

Rochester Board of Education
Finance Committee
August 18, 2011

Attendance: Commissioner Powell (Chair), Commissioners Cruz and White. Parent Representative: Giancarlo Giannini. District Staff: Vernon Connors, Gary Smith, and Jerome Underwood. Board Staff: Ms. Debra Flanagan.

Commissioner Powell convened the meeting at 6:35PM.

I. Questions and Answers

Commissioner Powell explained that the purpose of this portion of the agenda is to discuss any changes regarding State or federal funding to the District.

Vern Connors reported that the State has altered the timing for providing Building Aid to school districts. Building Aid is provided to reimburse school districts for capital improvement costs; the timing of this reimbursement affects the amount of debt and interest costs incurred. In the past, NYS Building Aid has been provided approximately 18 months after State approval of the project and of the District awarding construction contracts. Payment would then coincide with completion of the project and enable the District to retire the debt issued to finance the project. Under the new law, Building Aid will not be provided until 18 months after the District submits the final project report, causing the District to carry the debt and incur interest costs long after the project has been completed. Mr. Connors stated that this provision was added to the State budget bill and applies to all capital improvement projects approved by NYS after July 1, 2011, including all projects under the Facilities Modernization Program (FMP). The additional costs will limit the number of capital improvement projects performed by the District in the future. He added that the District is currently pursuing legislative relief.

Commissioner Powell requested an estimate of the increased interest costs to the District resulting from this delay in the provision of Building Aid.

Action Item: Mr. Underwood will provide an estimate to the Finance Committee of the additional interest costs that will be incurred by the District as a result of the delay in NYS Building Aid payments.

Mr. Connors informed the Committee that the following documents will be provided in September: August 2011 Financial Report; 2010-11 budget amendment from the year-end reconciliation; and a Year-End Financial Report for 2010-11, after completion of the external audit.

II. Review and Approve Minutes of June 9, 2011 Finance Committee Meeting

Motion by Commissioner White to approve the minutes of the June 9, 2011 Finance Committee meeting. Seconded by Commissioner Cruz. **Adopted 3-0, with concurrence of Parent Representative.**

III. Review Resolutions for August 25, 2011 Board Business Meeting

A. PROCUREMENT & SUPPLY

1. **Athletic Supplies & Equipment – contract extensions – Resolution No. 2011-12: 156**
2. **Calculators – contract extension – Resolution No. 2011-12: 157**

Motion by Commissioner Cruz to address all above Procurement resolutions as a group. Seconded by Commissioner White. **Adopted 3-0, with concurrence of parent representative.**

Motion by Commissioner Cruz to approve all above Procurement resolutions. Seconded by Commissioner White. **Adopted 3-0, with concurrence of parent representative.**

B. FACILITIES

Final Payments:

1. **East Coast Electric, LLC – electrical work for renovation of School No. 5 – Resolution No. 2011-12: 158**
2. **Hewitt Young Electric, LLC – electrical work for renovation of Charlotte High School – Resolution No. 2011-12: 159**
3. **Massa Construction, Inc. – general construction work for renovation of School Nos. 50 and 57 – Resolution No. 2011-12: 160**

Motion by Commissioner White to address all above final payment resolutions as a group. Seconded by Commissioner Cruz. **Adopted 3-0, with concurrence of parent representative.**

Motion by Commissioner White to approve all above final payment resolutions. Seconded by Commissioner Cruz. **Adopted 3-0, with concurrence of parent representative.**

Parent Representative Giancarlo Giannini sought confirmation that the change orders reported in resolutions reflect costs exceeding the amount budgeted for the project, but within the amount budgeted for the school. Jerome Underwood confirmed that this is the case.

Other:

4. **Request for Revision of Financial Information (FP-FI)**

Motion by Commissioner Cruz to approve above resolution to revise the financial information on capital projects for submission to the State. Seconded by Commissioner White. **Adopted 3-0, with concurrence of parent representative.**

Mr. Giannini asked whether the projects listed in the Quarterly Change Order Report should also be included in the FP-FI Report.

Commissioner Powell replied that some projects may not be ready for final payment and therefore would not be included in the FP-FI report. She pointed out that every project is not necessarily completed within the year, but the FP-FI report reflects adjustments in

expenditures for projects that have been completed this year. She added that there is also a timing difference between generating the Quarterly Change Order Report and the FP-FI.

Mr. Underwood noted that a 10% contingency is added to the project cost to account for the possibility of changes in the scope of work, such as replacing the fire pump and tank at School No. 5. Mr. Keysa explained that this could not be anticipated in advance and these items had to be replaced for the safety of the students in the building. He reported that RCSD averages 2% above project costs, leaving 8% residual remaining on average in capital project budgets.

Mr. Underwood stated that the remaining 8% residual budgeted should be available to re-deploy for future capital projects since RCSD continues to pay interest on this debt, but the City has refused to allow the District to use the funds toward other projects.

Commissioner Cruz asked how the remaining 8% residual funds are used. Mr. Underwood replied that these funds may be used to cover other unanticipated expenses, or to reduce debt service and borrowing costs.

Commissioner Powell inquired about the possibility of applying the 8% residual to alleviate the fiscal impact of delays in payment of NYS Building Aid. Mr. Underwood replied that the District is examining this possibility.

C. HUMAN CAPITAL INITIATIVES

1. Health Dependent Eligibility Audit – resolution withdrawn

Mr. Connors reported that the resolution has been withdrawn at this time to seek a broader range of vendors for the Health Dependent Eligibility Audit. He stated that the audit will be conducted to check the eligibility of dependents enrolled in the District's health insurance plan. The increasing cost of health insurance and large number of individuals covered (approximately 9,000 through active and retired employees) make it fiscally imperative for the District to verify eligibility for coverage.

Commissioner White asked whether the contract with the vendor would be on a contingency fee basis. Gary Smith responded that three proposals were received and the best was HMS, a national company. He reported that HMS guarantees that a minimum of 19 individuals will be identified as ineligible for the District's health insurance coverage, which would represent an immediate cost savings of \$57,000 (at approximately \$3,000 cost for coverage per person), as well as eliminating these costs into the future. Mr. Smith stated that the annual fee for services from HMS is \$59,981 with a guaranteed rate of return. He noted that HMS conservatively estimated identifying 169 individuals as ineligible for health insurance through the District, which would yield almost \$500,000 in savings above their annual fee.

Commissioner Powell inquired about the consequences if the contractor does not find the minimum of 19 ineligible dependents. Mr. Smith stated that their fee would be refunded to the District.

Commissioner Powell asked about the consequences of finding that a dependent was enrolled in the health insurance plan after inquiries had been made. Mr. Connors replied that this question involves legal and contractual issues that would have to be examined.

IV. Discussion Topics

1. “Not to Exceed” Provision in Contract Resolutions

Commissioner Powell explained that the “not to exceed” provision was included in resolutions to alleviate the concerns of a former Committee member, but now seems to have created confusion and misunderstanding. She stated that this provision has applied primarily to contracts for purchasing items in bulk at a discounted rate, so that the vendor is already offering the District their best price for all items purchased.

Commissioner White asked whether action could be taken by the Finance Committee to remove this provision.

Commissioner Powell stated that this practice was initiated by a vote of the Finance Committee, so the Committee can also recommend a change in practice.

Mr. Underwood noted that this “not to exceed” provision has created problems in resolutions pertaining to facilities, as well as for purchasing. He stated that contracts for snowplowing services include this provision and establish a maximum threshold (i.e. “ceiling”) for expenditures. He pointed out that the “not to exceed” dollar amount is dependent upon a number of unknown factors, i.e. the amount of snowfall and the need for snowplowing services in the upcoming winter. Mr. Underwood explained that as soon as expenditures begin to approach the maximum threshold, approval must be sought from the Finance Committee and the Board to increase it. This problem is compounded with multiple contracts for snowplowing with multiple vendors to monitor the extent to which total expenditures are reaching the ceiling. He stated that this process does not provide flexibility in responding to needs as they arise, particularly in emergency situations (e.g. roof blown off of building). Mr. Underwood asserted that accountability is provided through the budget line items and monitoring of expenditures within budget categories/allocations.

Commissioner White acknowledged that the “not to exceed” provision may not be useful for services, but he expressed concern about the potential for abuse. He cited an example in which expenditures doubled in one year for the same item, and emphasized the need for monitoring and oversight.

Commissioner Cruz contended that the “not to exceed” provision creates a situation in which District staff are asked to rationalize an irrational number because the dollar amount of the ceiling cannot be estimated reliably. He pointed out that the budget and monitoring of expenditures through the monthly financial reports provide the means for ensuring oversight and accountability. Commissioner Cruz stated that use of the “not to exceed” clause creates unnecessary and redundant approval processes which are not contained in policy and therefore not the express intent of the Board.

Commissioner Powell cited an example in which the restrictions imposed by the “not to exceed” clause backfired: a school without adequate funds for workbooks made photocopies to provide materials for students, but photocopying actually costs more than the workbooks.

Commissioner White urged Committee members to notify the full Board of changes in this practice. Commissioner Powell agreed to provide this notice in the Finance Committee report to the Board in their meeting on August 25th.

Motion by Commissioner Cruz to discontinue the practice of inserting “not to exceed” thresholds in contract resolutions. Seconded by Commissioner White. **Adopted 3-0, with concurrence of parent representative.**

2. Suggested Changes to Fund Balance policy

Commissioner Powell explained that Mr. Connors was asked to clarify the rationale for the Assigned Fund Balance in the July Finance Committee meeting.

Mr. Connors pointed out that the Assigned Fund Balance is managed by the Chief Financial Officer, who has the discretion to modify and utilize these funds without Board approval. He reported that the Superintendent recommended that the Superintendent or their designee have this authority, rather than the Chief Financial Officer. Mr. Connors stated that the Superintendent should have this authority because the Superintendent has ultimate responsibility for the budget and has been authorized by the Board to manage the District.

Mr. Connors reviewed a balance sheet to compare accounting differences under the proposed Fund Balance policy. He described each of the categories within the Assigned Fund Balance: Encumbrances, Prior Year Actual Claims, Subsequent Year Expenditures, Workers’ Compensation, Other Post-Employment Benefits (OPEB), and insurance claims. Mr. Connors explained that Encumbrances account for items or services received by the end of the fiscal year, but have not yet been paid. Since the District operates on a cash basis throughout the year, the encumbrances are a necessary accounting entry to reflect all purchases for the year.

Prior Year Actual Claims refers to the District’s payment of aid received in error under the Employment Preparation Education program (EPE). Mr. Connors reported that a State audit found that RCSD was ineligible for approximately \$12.8m of this Aid, and agreed to a six-year repayment plan with no interest. The District is currently in the third year of repayment.

Mr. Connors explained that the category of Subsequent Year Expenditures refers to the portion of the Appropriated Fund Balance used in the current budget. The Board reviews and authorizes the use of these funds through the budget process.

Mr. Connors maintained that the remaining categories (Workers’ Compensation, OPEB, and insurance claims) are different in nature from the others in the Assigned Fund Balance, and should not be subject to the discretion of the Chief Financial Officer or Superintendent. He recommended that these funds be placed in reserve, which would require Board approval. The reserve funds would then be placed in the Restricted Fund Balance because they should only be used for the specific purposes for which they were intended.

Motion by Commissioner Cruz to suggest to the Board that the proposed Fund Balance policy be amended to remove reference to “Chief Financial Officer” and insert “Superintendent or their designee”. Seconded by Commissioner White. **Adopted 3-0, with concurrence of parent representative.**

V. Additional Information regarding Resolutions to be presented in August 25, 2011 Board Business Meeting: Late Submissions

Mr. Underwood reported that two resolutions have been submitted late: 1) renewal of the contract with Aramark for Food Services; 2) contract with RTS for transportation of high school students.

Food Services:

Mr. Underwood presented a financial statement for Food Services which reflected a \$77K loss in the 2009-10 school year and \$755K in the 2010-11 school year. He expressed concern about the escalating share of expenditures for employee benefits (52.9% of payroll costs in 2010-11 and 41.3% in 2009-10), particularly since the number of Food Service employees has been reduced in the last year. He attributed the increasing share of expenditures to rising pension and health insurance costs.

Commissioner White expressed concern about this resolution and accompanying information being presented late and not having sufficient time for consideration before having to make a decision. He asked whether an analysis has been conducted of food quality under the Aramark contract. Mr. Underwood replied that students were surveyed last year about the food quality, but there was a low response rate. Nevertheless, he stated that students did provide some recommendations which will be used to modify the menu in the upcoming school year. He also reported a need to educate students and staff regarding healthy food choices being offered.

Commissioner White also voiced concern regarding management – labor relations under the contract with Aramark.

Action Item: Mr. Underwood will provide Board members an analysis of food quality, the results of the survey conducted with students last year, and a report on management – labor relations under the current Food Services management company before the August 25th Board Business meeting.

Commissioner Powell requested information of the progress to date in developing in-house capability to provide Food Services in the future. Mr. Underwood replied that a change in Food Service management companies would take 18 months to accomplish, and providing Food Services in-house would be substantially more expensive than contracting with an outside vendor.

Commissioner Cruz noted that questions will arise about a structural financial deficit in Food Services due to escalating employee benefits and declining student enrollment. He stated that consideration should be given as to how these factors will be reconciled in the future. He noted that the tenfold jump in the deficit in just one year has serious fiscal implications for the future.

RTS:

Mr. Underwood reported that a new contract has been negotiated with RTS for approximately \$200K in cost savings. While the \$11.075m contract is slightly higher than for last year, it includes transportation to a charter school which is adding two grades. He reported that a total of approximately 12,000 students are transported by RTS, which includes private, parochial and charter schools. Mr. Underwood stated that in the past an annual fee has been paid for RTS transportation, but the new contract involves a quarterly evaluation of ridership to determine the need for cost adjustments. He asserted that any cost adjustment would be downward because every eligible student is not riding the bus every day.

Mr. Underwood also described an option currently under consideration: a bus pass that can be swiped to provide information of actual RTS utilization by students (potentially reducing costs for future contracts) and to check against student attendance records.

Mr. Underwood added that he will also begin reporting the fill rate for yellow buses transporting elementary students, which is currently 63-64% overall. Considering the large number of buses that are under-filled due to transporting students across zones, he noted that maximizing capacity could involve transporting additional students, or reducing the number of buses to generate cost savings.

Commissioner Powell asked whether detail would be provided regarding the fill rate for buses traveling within a zone and for those traveling across zones. Mr. Underwood replied that this information can certainly be provided.

Mr. Connors pointed out that any savings would be for one year only, as the State would reduce reimbursement in the following year to reflect the decrease in transportation costs. He also noted that providing transportation to students who reside less than one and one half miles from school will effectively reduce the District's reimbursement rate because those students would not be considered eligible for transportation under NYS regulations.

Motion by Commissioner White to adjourn. Seconded by Commissioner Cruz. **Adopted 3-0, with concurrence of parent representative.**

Meeting adjourned at 8:10PM.

Next Finance Committee Meeting – September 15th, immediately following the Policy Committee meeting