

**Rochester Board of Education**  
**Finance Committee**  
**December 8, 2011**

**Attendance:** Commissioner Powell (Chair), Commissioners White and Elliott (left at 7:11PM). Commissioner Cruz absent. Parent Representative: Giancarlo Giannini. District Staff: Vernon Connors, Chief Financial Officer; Gary Smith, Director of Purchasing; and Jerome Underwood, Senior Director of Operations. Board Staff: Ms. Debra Flanagan.

Commissioner Powell convened the meeting at 6:42PM.

**I. Question – Answer Session**

Vern Connors stated that there have been no substantive changes from Albany yet, except the Governor's agreement with the State legislature to reform the tax structure. Mr. Connors pointed out that this would affect the District indirectly through the State's increased ability to provide additional aid for education in 2012-13.

Commissioner White inquired when information will be available regarding the additional NYS Aid. Mr. Connors replied that the Governor typically presents the proposed NYS budget in the third week of January, with a tentative date of January 17, 2012. He explained that some time will be needed for District staff to analyze the proposed NYS budget and to adjust figures in the proposed RCSD budget accordingly. Mr. Connors presented a draft 2012-13 Budget Calendar to the members of the Finance Committee.

Commissioner White noted that Superintendent Vargas had promised not to repeat the historic pattern of the District cutting staff in the spring and then re-hiring many just prior to the beginning of the school year. He asked about the District's ability to realize that commitment in the 2012-13 budget. Mr. Connors replied that this depends upon the Superintendent's willingness to utilize approximately \$20m of the Fund Balance to cover the deficit, so that resources can be reallocated more effectively to prevent major layoffs in the future.

Commissioner Powell expressed concern about the District expending reserve funds because current fiscal constraints prevent these funds from being replenished. She pointed out that these practices limit the options available to the District in covering future deficits, which will primarily have to be addressed through staffing reductions. Mr. Connors responded that the District is facing a loss of 450-500 students per year, and staffing levels should not be kept at current levels with declining enrollment. He stated that staffing levels should be reduced in a thoughtful, strategic way over time, preferably through attrition. Mr. Connors emphasized that improving alignment of resources with student needs will enhance the District's ability to offer quality programs and to compete to help halt the flow of students to charter schools in the future.

Commissioner White asked about the number of additional students projected to attend charter schools in 2012-13. Mr. Connors replied that approximately 450 additional students are projected to attend charter schools, based on experience and the current capacity of the established charter schools. He pointed out that student enrollment in newer charter schools is

lower (60-70% of capacity) because these schools have not yet been proven to be successful. Mr. Connors stated that existing charter schools operate at approximately 92% of capacity overall.

Commissioner White noted that with declining student enrollment, the District can either accept the loss or compete with charter schools through offering quality programs (e.g. a second School of the Arts). Mr. Connors replied that innovation and improving the quality of schools has been the primary focus of Superintendent Vargas to help stem the movement to charter schools. He stated that the Superintendent has been focusing systemically on enhancing customer service, operational efficiencies to maximize resources available to classrooms, and allocating resources to programs with the maximum impact on student achievement.

Commissioner Powell stated that most of the charter school seats are at the elementary level, and most of these students return to RCSD for secondary school. She stated that the Superintendent understands the way in which school choice accelerates innovation and the provision of quality schools to compete with charter schools. She stated that she has not seen this awareness in school leadership at the elementary level, however.

Commissioner White asked about competition from charter schools in the 2012-13 school year in terms of the number of schools and their capacity.

**Action Item: Mr. Connors will provide information to the Finance Committee regarding the number of charter schools expected to be operating in the 2012-13 school year and their capacity.**

Mr. Connors stated that four to five existing charter schools are continuing to add grade levels and more schools will open in 2012-13, with 75-100 places typically per grade level. To illustrate this trend, he reported that 1318 students in the District attended charter schools in 2008-09 and over 3100 are estimated to attend charter schools in 2013-14. He reported that RCSD incurs a net cost for each student attending a charter school because of the difference between the formulas for NYS Aid and for charter school tuition. While Mr. Connors acknowledged the need for competition to stimulate improvements in the District, he also noted that the financial design and incentives heavily favor charter schools.

Commissioner Elliott asserted that many parents perceive charter schools to be prestigious. She described a presentation given recently at the Annual Conference of the Big Five School Districts in Buffalo, which indicated the funding advantages for charter schools. Commissioner Elliott maintained that the District has to improve in terms of managing resources and in offering quality programs to compete effectively. Mr. Connors responded that RCSD is in a downward financial spiral and this affects the District's ability to provide and maintain quality programs.

Parent Representative Giancarlo Giannini recalled a funding gap of approximately \$1200 per student attending charter schools, and asked whether there has been any movement by the NYS legislature to address this gap. He concurred that the District has to be more competitive, but that these costs impede the ability to compete effectively. Mr. Connors replied that the Office of the Big Five School Districts has included changing the formula for charter school tuition in their

legislative agenda. He stated that when operating costs were declining and NYS Aid was to be reduced accordingly, charter schools lobbied for a tuition freeze to preserve their funding over the last few years. Mr. Connors reported that he had met with the leader of the Campaign for Fiscal Equity that had brought a lawsuit against the State, which was successful in increasing allocations to public schools until the fiscal crisis a few years ago. He stated that the leader of the Campaign for Fiscal Equity is planning to assist RCSD in documenting these impacts to help make the case at the State level for greater equity in charter school formulas.

As an example of identifying operational efficiencies, Gary Smith discussed issuing a Request for Information (RFI) for a health insurance broker with proposals due January 12, 2012 and a resolution planned for the February Board Business meeting. He reported that RCSD currently pays \$67+m per year for health insurance coverage for active and retired employees. Mr. Connors stated that the District is hoping for at least a small cost savings from the health insurance broker fee and a greater savings from negotiations with health insurance providers and collective bargaining units.

## **II. Review Minutes of November 10, 2011 Finance Committee Meeting**

**Motion** by Commissioner White to approve the minutes of the November 10, 2011 Finance Committee meeting. **Adopted 2-0, with concurrence of parent representative.**

## **III. Review November 2011 Financial Report and Budget Amendments**

- a. Amend General Fund: Resolution No. 2011-12: 402**
- b. Amend Grant Fund: Resolution No. 2011-12: 403**
- c. Amend School Food Service Fund: Resolution No. 2011-12: 404 (withdrawn)**
- d. Amend 2011-12 RCSD Budget: Resolution No. 2011-12: 405**

Commissioner Powell stated that the budget amendments are due to receipt of federal grants and other revenue. Mr. Connors explained that there is a \$2.8m increase to the General Fund, and many changes are also due to the difference between actual and projected NYS Aid. He highlighted two major changes: funds passed through the District to Article 42 schools (e.g. the Rochester School for the Deaf), and unspent funds at the close of the School No. 33 – Ryan Center project.

Mr. Connors reported an increase of \$1.89m in State Aid for Article 42 schools, which is offset by the District's \$1.89m expenditure for these schools. Essentially, the State is using the District to pass these funds to the Article 42 schools.

Commissioner Powell objected to NYS funds being passed through the District because this practice artificially inflates the size of the District's budget without any increase in the student population. Mr. Connors pointed out that this creates the misleading appearance of an increase in per pupil expenditures, which lead to increases in charter school tuition. Commissioner Powell emphasized that the students attending Article 42 schools (i.e. deaf students) are not served by charter schools, yet charter schools realize increased revenue as a result.

Mr. Connors also highlighted the approximately \$1m remaining after the close of the School No. 33 – Ryan Center project, noting that unspent funds are required to be used to reduce the District’s debt service. He stated that this and the pass-throughs to Article 42 schools account for the changes to the General Fund, which otherwise remained flat.

Commissioner Powell inquired about the School Food Service Fund amendment being withdrawn. Mr. Connors reported that more time and experience are needed this school year to adequately project adjustments needed to the Food Service Fund. He stated that any amendment needed to the Fund will be presented in the February Finance Committee meeting.

Mr. Giannini asked whether the net increase of \$6.6m for salary compensation is due to positions restored at the beginning of the school year, or planned for future positions. Mr. Connors replied that this increase in expenditures for compensation is largely due to restoration of positions, but also for staffing under grant requirements.

Mr. Giannini inquired about the \$3.3m reduction in expenditures for employee benefits, and whether this was due to cuts in staffing. Mr. Connors responded that this is due to the fact that actual costs for the retirement incentive program are approximately \$3m less than originally projected.

**Motion** by Commissioner White to accept the November Financial Report and all above amendments to the budget. **Adopted 2-0, with concurrence of parent representative.**

#### **IV. Review Draft 2012-13 Budget Calendar**

Mr. Giannini suggested conducting public forums about the budget process, funding sources, major expenditures, and the specific areas in which RCSD has discretion to make funding decisions. He expressed preference for conducting forums early in the budget process.

Commissioner Powell stated that she has had the ambition to act proactively to ask parents and community members about funding priorities, and that she met with the Parent Council last year to discuss budget realities.

Commissioner White described Listening Tours involving a number of public forums on the budget in 2010, which engaged community members and led to helpful proposals such as restoring funding for social work and school psychologist positions.

Debra Flanagan stated that the Listening Tours were conducted in the week after the Superintendent presented the proposed budget to the Board, and prior to the first public budget hearing. She described these public forums as including a video of the Superintendent’s budget presentation, handout materials of the Executive Summary of the proposed RCSD budget and of funding gaps for the Big Five school districts to provide a perspective.

Ms. Flanagan reported that she had prepared a presentation last year to illustrate the major sources of revenue and expenditures for the District, and compared this to the Big Four districts

and other districts in Monroe County. She offered to update this presentation with more current budget data.

Commissioner Powell offered to use an amalgam of these two concepts, pointing out that some time will be needed after the Governor's budget is released to analyze the impact on the District and the other large city school districts in the State. She stated that she would like to duplicate the Listening Tour, but conduct these public forums earlier in the process.

Mr. Giannini stated that he would not want the public forums to create false expectations in terms of the public making the decisions about funding allocations, but primarily to educate about revenue sources and mandates that require funding.

**Action Item: Ms. Flanagan will schedule a meeting with Commissioner Powell, Mr. Connors, Mr. Giannini and herself to discuss plans for public forums regarding the 2012-13 RCSD budget.**

Mr. Connors stated that the draft 2012-13 Budget Calendar includes a two-week delay in the Superintendent presenting the proposed RCSD budget to the Board to allow staff to conduct sufficient analysis prior to budget deliberation sessions. He noted that the budget development process will also include recommendations and minimum parameters for schools to allocate funding to different programs and this will be used to evaluate school funding decisions.

Commissioner White questioned whether equitable student funding (ESF) would continue to guide allocations to schools. Mr. Connors replied that ESF would no longer be used because of the impact of overall funding reductions, but equity will continue to be considered in allocations to schools.

Commissioner White contended that ESF became the scapegoat for a whole host of problems in the District. He asserted that continued focus on equity is critical to ensure that schools and students do not struggle. Rather than treating all students or all schools the same, Commissioner White urged the District to examine their different needs to ensure equity and fairness.

Commissioner Powell stated that ESF had led the District to zero-based budgeting to examine actual needs rather than blindly adhering to a funding formula. She contended that without examining the funding formula, a disproportionate amount of resources continued to go to failing schools – even when indicators showed that the additional resources were not leading to improvements in performance. She stated that funding had also tended to go to schools with principals who were more articulate in presenting their case, even if their need was not as great as other schools.

Commissioner Powell noted that all of the budget deliberations will have to be conducted in April, and stated that she will poll the commissioners about having one of the budget deliberation sessions during the week of the April break.

## V. Resolutions for December 15, 2011 Board Business Meeting

### A. FACILITIES

#### Contracts:

1. **CME Associates, Inc. – contract to provide materials testing and special inspection of RCSD capital projects – Resolution No. 2011-12: 406**

#### Other:

2. **City of Rochester – request to issue bonds to finance capital improvements for existing buildings – Resolution No. 2011-12: 407**

### B. OFFICE OF ACCOUNTABILITY

1. **Cayen Systems, LLC – to provide annual maintenance and hosting of a web-based system enabling the District to fingerprint Supplemental Educational Service (SES) tutors – Resolution No. 2011-12: 408**

**Motion** by Commissioner White to address all above Facilities and Office of Accountability resolutions as a group. **Adopted 2-0, with concurrence of parent representative.**

Commissioner Powell stated that she was under the impression that RCSD should not expect the City to approve any bond issuance requests, and asked whether this is accurate. Mr. Underwood replied that when the mayor authorized \$29m in Bond Authorization Notes (BAN), it was agreed that the City would not incur any additional debt until the Maintenance of Effort issue had been resolved. He noted that the District will not need the bonds in the current request to be issued until March 2012, but the request will at least be on the City Council meeting agenda.

Commissioner Powell sought confirmation that if the City refuses to issue bonds, the District will not have any capital improvement projects. Mr. Underwood confirmed this understanding.

Mr. Giannini inquired as to funding if the District incurs an additional 20% in soft costs (\$2.3m) for these capital projects. Mr. Underwood stated that the District would not be able to cover the additional 20% for these costs, but this is an aggregated estimate for projects to be performed in the next two to three years. He clarified that if additional costs were incurred for all of these projects, then the work on the supplemental list would not be performed. Mr. Underwood explained that the projects are tiered to prioritize change orders and the proposed work to be done on the supplemental list. If funds remain after performing the planned projects, he stated that work would be done in the order contained on the supplemental list. Mr. Underwood stated that if there are any funds remaining after all of the items on the supplemental list have been done, these would be used to reduce the debt service.

Mr. Giannini asked how spending is monitored against the bonded amount and reported to the Board. Mr. Underwood stated that final project expenditures are contained in the FPMI Report to the State, and these are reported after a project has been closed.

Commissioner Powell questioned the impact from not obtaining bonding from the City in terms of buildings' viability, particularly since some of the supplemental work items are for roofing and boiler replacement. Mr. Underwood replied that the District keeps a very tight preventive maintenance schedule to keep major problems from occurring.

**Motion** by Commissioner White to approve all above Facilities and Office of Accountability resolutions. **Adopted 2-0, with concurrence of parent representative.**

**Motion** by Commissioner White to adjourn. **Adopted 2-0, with concurrence of parent representative.**

Meeting adjourned at 8:12PM.

**Next Finance Committee meeting:                    January 19, 2012 at 5:30PM**