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Red Clay Community Financial Review Committee May 7, 2019

I. Minutes

The April 2019 Minutes and Transcript were reviewed. Ms. Thompson moved to accept the minutes and Mr. Schwartz seconded. The motion carried.

II. State of Delaware Financial System Coding

Ms. Floore provided background on ESSA (Every Student Succeeds Act), the law that replaced No Child Left Behind. A requirement is a new report card on the State website. There are no longer profiles, but a report card. Part of the report card are new financial reporting requirements. One is how you bucket the funding. There is no change on how the money is spent but how the money is categorized for the purpose of these reports. There was a bill that Senator Sokola sponsored on fiscal transparency that further defined on how you would show that data. Ms. Roberts served on a committee that reviewed account codes by financial transactions. Ms. Floore thanked her for the time that was put into this project. She will go over that work for you as it relates to how we code things for next year's budget. It won't change anything going into June 30th, but she will prep our staff, the secretarial staff, who are typically loading the documents as to what those codes are, as well as the administrators how to categorize things.

Ms. Roberts explained that we are also standardizing coding so that the annual financial statement that the State requires us to do every year, so it rolls up efficiently and correctly. Right now, that doesn't happen. She usually spends 2 days breaking apart our data for the year and categorizing it so it is accurately reflected in our annual financial statement.

Ms. Roberts explained that we all started with NCES codes (National Center of Educational Statistics). Ms. Roberts distributed copies of the list of categories and explanations. These are the same categories that rollup into the State Financial Statement. Although we were satisfying three different reports with one project or one standardization of account codes, it did require us to make some changes. We aren't 100% finished with the document. We had to have the Division of Accounting create some new account codes for us. So that we could fit things. The current account code structure has gasoline 56183; everyone codes gasoline to that. In the new world, if that gasoline is for a drivers' education vehicle it is actually an instructional supply. If it is for the school buses, it is a transportation supply. If it is for the maintenance vehicles, it belongs under operations of vehicles and plant. That is the difference in how we are categorizing things. The same services will be broken apart so that they can be accurately reflected in the expenditure category in which it belongs.

There were times in the council group; we had a difference of opinion in how they should be categorized. In those cases, we went to USDOE and asked them, how it should be categorized and used their guidance. We took a lot of time and effort into this process.



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At the same time, Division of Accounting was handcuffing us in terms of how many new account codes we could have in the system, so we had that parameter to work with as well. However, they were able to do it and presented it to the Business Managers. They received feedback. In some cases, we clarified a new account code. The standardization is that everyone can put it in the right buckets. Ms. Rattenni added that this goes into effect on July 1, 2019.

Ms. Roberts has a large spreadsheet of the codes and broke it down so that we can give the secretaries the codes they will use on a daily basis. That way they aren't looking through the 500-coding list. Ms. Rattenni asked if the expenditure report the CFRC receives, each month will change due to the new codes. Ms. Floore stated, that it will not, as the operating unit structure will not change. Ms. Roberts added that it is only the account codes and NES codes as they drive the annual financial statement. Before, professional services, which are therapy services for students and their support, were prorating across all categories. We had to break it apart and put it in student instruction. Not in the transportation and nutrition.

Ms. Floore explained that our monthly report would not change. This year we also provided the ESSA report with the expenditures by school. Some found it very helpful. In some cases, it has to prorate. Where we don't budget by school, it will allocate across the schools with a formula. It will be a complement to the existing report with the expenditures by local, by State and by Federal at each school. It was an informative report. The expectations of what was spent at each school were different from the actual amounts. Mr. Roberts added that salaries and supplies as well.

Ms. Thompson asked about the example given regarding gasoline. How do we know who is using it and putting it in the correct bucket? Ms. Roberts explained that Red Clay has a Fuel Man account, which is the State credit card for gasoline purchases. Different credit cards are used with the different groups, i.e., Drivers' Ed, Maintenance, etc. Each card comes with its own invoice. Ms. Floore added that we can control who has access to what in the accounting process. Some operating units aren't available to a user via the security we set up in the system. As we go through the training, we give users the numbers that pertain to their school or department.

Ms. Floore explained that we are not changing the operating unit format, as you want to see not only what it is, but also where it is by program. You want to see what was used in ELL or at the school level. If it is budgeted solely by account code, you only see gasoline or instructional materials and not where it is being used. The budget will look the same as it did last year.

Ms. Thompson asked if there is a deviation percentage. In other words, is there a percentage of costs that won't make it into the correct category? Ms. Roberts answered yes, there are about four categories that there is no way to accurately create an account code for. One is OECs (other employment costs – i.e., social security, pension, etc.), which are broken apart and prorated by unit count and the dollars spent in salaries. Ms. Floore added that there are different benefit packages, single, married, etc. Ms. Roberts



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stated that they won't have a material impact on the funding. Ms. Thompson was questioning the accuracy of placing the costs in the right category. Ms. Roberts explained that until we go through this process, we really don't know what the margin of error will be. Ms. Floore added that every single purchase is checked and has several levels of approvals, with Ms. Roberts and Ms. Floore being the 3rd or 4th level in some cases. Ms. Floore added that the accuracy isn't strictly up to the school; we can correct it in the business office.

Ms. Thompson asked if we will have better information once we have this system in place. Ms. Roberts agreed that it will be an improved data system and the annual financial statement will roll up more easily and accurately than in the past with fewer manual adjustments, we will make. Ms. Floore added that one example is the indirect cost calculations. The IC in the federal grants is what we are allowed to charge for administration. This varies widely across the districts because of how they are bucketed. We have one of the lowest in the State now because we go through the effort of identifying instructional vs. non-instructional. Doesn't mean we lose money, it just means we can charge less ICs to the grants. However, there are other districts that will be impacted by that as they have salaries charged to that. We do not. They may see a decline when the costs are categorized.

Mr. Schwartz asked if this granular information that feeds the main budget, is it all online as well. Ms. Floore answered that it is. It is called the checkbook on Delaware.gov and it is searchable. The public can see all expenditures. There was an audit on DMA, and a viewer questioned why one individual was being written checks for thousands of dollars in reimbursements. Ms. Roberts added that the checkbook does not list the coding structure behind the check. It lists the vendor and the amount.

Ms. Rattenni thanked Ms. Roberts for her time and presentation.

III. Financial Position Report

Ms. Floore distributed the Financial Position Report for this upcoming quarter. Ms. Rattenni explained the true purpose of this committee and the process of reviewing the expenditures and revenues for the guests in attendance. The committee is interested in policy, but our role is oversight. The largest role is to ensure that the Financial Position Report is on mark three times a year and is approved. Ms. Floore added that the Committee has embraced the process of presentations and looking at an operating unit to understand what is involved. Transportation was here for a presentation two months ago. We have had Technology, Special Education, and Federal Programs as well as Pre-K and we still have others on the list.

Dr. Ammann had asked Ms. Floore to report back to the Committee that the Transportation drivers went to the bus rodeo this past weekend. Red Clay placed first and second place as well as 4 of the top spots. Ms. Rattenni added that they were blown away by the training and proactive positions they have taken. Mr. Schwartz added that the motivation plans in place were impressive as well in improving morale. Mr. Green



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added that they transport students over 8,000 miles per day. Ms. Thompson asked if they would recognize the winners. Mr. Chase stated it was on Facebook.

Ms. Floore stated that the projected available balance for August 31 financial position report is confusing as it buckets by quarter. This May 1 report is simple as it states how much in salary, how much in non-salary and what is your balance to June 30. The confusion may be in the encumbered portion as it needs to be reported. The projected non-salary is not \$10.9 million. We will spend an additional \$5 million to what is already encumbered. We do this to know how much is encumbered, as if our balance is too low, we can release POs and add to our bottom line. If we have an encumbrance with a balance you know you're going to spend, it is not appropriate at all to release the encumbrance. For example, if we have \$50,000 encumbered for Shone Lumber, we can tighten our belt and lower it to \$10,000. In theory, you can release the encumbrance. However, for our purposes, we are not releasing those encumbrances, as we believe we will be spending the funding.

Our projected salary for the end of the year is \$14.7 million; our projected non-salary is \$10.9 million. It is totally useless to see what one month of projected salary is as we need more than one month to get us to the receipt of taxes in October. For the districts down state who receive huge equalization funding, it is valuable. We need about \$9 million at the end of the year to be solvent and not in deficit spending. The projected balance is \$14.6 million and we have maintained our position from last year and are in very good shape.

Mr. Chase asked in the big picture what the reason why we remained steady is. Ms. Floore explained that our salary expenses went up with a salary increase. We reduced debt service, but at the same time, we increased the tuition tax. There are a number of factors in the operating budget. There are Special Education C-setting teachers serving intense and complex students. We were able to use tuition funds to fund in the operating budget teaching positions to get relief. Our teaching expenses as well as all our expenses went up, and our budget increased. We didn't decrease the balance, as we were able to supplement with tuition funds for those special education teachers.

This Committee has heard from the Special Education and Pre-K managers of the pressures to meet the IEPs. All of the work right now is looking at this as we go in to the preliminary budget. Ms. Floore will look at all aspects including debt service and put the package together over the next 8 weeks.

Mr. Chase asked about the Boxwood Road project. His information stated that there would be several million dollars in taxes coming to Red Clay. Ms. Floore stated that we haven't seen the information yet. We're also looking toward Barley Mill as well. At the same time, however, there are structures in Wilmington appealing their taxes and getting reductions. Last year, for the first time since Ms. Floore has been CFO, we saw a reduction in our tax base. Between a .14 and .25 percent.



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We saw a decrease in enrollment, but an increase in unit count. This means we had more intense and complex special education students. We had a 200-student decrease but a slight unit increase. In addition, if we have a unit from the State side that we no longer have to use tuition funding for that also provide relief to the tuition tax. This allows the tuition tax to support more than it has before. Also, the Board increased the tuition tax last year that went directly to fund those salaries. At the same time we reduced the overall tax rate.

Mr. Schwartz asked if the County just increased taxes. Ms. Floore explained that two years ago, the County pass a 15% tax increase. However, they put a stay on 7.5% tax. They didn't do any action to keep that "stay" so the 7.5% will now go into effect. Ms. Floore is on the County Finance Committee. Mr. Schwartz asked if there was any positive effect from that. Ms. Floore stated there is no positive effect. Our taxpayers have to pay more taxes. We get many phone calls from the taxpayers upset regarding their taxes. Regardless if it is a county or school tax. We only have those taxes as our income. The County also has the realty transfer tax. They have more a robust portfolio as we have only one source. Ms. Thompson added that they had land use fees. Ms. Rattenni added that the hotel tax went into effect last year as well.

Ms. Rattenni asked for a motion to approve the report. Mr. Chase made a motion to approve the Financial Position Report and Mr. Schwartz seconded. The motion carried. Ms. Floore mentioned that the Board will have this to approve tomorrow night.

IV. Monthly Expenditure Reports

Ms. Floore distributed copies of the April 2019 Expenditure Report. There is no new news, but continued news. We have received the majority of taxes. We are on the local funds side we are at 101% of revenue. As a district, we budget 99% of collections to account for delinquencies. Therefore, we hope and expect to be over 100% as we budget at 99%. We have been below 100% in the past, but the County has a new program in place where they are aggressively going after delinquent accounts. We may inch higher. We are ahead of where we were last year. We were concerned as this is the first year we've seen a decline in our assessed tax base.

Income from fees is from our building rentals. That use is increased from last year. Mr. Schwartz asked if that is something the district markets, that their buildings are available. Ms. Floore stated she doesn't know if we market it, as much as we manage it. Our buildings are in use 24/7 it seems at almost every facility. We don't need to market it as the custodians do need down time to clean. In summer, there is pressure and demand from Girl Scouts, classroom meetings, Boys & Girls Clubs taking over the gym for after care. The Facilities Committee has done a whole overhaul of what people are charged. We don't want the district to subsidize, but we only want to charge what it costs. Paying a custodian who has to be in the building, as well as additions such as does the group require air conditioning, etc. It does ruffle some feathers because organizations that rent our school gyms who were used to seeing lower costs have to pass them along. Mr. Green added that the groups are transferring the costs but not at a disproportionate rate.



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\$10 per family so as not to limit the amount of participation. However, with the cost of the custodian's time and building costs, we cannot eat those costs as a district. The groups do get savvy and block time out. We don't need to market it, but if the groups are stating they will use the gym 5 days a week, but only use it two, we would want to have another group use the space. Mr. Schwartz asked if the fees for the fields go back to the individual schools. Ms. Floore stated that is the intent. The use of the bathroom paper, custodians, it is the intent to bring it back to that school. Sometimes we save it up to improve that facility that is in constant use by Cub Care.

The other funds are also looking good. Match tax is at 100%, Cscrp we have seen nothing from the State yet. We have two employees in our office employed by the State who work to recoup the funding. It has been a very problematic program in recouping the funds. We think it is a timing issue. It used to be that cost recovery was in the \$500,000 range. Now, it has dropped way down to almost \$150,000. We are fully funded on needs-based tuition.

Last month on the State side, we were at 70% funded. Now, Division 1 is almost full funded. They have been doing their true-ups and getting ready with their end of the year projections. If you didn't see or hear, DFAC had a positive forecast and there is additional funding on the table.

Mr. Schwartz asked if the County had started setting aside money for reassessment. Ms. Rattenni and Ms. Floore answered that they are not aware of it and it hasn't been a part of any conversations they have been in.

With both local and State we are at 97.89% revenues received. A very good position at the end of April and ahead of last year at 94%. At the July Committee meeting will speak to the assessments and parcels as we discuss year-end and the preliminary budget or the very least the tax rate.

On the expenditure side, the one thing that was not in last month is a negative contractor state transportation at -390; you have to look at the two lines together. We are not over budget at this point. Red Clay local transportation has a \$1.8 million remaining balance. This has to do with the three tier funding. If you look at State transportation, we are at 84%. It is not a revenue, but where the expenditures are budgeting. But three tier is new this year.

The only other ones is operations and utilities. We received more money from the State. When we receive more money from the State, we're going to spend it. That is in Division 2. You'll see it at RPLC as well.

Special services we have had an increase this year, but with salaries we are running slightly under. When we have people as therapists and behaviorists leave mid-year, we typically have not had success replacing them, so we replace them with a vendor. Salary and contractual services are viewed together. Contractual Services are special education therapists. Not classroom teachers. This overage has been seen month to month. Ms.



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Floore stated that the law went into effect for 12 weeks of maternity and paternity leave. If you have someone who leave, that unit is vacated and we can replace them. If someone is out on leave, we are still paying salary and benefits, and so a long-term sub comes in. We pay twice. The State will pay the \$104 per day. We pay more as well as an administrative fee to the company. We cannot backfill that position.

We are 81% expended, 84% expended and encumbered. We pay on 26 pays. As of April 30 we've had 22 of the 26, which is 86% but we budget centrally for salaries, and we are 10 out of 12 months which is 83%. It is only a percentage, but a percentage in an \$80 million budget is significant. Therefore, the budget target for salaries is 84.6% and we are right on target. We track that very closely. We track by category of position every payroll to monitor those.

The budget contingency this year is \$0 at this time. Last year we touched it for the ACLU settlement.

Ms. Rattenni added that we have spoken in the past regarding deferred maintenance. Is there somewhere in the budget that we could have a line item for that? It is different than a contingency fund. Ms. Floore answered that it has come up at OMB and the Comptroller General's office. There is a continued interest in the increase we received this year for future in minor capital. However, they are still going to put it in bond and still make it capital. We can only buy so many cameras. We need it in contractual services and in SRO's on the operating side, but we'll take what we can get.

Mr. Chase asked how do we determine what school gets an SRO and what school gets a Constable. Mr. Green stated that high schools receive SROs first and then where the need is in the middle schools and then use a Constable. There is a limited pool of SROs to hire from. One thing is typically you can receive a rather green trooper who is still learning. At one time, our SRO's were entrenched in the school culture. Some were athletic coaches. Now, we have the recommendations of rotating and many are back on patrol. There is also the monetary savings of hiring a Constable vs an SRO. You can have 2 Constables for the price of one SRO. That tends to weigh in and it is weighed with the needs. SROs are State Police that we contract with the State. That was part of the last referendum for safety and security. We also contract with Positive Directions for behavior interventionist, and every school has one. They could be the in-school suspension person or in the halls.

No major changes on the federal side. The end dates are in 2020. Our FY2019 grant we are in the process of spending. We just received our allocations. Last year we were disappointed that we had a \$300,000 decrease in IDEA funds. The State couldn't explain it that it was just a change in formula. This year, we received another reduction in IDEA of \$50,000. IDEA helps to fund those therapists in the Related Services budget line. It is all related. Yet we see the need going up. We don't, however, see a reduction in Title 1.



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On page 6 Tuition budget is 99% revenues received. Stephanie Guy and Ms. Floore just finished the tuition billing that goes out to the other districts. We are making our payments to the others. Our largest is to DAP. However, it is \$900,000 less than last year because we're seeing those students come back to the district schools. We have more students than before on top of those transferring from Christina. Mr. Green stated it is becoming a space issue to accommodate the students as they are choosing to stay in their feeder district as well as their feeder school. The pressure is on the system to have the adequate support for the students.

Ms. Floore added that there is a birth mandate as well. There will ultimately be classrooms in Red Clay where we will have infants and toddlers as part of the program. The program exists now, but it is in Christina or itinerant providing services at several locations. Mr. Green stated in 5-10 years those classrooms will be in our buildings or a center. Ms. Zimmerman asked if Warner had that before. Mr. Green answered that is a Pre-K center. Ms. Thompson stated there is an early childhood program at McKean. Ms. Floore added we have Pre-K at several of our elementary schools.

Major capital and debt service are broken out separately. First State School, ELL are both their own program and Unique Alternatives which is our private placement. Minor capital work is done mostly over the summer. We are seeing the encumbrances now with quotes to paint Highlands Elementary and other work. Debt service doesn't follow the 84% as it is run each month but with balloon payments or early payments.

Meadowood and RPLC are their own divisions. They are accounted for separately. First State School is budgeted through 9532. It helps in budgeting tuition purposes. Everything in Meadowood and RPLC are totally tuition eligible programs. Ms. Floore would like to see the Autism program be classified as such as well. What we receive in the Choice bill does not cover what is needed for these students. Mr. Schwartz asked how carefully do we track to make sure the funds from the other district follows the student. Ms. Floore answered we follow up on every single student. If they are not choice, they are in a special program and based in tuition. The true-up through the registration process if a student is registered at First State, but comes through as Choice, we'll make sure the district sends the tuition for their student. They will do it the same for us. It is all automated, but the choice process is more complicated.

Ms. Rattenni asked if we will be raising the related services line. Ms. Floore explained that we will as well as look at a need in the tuition tax. Mr. Schwartz stated that McKean is the model for the support of these students. The whole staff and the culture itself.

RPLC 88% and expended. They have overages as well, but they won't be placed over budget.

We are in very good shape. We will be closer to 100% in June.

Ms. Thompson asked about substitutes coming in under budget. Ms. Floore stated we are under budget as we are not 100% filled. We have increased more than any other school



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district for the substitutes themselves to make us more attractive. Ms. Thompson asked if we can't get a sub is it filled within the building. Mr. Chase answered yes, the other teacher loses their planning.

The problems fall in the high need schools. In some schools, there is no fill rate problem. But in the high needs schools, they are lower. We have contracted with ESS as well as the Pritchetts to try and fill these spots. We may have to look at permanent subs. And these teachers losing their planning, but they are the ones who needs training and support. Some students can't handle a substitute and those teachers get training over the summer. We can't force anyone to go anywhere, a sub or contracted teacher. We agreed to renew ESS contract, as we believe their efforts and progress warranted another year.

V. Public Comment

There was no public comment. There was an email from Jack Wells, community member, received through the CFRC web page. The email was directed to the CFRC on delinquent school taxes.

The only added is a new bill on referendum reform is called Operational Sustainability Act. There are major errors with it that the Superintendent of Colonial is working on. This bill would allow a school board to increase taxes up to 2% in local taxes. In the referendum cycle you see a big spike and then it wanes and you live off it for several years. The major piece that is missing as there has to be a one-time catch up. Not everyone is in the same point in the referendum cycle. Everyone has to start at the same point. It is missing from this bill. The Chiefs have pointed this out to them as without that no one can support it. Ms. Floore stated it won't help a district that has not passed a recent referendum. Mr. Green answered that during desegregation, Wilmington teachers were the highest paid in the State. First all of the others had to be raised to that level before they could move forward. Otherwise, 2% for us is different for Seaford or Laurel. Ms. Floore added that the language is very clear that it states you'll have 3 months of local salary at June 30th. It levels it up for everyone. It is well defined. It just sets a minimum. From there some will pass 2% and some won't for the future years.

Mr. Green thanked the Committee and stated it was great to see the community involvement in our students. He mentioned how valuable they are to our schools and providing oversight to our processes. Ms. Rattenni appreciates the support the administration has been to the Committee as well. Ms. Floore stated that Ms. Thompson has been a strong voice on referendum reform for the district.

VI. Announcements

The next meeting will be Tuesday June 11, 2019 in the Brandywine Springs School Teachers' Lounge at 6:30 PM. This location is a change from the original schedule.