

**MEETING MINUTES  
COMMITTEE OF THE BOARD MEETING  
January 14, 2014**

PRESENT: Board of Education: Mary Doran, Keith Hardy, Jean O'Connell, Anne Carroll, Louise Seeba, John Brodrick, Chue Vue

Staff: Superintendent Silva, Michelle Walker, Kathy Brown, Marie Schrul, Jean Ronnei, Tom Burr, Jim Hemmen, Mary Gilbert, Sharon Freeman, Andrew Collins, Jackie Allen, Nancy Cameron, Julie Schultz-Brown, Ryan Vernosh, Jackie Turner, Brian Kinder, Laurin Cathey, Matt Mohs, Marsha Baisch, Michelle Bierman, Kate Wilcox-Harris, Elizabeth Keenan, Theresa Battle, Marta Hoesth

Other: Chris Samuel, John Schultz, Merle Waters, Erin Neilsen, Jackie Hugle

**I. CALL TO ORDER**

The meeting was called to order at 5:37 p.m.

The Chief of Operations introduced the two new Directors joining the Operations staff: Tom Burr, Director of Transportation and Jim Hemmen, Director of Nutrition Services.

**II. AGENDA**

A. COB Meeting Protocols

The COB Chair reminded Board members of various protocols and agreements that had been reached regarding conduct of and during the meeting.

B. Other Post Employment Benefits (OPEB) Trust

The two Wells Fargo representatives provided a brief history of the SPPS OPEB Trust indicating that in 2008 the State legislature voted to allow school districts to issue bonds for part or all of their future liability, to do an annual levy or to pay as you go. SPPS decided to pass on the bonding option but did decide to go with a levy. Wells Fargo was hired in 2010 to administer the trust.

They provided a list of the districts they were currently working with noting SPPS was the only one not utilizing the bonding option. They went on to state all districts must have a mandatory actuarial study done every two years. This provides projections for the current liability and what upcoming distributions will need to be.

They indicated a well-diversified portfolio provides a prudent approach to a long-term problem and then proceeded to review SPPS' consolidated portfolio as of December 31, /2013. Current market value of the portfolio stands at \$4.4 million. The established investment policy statement provides a basis for asset allocations. Target allocations are equity 40%, fixed income 40%, real assets 10% and complementary strategies 10%. They then reviewed strategy of adjustments made throughout 2013. The trust aims at a 5-6% rate of return and investments are adjusted periodically to meet that return. 2013 exceeded that target with a 10% rate of return.

**QUESTIONS/DISCUSSION:**

- Please review the returns graph. Response: This shows the trust's returns over time, monthly and in aggregate, it is another way to follow the value of the portfolio over time.

- A Board members indicated she was looking forward to a discussion on a strategy for making additional contributions to the trust over time.
- Another statement indicated the Board was pleased to see the results of initial investments and was looking forward to more cash infusions.
- Why the 40% held in fixed income? Response: Liquidity in a portfolio important. The fixed income provides liquidity. Managing the portfolio is all about not losing money and balancing investments to meet that end.
- What about plans for future contributions? Response: Administration indicated it had plans to provide a presentation on a strategy at future a COB meeting.
- What is the history on how SPPS got to the \$4 million? Response: Basically, since 4/2011, SPPS has designated \$1 million for the fund in each year. SPPS has not contributed more due to various cash issues – sequestration, government shutdowns, etc. SPPS has been very conservative with cash flow over time because of the uncertainties it was facing. The trust covers other post employment benefits – health care for retirees and future retirees. The District currently pays as it goes for annual costs, but needs to continue to invest in order to meet future obligations.

The Board thanked the Wells Fargo representatives and staff for the presentation.

C. Presentation on Tax Increment Financing (TIF)

The Deputy Ramsey County Auditor and Treasurer provided the Board with information on the impact of tax increment financing (TIF) on the schools.

TIF is a way to take locations the private market is not likely to go after and make them tax producing sites. This would include such areas as hazardous substance sub-districts; there are 19 in St. Paul.

The basic concept of TIF is that local net tax capacity bases taxes on the growth in value resulting from a TIF project and these increases in tax base go to pay the public cost of the project. TIF utilizes a “but for” test in which the proposed development could not reasonably be expected to occur solely through private investment in the reasonably foreseeable future without the TIF authority’s involvement. TIF is a financing tool, not an entitlement, and is part of a financing “toolbox.”

TIF can be used to assist in financing the public costs of a project. These include such things as site acquisition, demolition, streets, utilities, pollution cleanup, site preparation, TIF administration, financing costs, housing and capitalization of interest. The developer fronts the costs on a pay as you go basis and is reimbursed certain costs as the project evolves.

A chart was provided showing cities in Ramsey County with TIF projects for Pay 2013. The chart listed the city, the number of TIF, the TIFs’ total amount and the percentage of tax base captured (for Ramsey County only). He also provided examples of recent St. Paul TIF districts:

- Penfield – 254 rental housing units, 27,550 sq. ft. commercial with related parking
- Pioneer Endicott – 234 market rate rental housing, 36,685 sq. ft. commercial
- Gerdau Steel – 24,000 sq. ft. manufacturing facility
- Schmidt Brewery – 261 affordable housing rental units
- West Side Flats – 178 rental housing units, 6,185 sq. ft. commercial with related parking.

While a proposed TIF, plan must be submitted to the School Board and County Board for comment, neither entity has the authority to amend the plan or prevent the creation of a TIF district.

Fiscal disparities impacts can come into play with who pays – state aid versus local contribution. It is important to know who pays -- state versus local. Fiscal disparities, if not taken from TIF impact the tax base particularly if there are underfunded TIF districts. It is also important to be vigilant as a TIF district ends to be sure it is decertified when it should be.

TIF is revenue neutral for schools. School revenues area based on state formulas that may be an amount per pupil or an approved cost for a project. Property values are used to determine state versus local shares for equalized programs. School districts also receive tax increment excess of the following types: base rate excess, general education excess (student achievement) and surplus. School district TIF excess received is taken into account in determining aid amounts (TIF excess received reduces school aid received).

|      | Base Rate Excess | Surplus |
|------|------------------|---------|
| 2013 | \$1,503,571      | \$ 831  |
| 2012 | 2,386,084        | 2,010   |
| 2011 | 923,693          | 0       |
| 2010 | 361,891          | 32,567  |
| 2009 | 0                | 60,896  |

Pay 2014 ISD 625 Net Tax Capacity Tax Base (NTC) – Tax Impact Affected by TIF

|                    |                   |
|--------------------|-------------------|
| General*           | \$56,390,617      |
| Community Service  | 3,457,227         |
| Debt Service       | <u>40,327,197</u> |
| Subtotal NTC Based | \$100,175,041     |

Referendum Market Value Tax Base (RMV) – Tax Impact Not Affected by TIF

|  |                   |
|--|-------------------|
| Voter Referendum                               | \$13,246,481      |
| Other (Equity, Location Equity,<br>Transition) | <u>21,635,011</u> |
| Subtotal RMV Based                             | \$34,881,492      |

Total 2014 Proposed Levy \$135,056,533

NOTE: General levy includes student achievement, operating capital, achievement & integration, re-employment insurance, safe schools, career technical, OPEB, health & safety, alternative facilities, building/land lease, health benefits, additional retirement and severance.

TIF factors impacting property tax allocations include: the “but for” test/TIF district creation, hazardous substance sub-districts or housing replacement TIF districts, underfunded TIF, spillover effects (value impact on surrounding non-TIF properties), pooling and decertification (there are six upcoming TIF district decertifications pending between 2015 – 2017). When decertified additional tax base available but spreads levy base.

QUESTIONS/DISCUSSION:

- It was noted that JPTAC requested presentations about systems and structures be made to corresponding jurisdictions so everyone knows what is going on.
- When looking at districts the impact on school is neutral so what is the scale of impact on local property tax payers? Response: If all TIF went away for 2014, school taxes would go down 8.3% or in the range of \$250. Impacts are marginal. The value of TIF is on housing, jobs and remediation of blight situations as well as eventually increasing the tax base. In addition, nothing involving referendum-based money is impacted by TIF.
- A Board member requested the presentation “TIF 101” be provided to Board members
- What is the logic of allowing input when the City Council or Port Authority, or whoever, will not take advisement? When should comment be offered? Response: The County does an intensive review if something appears too speculative, when there are questions about the revenue stream or unrealistic projections, to find if it is reasonable. Even in that case the County does not comment.

The Board thanked Mr. Samuels for the information he had provided and the clarification it provided the Board in understanding tax increment financing.

D. Auditor's Report

Representatives from MMKR provided the Final Audit Report for the year ended June 30, 2013 to the Board. They indicated they had audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District along with the related notes to the financial statements. The audit was conducted under auditing standards generally accepted in the U.S.; *Government Auditing Standards* and the U.S. Office of Management and budget (OMB) Circular A-133.

MMKR has issued an unmodified opinion on the District's basic financial statements. They reported no deficiencies in the District's internal control over financial reporting that were considered material weaknesses. Results of their testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Schedule of Expenditures of Federal Awards was fairly stated, in all materials respects, in relation to the basic financial statements. The results of their tests noted instances of noncompliance with eligibility requirements for students attending non-public schools and receiving Title I benefits. Administration indicated corrective measures have been put in place to address this finding.

One matter involving the internal controls over compliance and its operation that was considered a significant deficiency in the testing of major Federal programs was report. The District did not have appropriate controls over compliance related to eligibility requirements, which resulted in a compliance exception as noted above. Again, this has been addressed.

One finding, based on testing of the District's compliance with Minnesota laws and regulations was noted in that 17 of 40 disbursements tested were not paid within 35 days of the receipt of the goods or services, or receipts of the invoice for goods or services, as required by State Statute and did not pay interest on the unpaid obligation. Staff indicated measures were being put in place to address this issue, however, with schools being closed over the summer the issue may still appear.

#### QUESTIONS/DISCUSSION:

- What about the Title I non-public schools item? Response: Corrective action has been taken in the current fiscal year
- How is the Business Office addressing findings? Response: The non-public eligibility carried over into FY 13-14 with a corrective action plan in place to address the issue. Regarding disbursements, the district cannot control invoices coming into schools over the summer so those are not processed until someone is actually in the school to process them. A new financial system is in place allowing paperless processing of items and the implementation delayed some processing. The Business Office is addressing known factors.
- Are there any recommendations? Response: Staff continues to discuss ways to improve operations overall. The audit and feedback have been helpful.
- The 5% board policy on unassigned fund balance, when was that set and what do other districts do? Response: The 5% was set under guidance from bond rating agencies. The 5% very conservative. The government financial office's general rule is 5-9% or one to two months. The 5% is driven by SPPS' sources of revenue and the stability of those sources. Cash flow needs affect the amount as well.
- A Board member stated they were impressed that the finance group does such a great job keeping things in line.
- Payroll, at what point did SPPS implement its new payroll system - the PeopleSoft system? Response: SPPS has had PeopleSoft for many, many years. Recently there upgrades started in March 2012 with another section done in January 2013 and most recently SPPS has merged the HR and finance systems (September 2013) so there have been multiple implementation upgrades.
- Explain the restricted funds and committed funds for OPEB. Response: The restricted funds are the 3.1 million in the trust presented by Wells Fargo. The \$3.1 is the balance as of the end of June 2013. The committed line is retiree health and severance; these dollars have been set aside for future investment into the trust. Administration has been cautious about investing them into the trust until cash flow became more stable. A report

will be coming on long term planning for OPEB. These funds are nonspendable, untouchable except for the stated purpose. They are “committed” funds, committed by action of the Board so only they can uncommit them.

- So it is not money used to pay retirees. Response: No, SPPS pays as it goes for those costs.
- The Board was reminded of the five categories of funds: Non-spendable is untouchable. Restricted is tied to specific purpose. Committed are assigned by an action of the Board so only they only can change the status. Assigned funds are assigned by an action by administration and Unassigned have no restrictions.
- In general, where, as auditors, do you find the biggest problems that cause non-compliance issues – technology transitions, staffing or under staffing? Response: All can cause issues in the audits done. Late payment is a common finding. It can also be a new process in defining audit findings on the part of the audit firm. The important question is how districts respond to the findings. Additionally, MDE requires documentation of the correction of findings from districts.

**MOTION: Ms. O’Connell moved the Committee of the Board recommend the Board of Education accept the Auditor’s Report with their thanks. Ms. Carroll seconded the motion.**

**The motion passed**

**E. Second Budget Revisions 2013-14**

The Controller provided information on the second budget revisions to the 2013-14 budget. She noted the GASB 54 fund balance designations now being used are non-spendable fund balance, restricted fund balance, committee fund balance, assigned fund balance and unassigned fund balance (5% BOE policy applies to this category).

Revisions included:

1. General fund fund balance re-appropriations
  - Encumbrance \$ 4,006,697 (open PO’s from FY 13)
  - Professional Growth 194,775 (contractual carry over)
  - Sites Carry Over 716,328 (balance of non-salary items in schools only)
  - Assigned Fund Balance 11,340,000 (SSSC communities initiatives)
  - Total Fund Balance Re-appropriation \$16,257,801
  
2. Assigned Fund Balance
  - SSSC \$ 6,960,000 (includes Middle School Curriculum, IB/AP costs, Media Center materials, contingency)
  - Security Systems Upgrade 3,000,000
  - Finance System Implementation 1,380,000
  - Total Assigned Fund Balance \$11,340,000
  
3. Revisions to Fully Financed Funds reflect the approval of grants under \$500,000 that were not adopted in FY 14 as well as revisions to adopted grants.
  - General Fully Financed Increase \$ 9,467,466
  - Community Service Fully Financed Increase \$ 1,493,919

Budget Revisions (for all funds – Revenue changes) are:

|                        | <u>Adopted Budget</u> | <u>Revision</u> | <u>Revised Budget</u> |
|------------------------|-----------------------|-----------------|-----------------------|
| General Fund           | \$505,636,982         | \$ 0            | \$505,636,982         |
| General Fully Financed | 42,775,213            | 9,467,466       | 52,242,679            |
| Food Service           | 25,532,500            | 0               | 25,532,500            |
| Community Service      | 20,068,945            | 0               | 20,068,945            |

|                              |                      |                     |                      |
|------------------------------|----------------------|---------------------|----------------------|
| Comm. Service Fully Financed | 4,772,353            | 1,493,919           | 6,266,272            |
| Building Construction        | 26,200,000           | 0                   | 26,200,000           |
| Debt Service                 | <u>48,715,000</u>    | <u>0</u>            | <u>48,715,000</u>    |
| <b>TOTAL REVENUE</b>         | <b>\$673,700,993</b> | <b>\$10,961,385</b> | <b>\$684,662,378</b> |

Budget Revisions (for all funds – Expenditure changes) are:

|                              | <u>Adopted Budget</u> | <u>Revision</u>     | <u>Revised Budget</u> |
|------------------------------|-----------------------|---------------------|-----------------------|
| General Fund                 | \$518,291,295         | \$16,257,801        | \$534,549,096         |
| General Fully Financed       | 42,775,213            | 9,467,466           | 52,242,679            |
| Food Service                 | 25,532,500            | 0                   | 25,532,500            |
| Community Service            | 21,131,545            | 0                   | 21,131,545            |
| Comm. Service Fully Financed | 4,772,353             | 1,493,919           | 6,266,272             |
| Building Construction        | 32,000,000            | 0                   | 32,000,000            |
| Debt Service                 | <u>43,560,000</u>     | <u>0</u>            | <u>43,560,000</u>     |
| <b>TOTAL REVENUE</b>         | <b>\$688,062,906</b>  | <b>\$27,219,186</b> | <b>\$715,282,092</b>  |

A summary of the General Unassigned Fund Balance showed FY 13 ending General Unassigned Fund balance of \$31,462,550 (5.9%). Board policy specifies a 5.0% fund balance, which would be \$26,719,272, a .9% difference or \$4,743,278.

**QUESTIONS/DISCUSSION:**

- Unassigned fund balances, Board policy is that it not drop below 5%, what happens if it does? Response: The District must maintain 5%, if it drops below that, it needs to be addressed.
- Site carryover, what is that and do schools get penalized? Response: Schools have different pots of money. Elementary are allowed to carry over \$15,000. Middle schools \$20,000 and High Schools \$25,000. These are discretionary dollars, such things as supplies, materials, staff development, stipends, etc. It can include general fund, compensatory and referendum dollars.

**MOTION:** Ms Carroll moved the Committee of the Board recommend the Board of Education approve the revised budget for FY 2013-14 as presented. Ms. Seeba seconded the motion.

**The motion passed**

**F. Teacher Negotiation Update**

Additional SPPS/SPFT negotiation sessions have been held. During these discussions on a number of items were held and agreement reached on one item. Another session is scheduled on January 21. Both sides have presented the major parts of their proposals with questions and answers on all. Administration will continue to update the negotiation website.

**QUESTIONS/DISCUSSION**

- Ed Assistants, are negotiations being done separately from teachers? Response: SPFT represents EAs and there are separate mediated negotiations in process. The two major items for EAs are support and assistance in moving onto a teacher pathway and staffing ratios. Principal negotiations are going on as well.

**G. Standing Item: Policy Update – This will be provided in writing.**

**H. Standing Item: SSSC 2.0 Update**

The update was to inform the Board of community outreach and public relations plans for the SSSC 2.0 and to receive feedback from the Board on the plan.

SSSC 2.0 builds on the foundation set by the current strategic plan; therefore, outreach efforts must address accomplishments of SSSC. A brochure has been developed that summarizes the accomplishments of the SSSC.

Presentations have been developed with customized information for communities of color. These presentations highlight relevant data specific to those target communities and ways in which SSSC 2.0 will work to close racial achievement gaps.

A toolkit of resources is being developed for SSSC 2.0 that includes: presentation slides for use by leaders, SSSC 2.0 graphics (Achievement - racial equity, personalized learning and College/Career Readiness and talking points; Alignment – excellent school programs with connected K-12 pathways and Sustainability – systems that support a premier education.

SSSC 2.0 has an online presence, the website currently includes introduction of SSSC 2.0 at the State of the District address, a list of dates of presentations to the community and staff, links to VisionCards and archival information on the current SSSC plan. The website will ultimately also include an overview of the SSSC 2.0 strategic plan, links to accomplishments under the current SSSC plan, FAQs and additional components as needed.

Face to face, presentations will include the official announcement of the plan at the State of the District address, family & community information sessions, employee information sessions, information booths and Parent Advisory Committees (PACs).

At each of the family and community information session, there will be a presentation, Q & A and live stream on-line. Translators and childcare will be provided. Session will be held on:

- February 9 – a 5:00 p.m. as a webinar
- February 13 – 6:30 p.m. at Como High School
- February 27 – 6:30 p.m. at Washington Technology Magnet
- March 8 at 10:00 a.m. at Harding High School.

Staff will also meet with community groups and target audiences as requested and existing district parent groups.

Information booths will be at the School Choice Fair and the February 22 Thinking College Early Fair.

Employee sessions are scheduled at American Indian Magnet (2/6-7:30 a.m.), 345 Plato Noon, Groveland elementary 7:30 a.m. 2/11, Ben Mays 4:30 p.m. 2/20 and Central HS 2:30 p.m. 2/25. Plans are being developed to do presentations at each school site.

#### QUESTIONS/DISCUSSION:

- Please provide the “Accomplishments of SSSC” to all Board members ASAP.
- Will the State of the District be webcast? Response: Yes, the evening session
- Parent Groups will African Americans and Africans have separate sessions? Response: Yes, one will be held for the African American Parent Council and for the Somali Parent Council.
- Staff needs to schedule one on one with Director Chue to bring up-to-date.
- The website and the archival information and accomplishments of SSSC. Will there be a lot of data and information on the current website on this? Response: Yes, the accomplishment document has three components a review of the SSSC, an introduction of why SPPS needs to move into 2.0 and what 2.0 will be. At a deeper level, there will be many documents on actual data on the SSSC as well as its specific strategies.
- Will this be transparent in its description of SSSC? Response: Yes, the VisionCards are a starting place.
- Extensive discussion was held on the racial equity piece relative to the graphic describing the five SSSC 2.0 components. The Board will be provided an opportunity to provide input on changes to it.
- It was noted on the above issued; additional feedback should come from DPAC on the design. Staff indicated the graphic will never be stand-alone; explanations will accompany it emphasizing racial equity.
- Do not forget to address alignment and sustainability as vital in maintaining the district as well.

- It was noted that people need to know what is happening and what is coming. Response: Staff indicated they wanted the public to have the big picture and then specific goals will be developed along a timeline.

H. Work Session

1. **Board Check-In**

Staff provided input to the Board on their self-management of conditions and agreements.

2. **Finalize Outside Committee Assignments/District Council Representation**

Board members indicated their interest in representation on outside committees. Board members were asked to provide the Board Chair with their preferences for District Council assignments.

4. **Board Conference Attendance**

Board members indicated which upcoming conferences they would like to attend. The travel budget balance was reviewed.

4. **Discussion on Future Board Meetings**

The COB chair noted the need for action on several upcoming meetings: additional closed meetings on labor negotiations, an additional Board retreat and a meeting regarding the Superintendent's 2014 goals. Dates will be provided for the February 21 Board meeting.

5. **Discussion on 2014 Listening Sessions** was moved onto the February COB agenda.

**III. ADJOURNMENT**

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| <b>MOTION:</b> <b>Mr. Brodrick moved, seconded by Ms. O'Connell, the meeting adjourn.</b> |
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|---------------------------|
| <b>The motion passed.</b> |
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The meeting adjourned at 10:57 p.m.

Respectfully submitted,  
Marilyn Polsfuss  
Assistant Clerk