



# Committee Transcript

## Red Clay Community Financial Review Committee Tuesday, July 12, 2016

### I. Minutes

Ms. Rattenni welcomed Mr. Robert Chase, RCEA representative to the Committee.

The Committee reviewed the June 2016 meeting minutes. Ms. Thompson made the motion to accept and Mr. Chase seconded. The motion carried.

### II. Monthly Reports

Ms. Floore distributed the June 2016 expenditure reports. This is our year close out of June 30<sup>th</sup>. We ended very strong. We ended with 101.95% revenue slightly ahead of budget. On local funds we received \$2.3 million more than our estimate. Toward the end of the fiscal year, an error dating back to 2010 was discovered. With the conversion of the financial system a liability account was set up for withdrawals of local benefits but during that same time the benefit payments were made. There was excess in the liability account that was able to be transferred back to local funds. We worked with the Division of Accounting to process a one-time transfer of \$641,000 to our local revenue line. Also, we have a delinquency that is built in to our expected taxes. We received our taxes and those delinquent taxes and sheriff sales as well.

On eRate we received 100%. That is the credit program with the federal government on based on usage on phones. Indirect came in significantly under the estimate. Our indirect rate is going down. However, it means that a higher percentage goes to services rather than administrative recovery.

Income from fees is slightly below. That is solely based on building and field rentals. There are always fluctuations. Cscrp we received more than anticipated. Mr. Chase stated that the staff is asking at every I.E.P. meeting if the student is Medicaid eligible. Ms. Floore explained that if the parents said no, initially, then none of the funding can be recouped. The services didn't change, just the number of people participating.

Needs based tuition was \$4.5 million. The budget had \$5.5 million. The money came in the tuition tax. Last year was our first year of inclusion from Central School and Richardson Park Learning Center to the feeder schools. RPLC actually stayed close to their unit number. The total enrollment shift did not happen to the regular schools due to the increase in preschool and the autism program. The \$1 million was then funded to RPLC. It is not a \$1 million cut to tuition, but a move from regular schools back to RPLC.

State salaries was 102%. We saw an increase in the number of complex and intense units. That is the same for Division II and III. State Technology is a funding line from the State at 99%.



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All of the other funding from the State was \$3.8 million vs. the budget of \$3.9 million. Because of the \$2 million in swing in local revenue and the \$1 million less in tuition, all told actual was \$205 million vs the \$201 million in the budget. It was 101.95% above expected.

Ms. Floore asked the group to turn to Page 6 tuition revenue. All of the tuition tax comes into one line and gets divided out to the schools, consortium, needs based, etc. Tuition funds in general came in at 101.99%. Tuition billing came in higher this year. We had a significant amount of students from out of district come in this year, especially First State School. It's a county wide program.

Ms. Floore offered Mr. Chase the option of meeting with him at our office or his classroom to explain these line items with him as a new member. Ms. Floore explained the history of the Committee and the purpose of this report.

Looking at expenditures. Adult education is funded by the State. The State gave us more money than the budget number we anticipated. We can't spend more than we receive. The amount looks over budget but it is expended up to the amount we received. You can see the same swing on revenue. Mr. Chase asked if that meant the State would give us less next time. Ms. Floore explained, no, the State adjusts it. It could be more, less or the same depending on their budget priorities. Not every district has adult education. There was a lot of back and forth with the Joint Finance Committee this year with questions on adult ed. Drivers Education, Vocational Education and Transportation are others that are funded by the State.

Mr. Chase asked what is expected to be paid out of the school budget. Ms. Floore explained that because our district is so large, we budget many things centrally. Salaries, transportation, nutrition and curriculum are areas budgeted centrally. On a secondary school level, some of the budget is supplies and materials, and athletics. Salaries for the coaches do not come out of the school budget. Ms. Thompson asked if athletic buses also come from school budget, and yes they do. Mr. Chase asked if these budgets include any grants that the schools may have applied for and received. Ms. Floore explained that the grant funds are in internal accounts, much like field trips. Ms. Floore explained also that some grants through the State or Federal are included in the report. Focus planning money, for example, is funded from State School Improvement funds but can come through from the federal transfer.

Mr. Chase asked if the budget is based upon how much was spent prior years. Ms. Floore explained that school budgets are based on unit count and if they have any of the 15% carry over from the prior year. Therefore, from year to year, it can look like a school that has grown in units had a cut to their budget. In truth, the schools original budget grew to match the unit count, but they may not have carried over as much or anything from the prior year's budget. Other departments, not schools, cannot carry over any funds to the following year. The surplus from their budgets goes back to our bottom line. We don't punish a school who is saving for a large purchase between two years, like a tech lab.



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We track all year long those who look like they are continually running high or low. Division 1 salaries came in at 102%. It came in \$94.8 million vs the budget of \$92.8 million. Monitoring and tracking inclusion and where the salaries were going and the units for intense and complex moving to the regular schools became a move in where we track the salary. We didn't spend \$2 million more, it just came from a different budget to where that employee was assigned.

Driver's Ed is at 77% which is low but that carries over to September 30. The two main purchases are the manuals and the cars. It helps to have two years of funding in those large purchases. We purchased 3 cars this year.

Heritage is line 47 at 81.7%. However, they got a new principal on April 1<sup>st</sup>. Anytime a school gets a new principal, we allow them to carry over all of their budget as they need to acclimate themselves to the building in order to purchase for their students. In this case, it's \$18,000 to carry over.

Local salaries and benefits, we were very close to budget and off by \$347,000.

Related services is one we track very closely. The money follows the student into inclusion wherever they attend school. There are contracts for related services of OT or PT and we went over budget. We must provide the services for these students required through I.E.P.

Ms. Thompson asked about the Legal bills and how the insurance coverage paid some of the invoices. Ms. Floore stated that it is not accounted for in our expenditures, other than our insurance premium. These legal fees are net of the \$100,000 the insurance company has paid on our behalf. Red Clay is being sued by the ACLU over the last referendum. We have incurred collectively over \$200,000. Our insurance covered the first \$100,000.

At the end of our fiscal year we are 101% expended and encumbered. We have \$5.1 million in encumbrances. That is money reserved through a purchase order for a purchase that has not yet been invoiced for. We are not over expended. We were ahead in revenues. We came in very close to on target and on track in a stronger position than last year. Unlike last year, we were not deficit spending nor will we for the next two to three years.

Ms. Thompson asked where Priority Schools are funded. Looking at the federal Priority Schools are on a line entitled "School Based Intervention." It is \$1.4 million. It is 73% expended and encumbered. It is not 100% as summer school and summer professional development are included. The State allows a carryover of the funding. The schools received \$366,000 each. Focus planning and other grants came in as well. The schools will also receive \$366,000 next year.

We will look more closely at the federal as they wrap up in the fall.



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Minor capital improvement money is only at 24% as it is 2 year funding and most of the work is done over the summer months while students are out. Debt service is 93%, as we have July 1<sup>st</sup> payments due.

Meadowood and RPLC are lines we are tracking. District wide services is substitutes and we went over this year. In regards to transportation, students from Central school didn't just go to the regular schools, some were placed into Meadowood, and so they had a significant increase in units. They qualified for two assistant principals due to the growth in students. The expenses, therefore, went over our estimates. All totals for expended and encumbered for Meadowood is 97.6%.

RPLC is Division 58. District Wide services is substitutes and transportation increased as they had an increase in PreK students and more autism students. It came in at 88.8%.

Mr. Doolittle made a motion to accept the expenditure reports with corrections and was seconded by Ms. McIntosh. The motion carried.

### **III. FY 2017 Tax Rate**

Ms. Floore distributed a copy of the FY 2017 Preliminary Budget. The voters have set what we were to expect on taxes so there are no big surprises. We had a referendum in 2015 which set our current expense tax rate increase to +\$.10 this year. Minor capital improvement is pretty stable. The State sets how much we will receive from them, they put it in the Bond Bill and they tell us what the local share has to be. The Match is for items the State used to fund. They no longer fund these items, but allow us to tax for what the local share used to be e.g. resource teachers, extra time programs, and technology. It is the smallest of the taxes and not changing this year. Tuition tax funds our special schools and tuition eligible programs. Where students who are intense and complex reside. This can be inside or outside our district in the place of private placement. This includes regular schools, students choiced out of Red Clay, RPLC, Meadowood, ELL, First State School, the Autism Program, the School for the Deaf, the consortium and private placement. Debt service is based on the capital improvement program. The projects were approved by the voters, the amount is set as a result of the bonds for those projects.

Red Clay assessed property values change every year. Our taxes are set and multiplied by the assessed property values. On average it has changed a half percent. The area of Red Clay does not have a lot of growth. If you have additions to the property, the assessment department increases you value. Brandywine District's assessed value is actually shrinking, especially with the loss of Astra Zeneca. Appoquinimink is growing. Normally we are at .5% of growth. Last year was .66% and this year is up .89%. The exact same rate that we have in any of the tax categories, we will get the .89% more. This is the highest Ms. Floore has seen it in 7 years. Our overall assessed properties is \$5.3 billion.



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For the tax pool the discussions for WEIC have put it in clearer perspective. When Red Clay and Christina and Colonial and Brandywine are all the NCC school district, the tax rate was 46.8 cents. When they broke it into 4 districts, and broke up the property values, the higher property values would be paying much more than the lower values. So when the NCC district was disassembled, the 46.8 cents of every tax is broken into the number of students and each new district got the amount multiplied by their current number of students.

Ms. Floore also stated that the number of students used to be easy to calculate. Now with intense and complex students and regular schools there are great disparities in what each district is accounting for in the tax pool calculation. Special schools used to be excluded, but with inclusion those same students are now included for some districts and not others.

Mr. Chase asked if the students coming from Meadowood into the regular schools funded by the tuition tax. Ms. Floore explained that yes, the tuition funding follows the student. The Meadowood and RPLC students were excluded from the tax pool count because they were already funded through tuition. Brandywine School District was the first to go to inclusion. When their students transitioned to regular schools, they received a larger piece of the pie. The formula was frozen when it was realized there was a problem and Brandywine got frozen high and we got frozen low. We have these students now, but ours has been frozen for 4 years and they don't count. Needs based funding changed the way we were counting students but the laws and formula have not caught up. But if it was changed, it would cost Brandywine \$2 million and they would have to go immediately to referendum so there are really no cost options that wouldn't significantly impact.

Equalization was frozen for years. We have been talking about it for all of this time. This year the U of Delaware discovered the numbers from Kent County were wrong. We thought we were losing through equalization, but with the revised data we're pretty much where we should be. Kent County charges their tax on 60% of the assessed value. We charge 100% of our values. Our values are from 1983.

These are the highlights of things we watch looking in to next year.

In terms of the State budget, most districts were left untouched. The budget funded teacher steps and a partial 1.5% general salary increase. Because it begins in October, the figure is 1.125%. Starting next year it is 1.5% for the full year. There is also an increase in the OEC rate. This includes pension, workers' comp, FICA. The change is 1.01 which a 1% increase which will impact us on the local side.

Funding for ELL, high poverty and Basic K-3 special education students was not addressed in the State budget. This was a great disappointment. WEIC was delayed a year for further study.



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The proposed tax rates: operating tax up by 10 cents. Tuition tax up 2 cents. Debt service 7 cents and match tax is unchanged. The total change is 19 cents. For an average household, payment of \$1,741 which is an increase of \$142. The two voter approved taxes are operating and debt service.

Debt service is 7 cents this year based on the 30 year bond repayment schedule. We were supposed to go up 8 cents, but the State bond sales were successful and received a lower interest rate. This is the highest it will be as it will go down again within two years. The question is why we have the largest increase now when the referendum was 2012. The State doesn't fund everything at one time. The early years are actually the lowest years and phased in over time. We just finished this year. We sell the bonds, and there's a delay. The curve is that we are buying bonds and paying off bonds that are 30 years old. We are currently at the peak.

For tuition, Ms. Floore explained the recommendation is a 2 cent increase. That translates to \$20.2 million total tuition funds. The 2016 actual was \$18.6 million. For example, Meadowood, needs based funding of \$5.5 million, we funded \$4.5 million. However, Meadowood received \$4.1 million from a budget of \$3.4 million. The total tuition expenditures is why needs based funding is only one line that comes over. Tuition payments to other agencies not changing significantly. We have seen a drop in the numbers, as students go to Delaware Autism Program (DAP) but more students returning from DAP. There was a fluctuation. In years past, our tuition payments to other agencies were higher. More students are leaving other institutions and returning to Red Clay. Unique alternative and consortium have no big changes. \$4.8 million to fund Meadowood, a \$700,000 increase in expenses. RPLC had a budget of \$4 million but we needed more for expenditures. Therefore, we need more for next year.

The budget goes through and shows each line by line. The biggest expense in ELL is salaries. It's the same in Meadowood, RPLCs, including paraprofessionals and therapists. Ms. Thompson asked if they were all out of local. Ms. Floore explained that no, we receive units for most of the staff, but we do have fully tuition funded paraprofessionals. Ms. Thompson asked that with tuition funding, how we arrive at a budget. Ms. Thompson understands that it is based on the students that we have and what they need as well as projected students. But she's concerned about the special education budget. Ms. Floore explained that budget gets billed by expenses. If you have a special education teacher working with an intense student at Cooke, for example, they have a paraprofessional and a C setting (small group setting). The local share of the teacher's salary is paid by tuition, the paraprofessional is paid for by tuition, the related services and supports are paid for by tuition. When the budget is done, it is done with a listing of staff members and projected expenses.

Mr. Doolittle feels that the tuition tax is grossly underfunded with what we need for inclusion and the students are going to suffer next year. Ms. Thompson stated that is also her concern. Ms. Floore stated the increase in the tuition tax increase is 2 cents and it isn't the end. It changes as the composition and needs of the students change. Ms. Floore potentially recommended an avenue to continue further budget discussion is the



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inclusion committee and would like to have a finance representative participate on that committee. Ms. Rattenni explained this is a policy decision the Board will have to address. Ms. Thompson recognizes that we cannot locally fund full positions. Mr. Chase stated that added paraprofessionals to classrooms looks good on paper, but they aren't always the right people for the job. Mr. Doolittle added that maybe the first year we locally fund a position, and the following year it is funded by the State. Ms. Floore believes further conversation at the inclusion committee will put a specific process in to place. Ms. Rattenni stated that this Committee can recommend participation on the subcommittee.

Mr. Doolittle explained that he will vote no on the tuition tax. Ms. Henry made the motion to accept the tax rate and Mr. Chase seconded. The motion carried with Mr. Doolittle opposed.

## **IV. FY 2017 Preliminary Budget**

Ms. Floore distributed the 2017 preliminary budget. The operating budget is current expenses and state funds. The tuition budget we have already discussed as well as debt service and match tax.

Looking at Page 15, we will go over the larger issues. We always invest in the things we believe and spoke of in the referendum. Behavior interventionists, talented and gifted, RTI and reading support remain in the budget. We have the AP support for the high need schools. These are things we have also maintained due to the referendum.

The changes this year are curriculum and instruction was reduced by \$400,000. Curriculum last year went up \$1 million last year for text book replacement, math adoption. They did elementary which is larger. This year is secondary which is less. It is a cut from last year but still an increase from 2 years ago when we passed the referendum.

Technology for one-on-one the first year we said we would spend the money on training. The investment in the second year is in devices which increases. They also have training for the next grade as the devices follow the students. We started with grades 3, 6 & 9 and now we're adding 4, 7 & 10. Those are the two biggest line item changes.

There are small tweaks as in Research & Assessment that receives a 2% increase. Student services is a \$43,000 increase. They received another middle school teacher from Communities in Schools.

Maintenance is an area that always receives the normal contractual budget increases. Special Education has a 5% increase for purchases outside of the school budget and outside of curriculum.

The Division 1 Salaries is the biggest swing at \$5.6 million. Budget to budget we came in over. Actual to budget is \$4 million.



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School based intervention is where priority schools are budgeted. This is where focus school planning money that is moving to federal money. The negative shows it moving into federal.

Linden Hill is less \$50,000. Last year they had a new principal and we allowed a larger carry over balance. This year the carry over balance isn't there, yet they still get the formula budget based on students. The same for Richardson Park and Marbrook. Richey carried over more than last year.

The largest single line item for local is salaries and benefits. It is a \$2.2 million increase. That is for steps and lanes, the 2% contractual increase for all employees other than administrators and the 1% increase in OEC rates. The 2% in salaries and 1% in OECs go together for a 3% total increase for employees. We also have an estimate in increased unit growth paying for more people. The estimate for salaries is \$59.9 million reflecting a 2.2% increase from the final budget. It also accounts for the area we went over in substitute teachers. The other increase of \$321,000 for related services for special education.

We did make some decreases. Data Service Center and the copy center are two areas we are reducing as lower costs in production. Production is moving toward the schools and curriculum is becoming paperless. DSC has been successful in selling packages and other services to other districts. Red Clay and Colonial own DSC but other districts and the State buy products.

The budget itself goes up for expenditures of \$203 million. The good news is that we are not deficit spending. It ends with a \$1.3 million balance which is on target for having the referendum last for 4 years.

Mr. Chase asked how the changes in Conrad will be funded. The mascot changes for the gym floor, etc. Ms. Thompson stated that there isn't much expense. Some funding would come from maintenance, not all from one source. We also have a contingency fund for items not in the budget. Simple items may come from maintenance or structural from minor capital. Ms. Floore did an estimate as a Conrad alumni had put in a FOIA request on how much money has been spent by different organizations including Red Clay on several items and we estimated it at \$10,000 and that included the headdress.

Ms. Henry made the motion to recommend the preliminary budget and Ms. McIntosh seconded. The motion carried.

## **V. WEIC update**

Ms. Floore explained that there were some last minute bills and resolutions that were surprising. Senate Bill 300 endorsed the plan without funding. No where did they speak about the Governor's allocation of \$6 million in his budget. There was a discussion on



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the K-3 component for special education funding. The \$6 million dissolved to nothing. The final outcome was a bill the continued study of the plan and an allocation of \$200,000 to the University of Delaware.

Mr. Doolittle explained that the revenue mark was bad at the end of the year. Ms. Floore agreed that the State budget was facing other issues. One is the abandoned property issue. They may not even have the budget to do what they are currently doing rather than adding to it. The abandoned property is being challenged by 23 states. Mr. Doolittle thought the legislature wants more detail and a state-wide plan even though that was never WEICs mandate.

Ms. Thompson explained it is one thing to talk about the funding and another about redistricting. The redistricting has a large price tag which no one knows how much it is that it will be year by year. People want to work on the funding piece. Ms. Floore said the funding problem has existing for years so why did it take something like WEIC to start the discussion. I

Mr. Chase asked if there was a study to find out how much this will cost. Ms. Floore explained that the bill gave \$200,000 for further study. One of her concerns is WEIC cannot plan on behalf of Red Clay. Any plan that's developed, the Board has to approve.

WEIC will meet at the end of the month. Ms. Thompson feels a referendum vote from the people where the redistricting will happen should be taken to see if it should be done.

Ms. Rattenni asked if we would make a recommendation to the Board for a subcommittee on finance to the inclusion committee. Mr. Doolittle made the motion and Mr. Piccio seconded. The motion carried.

Ms. Floore will make sure it goes into the Board report.

## **VI. Public Comment**

There were no public comments at this time via email.

Mr. Klampett wanted to comment on the discussion regarding WEIC and necessary and sufficient funding. He thinks if the Red Clay district and its board doesn't decide what is necessary and sufficient, they will have to negotiate against what is thrown to them by the WEIC. It is a position of weakness. It is a number that needs to be solid and summarized in 1-2 pages and substantiated in each element in appendixes. A key element is what we will do with the units. The units for weighted unit funding. If we hire the teachers which is what it's all about, there is the local portion. So we need to know what we're going to do with the units and the money that comes from the state with the units.

With respect to membership with this Committee and regulations he will bring the item up with Dr. Daugherty as the board directed.



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With respect to the budget 75% of our budget is in salaries and benefits. 90% of the year increase is in salaries wages and benefits. He suggests in the future preparing the information in a different waterfall format of increases. Ms. Thompson and Mr. Doolittle agreed.

Mr. Klampett also spoke to the inclusion subcommittee. We track how we gather up costs to recommend to the board on the tuition tax change. We should focus on everything paid for by the tuition tax not just inclusion.

## **VII. Announcements**

The next meeting will be held Tuesday, September 20th in Conrad Schools of Science Library at 6:30 PM.