



# Committee Transcript

## Red Clay Community Financial Review Committee December 13, 2017

### I. Minutes & Transcript

The November 2017 Minutes and Transcript were reviewed. Mr. Doolittle made the motion to accept and Mr. Pappenhagen seconded. The motion carried.

### II. Final Budget

Ms. Floore presented the Final Budget for FY 2018 to the Committee as it will be presented to the Board of Education the following meeting.

Ms. Floore explained that the State funds us as per the September 30<sup>th</sup> student count. Therefore, we can only do a preliminary budget at the start of the fiscal year in July. There is a lot of fluidity in student enrollment. It could be choice, charter schools or students simply moving in and out of the district. The September 30<sup>th</sup> count reflects a truer sense of the student body. Students can still move in and out of the district, and they do, but this is what our budget is based upon. This final budget incorporates the adjustments that needed to be made. Other things factor in as well as enrollment, as this year the State budget was very late to pass.

This year, in the State budget, the cuts were based as a percentage of our relative units vs. other districts. We know now our cut for Division 32, which is our main budget, is \$2.6 million. The total cut includes Division 54, which is just Meadowood, and Division 58, which is just RPLC. They are separated, as they are intense and complex students. This means we can also apply tuition tax. There are also tuition dollars in Division 32 as we have inclusion. Those are supplemental dollars on top of operating funding that follow the intense and complex students in our regular feeder schools. They split the cut out \$2.6 for Division 32, \$129,000 for Division 54, and \$137,000 for Division 58. Those cuts are incorporated in the final budget. Trying to reflect these cuts has been difficult. We feel the best way to reflect it is the absence of it. You do not see a cut; you see the revenue estimate as less than we received. The fear was that we would never meet the estimated amount from before the cut. We will explain the areas that were cut as we go through. You don't see the cuts in the expenditures, as you don't spend the funding you do not have. We did cut departments by 20% in the preliminary budget. Ms. Thompson asked what percentage it was of the total budget. Would it have to be additive or separate? Ms. Floore explained that on total state revenues of \$126.8 million it was a 2% cut to total State revenue. That would only be on Division 32. Arguably, it would be 2% of 54 and 2% on 58. Mr. Miller added that we had to show the actual revenue and the values of the actual reduction as well. Adding them together, we would know what we would have had this year. For tracking purposes, this was the best way.

Ms. Floore added that the preliminary budget included the estimation of the State cuts. Therefore, when we say the revenue impact is .5% from the preliminary to the final, those changes have happened after the cuts. At the preliminary budget time, we put a placeholder for



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those cuts in Ed Sustainment. Now that we know the cut amount, it is reflected in all departments and categories that are affected with Ed Sustainment coming back up.

Ms. Floore explained that the State has also changed procedural funding. Looking at Priority Schools, for the last two years, those funds were listed as a State revenue. This year it is funded out of federal funds. It had to be taken out of the budget and funded in the federal budget. Mr. Doolittle stated that there is a \$2.5 million appropriation for school improvement and the schools aren't receiving any of it. Ms. Floore answered that it has not been made clear to us.

Mr. Miller stated that he keeps reading about a State surplus. But that surplus does not include the increases and expenses that the State anticipates for the prisons and other areas over the next six months. Is the \$44 million real, or is there more to come. Ms. Floore stated that there is concern there is no appetite to put back the \$26 million cut from the current year. Mr. Miller stated that the revenue side is going in the right direction but it's what they do with it that is concerning.

Ms. Floore explained that sometimes a school would lose units due to the September 30<sup>th</sup> count. We don't feel we should then take funding away from the school. It's very small as most are done at the district level, i.e., curriculum, transportation and nutrition. The schools still have their own operating unit. Now, they have a half of year's expenditures. The next year is when the loss would be reflected. However, in those that have more students, we do increase. Therefore, there are schools that go up, but none that will go down.

Mr. Chase asked how many teaching units are covered by local funds. Ms. Floore answered current expense, zero. Tuition tax local funding covers many employees from paraprofessionals and teachers beyond the units we earn, as we have to fulfill the student I.E.P.s. That is why the board is allowed to levy that tax. If the voters said no to a referendum, we still have an obligation to fulfill the I.E.P.s. Ms. Floore will follow-up with Mr. Chase. Dr. Daugherty also added there are educational diagnosticians and psychologists they are also covered by tuition dollars. Ms. Floore added that the only other positions totally locally funded are those funded by the referendum itself, 2 one-on-one technology initiative. In fact, next year 3 will taper down to two. The initial plan for this program was training. Mr. Chase asked if there were any special education teachers paid totally paid from tuition taxes. Ms. Floore stated yes there were many at Meadowood and at RPLC. Off the top of her head, three at McKean and two at other feeder schools to support those special education inclusive schools. The State share of a teacher's salary is funded about 60%. For teachers working with intense and complex students, we can take that local share and charge it to tuition. We have paraprofessionals that are earned through needs based funding working one-on-one with a student. We use the tuition funds to pay the local of those paras.

Ms. Floore added that this year there was a strategic plan initiative from the Board to increase tuition support. Tuition funding also funds ELL. We have a handful of 100% tuition ELL positions, as there is no funding for ELL from the State. Tuition will follow the teachers at First State School (in the hospital), Meadowood, RPLC as well as paras and teachers in the inclusion program. When we had Central School, they were funded by tuition. When the school closed, the students went to the feeder schools and the teachers followed.



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Ms. Floore explained that the unit count went up in units and down in students. We have more complex and intense students that earn higher units. We have 27 more PreK students, 179 less K-3 students, 171 less 4-12 students, 49 more basic students, 31 more intense students and 55 more complex students. Not only are more students identified, but more are moving into our district. Mr. Miller commented about the students we receive after September 30<sup>th</sup> will be tracked and paid for totally out of local dollars. Ms. Floore stated that is correct. It comes from tuition contingency if they are intense and complex. Other students impact class size units which is why the Board had a quite the debate at the Board meeting about what happens when the class size goes from 22 to 23 because of students moving in. It's a challenge as we are funded as of September 30<sup>th</sup> and students come in after that. It is a huge gap in a district our size. Mr. Miller asked that those expenses that are absorbed by the district, how will that affect the referendum that was passed and the utilization of those dollars? Ms. Floore explained that we do plan for it and its part of our contingency. The State has always stated that there are students moving in from Pennsylvania as well as the other Delaware districts. There are also students who leave us. The defense has always been that we cannot take the money from another district when a student moves in, and are we willing to give up money when one moves out. Ms. Floore stated there are cases with a class size of 19 and someone moves in moving it to 20 is fine. She feels the State should have a fund when a district has a hardship. In a case where a complex student moves in and increases not only the class size, but requires more support. Sometimes we can absorb it, it is disruptive, but can be done. The times when it isn't ok, we should be able to petition the State for additional units. Mr. Miller added that in this budget cycle, we have significant budget reductions, and every dollar that comes out has an impact on the operation. Mr. Doolittle added that there are students who are identified after September 30<sup>th</sup> or move up a tier within special education requiring more services. And the district is getting a good reputation for dealing with students in special education; he has heard this from the community. Mr. Miller added therefore, students are moving in just to be serviced here. Dr. Daugherty added that can be seen in our autism program that continues to grow each year.

We are up 13.27 units. Most of that is intense and complex students. 6 are at the traditional schools and the rest are in the special schools. Inclusion has shown the increase. We are down 188 students.

Ms. Floore stated that there are more opportunities for choice and charter than before. Odyssey Charter is growing out the high school. The other large attendance is First State Montessori. In terms of choice, Red Clay choicing out to other districts increased by 36. Choice students into Red Clay decreased by 5. We have 1,369 choicing in and 460 choicing out. Our choice bill on the revenue side, we get the local per pupil calculation. That has been quite the controversy this year. The Department of Education revamped the formula on how the local per pupil is done. This year they included the match tax. The match tax is local funds that take the place of non-existent State funds. It used to match a State appropriation that has long been cut, but the State allows us to keep the tax for extra time reading specialists for elementary schools, as well as technology. This year DOE felt that should be in the calculation. The schools met and formerly opposed it, lawyers wrote an opinion stating it is not right. The decision is with the Attorney General now. Ms. Floore believes they will let the DOE keep that decision. What it does for us is put more funding into what gets divided up into local per pupil. There's a disconnect. If the money was intended for reading specialists and after school programs, our two biggest



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participants in charter schools are Charter School of Wilmington and Delaware Military Academy. They are high schools and do not have those programs. After school programming is paid for by the parents at those schools. Plus, the decision was made after the budget. If this was truly their intent, then the match tax should be adjusted rather than take it out of Warner or Shortlidge and those schools that need this funding. The net effect would be an additional loss of \$400,000 in revenue.

Our charter enrollment increased by 117 students. It is 3.8% but the amount of our expenditure went up 9.6%. That is because the local per pupil went up due to the new formula calculation. Ms. Thompson asked if enrollment was in charter schools in Red Clay or outside of Red Clay. Ms. Floore stated that the charter payment is for all charter schools in and outside of Red Clay. The revenue goes out even if the school is in Red Clay as charter schools are their own entities

Mr. Chase asked if there was an internal chart showing school to school changes? Dr. Daugherty stated the Choice Office would most likely have that information. Mr. Chase stated it would be interesting to see why families are abandoning some schools in favor of others. Ms. Floore answered the numbers wouldn't tell you the reasons as the parents don't share those. Dr. Ammann does it the best with scatter plots. It would be a difficult chart. Dr. Daugherty stated you see more movement with the middle and high schools. Students in the elementary schools can be from anywhere. We know many choice in for the immersion programs. Ms. Floore added that day cares add a lot of changes as they service one school and family daycare options as well. There is no reason on the choice application. There is a reason line on the special permission request, which is valid for one year. Mr. Chase stated that a lot of the Christina students live right on the border of the districts and Red Clay schools and bus stops are closer. Ms. Thompson added that we lose to Brandywine due to them having a gifted program.

Ms. Floore is reviewed the revenue changes. We had the choice and charter increase due to the settlement. We did have a little carry over from the match tax, so we continue to fund 9 resource teachers this year. Needs-based tuition was reduced. We earned 13 more units, and because they were special education students, we also earned more related services units. The plan originally was that we were going to 100% fund the additional psychologists and speech pathologists. Which we did, but we were able to use the additional related services units to cover some positions. We still had to fund the local share of their salaries from our local funds. Any tax revenue from the tuition tax stays in tuition to fund the therapists and program. Any carryover would still be used for tuition needs.

The State reduction of \$2.6 million is reflected in Division 1 salaries, Division 2 OECs, Division 3, technology, professional development, ed sustainment and driver's ed. The reason ed sustainment goes up is because it was used as a place holder for the cuts in the preliminary budget.

We use the related services units we earned, and some we cash in. Related services typically are not successful in hiring everyone needed to fill the positions. We have contractual services with EBS, Speech Clinic and Therapy Services of Delaware for highly specialized therapists. Bilingual speech therapists, physical & occupational therapists and speech therapists. Ms. Thompson asked why were we not successful in the hiring, are they paid more through an



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agency. Ms. Floore answered supply and demand. Agencies give more flexibility and working part time. The salary may be higher through an agency but they don't get the pension. The demand is so high, they can make their own hours.

CSCRCP stands for Children Services Cost Recovery Program. There are certain things like physical and occupational therapy that are written into the I.E.P.s for students to receive. They are technically Medicaid reimbursement eligible. The State has a program where we look at the services provided and find the ones eligible. Medicaid, of course, is another State agency. There is a reimbursement process to recoup some of the expenses. We have a budget and we receive reimbursements for those Medicaid eligible expenses. We don't know what is going on with this process, but both last year and so far this year, it has been frozen. Because we haven't seen the revenue in a long time and don't know the status, it was removed from the budget. If we cannot count on the revenue, we don't want to list it. We have two employees, not paid by the district, whose sole role is to fill out the paperwork and track the Medicaid eligible services. We don't have an answer. It may come that we receive back money, but we're not counting on it.

We did receive an opportunity grant for \$106,000 for Richardson Park.

Ms. Floore reviewed the expenses side. We eliminated an operating unit and consolidated it into special education. We no longer have an Assistant Superintendent for Special Education, so the funding for the administration was put into the special education budget giving it a slight increase.

The State lowered the annual OEC rates for this year. Due to the lateness of that notice, it wasn't reflected in our preliminary budget. It is also based on where employees fall on the experience timeline. We have over 100 teacher turnover every year. We don't know until the school year begins what educational level the new hires will be. Therefore, this lower number in Division 1 salaries is not a cut, but a more accurate figure based on these factors. School budgets were adjusted for units going up. For every position, there is a State side and a local side. Therefore, just as we saw the State side go down due to OECs, the local will also. Related services we received more cash in funding as well as more contractual services. Therefore, that funding line was increased.

The final budget changed by \$317,000 in the ending balance. Which is projected to be \$12.9 million. This is sufficient to meet our obligations for FY 2018. And provide us with the necessary carry forward. Each district is on a cash basis budgeting. When June 30<sup>th</sup> ends the year, we still have obligations as teachers and staff are on a 26-pay cycle. The next teacher contract does not begin until September. We don't receive our taxes until October. We need carryover to carry us to that point. And with the State cuts, we need even more to carry us over. This was the last year of our referendum funds. We will make it through next year.

There is a Board workshop in August to do our 3-year forecast. At that time, we will have the new Governor's budget and we can see what we will need and look toward our next referendum. School funding is based on property-assessed values that don't change less than .5% a year. At the same time, we can control costs and cut but your personnel costs are always going to increase. Pension, healthcare and step and lane increases are unavoidable. Ms. Thompson asked





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when we would go to referendum. Ms. Floore believed it would be Spring 2019. We will know this summer what we have, what the strategic plan is as well as what holes need to be filled.

Mr. Miller asked if there is any plan to go to a more equitable formula so that schools will not have to go to referendum. Dr. Daugherty answered that there is a bill in the House for a mechanism similar to what Pennsylvania does. It was tabled and Dr. Daugherty believes if it were going to pass, it would have to have passed last year. It is put out there again, but we are afraid it won't even be discussed.

The final budget does include the referendum settlement. The tuition budget given the unit growth that we have seen, there is great support for the K-3 funding bill for education. Ms. Thompson would like a chart on the funding that have been cut and where we would be if the cuts didn't happen.

We will continue to meet in our committee. We will move forward to work within our budget. The budget is a reflection of the strategic plan. We are limited in the budget, but those two have to marry. We will look in August for initiatives and a plan. There will be community meetings before we set a date for vote. Referendum becomes a full time job.

The financial report is how close we are to June 30<sup>th</sup>. We have multiple numbers that we track against. Not reflected in the report is the Senior Tax credit that we haven't received yet. 101% of revenues will dip down once the charter payment is taken. The State has funded 90% of the Division 1 salaries which is earlier than it was funded last year. They will always fund 100% of their obligation. Ms. Floore did not decrease the revenue estimate for this year, however, we were notified of a reduction in assessed value of a property based on an appeal Verizon has made. Significant in the way of a multi-million value. This goes back to a 2006 court case. It was appealed in 2015, and it is 3 years' worth of taxes. Verizon was successful in being granted their appeal. Everyone has a piece of Verizon in their district. The good news is because the budget is based on 99% of revenue collection and delinquencies because we can have these fluctuations.

This year we are 38.7% expended and 41.3% expended and encumbered versus last year at just under 40% expended. We are trending at a lower rate of spend.

Ms. Thompson made a motion to accept the review of the FY2018 Final Budget and the November 30<sup>th</sup> expenditure report. Mr. Doolittle seconded. The motion passed.

## **IV. Office of Auditor of Accounts**

Ms. Floore brought an audit report to the Committee. The State last year did an audit of Red Clay's Pcard transactions. They worked through transactions they wanted more information on such as lodging. They were not a random sampling like other audits. They looked at specific transactions. We have 4 district credit cards. Only one can be used for both travel and purchases. Some vendors will only let us use a credit card. Meadowood has items needed for students that can only be purchased on credit card



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rather than purchase order. There are districts where every building has a card, we do not. The cards are reconciled by Laura Palombo in Ms. Floore's office. There are several levels of approval. During the audit, they cited the in-state lodging. This lodging was for teachers attending the AP Institute program on AP teaching/testing in Lewes. They stayed at the Budget Inn. It was \$5,000 for a district of over 1,100 teachers. There was no findings for Red Clay, no issues, yet they cited that we had the biggest amount of in-state lodging which raised questions. We also have the highest number of AP classes.

Mr. Miller stated that in the article, one of the issues was that we had too many travel categories. The categories are created by the State accounting system. Ms. Thompson asked if it is worth explaining it. Mr. Miller stated we will have to explain it when we go out to referendum. Ms. Thompson believes this whole system is non-understandable to the public. The impression she was left from the article was the state has too many categories, too much in-state housing and too much is being spent on non-educational things. Mr. Miller added that the categories and procedures are made by the State.

Ms. Thompson appreciated the letter to the Board from Ms. Floore explaining the article. The News Journal did not reach out for comment before or after the article. Mr. Miller stated there were letters to the editor regarding that article. Ms. Thompson asked that Ms. Floore provide a short report of bullet points for the Board meeting tomorrow night.

Ms. Thompson asked if there is any number of what Red Clay spends on non-education. Ms. Floore explained that it comes down to coding and can often be very difficult to tell. For example, there was a report back when Matt Denn was attorney general that said Red Clay had high administrative expenses. When you actually looked at the expenses there were several that were coded as contractual services but they were actually direct educational expenses like substitute teachers which is over a \$1million contract or our contract for the alternative school. There was nothing inaccurate when coding a contract to professional services, however, it was erroneous categorized as non-educational. To do this statewide you have to look at the nuances of the data.

Ms. Floore said as part of the school consolidation task force there will likely be an effort to report administrative expenses with district to district comparisons. Mr. Miller commented that leveling up will cost too much.

Ms. Floore explained that the construction audit came out on no findings and she will bring it next month.

## **V. Public Comment**

There were no public comments at this time via email.

## **VI. Announcements**

The next meeting will be held Tuesday, January 9, 2018 in the Brandywine Springs School Teachers Lounge at 6:30 PM. (This meeting has been postponed to 1/16/18.)



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