



Financial Oversight Committee Meeting

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

Meeting Minutes

April 6, 2021 – 10:00 a.m. via Zoom

Financial Oversight Committee (FOC)

Members Present:

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

Committee Members and Staff Absent:

Staff Present:

Nicole Stewart, Interim Chief Financial Officer
Kristopher Schuh, Interim Superintendent
Steve Bell, Chief Operating Officer
Jason Hendricks, Director of Finance
Lisa Anderson, Controller
Tim Reed, Exec. Director Facilities & Construction
Management
Debbie Ranguet, Exec. Assistant to CFO

Independent Auditor and Other:

Paul Niedermuller, CliftonLarsonAllen, LLP
Rick Rush, Board of Education
Mary Donovan, Insight Investment

Welcome and Introductions: Nicole Stewart called the meeting to order and a quorum was declared.

Approval of the Minutes: Gordon Calhan moved to approve the minutes for March 2, 2021. Kyla Jones seconded. There was no discussion. The motion carried unanimously, and the minutes were approved as presented.

Insight Investment – Investment Management Review: Mary Donovan with Insight Investment presented a market update and portfolio review. The presentation included a lookback to the fourth quarter of 2020 that showed renewed optimism due to expectations for vaccination, improved markets, job and personal income growth and excess personal savings. Highlights touched on improving unemployment, the slow recovery of the leisure sector to pre-pandemic levels, and boosted housing sales due to demand and low interest rates. Other impacts to the economy include an accelerated shift to online consumer purchasing with businesses spending more on technology and less on capital. Key takeaways included a commitment by the Federal Reserve (Fed) that will focus on employment and stable prices while allowing inflation to warm and an interest in redirecting policy based on numbers and evidence. Expectation is that the Fed will keep interest rates unchanged at least through December 2022. Other topics included a five-year look back at yield curves, two-year and five-year treasury yields, gross domestic product, home sales, unemployment, and consumer price index.

Donovan reviewed the district's reserve and bond portfolios that included cost versus benchmark, portfolio size and duration, a recap of securities held and portfolio diversification, maturity distribution, yield report, and the report on risk disclosure per GASB 40. Donovan commented on the credit rating downgrade for Toyota and confirmed that the recommendation is to hold at this time. Donovan confirmed that the strategy for the bond proceeds portfolio has been effective in that it performed well compared to benchmark and met cash flow needs effectively.

There was discussion regarding consumer prices, anticipated difficulty in filling positions to boost employment, and clarification that the district's portfolio includes the Toyota fixed bond.

Bond Proceeds Investment – Series 2020: Nicole Stewart advised that the custodian account has been set up and that the district is working closely with Insight Investment and ColoTrust to monitor investment options.

Donovan advised that the interest rate environment has changed since initial direction for investing the \$100 million in short term exposures. She discussed new options for structuring the portfolio to take advantage of changes to interest rates to pick up a few basis points. There was discussion and agreement to move forward with Donovan's recommendation.

Budget Update – March Forecast, ESSER Funds, Supports for Students and Negotiations Status: Stewart stepped through the budget update that will be presented to the Board of Education (BOE) on April 8. The presentation included highlights of the March forecast from the state which was much improved from December due to higher than expected collections to date and one-time monies from additional federal stimulus. Despite strong revenue recovery, there is concern that the state will be constrained by the Referendum C Cap which could trigger a TABOR refund in 2022/2023. Based on the Joint Budget Committee recommendation, Legislative Council is proposing a buy down of the budget stabilization factor to 2019/2020 levels but there is concern that the proposal is not sustainable due to uncertainties with state budget pressures once stimulus money is spent. Stewart provided an update on status and uses for the Elementary and Secondary School Emergency Relief (ESSER) I and II funds. She noted that ESSER I funds are built into the 2020/2021 budget while ESSER II funds are new and not budgeted. Thus, as allowable expenditures in the current year are applied to the grant, it will free up and add flexibility with General Fund dollars. The district will receive \$68.2 million from American Rescue Plan ESSER III funds to be distributed in two phases and shared with charter and innovation schools. The district is monitoring guidance on allowable uses and developing a plan for allocation of the funds.

Stewart advised that the Supporting Students portion of the presentation will be presented to the BOE by deputy superintendent Marcia Anker. Highlights of the presentation will cover the multi-tiered system of supports from universal and targeted to intensive to ensure culturally responsive and equitable academic and behavioral support. A framework will be used to identify students' needs and to monitor/adjust the support plan to make the greatest impact for students.

There was additional discussion of whether the ESSER funds will be used to offset proposed budget reductions. Stewart clarified that the ESSER funds can't be used to backfill revenue loss and that the budget reductions are driven mainly by revenue loss. However, expenditures that can be applied to the ESSER grant will allow for flexibility with General Fund dollars. If approved, the proposal to buy down the budget stabilization factor would provide the greatest impact to offset reductions because that funding can be used to offset revenue loss. The district is strategically considering how to spend the funds by the deadline and is aware that other districts will be utilizing a similar strategy and that hiring challenges could affect the timeline and ability for spending the funds.

Stewart confirmed that the district continues to monitor third quarter results and legislation. Staff will be looking for direction from the Board on April 8 and 14 on placeholders for the proposed budget placeholders and further discussion on the literacy program. The public hearing and presentation of the proposed budget is scheduled for May 6.

Stewart updated the committee noting that negotiations are underway with Jefferson County Education Association (JCEA) and the Jeffco Education Support Professionals Association (JESPA). The district is waiting to hear back from the fact finding process on the 2020/2021 JESPA compensation agreement.

Bond Program and Facilities Update and Summary of Findings and Enrollment Projection Reports: Stewart addressed a request for follow up on the consultant's report on the bond program that was received by the Capital Asset Advisory Committee (CAAC) a few months ago. Steve Bell advised that there have been assertions that additional oversight or retention of another vendor to review the bond program is needed. In response to this and to past and recent concerns as to whether the district is in compliance with the ballot language for the bond relative to an external audit of capital expenditures of the program, the district has reviewed with bond counsel from a legal standpoint, on an internal level with district facilities and construction staff, with the citizen led CAAC and with the BOE and determined there seems to be no value in soliciting another third party

report. Further, it was determined that the use of the district's external auditor is satisfactory and in compliance with the ballot language.

There were questions regarding the recommendation on the \$9.5 million capital transfer and if or when that was accomplished. Tim Reed confirmed the district implemented moving \$9.5 million into the unallocated capital account shortly after the recommendation was made.

Leanne Emm asked if there were any other questions or concerns specific to the ballot language and independent audit. Mary Everson confirmed that she had no further questions on the requirement for an independent audit and that the district appears to have investigated, discussed with the Board, and done its due diligence. Emm confirmed that with no additional questions or concerns, this item can be retired.

Bell confirmed that the district is entering the third year of the capital improvement program (CIP) and thanked Tim Reed and the facilities team for the work that has been accomplished. Reed presented an update on the CIP through third quarter. He noted that there is progress at the charter schools with many of them working to spend the premium and interest share the schools received. A funding summary provided a breakdown of funding and expenditures to date with approximately \$745 million in revenue, \$298 million expended, \$113 million encumbered and \$47 million expended including encumbrances for charter school projects. Another summary showed the \$83 million in capital transfers over four years and interest to be determined, bringing the preliminary total revenue for the CIP program to approximately \$829 million. The status of cash flow shows the district is at 85 percent of target and on schedule to meet the IRS arbitrage requirement.

Reed's presentation included a summary of the follow up to recommendations from the consultant's report on the bond program including: (1) changing the timing of the CAAC meetings to the third week of every month to allow more time for input from CAAC and prior to taking items to the Board; (2) issuing a 7-8 page monthly report to CAAC covering every project – discussion and status of phase of work, initial project budget, revised budget and reason from change; (3) confirmation that the \$9.5M capital transfer amount dedicated to the bond program for 2019 capital transfer projects was revised and transferred after the report was issued; (4) implemented a process using \$500,000 as a project threshold for identifying projects to take to CAAC for review and voting with the results/notes communicated to the Board along with consent agenda items; and (5) that as has been the process with previous CIPs at the district, any funds that remain at the end of a CIP program are presented to the BOE to approve if they are not within the current bond program project scope.

Reed provided an example of taking a project outside of the bond program to the Board that included a project at D'Evelyn where the bond work included a renovation but because of the change to transition 6th grade into D'Evelyn that occurred after the bond, an addition was evaluated by the CAAC and bid as an alternate to be presented to the Board. He noted that the BOE will see two consent agenda items – one for the renovation and one with a different contractor that covers the renovation and the addition. Included with the consent item is the educational justifications for the addition and notes from the CAAC review and vote. Reed confirmed that going forward all consent items will include a statement with results of the CAAC vote as well as the CAAC meeting notes.

Reed noted that another recommendation in the report was to get approval for use of bond premium and interest earnings but because there is already a place in process to get approvals for budget variances, an additional process for this won't be necessary and would be redundant.

Everson asked for clarification as to where to find the CAAC recommendations to the Board. Reed confirmed the notes are on the CAAC webpage and Stewart confirmed that they are attached to the agenda items that can be accessed in BoardDocs. Everson thanked Reed for the follow up on the recommendations and for the transparency of the procedures that are in place. She further noted that there is overlap between CAAC and FOC but felt that from a financial standpoint, understanding and knowing the procedural aspects assure a good review and transparent process. Reed noted that the flipbook of projects on the Jeffco Builds webpage is being updated quarterly to show what has been accomplished.

Next was an overview of the *2020-21 Membership Enrollment Report*. Key takeaways were acknowledgement of a significant loss of enrollment due to COVID-19 with 30 percent of that loss in Pre-K and Kindergarten. Losses have been attributed to a shift to home schools, online learning, charters and private/parochial schools. Trends show declining enrollment in articulation areas for Alameda, Arvada, Jefferson and Lakewood with projected growth in Golden, Green Mountain, Stanley Lake, Ralston Valley as well as option and charter schools. Future trends show an increase in more school-aged kids, an increase in building permits for single family and multi-family homes, a return of approximately 30 percent of the 2020-21 enrollment loss and an increase of 1 percent in live births in Jefferson County for 2019. Reed acknowledged that FOC members received a copy of the full report and that it is posted on the district's website.

Also presented was an overview of the *2020-21 Facility Condition Assessment Summary of Findings* report. Key findings noted the total replacement value of the district's portfolio at \$3.1 billion with 12.3 million square feet and 3,123 acres, 390 Permanent Buildings and Cottages and 237 temporary buildings. The district is aggressively removing temporary buildings to reduce operations and maintenance costs and has removed 90 so far with 40 more scheduled to be removed in 2021. He confirmed that the bond program has reduced the total facility condition index (FCI) since 2017-18 from 20.4 percent to 15.4 percent and that the district is on target to cut the FCI in half after completion of the 2018 bond program. Other topics touched on educational adequacy, building ages, utilization and a project status update. Reed pointed out that Kendrick Lakes is complete and occupied and that Warren Tech South is tracking ahead of schedule with planned opening in August. The old Kendrick Lakes building is undergoing abatement and will be demolished in May so the property can be reclaimed for playgrounds and fields.

There was discussion regarding a question from Everson about follow up to a response to a letter from a citizen with questions about the bond program. Staff confirmed that a response was sent in December and will forward a copy of the response to FOC. Everson also inquired as to the district's policy for dealing with the press. Bell confirmed that the district often meets with the press to answer any questions and that the communications team handles many of the requests. He noted that with regard to press coverage on the bond program that he, Reed, Stewart and two members of the facilities team were interviewed by a journalist and made themselves available for as long as was required to assure all questions were answered and that the staff team did an exhaustive job trying to address every question, thought and concern that was raised. Bell mentioned that it can be complicated when a journalist has limited knowledge about a topic but that staff is always willing to talk to the press to assure they have what they need to communicate on an issue. Further, in regard to a question where to direct people for more information, staff recommended BoardDocs, the facilities webpage for CAAC and the Jeffco Builds webpage.

CAFR 2020 – Single Audit Report: Jason Hendricks thanked CliftonLarsonAllen (CLA), grants manager Joshua Shoemaker and the grants team, and controller Lisa Anderson for their assistance with the audit.

Paul Niedermuller with CLA updated members on a stance being taken by Governmental Accounting Standards Board (GASB) to no longer use the naming or acronym for the Comprehensive Annual Financial Report after learning that the acronym sounds like a word that is a racial slur to black South Africans. Going forward GASB is proposing to use Annual Comprehensive Financial Report or ACFR and is encouraging that everyone make the change as soon as possible.

Niedermuller commented on the Single Audit Report and pointed out that this is the first time the single audit was conducted separate from the annual audit of Jeffco's financial reports. He reviewed the circumstances that necessitated the delay in conducting the single audit. Because the district received coronavirus relief funds (CRF) that exceeded the threshold for a major fund of \$1.86 million in federal dollars; and because that dollar threshold along with the fact that those dollars had not been audited in the last 3 years, those programs are required to undergo a single audit, or federal compliance audit. The delay was due to guidelines for auditing the CRF program not being released by the government until December 23, thus, CLA was unable to complete the single audit by the December 31 deadline. The uniform guidance issued by the Office of Management and Budget (OMB) extended the due date for the single audit report until June 30, 2021; however, CLA completed the audit and the district filed the report by the original due date of March 31, 2021.

Niedermuller noted that two programs were audited in the single audit to comply with federal government requirements – CRF and Title I. The single audit report reflects a clean opinion under the uniform guidance. He pointed out that only two programs, which make up roughly 51 percent of total expenditures, require the level of detail of the single audit due to the fact that Jeffco has not had any material weaknesses or material non-compliance over the last 2 years thus the audit requirement is for 20 percent coverage.

FOC Conclusions/Recommendations:

The FOC did not have any recommendations to communicate to the Board at this time.

Updates, Wrap Up and Next Meetings:

Stewart addressed some questions that were communicated since the last meeting.

- Regarding hiring of the Chief Financial Officer, Stewart confirmed that the position is a superintendent appointed position, thus she will communicate to the Chief Human Resource Officer that FOC would like to be involved in that process. Additional questions can be directed to Human Resources.
- With regard to contact days, Stewart advised that the district is required by the Colorado Department of Education to have 160 contact days and that district policy requires that the required number of contact days be exceeded. Currently, the district is sitting at 163 days with no concerns. An internal audit is being conducted but at this time there are no concerns that the district will not meet the obligation. She noted that the 2021/2022 calendar is available to view on the district's website and will provide a contact if anyone has additional questions.
- Interim superintendent Schuh confirmed that the district named Tracy Dorland as the sole finalist for the superintendent position and that once her contract is negotiated, she will join the district. He noted that his contract was to serve in the interim and that he did not apply for the position.
- With regard to a question about where to find the Budgeting for Outcomes (BFO) forms within district publications, Stewart demonstrated where on the Jeffco Public Schools website at www.jeffcopublicschools.org/finance that all financial publications are located. She clarified that the Budgeting for Outcomes model has been in process for several years and that the forms are included in the adopted budget document. Everson requested that an overview of the BFO process be added to a future meeting agenda to include how the district departments do the process and how they did in order to determine if the district is on track with this procedure. Stewart clarified that the district has been using the BFO process for several years but that this year there was a push to more fully utilize the process and push it forward. Stewart confirmed that each department prepares their forms and that if there are specific questions about a division, it would be helpful to receive those ahead of the meeting to assure the information is available to more fully address the question.

FOC members thanked Interim Superintendent Schuh for his service during the transition.

Upcoming meetings include the Board of Education meetings with budget presentations on April 8 and 14 and next FOC on May 4. The meeting adjourned at 11:52 p.m.