



# Committee Transcript

## Red Clay Community Financial Review Committee July 10, 2018

### I. Minutes & Transcript

The June 2018 Minutes and Transcript were reviewed. Ms. Thompson moved to accept the minutes and Mr. Miller seconded. The motion carried.

### II. FY 2019 Tax Rate & State Budget

Ms. Floore distributed the FY 2019 Preliminary Budget and presentation that will be presented to the Board tomorrow night.

There are 4 tax rate categories. Current expense, which is set by the voters. Our last referendum for operating expenses was 2015 at \$.20 the first year, \$.10 the second and \$.05 the third year. FY 2018 was the last year of that 3-year phase in. FY 2019 will have no increase. Minor capital improvement and match tax are appropriations that State law allows a local match. In the case of some of them, they used to be State appropriations that were cut but they continue to allow the match even though the State no longer supports with funding. Minner Reading teachers and Extra Time are examples of that. The good news is that there are new state appropriations for K-3 special education and the state provided some funding for K-4 reading specialists at high needs schools along with Opportunity Grants to fund ELL and high poverty schools. Tuition is funding for our special needs students, intense & complex. They can be in the traditional schools or in Meadowood and RPLC, or in First State Hospital or alternative placements. Debt Service is the local share of the 30-year bond payments for capital improvement. When we do the major capital improvement campaign, the estimate takes into account the old debt when that expires as sometimes it crosses with the new debt. There are multiple bonds as there is one for each project. There is a whole schedule of payments on each of the bonds.

Going into putting the rate together, the Board must approve prior to the rate being submitted to the County on their due date of July 12, 2018. The Board must take action, whatever it is, approval or change, by that date. The budget doesn't close until June 30<sup>th</sup> so there is a very short window and turnaround time. The projections are all based on Red Clay property assessed values. We had a conversation on this last month. In the first time in the 11 years of Ms. Floore's position in the district, our assessed property values in Red Clay are lower in FY 2019 than the year before. Our property-assessed value is \$5.3 billion for Red Clay. It is not shrinking because property is disappearing, but because there was a lawsuit and a backlog of assessment appeals to the County. One was Boxwood Road. This was a significant one, but does not solely account for this number. Each quarter, we receive an appeal schedule. The schedule is in the millions of dollars of appealed value every time they meet. The court case stated that there is still a need to depreciate values even though property is assessed at a 1983 value in New Castle County. Some assessments have decreased by a large amount. This is happening on a



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large and small scale throughout the County, not just Red Clay. Usually, every year there is a small increase of about ½ percent due to betterments, buildings, decks. Brandywine has had the least growth as they are so filled out. Appoquinimink has, of course, had the most growth. Red Clay has been between .75% and .50% each year, but now we're in a decline. We are moving backwards. The same rate we charged last year brings in less this year. This is deeply disturbing. The recommendation of the school consolidation task force said we need reassessments. WEIC also stated a need for property reassessments. A few years ago, we were going up by .89 and now we are in a decline.

Mr. Miller stated that the numbers decrease and the amount of money diminishes coming into the district. How do you decide to make the case to the State or hold another referendum? Eventually, we will run out of funding. Ms. Floore answered that the only thing that will be successful to change this given the political environment, is the ACLU lawsuit, which challenges this very issue of property assessment. The judge even stated that in our case we needed property reassessment. Otherwise, we are going to the voters for an increase on our properties because others are getting decreases. We are not at crisis mode but it is clearly a trend that is building and won't disappear. But there will be a crisis when a district doesn't pass a referendum. We saw it happen to Christina and they had kindergarten class sizes of 35.

We also continue to lose to the tax pool. The first 46.8 cents of every tax goes to the tax pool. Back when 4 districts were one district, they all had the same tax rate. When the districts were broken up, rather than divide the rate, the money is put into a pool and each district gets their share of students from it. The problem with that is that, over time, the value of that has been skewed with special education students. When needs based funding came about and inclusion had more special needs students in the regular schools, Brandywine's formula for the percentage out of the tax pool was frozen at a high when they had moved their autism students. We were frozen at a low while we were transitioning away from special schools. Therefore, Brandywine gets an artificially higher percentage out of the tax pool. The issue has been around for 5 years since needs based. To fix the problem, one district would have to give up funding. We've asked DOE to see what would happen if we did away with the tax pool. That affects equalization and impacts other formulas.

Ms. Floore gave an update on the State budget. There was input from the school chiefs and school boards, but there was no replacement of the \$3 million reductions from last year. Whatever revenues we receive, we have to give back \$3 million. For Red Clay the \$3M cut in discretionary funding is replaced in FY19 with targeted grant programs for K-3 special education, K-4 reading intervention at high poverty schools, and towards opportunity grants for high needs schools and ELL students.

With the reduction still in place, we will give gave 18 positions again as well as cuts in several different appropriations including PD and Ed Sustainment. We will get \$337,000 for special education. Ms. Thompson pointed that we can match that through our local taxes. They gave us \$793,000 for K-4 reading intervention support at high needs schools. They may not be new positions as we may want to continue positions that were paid from



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priority school funding which is now complete. This may be support to keep doing what you're doing which you were going to lose. The state also full funded with no local share needed, two middle school math coaches. Then there are the opportunity grants targeted ELL and high poverty schools. In this case, it was non-competitive, but using a formula based on poverty and ELL data. We received \$1.769 million. It will include people, but is not solely people, and it does not come with a match capability. Of the \$26 million, the State put \$14 million back into education. We did receive \$3 million making our case that Red Clay does serve the highest need students. There will be some districts who will not get as much back as they do not fall into the criteria. It is good news, but the State doesn't realize the burden that \$3 million continues to place on the district.

The State also put in 2% increase for teachers and administrators on the State share of the salaries. The State also put in pay groups as custodians, secretaries, food services, transportation, and a \$1,000 increase. Which is more than 2% and they are both structural. In addition, a non-structural \$500 bonus will be paid to all full time and part time employees. Which is surprising as it doesn't matter how many hours you work. That all comes from the State side. Certainly a win for our employees.

The OECs increased due to pensions. That drives up costs on local and State side. The State passed the Family Leave Act for employees. That is effective April 2019. The epilogue allows for a \$104 reimbursement for districts for substitutes. The district is responsible for the difference as we pay a substitute service, which has fees attached. There will be significant costs. One is the instructional time. We have trouble filling substitute positions now. There was legitimate concern for finding substitutes for those taking the 12 weeks. Many do not take the full 12. There is also concern for the local cost.

The transportation formula was adjusted statewide. This was in response to the major problems we've had with contractors. It addresses structural deficit formula increases and phase in of the transportation committee's recommendations related to the contractor formula.

There was a significant increase in minor capital improvement funding in the bond bill. It raised the local share to 60/40 split. Ours went up by \$400,000, which is something, but doesn't address the deferred maintenance across the state.

School security was funded \$5 million but we're not sure for what. Ms. Thompson and Mr. Miller felt that was the bill for the bulletproof glass for school buildings. Ms. Floore thinks this is a separate bill for school security and we are waiting for specifics on that.

There is a bill that hasn't been signed yet and won't be effective until the Secretary of Finance says it's effective, but there will no longer be a senior property tax credit, it will be a rebate. The rebate is based on income level. The maximum allowed will be the current \$400. It used to be \$500, and has been lowered to \$400. The rebate of \$400 is only if the income is less than \$100,000.



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There is a new bill that requires financial reporting following ESSA. We will be reporting on 2018 data. We need to process all data by school, which includes salary and transportation. We budget many things centrally. For example, we have not budgeted transportation by route by school. We budget substitute teachers centrally, as the contract is with the district. One year, one school could have a flu epidemic and they could be higher than other schools; there are ebbs and flows. We track it, monitor it, and inform the school of their absenteeism rate. We are now changing our processes so they can be budgeted and allocated out. So that we can do the report to go with the bill on ESSA.

Ms. Floore is very excited the recommendation to the Board is to lower the tax rate while increasing supports and services at the schools. It is because our Debt service is going down by 4.6 cents. Back in 2012, our presentations for the capital referendum stated the rate will spike and then start to come down. We had two years when we had to increase it, and now it is coming down. We have sufficient funds as some of the 30-year debt fell off. However, at the same time, the match tax has to increase by 2 cents for the targeted State funding matches for local salaries. Tuition goes up by 1 cent for a net decrease by 1.6 cents. Ms. Thompson asked if we are confident that the tuition costs are correct and we have a sufficient cushion. Ms. Floore stated that she is. The Board approved a significant increase in Tuition funds \$3 million last year to pay for full time psychologists and educational diagnosticians at every school, English language support in our high needs schools as well as the dramatic increase in autism and special needs pre-kindergarten classes.

The projected K-3 basic and K-4 reading specialist local match is \$632,000. The new minor capital improvement is \$1 million. It was \$700,000 so we are increasing that as well. That is why we have the increase of 2 cents for local match. The listing for RTI reading teachers are from the Minner appropriation. We no longer get that funding from the State, but are allowed to keep our match tax. Therefore, we already have some reading teachers. The Board approved that match at that time.

Current Expense is the same, no change as our referendum increases are finished. The reality is we didn't use all of that \$3 million, as we were able to earn State credits for some of it. Therefore, we came in with a balance on tuition even doing all we said we would do. This year, however, there is a significant increase to our programs. Eight classes are being added to our Autism Program with a teacher and para in every room. Pre-KN is adding classrooms. We have new unique alternative, private placements; these are students with challenges that cannot be served in the district. Therefore, we are proposed to increase the tuition tax by \$500,000 to meet these needs.

Mr. Chase asked how this lowering of the tax rate would be communicated to the community. Ms. Floore explained that Dr. Daugherty will announce it at the Board meeting as well as include in all back to school materials including the Red Clay Record. Ms. Thompson added that we are lowering the tax rate but increasing services. Ms. MacIntosh asked if we then would be going to referendum. Ms. Floore explained that going into the August workshop, we will not have to go to referendum in 2019. We were



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so successful last year in cuts and saving, we are going into this year with a bigger balance than expected. We would most likely go to referendum until February of 2020.

Mr. Miller stated this next year give us the opportunity to see what comes out of the demands which were made through the lawsuit to see what services have to be added and what direction to be taken. He would like to add that it gives us time to come up with a school safety program. It would be worth saying to the community in addition to the service requirements we would make. Ms. Thompson would like to hear more about what school safety issues Mr. Miller would like to see implemented. One thing he has learned from traveling that situational training is valuable on sites. As if there is a confrontation in the gym, how do you position yourself, what steps do you take? Not just a design but training that takes place. Ms. Thompson agrees with him.

Ms. Rattenni called for a motion to accept the tax rate proposal. Mr. Miller made the motion to accept the tax rate as presented and Mr. Pappenhagen seconded. The motion carried.

### **III. Preliminary Budget**

The FY 19 preliminary will be presented to the Board tomorrow night and voted on in August. Putting the budget together, Ms. Floore explained that she looks at the State funding and legislation, look at how FY 18 closed out, as well as the group, cabinet, Board and a school district, we go through our main funding priorities. These are developed through our strategic plan and through the year. It continues our initiatives, our one-to-one technology, and continued programming in curriculum, math and textbook adoption, elementary talented and gifted, reading support and RTI. Inclusion has been a significant initiative in the district, ELL support, the international baccalaureate, AVID, summer STEM. Behavior interventionists will continue with the assistant principals. We have a second assistant principal in each of the secondary schools to help with school climate. The school support security, we have added another constable this year. We have constables at each of the secondary schools. We have added building and bus cameras throughout the district. We have K-3 class size reduction. And we maintained our carry forward balance without a deficit. As a district, we are in a strong position and living within our budget means.

The actual vs. budget highlights. Most years we report that we come in slightly ahead in revenue and slightly under budget. Unfortunately, that is not the case this year. We came in under on projected revenues due to the declining property assessments. We also had a decline in interest payments from the Treasurer's office and how interest calculations were applied to the district. The two together were about \$500,000. On the State side, there were reductions in transportation and then some of the state givebacks. We then came in \$968,000 less in revenues than what was budgeted, about .5%.

The good news is we came in even further under in expenditures. We came in 1.69% less on expenditures so maintaining the 1% spread between the two. We did increase our local funds balance from \$12.9 million to \$13.9 million, which is stronger than we were



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last year. Another way of thinking of the last referendum is we took that last 5 cents stretch over two years. We had done all of our initiatives that we promised within that funding.

Looking at the budget, normally due to our prior discussion, you would think we're expecting a decline in assessments. However, the senior tax rebate is going down. Legislation passed and it will be a rebate rather than a credit. This means we will collect more of the taxes. The senior tax rebate line, we are estimating that we are going to get \$544,000 less from the state for the credit. They are going to give it to fewer seniors. Those seniors are going to have to pay up front. It used to happen if that credit was on the account, the State would give us that \$500 and the senior would get the credit and not pay it. Now, we will receive the whole bill and they are going to get a rebate back. But it won't happen until the State Finance office says they are able to do it. That's what was written in the bill and that's why we didn't wipe it out. Arguably, the senior tax rebate would have been zero as it is between the taxpayer and the state. It is unclear what the effective date is. In the future, there may not be a rebate line. Mr. Miller asked if there was an implementation date on the change. Ms. Floore stated it is vague and the Governor has not signed it yet.

Choice income is a one-time thing. The Dept. of Education determined that all of the match tax payments, even though they were for very specific legislative items, the Dept. of Education decided that they were all eligible for inclusion in the local per pupil expenditures for charter schools. And that was highly contested and debated and the determination was made that you can sue if you don't agree. Christina had a settlement that was part of that with the whole charter network of about \$250,000 per year. The MOU was signed after the fiscal year, so we received two payments. The reduction in choice money is as we anticipate an increase in choice but we're not going to get that payment twice. Last year we budgeted two payments and this year it goes back to one.

The K-4 reading specialists' local match is there and the additional needs based tuition from the tuition tax. All of the tuition, the new dollars from tuition are being budgeted in the operating budget as we're seeing massive influx in inclusion. The students moving here with autism are in the general autism program. Meadowood has been pretty stable. We have seen growth in the RPLC Pre-K. Most of the money will go to the post September 30<sup>th</sup> identified students who move into the district but receive no State funding, as they are not in the count.

There is an increase in the Division I salaries to cover the raises, steps and lanes. There is a reduction in Division II to reflect our ESCO payment. We're starting to make those as part of our major capital campaign. With the increase in state salaries, our total State revenue is up 3.2% to \$228 million.

Revenues are up 3% from last year's budget and it follows in line that we will increase our expenditures on the lines where we received more revenue particularly when it is targeted in the State. There has been an increase in special education based on need. Somethings in special education could be clinical and outside evaluations, not always



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salaries that it will fund. There are other things it can fund for intense and complex students. What was funded by local funds can be funded by tuition for these students.

We are increasing the special education budget, the maintenance budget and the security budget and creating a budget for the equity officer position. The increase for the State salaries local portion, but had to offset for the givebacks. Salary increase for steps and lanes as well as the additional positions we spoke of in autism and pre-Kn. Expenditures were added for the Opportunity Grants that are given to us from the State. These are the K-3 special education and K-4 reading coaches.

The district is moving to a 3-tier transportation system. This allows for a run in the middle. Moving high school earlier, elementary school a little later and places middle school in between at an 8:00 run. That makes us able to make 3 runs with the same bus instead of 2. That is essential when we have a shortage of drivers and contractors. We went through a lengthy process in evaluating. It is complicated in that we are dropping contractor routes, therefore dropping those costs. We're increasing driver hours, though with the length of their routes. This will make some drivers full time instead of their part time status. Some will be less expensive and some more expensive. Transportation shows an increase for their local schedules and it is offset by the decrease in contractors. This budget states it will cost us \$100,000 more as an estimate. It will be evaluated by Dr. Ammann and Ms. Floore early in the year.

There were no planned reductions in the budget. We did maintain the reductions made last year in FY 18. The school budgets were not reduced. There are some that look reduced. Schools are allowed to carry over 15% of their budget to the next fiscal year; therefore, some schools look higher than others do. Sometimes they carry over only 1% as they've used it for the larger expenditure it was saved for like technology. It means then the next year their budget goes down, as they no longer have that carryover. It is not a cut. Budgets are based on unit count, it's a formula. High needs schools receive more in the formula?

We did have a district wide decrease for substitute teachers. We negotiated a lower rate on our contract with the new vendor by 5%. We're hoping they don't have the dreadful fill rates from last year.

In FY17 Curriculum and instruction referendum initiative had math books and reading materials. They weren't ready in June and asked if they could carry over the \$1 million and spend it accordingly in FY18. Normally, they are not allowed as it makes for an artificial high and low. That means there was a \$1 million placeholder last year that isn't there this year.

Our expenditures are expected to increase 3% to follow along the revenue increase. We are expected to end even. This includes the \$1 million contingency. We did increase the maintenance budget having more for maintenance and MCI. If we don't have boilers or pipes issues this winter, and don't use the contingency, we would end the year ahead and add to the balance. Ms. Rattenni asked if the contingency is in addition to the increase in



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maintenance. Ms. Floore explained that the contingency is always there, but this past year we had to use it for the settlement on the lawsuit. This is the first year we had to use it.

Mr. Chase asked if Ms. Floore has any fear that since the State is giving us less and changing the senior tax to a rebate that we should give them more money back thinking that the \$3 million didn't hurt, we can give them more. Ms. Floore answered that the State heard ad nauseum that districts wanted the cuts restored and finally told us to stop asking for the \$26 million to be returned. We can't say that the school districts rolled over on it, but you don't know what the elected officials will do. Christina is already running out of money from their referendum. There will be a district that doesn't pass a referendum that goes into crisis. People are putting a lot of hope into the lawsuit and reassessment.

Looking at the total budget, with a large district like ours, your biggest portion is salaries. State salaries is 49%, then the local is 30%, add the EPER and what is at the school budgets and you're over 80% of the budget in salaries. 70% is teachers and the rest is spread out between clerical, custodians, paraprofessionals and administrators.

All funds are \$286 million in Federal. Ms. Thompson asked if Nutrition includes the breakfasts, etc. Yes, they have their own budget.

The next step is the August workshop with the 3-year forecast. The workshop is August 28<sup>th</sup>. A reminder will be sent out.

Then final budget will be presented in December. The Governor comes out with the State budget in January for 2020.

There were no other questions on the preliminary budget. Mr. Miller made the motion to accept the FY 19 Preliminary Budget as presented. Lynn McIntosh seconded. The motion carried.

## **IV. Public Comment**

There was no public comment. No emails were received via the CFRC page this month.

## **VI. Announcements**

The next meeting will be held Tuesday, September 11, 2018 in the Brandywine Springs School Teachers' Lounge at 6:30 PM.