Robbinsdale Area Schools
FINANCIAL ADVISORY COUNCIL (FAC)
MINUTES FOR JANUARY 11, 2022
Approved February 17, 2022

Present	FAC Members
X	Lennie Kaufman, Chair
X	Walter Gray
X	Earl Hoffman
X	Greg Kugler
X	O. Barry Rogers
X	Howard Schwartz
X	Terry Swanson
	School Board Member
X	John Vento, Treasurer
	District 281 Staff
X	David Engstrom, Superintendent
X	Ukee Dozier, Executive Director of Finance
X	Virginia Verbrugge, Assistant Director of Finance
X	Beth Tomlinson, Controller
X	Karylanne Marchand, Business Office Manager
	PFM Asset Management
X	Brian Johnson
X	Danny Nelson

Agenda Item 1: Welcome and Introductions:
Chair Lennie Kaufman called the meeting to order at 6:30 PM on January 11, 2022, with the FAC members and others noted above in attendance. The meeting was held via Zoom. Mr. Kaufman opened the meeting by welcoming the attendees.

Agenda Item 2: Acceptance of Agenda:
The agenda had been distributed to the members prior to the meeting. A motion was properly made and seconded to accept the distributed Agenda as amended. The motion passed unanimously.

Agenda Item 3: Approve the Minutes of FAC meetings on November 9, 2021:
The minutes were discussed. Mr. Schwarz discussed his corrections about his statements at the meeting and his recommendation to look at greater length at the geographical areas within the District that are losing students to open enrollment and other schools. The minutes, as corrected by Mr. Schwarz, were approved.

Item Inserted in Agenda: OPEB Investments—Yield and Risk:

Mr. Johnson and Mr. Nelson presented a detailed allocation of the OPEB investments by class (equity and fixed yield) and by source (government, industry type, international, etc.), showing the current and projected rates of return (ROR) and risk measure of each. The District's investments are now in a "70/30" model: 70% in fixed yield investments and 30% in equity investments. Mr. Johnson showed 5 and 10 year projections of portfolio return under the current 70/30 model and under alternative 50/50 and 30/70 models. As the equity mix increases, the ROR also increases, but so does the standard deviation (volatility or risk) of the expected yield. Mr. Gray pointed out that the standard deviation of the S&P 500 (all equity) is about 15%, far higher than that of the District's portfolio.

The District's current discount rate is 5.5%, which is used to determine the present value (PV) of liabilities. In determining this rate, PFM focuses on the 50th percentile of projected outcomes. Mr. Johnson mentioned that it's necessary to look at the District's historical RORs and trends in developing the discount rate.

OPEB assets are now $14.4 million (M), and the actuarial PV of liabilities is $7.3M, producing a funding ratio of 198%. The PV of liabilities assumes current medical expense trend at 6.25%, dropping to 5% over the next 6 years and then to 4% over the next 48 years. Contributions are more than sufficient to cover withdrawals in all future scenarios except the worst one.

Mr. Schwartz asked if the current 30/70 model is too conservative, given the high funding ratio. Mr. Hoffman asked if the District is able take money out for operations and other uses if OPEB is overfunded. Mr. Gray responded that, in his experience, taking money out is generally unadvisable, and given the long time frame of these projections, any current excess funding may be needed for unexpected events. Mr. Johnson said that there are headwinds that could change the value of fixed income investments, with interest rate increases on the horizon.

Agenda Item 4: Preliminary Audit Report:

Ms. Verbrugge reported on the results of the audit and the status of the various funds as of June 30, 2021. The General Fund unassigned fund balance increased $6.8M, up from $0.6M twelve months earlier. The unassigned fund balance represents 4.98% of FY21 expenses, but this is still only about 76% of the Board-approved target level. The primary reasons for the improvement is federal ESSER (COVID) funding and lower expenses during FY21 due to distance learning (e.g., lower transportation costs).

The food service fund increased by $1.1M. The federal government picked up 100% of student meal costs in FY21, and there was less staffing due to distance learning for part of the year. The community education fund has a $1.5M balance, primarily due to ESSER funding. Debt service fund remained at about the same level during FY21. The building construction fund balance increased to $3.3M, from $1.2M, but this excess will be used during FY22 for projects now underway.

The self-insured medical and dental fund increased by $451,000 during FY21, due in part to $1.1M of ESSER funds that paid for COVID-related claims. The District did not increase employee contributions in January 2021 but did increase them in January 2022.

Mr. Schwartz expressed his concern that the District may be creating expense items, which it will be obligated to cover in future years beyond the expiry of the ESSER funds. He noted that much of the ESSER funding must be spent by September 30, 2024. He recommended that the District create a list of the new items to which the District is now committed to fund beyond that date. Mr. Dozier said he agreed with Mr. Schwartz and cautioned that the consequences of COVID will likely impact the District for many years. An additional item of concern is whether the federal government will continue to fully pay for school lunches after June 30, 2022.

Mr. Kaufman asked the staff in attendance how the audit went. Did the auditors do a good job and follow up on items they said in the past they would do? Ms. Verbrugge said that the auditors did an excellent, thorough job and provided recommendations on how the District can improve and what the District staff should watch out for in the future. Mr. Schwartz asked if the District's improved financials (increased unassigned fund, etc.) would result in a better bond rating. Kelly Smith of Baker Tilly responded that this would typically be the case.

Agenda Item 5: Year to Date (YTD) ESSER Update:

Mr. Dozier presented updated information regarding the funds allocated to the District from ESSER I, II, and III. The information showed the amounts allocated, the dates by which the District must spend the funds, and the funding "buckets" (broad expenditure categories). He also showed, for each of ESSER I, II, and III, the YTD expenditures by category and the remaining balances to be spent.

The District has received $39.5M in ESSER funds and has spent $7.3M so far. The District has already used nearly all of its ESSER I allocation but has spent only a small part of its ESSER II and III allocations. Mr. Dozier said that, because of various funding restrictions, the District might not be able to spend all of the remaining balance. He also presented the top 5 ESSER priorities spending for students, staff, and families and communities.

Agenda Item 6: Enrollment History with ADM Projections:

Mr. Dozier presented the five-year projections of enrollment, on the bases of both ADMs and seat counts. Current District enrollment in FY22 is 11,038 and is projected to be 10,720 for FY23. The enrollment is then projected to decrease annually by 2.2% to 3.1% through FY27. The District experienced a 6.1% enrollment drop in FY21, primarily due to COVID. Mr. Dozier projects that the effects of COVID will impact enrollment negatively in future years. Because of the many unknown factors that can influence enrollment in the next five years, he wanted to be conservative in his projection.

Mr. Hoffman asked how the changes in the District's enrollment compare to changes in the K-12 student population residing in the District. Mr. Vento recalled that, in 2017, the District's geographic area was showing a declining birth rate, and that over 80% of the District's households did not have a school age child living in it. He stressed that getting the District's average test scores up is critical to convincing more parents to enroll their children in District schools.

Agenda Item 7: Long Term Planning (5Cast): Due to time limitations, this item was not covered.

Agenda Items 8-10: Future Meetings/FAC Timeline, Other Items, and Adjournment: The next FAC meeting will be March 29, 2022 at 6:30 PM. At the next meeting, there will be discussion on the following:

- Actual vs. potential enrollment in District schools.
- Additional costs associated with students who open enroll into the District, particularly costs associated with special education.
- Geographic areas within the District's borders where there are a large number of students open enrolling outside of the District.

After a proper motion was made and seconded to adjourn, the meeting was adjourned at 8:05 PM.

Minutes submitted by Earl Hoffman