

**MEETING MINUTES
COMMITTEE OF THE BOARD MEETING
January 8, 2019**

PRESENT: Board of Education: S. Marchese, J. Schumacher, J. Brodrick, M. Vanderwert, M. Xiong, Z. Ellis, J. Foster

M. Xiong arrived at 4:35 p.m.

Staff: Superintendent Gothard, T. Battle, L. Sayles-Adams, S. Koppen, A. Schilling, M. Schrul, M. Doud, K. Keller, H. Kilgore, K. Keller, J. Engen, C. Long, D. Watkins, C. Baker, L. Cathey, J. Turner, T. Parent, M. Hoerth, L. Czech, K. Burns, S. Dahlke

Other: T. Lonetree, J. Verges, J. Huegel, A. Neilson,

I. CALL TO ORDER

The meeting was called to order at 4:33 p.m.

II. AGENDA

A. Superintendent's Announcements

Superintendent Gothard began the meeting with wishing everyone a Happy New Year. He noted that the School Choice Fair is on Saturday, January 12th and is a great opportunity for parents, families, and students to receive information on schools, programs, activities, transportation and other opportunities through SPPS. Principals, staff, and educators will be there to answer questions and ensure families' questions are answered. He thanked Travelers for their generosity in allowing SPPS families to park in their lot across from the RiverCenter. More information can be found at www.spps.org/schoolchoice.

He also noted the State of the District event which is planned for January 30th at Washington Tech. This will highlight achievement and look through the lens of the new strategic plan. He invited everyone to join us for the event to celebrate, honor, and recognize the collaboration occurring in SPPS, with a continental breakfast. He thanked Heather Kilgore and Kevin Burns for their organization and communication of this event. It is all hands on deck to organize and put together these events, and a great opportunity to shine the light on many great things in SPPS.

Vice Chair Marchese noted that due to a SEAB project meeting scheduled for the same time as the Committee of the Board meeting, there would not be a SEAB update at the meeting, but that there will be more details at the next COB meeting on their Ethnic Studies in SPPS project.

B. Audit Report

Superintendent Gothard then introduced Chief Finance Officer, Marie Schrul. He thanked her and the Business Office for their long hours and hard work in partnering with the auditing firm. Chief Schrul went on to introduce the results of the FY18 audit, year ending June 30, 2018, and introduced Jackie Huegel and Aaron Nielson from MMKR.

- Three reports were shared with the Board:
 - Annual Financial Statement
 - Special Purpose Report

- Management Report

Auditor's Role

- Opinion on financial statements
 - District audit
- Internal controls and compliance
 - Financial Statement Audit
 - Federal "Single Audit"
 - State Law and Regulations

District Audit

- Unmodified opinion, or clean, on basic financial statements; the District did implement GASB 75
- Internal Control and Compliance Reports
 - 2018-001 – Internal Control Over Financial Reporting – Financial Statement Adjustments
 - 2018-002 Internal Control Over Compliance with Federal Allowable Costs Requirements
 - 2018-003 Claims and Disbursements
 - 2018-004 Withholding Affidavit
 - We do follow up and circle back on findings from the previous year.

General Education Aid – Basic Formula Allowance

- The General Education Aid basic formula allowed, which is the largest funding source for the District from the State of Minnesota, was reviewed. For 2019, there was a 2.0% increase in funding.

State-Wide Fund Balance

- The state-wide unrestricted operating fund balance as a percentage of operating expenditures for SPPS versus state-wide was reviewed, with SPPS at 15.8% for FY2018. For FY2017, SPPS was at 14.2% compared to 20.3% as the state-wide average.

General Fund Financial Position

- The cash and investments, unrestricted fund balance, and annual expenditures of the General Fund were also presented, as well as the financial statement. The cash and investment balance was about \$69.6M at year end, and the unrestricted fund balance was at \$62.3M. The total fund balance of the general fund saw an increase in the current year of \$1.3M, compared to a budgeted decrease of about \$5.9M. The components of the General Fund were also presented for the last 5 years. The District had a non-spendable fund balance of about \$3.2M, which is tied up in inventory and prepaid items at year end. The restricted fund balance is at \$28.4M, mainly made up of \$37.7M restricted for OPEB and offset by LTFM restricted account deficit of \$9.7M. The committed balance in the general fund was about \$2.5M, which is committed for severance payment. The assigned fund balance at year end was about \$21M, which is assigned for contractual operations, site-based operations, and intra-school funds. The total of the unassigned fund balance is \$38.7M, which a percentage of the expenditures is about 6.5%.
- Chief Schrul noted the detailed layout of categories of fund balance as a district. It starts with non-spendable and details of numbers and how they are made up, and how district works with those dollar amounts. It is based on GASB ruling in the past 10 years.
 - We do have definitions included within the document and clarifies restricted and unrestricted.

Adjusted ADM and Pupil Units Served

- The Adjusted Daily Membership and pupil units served were shown and discussed, with the percentage change in ADM and pupil units served for the past ten years. For 2018 year, the district closed estimated APM of 35,979. It also shows the trend for the past 10 years for the ADM and pupil units served. The change in 2015 related to the pupil units decrease; it was when the legislature changed the weighting and there was a onetime conversation, and the formula accounted for those changes. It is only a difference in 2015. In 2015, the legislature made a change to how they were weighting pupil units in an effort to ease the difficulties in the reporting of Minnesota school

finance. School districts did not have a reduction in funding, there had to alter the formula allowance. The basic formula was adjusted to account for those pupil units. It is a reflection that is seen across all districts because of the legislative reductions, and not a reflection of SPPS.

Other Governmental Funds

- The other governmental funds for food service special revenue and community service special revenue funds were presented. The Food Service Special Revenue Fund financial position saw an increase of \$927,000 from prior year compared to a balanced budget with \$6.6M. The Community Service fund balance had a decrease 180,000 compared to a budget decrease of \$315,000 with \$3.6M.

District-Wide Statement of Net Position

- A district-wide statement of net position was also presented, with the total net change in position from 2017 to 2018 being \$(180M). A lot of it is in the unrestricted line and related to the OPEB line, with the implementation of GASB 75 standards for the OPEB liability for the entity-wide financial statements, and is seen across the state. It is a change in how they measure the obligations and the amortizing. Now we are not seeing the differences in how people advertise it, and there is the same set of rules.

QUESTION/DISCUSSION:

- What is the difference between unrestricted and unassigned fund balance? Response: It becomes a category of the constraints placed upon those. Non-spendable resources are purchased for inventory – inventory is purchased already, or prepaid expenses. Restricted is an outside source, like state, operating capital, facilities maintenance, health and safety dollars, and the OPEB trust. The remaining categories are more local control and committed within unrestricted can only be committed by the government. The school board would also have the ability to assign dollars. Unrestricted – outside source cannot force you to spend them, and within that, there are various layers agreed to by the school board. This is specifically within the general fund, and there others that must be spent within those funds. They are dedicated and must be spent within those funds, such as food service.
- Is it accurate that even though we had to do this ten years ago where we had to publically declare the liabilities, it didn't negatively affect school districts credit ratings because we were reporting things differently, we weren't in different shape because we had to declare them publically. It didn't mean anything was bad. Response: Correct. There was a change in GASB measurements. We would hope bond rating agencies will have understanding, because we are not the only district that has this change. All districts needs to incorporate this onto their books. The retirement funds agencies have separate audits, and SPPS is now required to put it onto the books as well. Statewide, there are discussions in districts, and how we are funding, and will be part of legislation. It is in the spirit of transparency. This really is partially with SPPS and not a separate plan. GASB is the government accounting standards board. On the bond rating calls, which are usually in May, there are questions on long term obligations, this comes up and pension obligations. There is a lot of information provided, and they know all school district face these issues, and we provide plans how to mitigate costs long term and plans for OPEB trust, and that we are covering the current liabilities. We are mindful of the obligation and the findings for many years and take measures to offset those each year with a study every two years. There is also added information in the financial statement.
- It was also noted that additional information on other funds was also provided in the financial statements.

RECOMMENDED MOTION: Mr. Brodrick moved the Board to accept the FY18 Audit Report. It was seconded by Director Foster. The motion passed by acclaim.

C. FY20 Budget Guidelines

Superintendent Gothard then thanked Chief Schrul and her team for compiling the set of budget guidelines for the FY20 budget process taking into account present standing and feedback from groups like BFAC and the Board. The response we have created will allow for a better model

forward, and really looking at how to put together a priority based budget with the understanding to build new capacity. We are looking to take a multi-faceted approach and take all models and build a budget in the best way for SPPS. Chief Schrul then reviewed the FY20 Budget Guidelines.

Philosophy

- The SPPS Achieves strategic plan sets goals for student achievement, guides decision-making and focuses our efforts on long-term outcomes. The Proposed Budget will be guided by and support the District's strategic plan. The District will focus on the five Strategic Focus Areas during budget preparations: Positive School and District Culture, Effective and Culturally Relevant Instruction, Program Evaluation/Resource Allocation, College and Career Paths, and Family and Community Engagement. The budget is the District's financial plan and supports the District's mission to inspire students to think critically, pursue their dreams, and change the world.

Preparing Budget Calculations

- Budget Model: A modified roll-over budget method will be used for program allocations. A school criteria budget method will be used for school allocations. The District has begun a transition to a priority-based budgeting method, beginning with implementation of SPPS Achieves Phase 1 Strategic initiatives.
- Revenue Projections: Revenue will be calculated using current law.
- Expenditure Projections: The Finance Office will project salary and fringe benefits using actual salary and benefit amounts if labor contracts have been negotiated and all non-personnel budget items will reflect no more than two percent (2%) inflation except for items related to contractual commitments.
- Enrollment: The Office of Research, Evaluation, and Assessment (REA) will provide the Finance Office with historical enrollment actuals that will be utilized for an initial 2019-2020 budget enrollment projection.
- Average Salary and Benefits Calculation Data: A table detailing the average salary and benefits will be provided for budget preparations at the site level.
- Fund Balance: In accordance with BOE policy, the budget will maintain an unassigned fund balance of five percent (5%) of annual General Fund expenditures. District administration will inform the Board of Education (BOE) on potential use of unassigned fund balance during the initial budget planning presentation to the BOE. The District will continue to increase its future unassigned fund balance level to six percent (6%) or greater. (A note about the government shutdown was discussed, and be mindful and plan accordingly. It should not impact us on a school district level, but we need to be mindful and plan accordingly for nutrition services and Title 1, and fund balances.)

Creating the Budget

- Schools:
 - Continuation of a refined blended Site-Based and Centralized funding method will be used for schools in 2019-2020.
 - Most staffing allocations are criteria based and determined by enrollment and type of school.
- Non-School Programs:
 - Non-School programs will be reported into three (3) categories: Administration, District-wide Support Services, and School Support Services.

Compiling and Presenting the FY20 Budget

- Presentation Format: Summary information will be presented for schools and programs in the preliminary budget document. Each summary page will include an analysis of the changes to the current year budget that are impacting the schools and programs.
- Fully Financed Budgets: Fully Financed budgets with anticipated revenues and expenditures that are \$500,000 or greater for the 2019-20 school year will be included in the Adopted budget.

- Other Resources Allocated to Schools: The Adopted budget document will include a school by school detail of resources allocated to schools such as grants, special education, operations, and student activities, to name a few.
- The Adopted Budget: Administration will present a balanced budget to the BOE. The budget for 2019-20 must be approved by the Board of Education by June 30, 2019. The Adopted budget will be published on the Business Office website (<http://businessoffice.spps.org>).

QUESTION/DISCUSSION:

- We faces this delay of money, which forced us to borrow money and pay interest. Do you have any idea of how the reimbursement process will work in terms of if we have to tap into something and the Feds come back with money? Response: With the transition at the Governor's office, most of the MDE staff have remained. We have not received anything specific at this point, or notifications yet. It may be too soon for information. Our accounting staff did the last final draw of federal funds to mitigate any impact on expenditures, since Title 1 is on reimbursement basis.
 - Right now we are involved in a federal shutdown. Has any of that money come to us directly from federal government? Response: Most of it is federal through state. The District does have a plan for bills that happen during a time like this, and has a fund on the side which we have not tapped into, but a line of credit, and has a Plan B and Plan C in case we tap into that. We also have investments that we can also tap into, and details are included on the cash flow and investments of the district should the need arise. It's hard to do our work, and we don't need additional barriers, and will continue to work hard to advocate to ensure we don't forget about impact on schools.
 - People in Washington D.C. may not understand the impact of those people who live paycheck to paycheck during this government shutdown, and it relates to the school district, because in a sense, we live paycheck to paycheck, and the shutdown can certainly affect us as well. It's important to note that we have a plan. However, the government has put us in a pickle.
- In the past, is the reimbursement on this 100%? Response: Yes, but it has been delayed. The interest is not then reimbursed.
- Does Congress authorize that because it's federal money? Response: Yes, it has to be lifted.
- What is the process for doing the priority-based budget model? Response: We have gone through an extensive process in the past 5-6 months as a leadership team to identify areas that need assessment, and come up with a model of Phase 1 of strategic plan, and have identified key areas to start in plan funding for Phase 1. Some are in FY19, and the majority of Phase 1 are in FY20. Those are priorities that will be shared in the next Committee of the Board meeting where we will dive into funding the strategic plan, and how those priorities relate to the programs in those categories. The process overall has been an effort within the whole leadership team, and guided by the Superintendent and Karen Randall and others; we took extensive effort in looking at areas that the district has as priorities and continue to refine that, and there are still areas that we're looking at to see other opportunities for savings. One of the biggest changes is having the strategic plan to inform priorities, and helps to filter priorities to continue to implement and strengthen, and change the behavior of the funding of the district. There may be selective abandonment, and a solid communication around that and to ensure there are no blind spots, and look at where they may be overlap. We need to look at how they marry – the priorities and the continued roll-up funding, either overlap or some that don't fit. It's balancing the priorities and forecasting the future as well. May 20th is the end of the session and will tell us more than what we know today and how wide to go into the priorities.
 - How did we determine the item that were not priorities? Was there data to show they didn't work or balancing cost at outcomes? Who makes those decisions? Response: Data can help us and these happen each year, and for example, we look at the master schedule and what courses were selected by students in high school, and those changes made at building level, and the policies and practices to control and prioritize, and where to enhance in other areas. It's about resetting the priority and investment to a new change. We will not get better without investing and supporting the great work that needs to be done, and we cannot fund it all.

- It sounds like the strategic plan is going to drive the budget process. Response: It will allow us to make informed decisions of the priorities.
 - Those informed decisions on the education side go into “start, stop, sustain.” On the education hand, administration is educational administrators involved in instruction. They’re going to make these decisions that were talked about. Start something, stop things, and we have to sustain what we are doing. The coordination between the educational end and the financial end is very important. We need to turn to the financial person and make the educational arm work. Response: Behind success is communication. These guidelines are talking openly about what we are about and the process to get us to a better place for the budget. There will need to be great points of communication, and identifying those priorities to sustain. Building principals live in this world and face these decisions each day. They get guidance and support from administration, and there was a time with great discretionary funds. Every classroom teacher interacts with “start, stop, and sustain” every day.
- Does this mean that as this year unfolds and we begin the implementation of the strategic plan, and we start an initiative we haven’t done before. With a plan that we can now do a better job of accomplishing those things, and there is something we want to do to make strategic plan work but will be an expense, how does that fit into the budget process? Will you come to the Board and ask? When approving the budget, is that how the Board plays a role in the strategic plan as the body that controls the purse strings? Board members have looked at the strategic plan and impressed by it to make SPPS better, but as we implement it, we will be part of it, and the part of the Board will be voting yes to spend money on those initiatives. Response: Yes, there will be normal procedures and resources on board approval. Visibility will change as different nomenclature to know that different items are related to strategic initiatives and that alignment. Previously, there hasn’t been a way to do that. This will be pretty specific for the different initiatives. There may be a report to the Board to show the data for a program, and what we want to do with it, and where we will need support. We are changing language around strategic plan, and there may be an ask. We will show alignment for funding, and will take time to convert to language around the strategic plan. As it unfolds, what will you need from the Board because it will take all of us to get this done.
- A board member noted that it would be helpful to see where the priorities are located as they change and are different from the past; to pull them out in some fashion, and a more summarized view to allow us to see where we are doing those things and making adjustments in looking at priorities. It’s not always clear and vetted of where things are moving and what purpose, and to show the mechanics and “under the hood” in this transition would be helpful.
- He also noted that he is slightly confused about the modeling, and using a modified roll-over budget for program areas. It sounds like that means with respect to non-school budgets, the amounts will be rolled over and done traditionally. There will be conversations and use of priorities based on school budgets, or programs budget? It’s a transition, and we are transitioning to priorities based on initiatives. Some of it is embedded in schools. An example is middle school model, and embedded in programmatic and school models, and priorities fall within staff and team, and also within school resources allocated to schools. That’s a transition priorities for programs in the schools. The modified roll over budget is more looking at baseline from last year and starting with baseline budget from the prior year, and adjustment and allocation column for those items start, stop, or sustain, and columns noting those changes. There are things that will stop or reallocate or reallocate or adjust. To do a full priority based budget model, we would need to rest and completely transition to priorities and in starting this, we are starting with Phase 1 and as we get deeper into the strategic plan, we will be more into priorities. It is right now a blended process.
- PBIS is a program budget versus a school allocation. School budgets will be completely reset and are based on enrollment and criteria within the current year. School allocations which mainly fund comp. ed., Title 1, integration dollars mainly get a baseline allocation for teacher funding, supplies, and other support staff. PBIS falls under program budget which is separate, their allocations will be based on department and how they determine the PBIS support school . it would be priority based and how those allocations are set for school, and they determine where those supports go. It’s a transition year, and a deeper dive in some board workshops.

- On the expenditure projections, there is a 2% increase in projections for expenditures and non-salary. So that won't necessarily be a guideline for contract renewals? Response: For salary, that is still up for discussion, and there will be a meeting with the board shortly for direction on guiding values on negotiations. To be clear, the 2% is for non-salary.
 - Also, we don't know what the state formula change will be. Response: We project in current law as far as revenue for funding, but the formula change could be anything. We project current law until we know more, and assume it is flat until there is more information. We have changed that as we built the budget process, to 1 and 1.5. We have looked at those and have contingency plans around funding, and have received another 1-2% in plan in place of those dollars. We build on current law.

D. Break for Annual Meeting (6:00 p.m. Time Certain)

It was motioned to recess the Committee of the Board Meeting for the Annual Meeting. It passed by acclaim. The meeting was recessed at 5:50pm.

The Committee of the Board meeting reconvened at 6:24pm.

III. ADJOURNMENT

It was motioned to adjourn the meeting at 6:25 p.m. by Mr. Marchese, and seconded by Ms. Ellis. The motion passed by acclaim.

IV. WORK SESSION

The Board then discussed board topics and board engagement ideas. Topics discussed included members of the Executive Committee, engagement with PACs, opportunities for information, including forums and listening sessions, engagement with city and district councils, and board accessibility.

For clarity and to facilitate research, these minutes reflect the order of the original Agenda and not necessarily the time during the meeting the items were discussed.

Respectfully submitted,
Sarah Dahlke
Assistant Clerk