

Rochester Board of Education
Finance Committee
October 20, 2011

Attendance: Commissioners Cruz and White. Commissioner Powell absent. Parent Representative: Giancarlo Giannini. District Staff: Vernon Connors, Chief Financial Officer; Annmarie Lehner, Information Technology Officer; and Jerome Underwood, Senior Director of Operations. Board Staff: Ms. Debra Flanagan.

Commissioner Cruz convened the meeting at 6:43PM.

I. Review Minutes of September 15, 2011 Finance Committee Meeting

Motion by Commissioner White to approve the minutes of the September 15, 2011 Finance Committee meeting. **Adopted 2-0, with concurrence of parent representative.**

II. Review Quarterly Change Order Report for July – September 2011

Jerome Underwood reported that there were 51 change orders during the first quarter of 2011-12, which amounted to \$113K for capital projects of \$8.5m under the Capital Improvement Plan (CIP). He explained that the remainder of the report provides detail regarding these 51 change orders, noting that 84% of contingency funds remain to cover any unforeseen costs.

Commissioner Cruz stated that the report reflects a lot of the construction projects performed over the summer. Mr. Underwood confirmed this assessment, pointing out that some projects will continue over the next year or so.

Giancarlo Giannini noted that the approved 2011-12 budget allocates approximately \$16m for capital projects over the next two years, and inquired whether the \$8.5m expended this year is within budget. Mr. Underwood replied that \$8.5m is the actual amount awarded for contracts for capital projects this year, and the budget also includes design work for projects to be executed in summer 2012.

Mr. Giannini asked whether \$8.5m is the amount budgeted for the construction phase, with 10% contingency added. Mr. Underwood confirmed that \$8.5m was budgeted for the construction work on projects for the 2011-12FY. He also pointed out that the Quarterly Change Order Report reflects changes to the work on capital projects, rather than indicating the progress to date.

Motion by Commissioner White to accept the Quarterly Change Order Report for July – September 2011. **Adopted 2-0, with concurrence of parent representative.**

III. Review and Approve September 2011 Financial Report

Vern Connors noted that there are quite a few items in the Available Funds analysis, which reflects a variance of greater than 10% from this time last year. He explained that this is due to

small changes in the timing of items early in the year, which tend to have a cumulative effect. He stated that these changes are not expected to have any real impact on the 2011-12 budget, and typically are resolved over the course of the year.

Commissioner White pointed out that Superintendent Vargas is trying to address the District's structural budget deficit, and asked whether any obvious opportunities for cost savings have been identified. Mr. Connors responded that RCSD is in much better fiscal condition than the other Big Five districts in New York State. In Buffalo, he reported that the school district has over 7,000 students enrolled in charter schools and has to make payments of \$100m in charter school tuition this year. Mr. Connors also noted that the Buffalo City School District will have more retirees with health insurance coverage than for active employees next year. He stated that the city school districts in Syracuse, Buffalo, and Yonkers have had to hollow out their programs because of structural issues over which they have no control. Mr. Connors contended that the experience of the other city school districts is indicative of issues with which the Rochester City School District will be confronted in the future: increasing charter school enrollment and tuition payments, increasing pension and health insurance costs, and overall flat revenue and rising costs. He stated that Governor Cuomo's pledge to provide an \$805m increase in State Aid for the 2012-13FY will help ameliorate the situation, but will not be sufficient to cover the District's structural budget gap. He estimated that even after the increased NYS Aid, RCSD will still have a \$30-40m deficit.

In terms of cost savings, Mr. Connors replied that the only areas in which the District has flexibility to cut costs are in facilities and staffing. He reported that even with the restoration of some positions this year, the District cut approximately 11% of staff. Mr. Connors stated that student enrollment at the elementary level (K – 6) has declined by 20% over the last 12 years, but not a single building has been closed. Under the Facilities Modernization Program (FMP), he asserted that the District will have a smaller but better plant to accommodate students' needs. He noted that the Buffalo City School District closed 25 school buildings as a result of their FMP.

Commissioner White questioned the potential savings from closing school buildings, since this would not affect staffing or programs. Mr. Connors responded that savings would be realized by reducing utility, maintenance, and staffing costs (e.g. fewer school administrators, housekeeping, and facilities staff). He stated that to the extent that classroom capacity is not being maximized, there are additional staff that could be re-deployed to support interventions or programs to enhance student success. As an example, Mr. Connors estimated the potential cost savings from closing an elementary school with 300-400 students at \$1.5 – 2.0m per year, which translates into 15-30 teaching positions. He stated that the District will have to prioritize between buildings and staff in the future to adjust to the new realities of the student population and to meet their needs.

Motion by Commissioner White to approve September 2011 Financial Report. **Adopted 2-0, with concurrence of parent representative.**

IV. Review 2010-11 Summary Report of M/WBE Participation in Capital Projects

Commissioner White asked about the participation of minority- and women-owned firms in public works projects in the city school districts in Buffalo, Syracuse, and Albany in terms of the bids submitted and the contracts awarded. He noted that M/WBE participation in the Buffalo City School District is particularly important because RCSD may also be drawing from the same pool of M/WBE contractors.

Action Item: Mr. Underwood will provide information to the members of the Finance Committee of the extent of M/WBE participation in capital projects in the city school districts in Buffalo and Syracuse.

Commissioner White asked about the number and percentage of waivers granted for M/WBE participation in the District.

Action Item: Mr. Underwood will provide data to the Finance Committee as to the number and percentage of waivers granted from M/WBE participation in 2010-11, and the specific categories for which waivers were granted.

Mr. Underwood reported that the goals for M/WBE participation are based on a disparity study, and actual participation has exceeded these goals. He stated that the overall composite goal for 2010-11 was 10.47% and the District actually achieved 14.05% overall in the amount provided to M/WBE firms under contracts in 2010-11. Mr. Underwood noted that the only area in which goals have not been attained is for Hispanic contractors and subcontractors, and this is the most common category for which waivers have been granted.

Commissioner White discussed the possibility of conducting another disparity study, citing concerns that a new study will indicate reduced capacity among M/WBE firms to perform the work and a consequent reduction in the goals. He stated that the data in this report indicate that there is additional capacity for M/WBE participation beyond the goals that have been established. He questioned whether there is a reluctance to raise the goals because of the additional effort needed to tap into the potential that already exists. Commissioner White stated that this may be the reason that many M/WBE firms express frustration at not being included or considered for public works contracts.

Mr. Underwood stated that the data has shown significant and consistent improvement in M/WBE participation over the last ten years from additional outreach efforts and pressure on prime contractors to be more inclusive.

Commissioner White asserted that the data can be used to indicate the District's extraordinary performance above specified goals, or may indicate that the goals have been set too low.

V. Review Resolutions for October 27, 2011 Board Business Meeting

A. PROCUREMENT & SUPPLY

- 1. Economy Paper Company of Rochester, Inc.; Standard Stationery Supply Co. – contract to purchase envelopes for various departments - Resolution No. 2011-12: 302**

Motion by Commissioner White to approve above Procurement resolution. **Adopted 2-0, with concurrence of parent representative.**

B. FACILITIES

Contracts:

- 1. Watts Architecture & Engineering, PC – provide engineering services for Phase II of District-wide security project – Resolution No. 2011-12: 301**

Other:

- 2. State Environmental Quality Review Act (SEQRA) Report – Resolution No. 2011-12: 303**

C. OTHER

- 1. Genetec – designation as sole source for software for digital closed circuit surveillance imagery – Resolution No. 2011-12: 304**
- 2. Simplex – designation as sole source for digital fire alarm systems – Resolution No. 2011-12: 305**

D. INFORMATION MANAGEMENT & TECHNOLOGY

- 1. Perceptive Software, Inc. – contract extension for customization services to implement ImageNow – Resolution No. 2011-12: 314**

Motion by Commissioner Cruz to address all above Facilities, Other, and Information Management & Technology resolutions as a group. **Adopted 2-0, with concurrence of parent representative.**

Motion by Commissioner Cruz to approve all above Facilities, Other, and Information Management & Technology resolutions. **Adopted 2-0, with concurrence of the parent representative.**

VI. Discussion Topics

1. Discontinued Student Activity Funds

Mr. Connors noted that a question was raised in the September Finance Committee meeting regarding unused Student Activity Funds. He explained that the goal is to have student organizations determine the use of these funds, and a letter is sent in the spring to all principals requesting an accounting of unused Student Activity Funds. If the student

organization has disbanded (e.g. Class of 2011), any remaining funds are placed in general student activities for the school.

2. Fixed Asset Inventory

Mr. Connors reported that policies were reviewed from local school districts and from the Big Four city school districts in New York. He presented a table summarizing the main features of these policies, and recommended that RCSD continue the practice of monitoring property for which an individual item is valued at \$5K or more. He also recommended the following improvements to the existing property management system:

- tagging items valued at \$5,000 or more and conducting annual inventories of these items
- recording the name and location of each employee in possession of computers, iPads, printers, and Smart phones valued at \$5,000 or more in a central inventory database

Commissioner White inquired whether the District conducts regular audits of library books and textbooks, as well as identifying particular schools with a history of ordering large numbers of replacement textbooks. Mr. Connors replied that the increased monitoring of library books and textbooks cannot be accomplished due to staffing limitations. He stated that the electronic inventories of computers could be enhanced by cross-referencing the database to staff terminations and retirements. Mr. Connors stated that he will examine the costs associated with implementing each of these recommendations and provide this information to the Finance Committee in the future.

3. Fund Balance Policy

Mr. Connors noted that a spending component is needed to the existing Fund Balance policy to specify the purposes for which each type of fund is to be used. More specifically, he proposed that Workers' Compensation and property and liability insurance claims be included in the Restricted Fund Balance rather than the Assigned Fund Balance. Expenditure of funds in the Assigned Fund Balance is subject to the discretion of the Chief Financial Officer, whereas Restricted funds may only be used for the specific purpose for which they have been designated. By moving the Workers' Compensation and insurance claims to the Restricted category, these funds are given greater protection from potential misuse.

Mr. Connors also recommended moving Post-Employment Benefits (i.e. payments for health insurance coverage for retirees) from the Assigned Fund Balance to the Committed Fund Balance. He explained that this would also provide greater protection for these funds because any expenditure from the Committed Fund Balance has to be approved by the Board.

Commissioner White inquired about the amount in the current Fund Balance, noting that the policy requires a minimum of five percent of the budget. Mr. Connors replied that the

total Fund Balance is \$71.69m, with \$26.56m in the Unassigned/Unrestricted portion. He clarified that the policy requires an amount equal to 5 – 15% of General Fund operating expenditures budget be placed in the unrestricted portion of the Fund Balance. Since the General Fund operating expenses amount to \$560m for 2011-12, Mr. Connors noted that the unrestricted portion of the Fund Balance must contain at least \$28m (5%) to meet the requirements of the policy. The District currently has \$26.56m in these unrestricted funds, just slightly below the 5% minimum. Mr. Connors stated that the District is facing an estimated \$41 – 42m budget gap for 2012-13, and additional funds must be put into the Fund Balance to meet future needs.

Mr. Connors stated that he will proceed with these proposed changes to the Fund Balance policy, and present a draft amendment to the Policy Committee in the near future.

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

Meeting adjourned at 8:07PM.

Next Finance Committee meeting: November 10th, immediately following the Policy Committee meeting