

MEETING MINUTES
COMMITTEE OF THE BOARD MEETING
March 02, 2010

I. CALL TO ORDER

The meeting was called to order at 4:35 p.m.

II. INTRODUCTIONS

PRESENT: Board of Education: John Brodrick, Vallay Varro, Elona Street-Stewart, Anne Carroll, Kazoua Kong-Thao, Jean O'Connell, Keith Hardy

Staff: Superintendent Silva, Suzanne Kelly, Doug Belden, Michael Baumann, Kathy Brown, Barbara DeMaster, Bill Larson, Sharon Freeman, Denise Quinlan, Matt Mohs, Hitesh Haria, Howie Padilla, Luz Maria Serrano, Shirley Heitzman, Christine Wroblewski

Other: Kathy Korum, Doug Belden, Greg Patterson

III. BUDGET OVERVIEW

The Chief Business Officer was asked to provide an overview of the 2010-2011 budget situation. He stated the presentation served two purposes educational and to provide clarification on the FY 11 financial situation and beyond. He opened his presentation quoting the Minnesota Constitution, Article 13, Section 1: it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.

He then went on to outline the characteristics of basic education finance stating:

- School finances are highly categorical in nature
- Taxes are the primary revenue source
- Local Education Authority (LEAs) finances are highly regulated
- Finances are administered publicly
- Political issues have high relevance in LEA finance management

The total FY 10 SPPS budget is \$641.7 million

- The General Fund – the largest fund within the SPPS budget; \$462.9 million
- Six other funds make up a school district budget. These are categorical funds and rules explicitly govern them; they cannot be spent except for their specified purpose.
 - o General Fund Fully Financed - \$71.7 million
This contains budgets with an outside funding source and specific use. Outside funding sources are either private, state or federal grants or contracts for services. Most grants and contracts require specific financial reporting to ensure that funds are expended within the agreement's terms and conditions.
 - o Food Service - \$20.7 million
This fund must be established in a district that maintains a food service program for students. Food services are those activities, which have as their purpose the preparation and serving of regular and incidental meals, lunches and snacks in connection with school activities.

- o Community Service – \$19.2 million
This fund must be established in a district that provides services to residents in the areas of: adult basic education; early childhood family education; school readiness; school age care; adults with disabilities, general enrichment, youth and senior programs, recreation and other similar services.
- o Community Service Fully Financed - \$3.8 million
This contains budgets with an outside funding source and specific use. Outside funding sources are either private, state or federal grants or contracts for services. Most grants and contracts require specific financial reporting to ensure that funds are expended within the agreement's terms and conditions.
- o Building Construction - \$30.2 million
Records financial activity relating to a building construction program resulting from the sale of general obligation bonds or certificates of participation by a school district. Building construction funds are held in trust and expended only for authorized projects. Resources may be used for general construction, building additions, architectural and engineering costs and equipment.
- o Debt Service - \$33.2 million
The debt service fund must be established in a district that has outstanding bonded indebtedness, for building construction or operating capital. It must record activity for initial or refunded bonds. The school board may authorize the investment of debt funds in certain types of securities specified by law. The earnings accrued from such investments become a part of the Debt Service Fund

The General Fund consists of all activities that are not accounted for in a special purpose fund. The activities include: all regular and special education classroom activities; student and district support services; building and grounds operation and maintenance.

Several charts were provided breaking out expenditure categories, revenue sources and general fund revenue restrictions.

The Chief Business Officer then moved on to a State of Minnesota economic overview which presented a bleak picture. The State General Fund revenues for the current two-year budget period are forecast to be \$1.0 billion somewhat below previous estimates based on figures released on March 2, 2010. This current legislative session must deal with that shortfall. Approximately 70% of the projected deficit is due to a reduction in expected income tax receipts. The State's budget gap for FY 2012-13 is projected at \$5.8 billion.

Because of this State situation, SPPS must consider additional loss of revenue in the current FY 10 budget and any funding cuts to Education will have to be assessed for impact on the FY 11 projections.

He then moved on to a review unemployment in St. Paul which is at approximately 7.9%. This unemployment leads to a loss in local tax revenue; increased pressure on the State budget through greater need for social services; the potential loss of student enrollment as people leave in search of work and, as levy burdens become less distributed, it can antagonize constituents of SPPS.

Aggravating the SPPS shortfall are:

- The structural deficit SPPS has due primarily to declining enrollment
- The District operates too many schools for the current enrollment
- SPPS transports 89% of its student body at great expense to the District's General Fund and

- Labor costs (salary and benefits) are the District's biggest expense (approximately 85%) and those costs continue to increase.

He provided several graphs outlining general fund sources and expenditure trends and then looked at the projected FY 11 shortfall. The projected revenue is \$451.1 million; projected expenditures \$478.3 million resulting in a projected 2010-11 shortfall of \$27.2 million.

He went on to discuss the five year projected shortfall as outlined below:

Year	Projected Shortfall	Potential Additional Funding Loss	Cumulative
2009-10	\$25 M	N/A	\$25 M
2010-11	\$27.2 M	N/A	\$52.2 M
2011-12	\$23 M	(State Stabilization) \$29.1 M	\$75.2 M/\$104.3 M
2012-13	\$23 M	N/A	\$98.2M/\$127.3 M
2013-14	\$23M	(Operating Levy) \$30 M	\$121.2 M/\$180.3 M

He stated the projections were based on information available at this time and they will change as more information becomes available. It is anticipated they will become larger. Assumptions used in the projections include the fact the 2006 referendum expires in 2013-14 and assumes no cuts in State aid funding (beyond enrollment). The projected loss to the general fund could be as much as 29% in FY 10 dollars.

He concluded SPPS cannot financially sustain the current education model. Without changes, revenue and expenses will continue to grow further apart. The Federal government will not continue to fund State shortfalls. Additional State revenue will not be forthcoming and property tax increase is unlikely to make up the difference. SPPS must change its system to remain financially viable.

QUESTIONS/DISCUSSION:

- What are some of the rising costs that are not due to new programs and why are expenditures increasing especially relative to student support? Response: The largest cost areas are labor costs (inclusive of salaries/wages, cost of living allowances and benefits). Energy costs and inflation in supplies are also major drivers. The transportation element of the service system also impacts rising costs. Additionally, the District is about 41-42% ELL. When the legislation was changed to provide funding for only five years this also became a loss of revenue. In SPPS, ELL students are served according to their need so the District is contributing/supplementing a portion of the ELL costs. Additionally, there are 17% of SPPS students receiving special education services, which again are not fully funded and the unfunded portions for this comes from the District's funds.
- The phrases, education model and system change, are they synonymous? Response: When education model is used this is the minimum offerings to students for them to receive an adequate education. In SPPS the question is, due to the number of schools, the declining number of students and the declining dollars, is the system providing an adequate education to allow students to succeed? What is the model? This is being developed but when model for a school is looked at it is a school that provides everything a student should have for the core and in addition all the other pieces a student must have to have a rich education (such things as music, art, second languages, ideally a teacher ratio of 12:1, a longer school day and year, opportunity for professional development for staff and time for teachers to review and use student data on performance along with other items listed by the Superintendent. This is the ideal. The current model depends on the budget within a building and how the funds are allocated so there is variation even among schools of exactly the same size. The dollars follow the students. The "system" is the integration of all schools. SPPS needs to become a school system not a system of

schools. Right now SPPS, for many reasons, is a system of schools. SPPS students, regardless of what school they attend, need to be exposed to the same possibilities of enrichment and acceleration.

- Is the additional loss of revenue in FY 10 because of the State budget forecast? Response: Yes, it is a possibility. The Superintendent added that even if there is no change costs have gone up with revenue staying static or decreasing.

IV. WORK SESSION

A. Facilitated Budget Discussion

Mr. Bill Larson served as facilitator for the general discussion on the budget. The purpose was to review the *SPPS Guiding Change Document* content. The discussion's goal was to establish areas of agreement, disagreement or suggested changes to the document in order to facilitate the initial development of various recommendations which will be brought back to the Board for consideration as the budget process proceeds. It was noted that it is crucial for budget information to be given to the schools early in April so they can develop their budgets and plans. The Board was reminded, due to the shortfall, the items in the document should be considered in light of what is viable and achievable, not as the development of a wish list. They were further reminded the document should be considered in light of their governance role.

The facilitator then reviewed the Guiding Change document which consisted of points under three headings: Current Context and Reality; Unacceptable Means and Results Parameters (the 2011 budget process will direct SPPS to...). He then opened the discussion.

QUESTIONS/DISCUSSION:

- Are we brainstorming? Where do we want to get to as an end result? Response: The Superintendent stated it was a time for the Board to look at the document, to establish a comfort level with the statements as these will be used to define the next level of work on the budget. It is an overview for agreement on the broad understanding of the statements within the document.
- Under the "Unacceptable Means" – clarification was asked for regarding the statement avoid fee generation exploration and failure to identify core services,. Response: It is a double negative, if it is read as, SPPS will not avoid fee generation exploration and as SPPS will not fail to identify its core services... they fall into context.
- Please provide an example of the second one. Response. Core services must be identified. SPPS must be sure it knows what it is doing well and what is mission critical because no one else does it. There may be things which can no longer be done and the County or the City or someone has to assist in doing it. It could be interpreted as "zero based budgeting" this is the minimum program SPPS must offer by statute. SPPS knows it must teach the core content so SPPS needs to define what are its core values as a system; what can really be afforded.
- So this gets back to the model/system discussion? Response: There are many models – a grade configuration model, class size model, a transportation model, desegregation model. Together they all comprise a system.
- Would it make sense to go through the realities section to establish agreement or rephrase? The items were looked through and only those where a concern was raised were brought up.
- The SPPS Choice item is not a clear, concise statement. The first sentence is good. The second part raised some discussion regarding smaller schools, what constitutes a small school, the issue of preference/perception. On the second portion, it could be said "current preference for extremely small schools" but is it a preference or is it that the District's large number of very small schools is not able to supported in its current form. That is a physical reality, not a choice issue. 300 was defined the minimum to open the doors previously now it may be the fiscal reality of the number of kids who

generate enough money to keep the doors open. The following was offered as a possibility for this statement: *"the current choice design and a family preference for small schools is not able to be supported in its current form."* This covers perception and the current reality. Agreement was reached that the two sentences were two different things and should be separated. The first sentence to stand alone. The second portion perhaps rolled into the enrollment statement immediately following. It was noted that care needed to be taken to avoid the perception the District is changing the parameters under which families are applying for schools. Care also has to be taken about the message. This was moved to the parking lot (a list of items which were pulled out for further consideration).

- A request was made that at some point there be a discussion on the ideal size of schools.
- The "Transformative re-design" item (Bullet 6) – is everyone okay with this? Yes

At this point the facilitator moved the discussion on to the results parameters column.

- *Create a balanced general fund budget of \$451 million by June 30, 2010.* How is the potential for further cuts from the State relative to this, wouldn't it be better to just say "a balanced general fund budget." All agreed this was preferred.
- *Develop solutions that are within the context of revenue, student demographics and expense projections.* The statement was made demographics drives revenue. The response was No, student enrollment drives revenue. Demographics is broader than enrollment numbers it would look at the ratio of ELL, Special Education, etc. Demographics is the profile. It was agreed to leave this point as is.
- *Meet SPPS Mission, Vision and Goals within the resource limits.* It suggests that if we can't then we need to change the goals. Are we okay with that – NO. It means we need to do that within the confines of whatever resources we have. Yes, exactly.
- *Increase academic achievement for ALL students and eliminate achievement gaps among student groups.* Okay
- *Stabilize and increase percent of total market share of school age children (add: who attend SPPS) over the long term.* School age children in SPPS, right? Yes
- *Consider solutions that may include:* (The facilitator stressed the "may" and stated the Superintendent wanted to know if these are things administration should spend time, energy and money thoroughly exploring [not implementing but exploring])?
 - o *Grade reconfiguration with clear articulation for most, if not all, of the programs with a best-practice focus.* This is particularly relevant to the middle grades as has been discussed. There have been promising practices brought forward in this which should be considered. Yes on this.

The articulation piece feeds into the feeder school item? Would someone explain the feeder school; the relationship between the second bullet and the first. There are programs which are not articulated through all the grades so the District loses some students as they move to the next level of articulation. In some cases the articulation can be done through the 8th grade but not beyond. The District needs to look at encouraging students to move through the articulations but also be sure that the articulations are there. This is an area which may need some investments as well as time spent figuring out what it will take to make those articulations. The alignment has been there and choice for families is there but there has not always been the ability to sustain. That's another issue the District needs to address.

Another thing is looking at charter schools (K-6 or K-8) that have no feeders and making SPPS a feeder for these sources outside of the immediate system.

- o *Equitable allocation of general and specialized funding across all schools, as defined by the District.* What is "as defined by the District?" Because the District has site-based decision making each school decides how and where to spend

their dollars; there are no parameters right now. The District may need to move to define what the minimum needed is at every school (a core). Perhaps rephrase to state *"Consider shifts toward more central allocation of funds versus site-based."* The defined "core" needs to be budgeted first and any remaining funds after that can be budgeted for options. The general funds should cover the core and the other funds are the "icing on the cake." This is the sentiment that makes sense so try to work that into the language.

Will this also move toward making Title I funds distributed more equitably? Title I funds are currently distributed equitably. The Superintendent provided a further explanation. It comes down to a balance of impact of the funding on the schools that have the greatest concentration of poverty and the ability to serve the number of schools that meet the eligibility criteria.

What about deseg monies? Deseg monies are being used for district-wide programming which affects everyone. Part is used for the services from the Placement Center, some for transportation, etc.

Also tied to this is to add a bullet which looks at how the District can examine the distribution of the neediest kids more equitably. A caution was expressed that care has to be taken as there is parent choice. This could be related to how the attendance areas are structured; this shapes the percentage of kids of certain demographics based on where the lines are drawn and the percentage set aside for kids who apply as first choice within the attendance area. This should be an examination of the impact of the distribution of kids. Until the impact is known the District can't assure that every child has an absolute top quality education.

The District needs to maintain an enrollment process by application then work with the schools based on who is there during that year not on what might ideally be the right kids in a program.

Is staff going to revisit the site based management module? Yes. This has been changed little by little over the past few years. It is something which needs to be discussed in the near future relative to what the District believes about site-based management. In cases where there are under-performing schools is it the best way to continue? In many places in the country those schools that have been underperforming have had their site-based management restricted and only regained autonomy once performance improved. Should this be on the list? This needs to be on the table as it goes hand in hand with allocations. This needs to be added as a bullet that perhaps says *"consider solutions that may include a rebalancing of budget decision making between site-based and central administration tied to student achievement."* This bullet may be a strategy or an implementation piece but it is not a budget reduction item.

- A request was made to add a bullet that considers solutions that may include re-examination of the percentages used to allocate the discretionary portion of targeted funds.
 - o *Maximization of facility capacity, especially at the elementary level (closing/combining schools and programs).* This will be central, it is not a stand alone item as there are several other bullets which are a part of this. A reality to consider is not only in the closing and combining of schools but the emphasis should be on the program more than just the building so that whatever the delivery of the program is, the address is not important.

Secondly, because of the relationship to the lease space, if we minimize lease space, the assumption should be the District is also considering that some district-wide services could be part of what are now thought of as schools versus just an office space. Look at optimization instead of maximization, it is program specific and dependent. Concern was expressed regarding the apparent emphasis on elementary. The Chief Business Officer stated that was there because, of the area components (elementary, middle and secondary), elementary is where the issue is for enrollment and space. The secondary level enrollments fit in numbers and space on aggregate. What was mentioned earlier was optimization of facility use and this is not limited to elementary, it is a broader statement. It needs to be clarified that for this year's process this will be looked at but in the course of that provide ideas for the following 3-5 years. In the end it is a matter of culture change – optimal versus affordable space. Optimal should not be “optimal for whom”.

- o *Continue minimization of leased space for district purposes.* Yes, okay.
- o *Restructure and right-size District Central Offices to align with new District priorities and budget.* Does this mean people? Not only staff but spaces. Change Offices to Administration or appropriate inclusive wording.
- o *Re-design of transportation.* Okay, with options other than the ones presented in the past.
- o *Consider alternatives to current school week or days or year.* Okay
- o *Review and thoughtful consideration of labor management practices, assumptions and contracts.* Okay, everything's on the table. What does this mean? It means right now some services are done within the district and perhaps some of these need to be outsourced, shared among other schools/districts. A Board member stated there needs to be a discussion on the Board's policy/philosophy of outsourcing, layoff, rehiring, etc. This should be among Board members.
- o *Work toward alignment of services with the City where possible.* Okay but add County and State, these are key and heavily service delivery. Also add among schools and other districts.
- o *Successfully upgrade of current technology to meet the needs of 21st century schools.* That will absolutely need to be done with the City and the County and the State. This is an investment but needs to consider future sustainability as well.

Clarification was sought on what the expectations were here. The facilitator replied if any of these items are a non-starter and it should not be on the table, the administration should know about it at this meeting. Staff does not want to devote time to studying an item if it is not viable. If it is not viable or at least potentially viable take it off the table, no time will be spent on it.

What needs to be done tonight is to let the administration know that the Board is willing to consider possibilities around these areas, which is why they are written broadly. If there is something the Board will not consider at all, administration needs to know it right now. There will be “non-harmful to the kids” opportunities within these areas and the District has to go there. It doesn't mean that what administration comes back with is something that can/will be approved. The Board needs to see all options.

The Superintendent stated that in the information/proposals brought back to the Board on the items in this list there may be many things the Board may not agree with. The list will be extensive, some things may need to be done this coming year, some things in future years. What is not desired is to look at this as it has been in the past, a yearly cut and then start over again. This needs to be looked at over a 4-5 year scope, in the big picture context.

What about partnerships? Concern was expressed about the notion of partners providing core services. As public funding abandons education, private funders step in and at some

point they begin to provide core services. This is a no-go area. The other problem is if the partner steps back from funding then the District is left struggling to continue the program or having to abandon it.

The other piece, which is a financial management issue, is the site-based model lends itself to the orientation that the District would fund at the school level creating an investment with dollars that might go away and transferring the burden to the general fund. The current system encourages that. That is where the idea of site-based becomes a very strategic statement by the Board and administration actions to foster it. That has to be on the table as a change.

The Superintendent stated in the area of technology there needs to be more centralization without the current process of schools investing in technology and not being able to support it. This needs to be more prescriptive. The District needs to maximize the service and minimize the cost. The reality is the District no longer has a choice about doing some things, it is about being sure the District provides an equitable education for all kids in the schools.

What is the timeframe for this piece? The goal is to have as much as can be accomplished ready by the 23rd of March. The ideal would be to have a fairly firm grip on this following that meeting as schools need to receive their allocations by the week following Spring break.

A reminder was made to Board and administration that this is the middle of a legislative session so as administration moves through ideas, strategies, etc. thought should be given to the implications for the legislative session if implementation is next year. That window is closing so these things need to be expedited in case legislators need to be informed. For next steps, is there a need to identify those things which have implications for activity at the Capitol. There may be a need for waivers of current law and policy issues. Anything with a timeline needs to be addressed.

Concern was expressed that no conversation had been held on priorities on the part of the budget. Has the Board articulated its priorities? These statements open the door to allow administration to do further exploration, calculation, etc. The idea of being able to work with the visioning piece – work needs to be done on strategic planning, etc. and since there hasn't yet been an opportunity to do this, in receiving proposals back on these items perhaps administration could provide a "here is how we see a standard elementary school" that the Board could react to as opposed to building from scratch. The reaction process might create the opportunity to have the conversation for the future as policy is built into the strategy going forward. To take this one step further, these items are all the things the Board would consider, come back with any combination of these things that would result in the District getting to the point it needs to be at in reducing the budget. It might not all be done within one year but it is a five year plan, so what chunk gets to the end game for FY 10-11 and when are the other chunks addressed. Choosing a top three items too narrowly defines what will be considered, the Board should be able to look at all options and make their decisions from those.

Concern was expressed that the Board had not looked at things from the macro level and established their priorities. The comment was made the Board needs to focus on the results parameters because those need to support the mission and goals the Board has established. All of the Board's work needs to focus on that. The Board has to be prepared to listen to the administration's proposals that meet those ends and move toward the mission without saying "you can do everything but..." It is the Board's obligation to do what is best for kids. It gets back to rightsizing, the District has to have a configuration over the next couple years so cuts don't have to be made every year.

Half of SPPS' students are in the early years. Changes which will be made around an orientation of staff, delivery of services, building rightsizing, administration support – if this is done in the early years this should grow its way through the system. What can be changed now, especially regarding the elementary years, because all of those things set precedent for an articulation of everything that happens across the district. The opinion was expressed there should be some sense of prioritizing around the early years of education or define it in the sense of first contact families have with the district. As right investment is made in the early years the system will shift in the direction wanted with the right results. Its not just getting kids reading it's all the other service oriented areas and administration of resources, the right allocation of resources.

The items sent to the parking lot for further review included:

- Examine distribution of neediest kids with an eye toward equity
- Look at Title 1 funds (deseg, etc.) allocations for possible redistribution
- Look at middle school model
- Create new language for Bullet #7 re school size
- Add bullet consider solutions that may include a rebalancing of budget decisions making between site based and administration tied to student achievement
- Shared services add County, City State and between schools/districts
- Role of strategic funding partnerships

The Superintendent stated everyone needs to be creative and remain open-minded when looking at the ideas brought forward; it may not happen this year but the District needs to look at what might happen in the next few years. It will not be easy.

Clarification was sought on the upcoming community sessions, how much community input will be sought? The first set of meetings will receive information about the budget similar to the presentation given to the Board at this meeting. The second piece is to be sure positive messages are being conveyed to seek ideas as to what the community wants to retain in the district on the strategic scale so it can be reported back to the Board. They are really about what is the budget, what is the situation the District is facing, what questions do the community have in this area. There will be a second chance for input once the budget is built. The meetings have been labeled Budget and Academic Audit Briefing.

B. Update on BFAC/CEAC Application Process & Forms

Directors Carroll and Hardy reported they have reviewed the notes from the COB and established categories to bring back for discussion which included:

- Process details and schedule
- Member characteristics/demographics
- Recruitment/promotion process
- Appointment, member terms, term limits, renewal, non-renewal and removal
- Forms (consistency between and revised content)

Something will be ready by the Board meeting. The process has already been approved so this is simply being finalized and polished.

VII. **ADJOURNMENT**

MOTION: adjourn.	Ms. O'Connell moved, seconded by Ms. Street-Stewart, the meeting
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Motion Passed.

The meeting adjourned at 7:09 p.m.

Respectfully submitted,

Marilyn Polsfuss
Assistant Clerk