



## ***Financial Oversight Committee Meeting***

Remotely via Zoom  
1829 Denver West Dr., Building 27  
Golden, CO 80401

### **Meeting Minutes**

**November 3, 2020 – 10:00 a.m. via Zoom**

#### **Financial Oversight Committee (FOC)**

##### **Members Present:**

Brian Ballard, Chair  
Gordon Calahan  
Charlotte Franson  
Leanne Emm  
Mary Everson  
Kyla Jones  
Scott Tarbox

##### **Staff Present:**

Nicole Stewart, Interim Chief Financial Officer  
Kristopher Schuh, Interim Superintendent  
Steve Bell, Chief Operating Officer  
Jason Hendricks, Acting Budget and Treasury Director  
Lisa Anderson, Controller  
Debbie Ranguet, Exec. Assistant to CFO

##### **Committee Members and Staff Absent:**

##### **Independent Auditor and Other:**

Paul Niedermuller, CliftonLarsonAllen, LLP  
Brad Rupert, Board of Education

**Welcome and Introductions:** Brian Ballard called the meeting to order and declared a quorum.

**Approval of the Minutes:** Gordon Calahan moved to approve the minutes for October 6, 2020. Kyla Jones seconded. The motion carried unanimously, and the minutes were approved as presented.

**Insight Investment – Investment Management Program Review:** Dave Witthohn and Jason Celente with Insight Investment presented a portfolio review. Highlights from the market environment and strategies overview confirmed cautiously optimistic markets due to an uncertain outlook and damage from COVID, shifts in treasury yields, tightening credit spreads and rebounding of equity markets. It was noted that risks from a stop-start recovery due to further waves of COVID, uncertainties from election outcomes and Brexit remain a concern. Despite improvement in the unemployment rate, the labor market has a long way to go to reach pre-COVID levels. COVID has caused shifts in spending with an increase to spending on durable goods with a slower rebounding in services, especially travel and entertainment, a spenddown in consumer debt, and an increase in savings. With regard to the district's general and bond portfolios, other topics covered included comparison of annualized yields, portfolio size and duration, performance versus benchmark, a recap of securities held, distribution of maturities, and investment risk disclosures. There was discussion regarding the unemployment outlook and the historically low interest rates which is favorable for issuing debt.

**Bond Issuance and Refinance:** Steve Bell introduced Yoon-Sook Moon and Brian Colon with R.W. Baird, investment bankers for the district, and commented on an opportunity that has come forward for the district to consider issuing the remainder of the 2018 voter approved general obligation bonds and a possible refinancing of its Series 2012 bonds.

The Financial Oversight Committee (FOC) received a municipal market environment update from representatives of Robert W. Baird & Co. that covered a snapshot of historical data on interest rates and treasury yields, an overview of municipal bond issuance volume projections, background on tax-exempt and taxable advance refunding, or refinancing, and considerations for preliminary structuring for 2020 general obligation bonds and the potential refunding.

Of the \$567 million in general obligation (GO) bonds approved by voters in 2018, the district issued \$326.49 million in December 2018 and structured the financing with a plan to issue the balance of \$240.51 million in late 2020 or early 2021. The current market environment and historically low interest rates that have fallen almost 50 percent since the issuance in 2018 present a favorable opportunity for the second issuance. The issuance falls within the authorized parameters of a maximum aggregate debt service of \$997.64 million and maximum annual debt service, not to exceed \$67.4 million.

The bankers also recommended combining the new issuance with a refinancing opportunity for a portion of the district's 2012 Series bonds. While the refinancing will not generate new money for the district, it is being recommended for the benefit of Jeffco's taxpayers to take advantage of savings in debt repayment obligations and issuance costs. There was discussion regarding background on the elimination of the opportunity for municipalities to do tax-exempt advance refundings due to the Tax Cuts and Jobs Act passed in 2017; thus, based on current market conditions, the current opportunity may enable the district to generate interest cost savings through a taxable advance refunding of a portion of its Series 2012 bonds. It was noted that demand for municipal bonds is high and favorable.

With regard to timing for the issuance, it was noted that spenddown on the current issuance of the Series 2018 Bonds is ahead of the planned schedule estimated for April 2021 due to acceleration of current projects. The district plans to begin Phase II of the capital improvement projects in early 2021, thus, issuance of the remainder of 2018 voter-approved bonds is not mandatory but affords an opportunity for the district to take advantage of historically low interest rates over the next 30 years. The total debt service with the proposed Series 2020 Bonds and existing Series 2018 bonds would fall below the allowable maximum aggregate debt service and well under the annual debt service.

It was explained that per district policy, a refunding can be undertaken if interest rates stay low and if it meets the district's debt policy guidelines. Based on current market rates, a refunding could provide approximately \$1.76 million in net present value savings over 5 years with over 4.8 percent in present value savings. District policy has a minimum net present value savings threshold for refunded bonds of 3 percent or above. Currently the district is at 5 percent; the district would not issue the refinancing if that threshold could not be maintained. Based on the current market, the true interest cost (TIC) for new money is 2.10 percent and .90 percent for the taxable refunding.

The 2020 bond structure is consistent with the district's historically conservative debt management practices of a fixed interest rate with a 20-year maturity to minimize the tax impact to taxpayers. Representatives from Baird clarified that if the market changes and interest rates are no longer feasible for a refinancing, the issuance and refunding would be structured so the refunding could be removed at no cost. While voters provided the authorization to issue the bonds, by law and district policy, the Board of Education as governing body must authorize a bond resolution and relevant documents to approve and initiate the bond issuance and refunding. Staff will present the issuance and refunding opportunity to the Board of Education in November and, if appropriate, will move forward with a resolution to authorize both.

Following a presentation of the financial overview of the current municipal bond market environment and discussion of timelines and bond structuring, there was consensus to support proceeding with the new issuance of the remaining voter-approved 2018 bond authorization and the refunding of a portion of the Series 2012 bonds. Staff will circulate the Conclusions and Recommendation to the committee for final approval prior to submitting the recommendation to the Board of Education.

There was discussion regarding the process for charter schools to obtain bond funding and the feasibility of exploring whether the district could create a program to provide a lending opportunity to charter schools to lower their cost of borrowing and create revenue for the district. A question was raised as to whether outstanding charter school debt could be wrapped into the district's refinancing. Bell clarified that the bonds issued by the district, for new money and refinancing, are both general obligation (GO) pledges of the district; thus, due to the

type of debt obligation held by the charter schools, those can't be incorporated into a GO issuance. Nicole Stewart will continue discussion with Steve Bell and Charlotte Franson to put together talking points and bring the topic forward for further discussion at a future meeting.

**2020/2021 First Quarter Financial Review:** Paul Niedermuller, with the independent audit firm of CliftonLarsonAllen, discussed the Agreed Upon Procedures report for first quarter. He confirmed that four members of the management team were interviewed. The report identified two funds, the Building Fund and Employee Benefits Fund, as being above the benchmark through September 30, but not a surprise due to past trends and timing of expenditures. Three funds were identified as yellow flagged including the Food and Nutrition Services Fund, Child Care Fund and Central Services Funds. The consistent theme with all funds is lack of revenue necessitating the need for monitoring to assure the funds remain sustainable. Niedermuller noted that the Food and Nutrition Services Fund has been yellow flagged for several quarters and that he anticipates it will need to be red flagged in the near term due to significant spend down in reserves that will need to be addressed. The Transportation Fund, while not yellow flagged and with expenditures below benchmark, was identified as another fund with a decline in revenue that could potentially impact a proper investment into property, plant and equipment due to a budgeted \$2.3 million for capital outlay that was not spent. Niedermuller confirmed that as noted in the transmittal, there are tough times ahead for the district due to uncertainties of state of Colorado funding, the School Finance Act, and ballot items pending the outcome of the election. It was further noted that the funds received as part of the Governor's Coronavirus relief effort come with significant restrictions thus greatly limiting how the funds can be used.

Stewart confirmed that the district is very closely monitoring revenue concerns and will be discussing this with the Board of Education on November 11 as part of the first quarter financial review.

Stewart stepped through presentation of the first quarter financial review. She confirmed adequate cash on hand and no concerns with cash flow until property taxes are received in the spring. Stewart commented on the funds that are yellow flagged. The Food and Nutrition Services fund is being monitored for declining revenue from food sales and reimbursable meals as a result of COVID. A requirement from the USDA that all children will eat free through the end of the year continues to put significant strain on the fund. She noted that while expenditures are below benchmark, because of revenue trending, staff is aware that this fund is in trouble and will necessitate further conversations with district leadership and the Board as to how to support this fund going forward. In the meantime, staff is working closely with the food services department to identify areas for possible reductions in expenditures.

The Central Service fund is being monitored due to declining revenue as a result of the COVID situation. A hold on purchasing of equipment has been put in place to help with the loss of revenue in this fund and staff will continue to monitor. The Child Care fund is experiencing lower revenue from declining enrollment, specifically in preschool. Staff is also monitoring the district's school age enrichment program that also is experiencing a declining enrollment. Staff is working with the department to identify how the model can be changed to lower expenditures.

Stewart reported that the General Fund revenue decline is primarily due to loss of state share and from a decline in collection of fees due to the pandemic. Student enrollment is anticipated to be a 4,000 student loss resulting in a \$10 million decline of which \$3 million was budgeted. She noted that expenditures are lower in first quarter due to the funds that were moved to CARES funding; however, because the audit of the funds is still pending, the district is being cautious on moving funds until use of funds for 2019/2029 are approved.

Other funds covered but operating per plan included the Debt Service, Capital Reserve, Building, Grants and Campus Activity and Insurance Reserve. Declining revenue in the Transportation fund has resulted in adjustments to services to help offset the loss of revenue but staff is continuing to monitor. The Property Management fund has lower expenditures and revenues due to the limited ability to rent facilities as a result of COVID restrictions. Expenditures in the Employee Benefits fund are trending slightly higher but this is as anticipated due to the typical timing of employees obtaining medical care. She noted that revenue is higher in the Technology Fund year over

year due to the E-Rate funds received. The Wireless Access Points (WAP) project was planned prior to the pandemic and is ongoing to help mitigate connectivity issues by installing new points and updating old equipment.

All of the district's 16 charter schools have positive cash flow. Highlights include confirmation that the daily rate for Rocky Mountain Deaf School has not yet been approved by Colorado Department of Education and acknowledgement that Montessori Peaks refinanced their 2006 bonds in September and have issued 2020 bonds.

Stewart noted that facilities design work and construction continue per plan. There was discussion regarding enrollment at charters. Stewart confirmed that enrollment declines are districtwide including at charter schools. She noted that Jeffco is not unique and that all school districts are seeing similar declines without being able to identify where the students are going. Staff is continuing to monitor to identify where the students have gone and how to get them back.

**Budget Update and Cash Planning and Forecast:** Stewart advised that approval of the revised adopted budget will be on the consent agenda for the November 5 Board of Education meeting. The revised budget includes a one-time stipend from one-time funds for a 3 percent increase for all employees. She clarified that although Jefferson County Education Association (JCEA) reached an agreement, there has been no agreement with Jeffco Education Support Professionals Association (JESPA) thus the revised budget includes a placeholder for that group. She discussed the estimated current enrollment loss of 4,000 students, noting that the district will try to cover the \$7 million net loss after the budgeted \$3 million loss with one-time savings to avoid spend down of reserves.

She updated the committee on the status of the Community Budget Workgroup noting that the group has two members from FOC and that two meetings have occurred. The group will meet on November 9 so that the members will have updated information from the outcome of ballot measures prior to making their recommendation to the Board of Education through the District Accountability Committee (DAC). The group will meet again in January/February to provide additional input on budget reductions.

The school accountability committees are in the process of filling out a survey that will be submitted to DAC for report out to the Board of Education. The community budget survey will open to the public on November 9 and remain open for two weeks to capture input from the entire community.

Early indications are that the Governor's budget request is asking for restoration of the budget stabilization factor which would be positive for Jeffco. Stewart noted that this is very preliminary and contingent on what happens with the economy due to the ongoing COVID situation.

She confirmed that district cash is adequate even with one-time payments that are going to the Board on November 5. Thus, the district is continuing to monitor but does not anticipate the need to borrow any money prior to receipt of property tax revenue in the spring.

In response to a question, Stewart noted that Budgeting For Outcomes (BFO) forms are included in the annual budget and that the Board receives an annual update on how the funds were used and if goals were met.

**Audit Committee – October Meeting Recap:** Leanne Emm noted that at the October meeting, the committee discussed CARES Act money and cautions about how expenditures can be applied against the grant. Stewart confirmed that the district is still waiting to see if what was applied to the grant for 2019/2020 is approved for CARES Act funding. Other discussion at the meeting covered an update on the status of internal audits, a review of fourth quarter financials and an update on the status of the annual independent audit.

Niedermuller confirmed that the audit program for Coronavirus Relief Funds (CRF) has not yet been released by the Office of Management and Budget (OMB); thus CliftonLarsonAllen is not able to conduct the single audit until the audit program is released by the federal government. The release date was changed from October to

November 18. The plan is to issue an audit report on the financial statements now and have a separate audit report for the single audit at a later date. The OMB extended the grace period for the single audit that now sets the deadline at one-year or June 30, 2021.

**FOC Conclusions/Recommendations:**

The committee did not have any additional recommendations. Staff will submit the recommendation on the bond issuance and refinance once it is circulated and approved by the committee.

Everson requested that further discussion of a possible lending program for charters be put on a future agenda. Stewart will follow-up.

**Election, Wrap Up and Next Meetings:**

Stewart reviewed upcoming meetings. Charlotte Franson will attend the November 11, 2020, Board of Education meeting as part of the First Quarter Financial Report review and FOC dialogue with the Board with Kyla Jones and Leanne Emm as possible attendees.

Brian Ballard confirmed that he cannot continue to serve as Chair for the committee. Members thanked Ballard for his leadership and support as chair over the last several years. Mary Everson moved to nominate Leanne Emm for Chair. Scott Tarbox seconded. There was discussion. The motion carried unanimously.

Everson commended the finance staff for their dedication and hard work during so many challenges and transitions that the district is facing.

The meeting adjourned at 12:02PM.