdJobs, the funding can only be spent on salaries so it is entirely budgeted under the one operating unit. In one time money, we actually have \$141,000 less than last year. Ms. Davis asked regarding Lewis' budget of 33% less. Ms. Floore explained that Lewis was given an exception when Mr. Cornish left Lewis and had an unusually large carry over balance. They were given an exception to carry over 50%. The new principal had this large budget to start last year but then spent that as well as leaving a smaller carry over. Now they are going back to what they should have had. AIHS is getting less as they have fewer students and less carryover. Ms. Kent asked about the vocational with a *. Ms. Floore explained that these are the schools that have carryover state funds but agreed the asterisk was missing from the bottom of the page.

With local salaries and benefits, the bulk of what the district spends is on people. The local salaries are estimated to increase by \$2.7 million. The state gave an increase of 1% but also had a pension increase that affects the local side as well as the negotiated increase. There is also growth in hires due to units and with that comes a local cost. Mr. Fackenthall asked if the salary number will go down after RTTT money. Ms. Floore stated it depends on what happens to the salaries. If we keep the positions, it would cost 100% local dollars unless we RIFd.

District wide expenditures is an area we review closely. Last year in substitute teachers expenses went up so we are budgeting an increase for FY13. The DSC payment is going down by \$56,000. They are cutting services but they are also selling more services. Mrs. Rattenni asked if there was ever a decrease in substitute teachers. Ms. Kent asked what we account for the increase. Ms. Floored explained that some is professional development. Our absences have not gone up dramatically as we review that. When a teacher is being trained, a substitute is brought in. Ms. Kent asked if there is a way to mitigate that. Ms. Floore stated that whether curriculum paid for all of it last year is a process they are reviewing to ensure coding is assigned correctly.

In Administrative office rental, we are out of the Linden Park building and we sublet to a number of companies so we are not paying the full rent on the building. Our lease ends in February which will permanently end our administrative lease payments after that.

The last line budget line is strategic plan initiatives. Last year this operating unit was one-time expenditures. Where we put in trailers at Linden Hill. The lease of the trailers is under maintenance but this was the one-time installation such as moving and site excavation. This year this operating unit is being used for the strategic plan initiatives- it is a pot of \$250,000 for schools and departments and programs to apply for funding for initiatives to help meet the goals of the strategic plan but where they are limited by their school and program budgets to meet. Proposals are prepared and voted on by a Committee. Ms. Davis asked if there was a minimum or maximum. Ms. Floore stated no, but after reviewing the first round of applications, there were many similarities. After school programs was a common theme. Mr. Fackenthall asked how it is applied for. Every principal was given the applications. Anyone- from a teacher to a department can apply. Ms. Kent asked if these programs are a one-time hit. Ms. Floore explained yes,

we will evaluate the program's success to decide if we fund again or add into the curriculum budget. These are things to broaden our curriculum on a pilot basis. We won't promise the funds next year. Ms. Rattenni asked if this was laying the groundwork for expiring RTTT funds. This can help or be a marker to build on that.

In FY12 our actual current year expenses over revenue was \$672,000 (deficit spending) The FY13 preliminary budget projects that we will deficit spend by \$4.3 million. However, Ms. Floore states she believes that we will end with an \$18 million balance. This document shows an ending of \$16 because it includes a contingency and assumes every budget spends to 100% .

Mr. Doolittle thought we would need a referendum in 2015 or 2016. Ms. Floore stated yes that would be when we would be looking.

Page 26 is federal funds. We received ARRA stimulus in 2010. We stretched it and used it up in last year. We received state stabilization funds and Ed Jobs of \$3.2 million and Race to the Top. FY14 is the last year of RTTT. Preschool programs are in that funding as well as academic deans. Math and resource teachers used to be funded by the state and they have been cut.

Finally, the Committee reviewed the Nutrition Budget. Their funds are budgeted separately as to the school lunch money and federal reimbursements.

VII. Other Items

There was an email in the packet regarding an upcoming audit. There were general findings on the school districts at large last year.

Also as an FYI, both the financial system and payroll system are upgrading and we are having a shut down for a full week. For the payroll shut down, salaries will be paid, but EPER will be processed in the next one. No purchases or payments will be processed during the financial shutdown and conversion. This is statewide.

The Dual Employment audit was distributed. Nick Manolakos was a state representative as well as an Academic Dean. When he clocks out we have to dock that time. He is paid as a legislator so he cannot be paid as an administrator. We were noted as we took it out of the next pay period instead of the pay period the time was taken. The adjustments were correct. We have argued that it is not possible to do it in the pay period when it was worked. Ms. Rattenni asked about time and labor for People Soft. Ms. Floore explained that we are not part of the pilot. Ms. Rattenni stated that the County is using it at this time and it is working well. As an employee sick and vacation time can be added.

Mr. Doolittle asked where we are for unit count vs. last year. Ms. Floore stated we are up units but there are still a lot of outstanding factors as we close in on September 30. He also asked when we are feeling early childhood impact. It is now federally funded through RTTT but feels it will fall to the District soon. Superintendent Merv Daugherty

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is working on making the success of the preschool program sustainable through alternative funding.

Kenny Rivera is our new appointment from the BOE. If Ms. Williams was to leave the BOE she would like to stay on as a community member. Also, Ms. Rattenni will have to make a motion to accept Ms. Kent as a new community member to the Board.

VIII. Public comments

There were no public comments at this time.

IX. Announcements

The next CFRC meeting will be held Wednesday, October 10, 2012 in the Brandywine Springs Teachers' Lounge at 6:30 PM. The meeting with the Facilities Committee will take place on November 7, 2012 at Baltz.

X. ADJOURNMENT

The meeting adjourned at 8:45 PM.

Respectfully Submitted,

Laura Palombo

Recording Secretary