



Financial Oversight Committee Meeting

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

Meeting Minutes

May 4, 2021 – 10:00 a.m. via Zoom

Financial Oversight Committee (FOC)

Members Present:

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

Committee Members and Staff Absent:

Kyla Jones

Staff Present:

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

Independent Auditor and Other:

Paul Niedermuller, CliftonLarsonAllen, LLP

Welcome and Introductions: The meeting was called to order and a quorum was declared.

Approval of the Minutes: Gordon Calahan moved to approve the minutes for April 6, 2021. Scott Tarbox seconded. There was no discussion. The motion carried unanimously, and the minutes were approved as presented.

Third Quarter Financial Review: Paul Niedermuller, auditor with the independent audit firm of CliftonLarsonAllen (CLA), reviewed the Auditor's Report on Applying Agreed Upon Procedures for the third quarter financial report for the period ending March 31, 2021. Niedermuller provided clarification on the scope of engagement that included providing oversight on the process; interviews with key members of district management; consultation with legal counsel to determine if there are any significant legal issues that could impact the district financially; comparison of financial information for each fund with budget and prior year data to identify unusual trends; and a review of Financial Oversight Committee (FOC) minutes and Board minutes. He noted that due to the timing of the report and the superintendent transition, CLA did not conduct a management interview with the superintendent. Highlights of the report included confirmation and that a few funds may require a supplemental appropriation—the Debt Service Fund, Building Fund, Capital Reserve Fund and Employee Benefits Fund; flagged funds per the district's system outlined in Appendix B of the quarterly report that identified the reasons for yellow flag status of the Child Care Fund and the Central Services Fund and red flag status of the Food and Nutrition Services Fund. Niedermuller noted that the recurring theme, similar to second quarter for the flagged funds, was the lack of sufficient revenue to cover fixed costs due to inability to charge for services because of the remote environment. The district has outlined a plan for moving forward but Niedermuller cautioned that spending patterns may be different than in prior years and will need to be monitored as the district moves out of the post COVID environment. He also pointed out that CLA was asked to update the status of management letter comments from the prior year which he noted CLA expects to be rectified but cannot report on the status of corrections until completion of the annual audit.

Nicole Stewart introduced Superintendent Tracy Dorland and there were introductions with members of the committee. Superintendent Dorland commented on her work in the first 12 days since joining the district and thanked the members for their commitment and service to the district.

Jason Hendricks, the district's finance director, shared the presentation that will be presented to the Board of Education on May 12 summarizing data in the Third Quarter Financial Report which covers the period ending March 31, 2021. Topics covered included an update on the district's cash position which reached a low point in February prior to the receipt of property taxes but is adequate and will not require borrowing

Hendricks reviewed the definitions for the district's flag system as detailed in the appendix of the quarterly report and commented on funds that have been flagged and being monitored. The Food and Nutrition Services Fund while already struggling was impacted greatly by COVID. Food sales were down due to the remote learning environment. In addition, the USDA extension of the requirement to serve free meals through the end of next year put pressure on the fund. The fund is being observed and may require new modeling to address a potential net loss, the sustainability of the ongoing fund balance, and potential use of Elementary and Secondary School Emergency Relief (ESSER) funds or a transfer from General Fund.

Hendricks provided clarity on the summary charts in the presentation noting they focus on current year budgets with revenue and expenditures to date and a line indicating the quarterly benchmark as well as a visual comparison to the same period in prior year. Further, he noted that the charts were meant to provide a quick visual but that the full quarterly report includes detail and explanations for each fund.

Two funds were yellow flagged. The Central Services Fund is being monitored due to loss of revenue associated with COVID and the inability to charge other business units for services. The Child Care Fund which includes preschool and school-aged care is being monitored due to loss of revenue from a drop in participation. The focus has been on reducing expenditures to offset the revenue loss and identifying potential use of ESSER funds, but the fund is projected to end negative and will likely require a supplemental appropriation to spend down fund balance by more than planned. In response to a question, Hendricks clarified that some expenditures from this fund can be moved to the ESSER grant which will help alleviate some of the pressure on the fund and the potential transfer from the General Fund may be reduced. There was discussion regarding the committee's familiarity with ESSER funding.

Hendricks commented on the funds operating per plan including the General Fund, Building Fund – Capital Projects 2018, Grants Fund, Campus Activity Fund, Transportation Fund, Property Management Fund, Technology Fund, and Charter School Fund.

There was discussion regarding the status of revenue from the state, the state's decision to hold districts harmless for revenue loss, operational savings, and savings in the General Fund from expenditures that were charged to the Coronavirus Aid, Relief, and Economic Security (CARES) Act grant prior to December 31 and from expenditures that can be charged to ESSER I and ESSER II. More detail with regard to how these savings impact proposed reductions and reserves spending is included in the budget presentation that will follow.

Hendricks confirmed that ESSER II and ESSER III funds are not included in the budget but will be added once applications are finalized. The Campus Activity, Transportation and Property Management Funds have been impacted due to lost revenue from decreased activity and inability to charge for services and facilities rentals as a result of the remote and hybrid models. All charter schools ended the quarter with positive cash flow. Hendricks reminded the committee that charter schools have their own Boards and adopt their own budgets; the district monitors those budgets and does high level reporting.

In response to a question on the Charter Fund, there was discussion regarding the expenditure percentage variance from the summary page in the transmittal compared to the chart in the presentation. Staff clarified there can be a variance due to the timing of when the district receives and loads amended budgets from charter schools that refinance or based on the timing of the annual true up for charter schools. Hendricks clarified that the chart in the presentation included capital lease bond revenue on top of revenue whereas the summary chart in the transmittal did not.

There was review of those funds that will require supplemental appropriations including the Debt Service Fund, Capital Reserve Fund, Insurance Reserve Fund and Employee Benefits Funds. These are the same funds that were identified in the report from the auditors.

There was discussion regarding expenditures higher than benchmark in the Capital Reserve Fund which staff noted is partly due to the early timing in December when certificate of participation principal and interest payments are made and the timing of when funds are spent for the capital improvement plan from the Capital Reserve Fund versus the Bond Fund. Staff clarified that the district leverages money from both funds to implement the capital improvement plan and allow for flexibility due to treasury restrictions and arbitrage requirements. Strategic use of funds in the Capital Reserve fund allows the district to reinvest capital transfer funds when it benefits the district.

Rising premium costs are affecting the Insurance Reserve Fund resulting in a net loss. Although the fund has a positive fund balance, a supplemental is needed to cover the expenditure appropriation. Staff pointed out that the transfer from the General Fund was increased for 2020/2021 and it anticipates needing to increase the transfer for 2021/2022. The Employee Benefits Fund has healthy reserves but will require a supplemental due to higher expenditures as a result of increased administration costs. The district is currently evaluating whether a district managed medical plan could be a cost benefit for the district.

Items on the On the Radar slide included continued bond related facility work and budget updates. Stewart confirmed that the Jeffco Education Support Professionals Association (JESPA) agreed to the 3 percent one-time stipend for 2020/2021 that the other groups received and that the agreement will be going to the Board for approval on May 6. The proposed 2021/2022 budget presentation and public hearing is scheduled for May 6. Hendricks noted that although the Board and FOC already received the single audit report on Title I and Coronavirus Relief Funds (CFR), the report will be presented publicly on May 12 Board of Education and attached to the agenda item for the third quarter financial review.

In response to a question, there was discussion of the status of funds included in the 5A Mill Levy Override (MLO) Fund Summary in the appendix of the quarterly report. Staff advised that due to the pandemic, expenditures of the MLO funds was interrupted including expenditure of the planned carry forward that occurred due to limited time to expend the funds in the first year that 5A passed. The Tech for Ed is spending at a decent rate. Career and Technical Education (CTE) expenditures have been delayed due to the remote environment, however, the \$2 million allocated for an ongoing budget for Warren Tech South plus the \$2.4 million in carry forward dollars is being spent. The remote environment also impacted expenditure timing for safety and mental health supports. The funds for safety and mental health supports was originally allocated to schools as a per pupil amount; because the funds weren't being spent, Student Success and district leadership is evaluating needs and how to allocate those dollars to still meet the direction and desired outcome of the MLO. Staff clarified that while there is no time limit for spending the carry forward funds from the first year and the remaining ongoing dollars are already allocated out, there was a plan to spend those funds down and a commitment to track those funds separately so the district could communicate to the Board and community on where those dollars were spent.

Budget Update – 2020/2021 Budget, Negotiations Status, Insurance Renewal and 2021/2022 Proposed

Budget: Stewart shared the presentation that was given to the Board of Education on April 14. The presentation included an update on the Governor's Proposal from March with regard to inflation, enrollment loss and a decrease to the budget stabilization factor. The district continues to monitor the policy changes and a possible TABOR refund due to the Referendum C Cap, a revised recommendation for buy down of the budget stabilization factor, proposed changes to the School Finance Act and potential impacts of the proposed legislation related to special education, a Mill Levy Tax Credit and shift from Cost of Living to At Risk Factor through the School Finance Act. The 2021/2022 budget scenario slide was revised to add a column based on the most recent Joint Budget Committee (JBC) recommendation, which is tentative until finalization of the School Finance Act. This scenario adds \$1 million for the enrollment hold harmless, a state funding increase of \$52.8 million and \$6 million less in net expenditures resulting in an estimated \$6.2 million in revenue over

expenditures. Based on the updated information from the state, the district recommended that for 2021/2022, the Board move forward with the \$13.8 million in reductions and remove the short term reductions and reserve spend down.

Stewart commented on the pandemic management plan for spending \$30.4 million in ESSER II funding that will include an estimated \$3.1 million for charter allocation; \$1.3 million in other expenditures for technology supports and person protective equipment, and \$2 million for Food Service and Child Care salary and benefits. In addition, staff is identifying and moving \$24 million in salary and benefits that will free up funds in the General Fund to allow those funds to drop to the bottom line for the Board to discuss.

Based on proposed budget assumptions and the JBC recommendation, there will be an estimated \$56.1 million in estimated new revenue for 2021/2022. After considering the current year unbalanced budget and adding in the central reductions, other fund supports for food services and child care, and retirement and turnover savings, the Board will have an estimated \$26.2 million in on-going funds to allocate. Further, based on the estimated one-time \$24 million savings to the General Fund after use of ESSER II funds, the estimated \$5 million savings based on third quarter results due to the hold harmless offset and hiring holds, and the \$17.2 million placeholder for the literacy resources, there will be an estimated \$11.8 million in one-time funds to allocate.

Superintendent Dorland commented on the work she has been doing to review and understand the details of the \$17.2 million request for literacy resources to ensure accuracy and transparency before making a recommendation on expenditure of the funds for the Board's consideration.

Stewart noted that the Board was reminded that there could still be changes to the School Finance Act as they consider increase requests for employee compensation, association agreement potential costs and an increase to substitute teacher pay.

Next, Stewart presented a draft of the presentation that will be shared with the Board on May 6. It included a reminder of the budget assumptions that were used to build the 2021/2022 Proposed Budget and an updated list of increase requests for the General Fund based on negotiations. The biggest change was an estimate of \$40 million to \$52 million for on-going costs associated with language changes in the association agreements. Stewart reviewed the \$30.4 million in ESSER II funds that will be spent on Pandemic Management.

Stewart reviewed the Pandemic Recovery Plan that Superintendent Dorland is passionate about and helping the district to navigate. The plan will address district, community and student needs as a result of COVID and consider strategies for such things as summer learning opportunities, school year opportunities for 2021/2022, operational investments due to ongoing pandemic, and community engagement family supports. Rather than starting with how to spend a certain amount of funds, the plan will start by identifying needs, establishing a timeline and plan for addressing the needs, and determining how to fund the plan. Superintendent Dorland advised Susan Leach, the district's Chief Student Success Officer, to lead a process with stakeholders around what is known from data, family surveys, and principals and teachers from a qualitative perspective about how the pandemic impacted students, families and staff. Once needs are identified, a funding plan that will include multiple resources will be established to implement the recovery plan. The goal is to have ideas by the end of May which is when the application for ESSER III begins. The plan will be brought back to the FOC for discussion on an appropriate use of funds from areas such as federal stimulus dollars, the General Fund or Capital Reserve to support the plan.

Also included in the presentation is an overview of the Grant Fund in terms of pandemic recovery planning to clarify the appropriation that will be needed in order to build the plan and allow for spending of those funds once the plan is finalized.

Stewart shared a high level summary of the 2021/2022 General Fund and the detailed General Fund Summary based on the proposed budget that included forecasts for three out years with revenue that assumes inflation in 2022/2023. Stewart pointed out that the revenue over expenditures will drop to the bottom line at this time

until the Board provides direction on placeholders for allocation of those funds. There was discussion of the shift in practice to build in an inflation assumption for revenue in the out years. Superintendent Dorland noted that it would be helpful to have a conversation over time to get the committee's perspective on budgeting and forecasting practices to get feedback on what makes sense and is responsible.

The final slide provided a look at total appropriations by fund. The next step will be presentation of the proposed budget on May 6 with further discussion on May 12.

The committee acknowledged the work Superintendent Dorland has been doing with regard to the budget and analysis of the proposed curriculum development. Emm noted that a 5-year outlook on inflation is available from Legislative Council. Superintendent Dorland confirmed that she will be working closely with the finance team to gain a deeper understanding of what the district is doing with its funds and what results it is getting from those funds. Stewart noted that she hasn't had an opportunity to discuss with Superintendent Dorland the work that the committee has done over the last years and looks forward to doing so.

Stewart updated the committee on the current status of negotiations with the bargaining groups. The Jefferson County Educators Association (JCEA) is negotiating the full contract and no financial proposal has been presented by either side to date. The cost associated with language changes is estimated to be \$40 million to \$52 million. Major topics include remote learning, leaves, professional development and structural changes with regard to time management, class size, case load, special education, and equity. The lead negotiator is David Bell, the Chief Human Resources Officer, and other members of the team include principals, the new superintendent, the Chief Academic Officer and Stewart. The district team negotiating with JESPA includes David Bell, Steve Bell, the district internal legal counsel, and Stewart. A financial proposal has been put on the table and no counter has been made.

Superintendent Dorland updated the committee on her efforts with JCEA to have the group put some of the contract language concerns aside to be decided at a later time when there is a better idea of the district's budget and availability of possible funds to support the changes. This would allow the teams to focus on compensation if that is the priority. She anticipates getting further direction from the Board on that component during an executive session on May 6.

Stewart advised that the supplemental appropriation covering the funds discussed in the third quarter review for 2021/2022 and the Insurance Renewal will be on the consent agenda for the May 6 Board of Education meeting. She commented on the tough insurance market and high premium costs but noted that the district was able to negotiate down from the projected increase of 28 percent to an 18.8 percent increase over prior year. Based on rising costs, an increase to the annual transfer may be needed going forward.

Budget Development Process: As a follow up to a request for more information about the Budgeting For Outcomes (BFO) process, Stewart presented an overview of the district's budgeting process that covered BFO and Student Based Budgeting (SBB). Key highlights noted that the district has been using the SBB model since 2016 in order to provide resources and allow for flexibility so schools could make site based decisions to meet the broad range of varying needs of different school communities. In 2017, the BFO model was implemented after thoughtful research, feedback and consideration of other different methods.

The BFO method was selected because it aligned with district ends, strategic planning goals and long term financial planning. BFO complemented SBB. The BFO process promotes efficiencies, focuses on the district's already established goals and enables the district and departments to continually evaluate the success of a achieving a goal. The objective of BFO is to identify the best use of district resources and create a budget to maximize those resources. It allows for priorities to change which has been helpful through leadership changes. It focuses on programs that contribute to the success of the strategic plan and takes into consideration future needs of the district. Stewart clarified that there has been some misunderstanding about BFO in that it is not the same as zero based budgeting. Budgets are not reset to zero every year requiring departments to ask for everything to come back. Instead the strategic plan is the basis of discussion. Each department fills out a

Renewal Request Form every year where they tie their request to the strategic plan and include outcomes that have been achieved. A Request Form is used for new requests and those tie to the strategic plan. The new requests are discussed by the Cabinet team to identify desired outcomes and determine what is most important based on keeping the strategic plan at the core. The requests are then submitted to the Board for consideration and allocated based on the Board's priorities. The goal for BFO is to target a 3-5 year plan for the district and for the divisions. Use of the BFO process demonstrates financial stewardship and guides allocation of budgets districtwide based on strong performance measures which are outlined in the BFO forms.

Prior to the pandemic, the district was implementing a pilot of the BFO process at a select number of schools. The district believes the BFO process would be beneficial for schools to help identify SBB dollars in order to measure outcomes and to link to their Unified Improvement Plan (UIP). Due to the pandemic, the pilot was put on hold and staff will be looking to bring that forward into next year.

Stewart noted that as a follow-up to Board approved BFO requests and to provide transparency on the success and/or failure for planned use of those funds, staff reports back to the Board annually at a Board meeting, generally in December. The renewal forms are included in the adopted budget book for each division. Links to the presentations over several years were included in the email with the meeting packet. Stewart requested that if anyone has additional questions to email her.

Bond Proceeds Investment – Series 2020: Stewart advised that the custodial account with UMB has been set up. Stewart and Bell worked with Mary Donovan from Insight Investment to initiate an investment of \$100 million of the 2020 bond proceeds. A more formal document of the investment will be communicated to FOC when available.

FOC Conclusions/Recommendations:

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

Updates, Wrap Up and Next Meetings:

Upcoming meetings include the Board of Education meetings on May 6, May 12 and June 1. Stewart reminded the committee of the opportunity for dialogue with the Board as part of the third quarter financial update at the Board of Education meeting on May 12. No committee members were available to attend.

Calahan reiterated his concerns that due to inflation, the district may be facing cost increases based on what his business has been experiencing in the construction industry. Costs have been coming in 40 to 60 percent higher with no indication that costs will be coming down any time soon.

Stewart commented on the budget work that has occurred since Superintendent Dorland joined the district. She reiterated that feedback would be appreciated from the committee on the district's approach to budgeting and forecasting. She noted that it would also be helpful for FOC to weigh in on the proposed 2021/2022 budget. Staff confirmed that the proposed budget can be accessed from the May 6 agenda item in BoardDocs; the link was emailed with the meeting packet.

The meeting adjourned at 11:40 p.m.