

**Robbinsdale Area Schools
FINANCIAL ADVISORY COUNCIL (FAC)
MINUTES FOR January 14, 2020
APPROVED**

Present	FAC Members
X	Gregg Fishbein
X	Earl Hoffman
X	Lennie Kaufman
X	Thomas Klick
	Barry Rogers
X	Howard Schwartz
X	Terry Swanson
	School Board
	Sherry Tyrrell, Treasurer
	District 281 Staff
X	Greg Hein, Executive Director of Finance
	Carlton Jenkins, Superintendent

Other Attendees: Tonya Allen (District 287), Kelly Smith (Baker Tilly), Ginny Verbrugge (District 281 Staff), Jim Ramlet (Community at Large), Richard McGregory (District 281 Administration—arrived at 8:05 pm).

The meeting was called to order at 6:33 PM on January 14, 2020 with the Council members noted above in attendance. At the beginning of 2020, the School Board held elections for officer positions, and former Treasurer, Helen Bassett, was elected Vice Chair of the Board and Board Member Sherry Tyrrell was elected to the position of Board Treasurer, and will begin attending FAC meetings.

Agenda Item 1: Welcome and Introductions:

Chair Gregg Fishbein opened the meeting welcoming the attendees.

Agenda Item 2: Accept Agenda:

Mr. Schwartz moved to approve the agenda for the January 14, 2020 meeting. The motion was seconded by Mr. Kaufman, and the motion passed unanimously.

Agenda Item 3: Approve December 9, 2019 Minutes:

Mr. Kaufman moved to accept the minutes of the December 9, 2019 meeting as distributed. The motion was seconded by Mr. Hoffman, and the motion passed unanimously.

Agenda Item 4: Review of the 2018—2019 Financial Audit:

Greg Hein led a discussion regarding the fiscal year 2019 District 281 audit. The discussion was structured around the various Funds that make up District 281’s financial resources. The primary focus was on the General Fund—specifically the Unassigned Fund Balance of the General Fund. The revised budget for Fiscal year 2019 showed a projected General Fund Unassigned Fund balance of negative \$5.8 MM (Million), based on a starting balance of negative

\$2.0 MM and an expected operating deficit of negative \$3.8MM for the fiscal year. The actual audited results for the fiscal year showed an actual Unassigned General Fund balance of negative \$0.5 MM—an improvement of \$5.3MM from the revised budget. This difference was derived from two pieces. First, the annual operating deficit was only negative \$3.2 MM. The \$600,000 improvement was made up of several smaller improvements. The second piece (\$4.7MM) came from a draw against excess OPEB (other post-employment benefits) assets after an actuarial study was done pertaining to the value of the District’s assets and liabilities covered under OPEB regulations. After the OPEB Fund draw, there remains an actuarial excess balance slightly over \$5MM. From an internal financial reporting perspective, the total fund balance for the General Fund at June 30, 2019 is \$1.2MM – made up of an Assigned Fund Balance of \$1.7MM, and a negative \$0.5MM Unassigned Fund Balance. For the Audit presentation, the same \$1.2MM total fund balance will be shown as an assigned Fund Balance of \$1.2MM and an Unassigned Balance of \$0.

Given the negative Unassigned Fund balance, our District needs to continue to carefully manage its financial position so we do not find ourselves in a Statutory Operating Debt (SOD) situation. Under **Minnesota Statutes**, section 123B. 81, subdivision 2, a school district or charter school is in **Statutory Operating Debt** when it reports a year-end Net Negative Unreserved (Unassigned) General Fund Balance of more than 2 ½ percent of its unreserved/undesignated operating expenditures. Without the OPEB draw, it is estimated our ratio would have been near negative 2.45%.

After an extensive discussion about the General Fund, Mr. Hein then talked with the FAC about the results of various other funds. The Food Service Fund finished slightly positive (as had been budgeted). A slight negative revenue variance was offset by a slight positive expense variance. Capital expenditures had normalized after two years of elevated capital expenditures. The other item of discussion centered around the bad debt expense in this fund (unpaid meals). At June 30, 2019, this number was approximately \$679,000, but could easily rise to more than a million dollars in the coming year or two. Initial research indicated that approximately half of the students owing money are no longer in the District. If this amount needs to be charged off, it cannot be charged against the Food Service Fund, but must be charged against the General Unassigned Fund.

We then discussed the Community Service Fund which broke even versus a budgeted slight loss. Its fund balance remained unchanged. The Self-Insured Medical fund reached its predicted result of a \$1,7MM loss for the year. There was a 6% premium increase for calendar 2019, and in order to try and stabilize this fund, a 15.2% average premium increase was implemented in calendar 2020. Along with an upcoming rebidding of our plan, the premium increases are expected to stabilize this fund.

Agenda Item 5: 2020-2021 (Fiscal 2021) Preliminary Budget Assumptions & Projections:

Mr. Hein led a discussion reviewing the preliminary assumptions and projections for the coming fiscal year. Key revenue assumptions included: enrollment decline of approximately 300 students, increase in special education aid, and a basic formula increase of 2% (which yields a total General education revenue gain of 1%). Fiscal 2021 revenues are projected to increase \$0.2MM from fiscal 2020. Key expense assumptions revolved around projected labor cost items (ups and downs), general inflation, and potential savings from a new RFP covering transportation costs. One caveat is that we are still in negotiation with most of our bargaining units. Increases will be retroactive to July 1, 2019—as that is the beginning of the new contracts

for District employees. With these assumptions, projected expenses increase \$3.0MM from fiscal 2020. With the projected revenue increase of \$0.2MM, this leaves an increased loss of \$2.8MM for fiscal 2021 (over the projected financial performance in 2020).

Other items discussed in conjunction with the budget had to do with the impact of our deteriorated financial condition on our ability to issue future bonds in support of District financial needs, and the cost of those future issuances. Kelly Smith from Baker Tilly indicated the bond rating for our District had recently been lowered to A-. Although still investment grade, it will cost more to issue debt at this new rating. Another topic of discussion was the nearly \$100MM of debt we have issued over the past five years, and its cost impact in future years. Much of that debt was for building projects and the cost of opening new schools.

This led to a discussion regarding whether we have the right number of schools open today given the cost of operating them and needed capital improvements. No conclusion was reached, but this may be a topic for further discussion to give the FAC a better understanding of what District plans and goals are regarding our buildings. We also briefly touched on the District's investment management process, and whether the FAC should take a look at that process. No conclusion was reached.

Agenda Item 6: Future Meeting Dates:

We reaffirmed the date for our next meeting as February 11, and chose March 31 as the date for the next meeting beyond that. Both meetings are scheduled to start at 6:30.

Agenda Item 7: Other.

Greg Hein briefly updated the group regarding the status of the requested forensic audit of District 281. Information continues to be requested from the District and that information is being provided. Greg reaffirmed the information being asked for, and any discussion about that information, is confidential until a report is issued. At that time, the information will become public. No firm date for release of the report was available at this time.

Agenda Item 8: Adjournment:

After a proper motion was made and seconded to adjourn our meeting, the meeting was adjourned at 8:11 pm

Minutes submitted by Lennie Kaufman