



# Committee Transcript

**Red Clay Community Financial Review Committee  
April 11, 2017**

## **I. Minutes & Transcript**

The February 2017 Minutes and Transcript were reviewed. Mr. Piccio made the motion and Ms. McIntosh seconded. The motion passed with the members present. A change was made to the agenda as we do not have a quorum, a vote on the bylaws is tabled until May.

## **II. Monthly Expenditure Reports**

Ms. Floore distributed the February and March 2017 expenditure reports. Due to snow closure, we did not have our March CFRC meeting.

We are 75% through the fiscal year. We are right on track to where we expect to be. The main difference on the revenues, we are 86.56% received. Last year we were at 93%. Line 10 State Division 1 Salaries. The State gives a 75% preload managing their cash flow. At this time last year, we were funded \$81 million. This year we are at \$72 million. We will receive it all eventually, it depends on the cash flow as it goes to the end of the fiscal year. They will not underfund us, and we will not be negative on payroll but this affects the total amount of revenues received.

CSCRIP is cost recovery. We have two staff members employed by DOE residing with Red Clay. They obtain the cost recovery of services that are Medicaid eligible. 70% goes to the state. Right now, the billing is very low. Last year we were at 35%, line 7, we are now below 10%. Mr. Miller asked if the services were reduced. Ms. Floore explained the services haven't been reduced but the allowables have significantly changed. The percent billable of student services may change, stated Mr. Doolittle. We did see a dip when the parents were required to sign off on our ability to recoup the funding with a form the parents had trouble understanding. Mr. Doolittle stated there was a significant liability for the child by the parent signing off. Mr. Chase explained that it is discussed at the I.E.P. meeting with the parents regarding the consent forms. Mr. Doolittle explained that one reason to refuse is if the student received an inheritance later on, all of the dollars paid from Medicaid has to be paid back regardless if they received the money or the district. Mr. Chase stated it is a confusing form.

Ms. Floore also pointed out Division II, line 11, all other costs. This also includes energy. We talked about how charter payments are not a payment but a revenue transfer. This was included in a major capital presentation last year. We went through a \$20 million initiative on energy reduction, ESCO. The ESCO put in new fixtures, boilers, low flow plumbing, etc. The investments save over the life of the project. The savings are to offset the expenditures. However, the State was involved in the ESCO financing. It was not bonds through a referendum but instead we went off the State municipal lease. It was the same exact financing scenario that a State helicopter was purchased. We financed it and would pay from the savings. The difference is this year the State took it



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out as a revenue so it wouldn't be "expensed" twice. Therefore, the revenue budget is lower than it would be. Ms. Floore will be accounting for that in next year's budget.

We are at 101% in local funds. We have reached our target. There is a delinquency of 2% built into the budget as we don't know what payments might not be made in a year. We have exceeded our expected funding.

On expenditures we are 73.5% expended compared to 70% last year. We are 76.5% expended and encumbered so we are at the right mark for where we are in the school year. Other than payroll, there aren't a lot of expenditures in June. We prepare for fiscal year closeout and plans for next fiscal year school spending. We are in good shape going into the next fiscal year.

Legal services we are at 152% expended and encumbered. We knew the referendum trial would be expensive. Mr. Pappenhagen asked about the status of the lawsuit. Ms. Floore explained that in the Court of Chancery there are no closing arguments, they are done by briefs. Both sides have submitted their briefs, and last month, the judge had the opportunity to ask both sides any questions and now has 90 days to rule. The judge stated that he will take all of the 90 days to do the research on cited cases in the 100-page briefs. That will bring us to May. Colonial will go to referendum after the decision on ours is out. The judge explained that he expects either side to appeal his decision. That appeal will go to the Supreme Court. Mr. Pappenhagen asked if we are paying legal expenses as this is on hold. Ms. Floore answered yes, we're paying and have paid. Her fear is the amount of money we will spend if we go to the Supreme Court. If we lose, we will go. If the other side loses, we don't know if they will appeal. The other side's counsel is working pro-bono. It's been close to \$700,000 in bills on this case. The impact, however is \$50 million. It's unfortunate that money comes directly from funds to be used for student services. Next year's budget will depend on the outcome and need for appeal. Mr. Pappenhagen asked if the money came from our reserves or do we have to cut back because of it. Ms. Floore answered yes, it comes from reserves. This Committee has talked in the past about putting an official reserve in place. The problem is getting to a point to have enough money to do that because it would just make us need to a referendum sooner. It's very difficult to convince a community to raise taxes to build a reserve.

Mr. Chase asked if we were earning interest on this reserve. Ms. Floore explained that yes, we do. Mr. Chase asked if that interest adds to the reserve. Ms. Floore explained that there is a line in the budget that includes interest earned in the revenue.

Related services is contracts for speech therapy, occupational and physical therapy, and psychologists. Ms. Floore explained that with inclusion, we've seen that the special education population is moving toward the regular schools. Related services was housed at the sites of Meadowood and RPLC, now we have multiple sites. This is one area of inclusion where we knew costs would increase. How much increase was unknown? Each year it is budgeted and based on the students' I.E.P. requirements. Mr. Doolittle added that more students are identified and receiving these services. The good news is that we



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also receive increased units for identified students. Ms. Floore added that some of the expenses are offset by our cashing in of units. We cannot find enough therapists to hire ourselves. Mr. Pappenhagen added that it looks to have jumped \$800,000. Ms. Floore agreed that the increase is significant. In large part this is due to encumbrances. We estimate the amounts of the contract through the end of August. This also includes summer school for those students. Some students qualify for 12 month instruction. Mr. Doolittle added that a large part of those services are tuition eligible. Ms. Floore explained that is where the funding is provided.

Mr. Chase asked where are professional development costs funded? Ms. Floore answered if it was district-wide it would be funded through Curriculum and Instruction. There is also a Professional Development line in the budget, but that is more for new teacher orientation. There can be some things specific; if ELL offers a training, the stipends will be in that department. Sometimes Library Services will pay for the librarians to attend training.

Line 42 is Division 1 Salaries is at 77.3% vs. 74% last year. That does not fall on the 75% cycle as we are on a 26 pay cycle. We have had a number of our 3 pays already so we are ahead. State Salaries and Local Salaries are at 77% of budget.

Mr. Pappenhagen asked about Special Education. Last month we had \$1.3 million expended and encumbered and this month it has dropped. Ms. Floore explained that in Special Education, we encumber the related services contracts. Line 77 last month it was 86.1% expended. This month it is 64% expended. When we go through our September 30<sup>th</sup> unit entitlement process reconciliation, we earn an academic excellence unit for every 250 students regardless of the classification of student. In addition, we earn 1,129 teaching units, we earned 63 academic excellence units and then related services units. Related services units depend on the classification of students. For example, if we earn 50 Related Services units, and we cannot hire the psychologists, therapists, etc., we can cash in the units at Masters+15 from the State and we use them for Related Services. Therefore, the costs were taken from Special Education and moved to Related Services. Those two budgets have a lot of pressure. One of the budgets will be over budget as we need to acquire the services as per the I.E.P. We will have to spend less in other places, to keep on budget overall.

In Federal Programs, there are some close outs in progress. But will not be closing out FY2016 funding until August. FY2017 grants started in October, but spending may not have begun until January.

Tuition fund revenues difference of 103% last year receiving \$1.2 million. There is a new staff member at DOE Unique Alternatives department. When a child requires private placement, it includes representatives from the district as well as DOE as it requires a cost share. Unless the student is a ward of the State, typically the district pays 30% and the State pays 70% of the costs. All of the approvals were completed at this time last year, but that have not been completed this year. We have been communicating with that department to clean this up as there are some revenues for students that have not



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been approved. Also, we are working right now on the tuition billing that goes out to the other districts. Tuition eligible programs are at 71.6% total.

Consortium is always high at this time during the year. At the end of the year, we work on the transportation reimbursement. It may dip below 100% depending on what funds are available.

Because we have seen such a large movement to the traditional schools through inclusion, Meadowood School is running under budget with an enrollment decrease. They are at 64.9% expended. Last year at 68%. Local salaries and benefits they are at 67% and State salaries at 75%. Mr. Miller asked if we see this as an ongoing trend or a one-year situation. Ms. Floore explained that when Central School closed, in terms of challenges, some of the students' parents and/or teachers did not feel the students would be successful in the traditional setting, therefore, Meadowood enrollment increased by over 10 units and then leveled off. It was 56 units at its peak. Now, it is at 52 units. We expect it to be steadily increasing but not major swings. A lot depends on students who move into the district. The expenses driven by related services, however, tend to have a higher percentage increase than others but that is overall for the district and not specific to Meadowood.

The Learning Center is at 63% expended which is slightly lower than last year. The first year of inclusion, we thought most students would go to the traditional schools. We have seen an equilibrium at Meadowood where we have had swings as well as graduations. However, at RPLC, the K-5 students have gone, but the number of students with autism and pre-K students have grown. We firmly anticipate a tuition tax increase as we are in need of addition autism classrooms at some sites as well as full time psychologists. We will see and hear of initiatives in the preliminary budgets. Mr. Doolittle stated that most places in the State are struggling with issues when students arrive after September 30. It has become a bigger issue.

Next month we will have another estimated June balance. We will be watching every budget very closely.

Mr. Pappenhagen made the motion to accept the reports as presented. Mr. Doolittle seconded. The motion carried with the members present.

### **III. State Budget**

Ms. Floore updated the Committee on the State Governor's Budget. As we know the new Governor has proposed several things for education in the new budget. One is moving the transportation cost share from 90/10 split to 85/15 split giving an extra 5% pick up by the districts. The other is a reduction in the amount of money per unit the districts receive for energy. It is relatively minor and may not be political in any other year. These are overshadowed by two larger issues.



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One is a \$15 million reduction state-wide in education funding. For us that means about \$1.8 million. We have had several meetings with the Chiefs and OMB. The other issue is \$22 million on top of the \$15 million. However, that is not portrayed as a cut but instead one that boards could elect to raise through a match tax capability through local property taxes. It is transferring the State reduction to local taxes. The subject being debated is the comparison of surrounding states like New Jersey, Pennsylvania and Maryland, that Delaware's is lower and whether Delaware should we be taxing more expenses through the property taxes. Our Board could raise that \$3.8 million by raising the match tax without referendum. That comes to about 6.8 cents on every \$100 of assessed value. Mr. Pappenhagen asked what the last referendum was. Mrs. Floore explained that was 20/10/5 cents for three consecutive years totaling 35 cents. We have 5 cents coming up this year. We have tuition tax increase coming up. Our debt service tax is pretty stable. We could already be facing a double digit increase. Mr. Piccio asked about transportation. Ms. Floore stated that is included with the 1.8 million cut. It is unclear whether the State will give us that match ability on that one but it seems unlikely.

School boards have been resistant to the match ability because they all know they need to go back out to referendum and it would significantly hurt their chances. With an additional match, it would add another tax that isn't our tax but boards are the ones who ultimately have to seek an increase from the voters. Mr. Chase asked about the transfer tax, does that mean the State won't be taking the money anymore, but we should? Ms. Floore explained no, it's not transfer but general property taxes. Mr. Piccio and Mr. Doolittle agreed that it would be anger against the school board and district for raising taxes when the cuts are really the state's. The School boards have said we must give us relief with referendum- not wholesale but there must be the ability to raise taxes a modest amount each year because they are setting us up for disaster. The school boards pushed back and the State answered then they would just assess a County tax on the property. However, the same property tax owners are going to vote "no" the next referendum. Referendums don't fund new things as assessments don't change. Most other states don't have operating referendums, but they do have capital referendums. And those states have reassessments. We are comparing one thing but not all things.

Mr. Doolittle answered that some of the poorer property valued districts are saying they can't raise enough through taxes. None will be settled before May 15<sup>th</sup> which is our RIF's deadline. Ultimately, it will be a decision made by the Board. Mr. Chase asked if we will be giving the Board the budget with \$2 million cut and another with \$5 million cut and they will decide which one to go with. Mr. Piccio stated we don't set a tax rate until July. What if we build a budget on \$2 million in cuts and something else happens before the end of June we have no control over. That is the nature of the differences in timelines.

Dr. Daugherty has put a travel ban on everything for next year unless it is required through federal funding as in the Title 1 program. We also have a hiring freeze. The VT process will play out but any new positions we will be looking at closely. It is one thing not to RIF and manage attrition. The impact of that is hiring late and we'll lose good people but every other district is in the same boat and will be hiring late. What is a



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critical hire, like a psychologist that you can't find elsewhere we will move forward on. But we will have to balance that very closely. Mr. Chase asked about involuntary transfers. Ms. Floore answered it is too early to know. The voluntary transfer process is in place and we have 15 retirements this year which is very few in comparison. We will hold the vacancies until we know more. Mr. Chase asked about the summer STEM camps. Will they continue? Ms. Floore explained that they are planned and will continue. The letters went to the families.

Mr. Piccio asked if the \$1.8 million is a fact. Ms. Floore explained that it isn't a fact, but it is firm. Education is a third of the State budget so it is isn't likely to escape cuts.

Mr. Miller asked what effect this will have on bond money. Ms. Floore answered not at this time. However, the State is talking about not being able to fund capital projects for districts that have already approved referendums. Mr. Miller answered that means the State will not match their portion. Ms. Floore added that Markell's proposed budget moved the share to 50/50 but Carney didn't release a capital budget. Mr. Miller asked if those funds raised by the district would sit there unmatched as they couldn't be used for another purpose. Ms. Floore answered that they haven't specified. She feels the districts would ask for an epilogue to the budget allowing them to use the funds. But if you're not buying bonds, how are you doing it on the local side alone. It would make for a much different and smaller project.

Medicaid and State employees will also be affected. Open enrollment benefits employees will have the same as they had, however, if there are further changes there will likely be another open enrollment in January. Co-pays and premiums are likely to increase. There wasn't time to enact it before the open enrollment happening now so it would be part year. Mr. Piccio stated it is just like the private sector. Mr. Miller answered that the argument with that is that the salaries for State employees are low as the benefits are high.

Mr. Doolittle stated that the one thing Delaware is not facing that other states are is special education changes by the Supreme Court. Other states have been using the lowest levels and will have to make major spending to come up to the level of Delaware. Ms. Floore agreed that the conversation will change as to why we spend an amount per pupil compared to other states. Mr. Chase added that our State pension plan is fully funded as opposed to other states. And we run a balanced budget.

Mr. Chase asked about assessment. He believed reassessment was done when you sold a house. Mr. Doolittle explained that is the California model. Mr. Miller added that whenever going through the process, there is a lot of finger pointing at the administrative positions. Many of those positions are there due to the accountability and oversight needed as per federal law. In some cases some positions have paid back in salary in the support that they have given. One of the most impacting of presentations this committee was given was on facilities and the energy savings made by the decisions made.



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Mr. Doolittle added we have completed the strategic plan for special education and it will go to the oversight committee on the 27<sup>th</sup>. That was completely developed as a vertically collaborative integrated model. DOE is not in charge of it, nor are the districts; everyone moves with it directly.

Ms. Floore will continue to update the Committee as we know more.

## IV. Public Comment

There were no public comments at this time via email.

Mr. Pappenhagen stated he feels that this review committee is reactive and not proactive. Are there other metrics we can use other than the expenditure reports to forecast what will be impacting the budget after it's been set. One that comes to mind is the students who enroll after September 30<sup>th</sup> count, especially special education students. Ms. Floore explained that Dr. Celestin, our Director of Special Education, gave a presentation to the Board on that subject. Ms. Floore will think of ideas to bring to the committee. Part of budgeting is knowing how much money you have, then spending to that amount of money. In budget meetings with managers we discuss where we would go if we had growth, where would we go if we had reductions. All of our revenue was set on a referendum that occurred several years before. Each budget is reactive to the fiscal conditions of the time and living up to the promises as well as minimizing surprises and focusing efforts on strategic plan. You are correct as we do react to the changes and the big changes are demographic changes, how many children going to charter schools or choice. We include that in part of the preliminary and final budget presentations. Mr. Doolittle added that unfortunately, a lot of these changes are State level structural issues. To fix those issues would be at the State level, leaving the districts to react and plan for them. Ms. Floore also added that performance is a factor. If we see something in the strategic plan isn't working, we will change direction. That requires a funding shift. One on one technology is a great example. We have the professional development, we have the devices, and how do you connect that to the direction the district is going. Will we change that or continue the course. The budget is a map to the Strategic Plan and there are other things along the way that could change things.

Mr. Miller added there are categories that are variables. Snow removal overtime, substitute teachers. If we don't get money in the bond bill to cover facilities. Where will the money come from if we have a system failure? If we took a look at them, we could understand where the standard deviation is, it might give us a sense of where the budget could go down the road. That is part of the conversation.

Ms. Floore added it becomes mundane in reviewing the tracking. This Committee has found it valuable to hear from the department managers where the money is being spent. Transportation is a great area telling us what progress they've made, going with a GPS system and what technology has done for them. It reduced 26 routes making more efficient stops. They can see where the bus is at any time. There is an APP that parents can see where the student's bus is as well. Maintenance has had great success with the



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energy initiatives. We've been so focused on WEIC and budget, we've gotten away from those types of presentations we would like to get back to.

Mr. Miller stated that any reductions in funding makes less maneuverability. Mr. Doolittle feels we are fortunate in our referendum cycle that we have a reserve and growth. Everything is reactive by the funding cycle. Everything is limited to how much we can raise through local referendum. You can't put in a 50 cents increase with the best programs. It won't pass. There are limitations.

## **VII. Announcements**

The next meeting will be held Tuesday, May 9, 2017 in the Brandywine Springs School Teachers' Lounge.