

Rochester Board of Education

Finance Committee

February 8, 2005 at 6:15 p.m.

MINUTES

Present: Commissioners Evans, Garcia, Powell, Ms. Rohring, Jeremy Wildrick-Cole, Mr. Marini, Mr. Omiccioli, Ms. Tripi, Ms. Smouse, and Mr. Wheatcraft.

Commissioner Powell convened the meeting at 6:25 p.m. with apologies for starting late.

Commissioner Garcia asked if there has been any further consideration given to the multi-year budgeting process so we can see what the budget will look like two or three years ahead.

Mr. Marini indicated that there will be a multi-year forecast of revenue and expenses at a very high level that will give a flavor of our structural revenue problem. Later, we will talk about '05-'06 revenue and historical revenue. We have been balancing the budget over the last few years primarily on one-shot revenues that don't come back.

Commissioner Powell asked for a motion to approve the agenda. Motion by Commissioner Evans seconded by Commissioner Garcia. Adopted 3-0.

I. Receive and Review Monthly Financial Reports – budget amendment

Commissioner Powell asked if everyone had an opportunity to look over the monthly financial reports and whether anyone had any questions.

Commissioner Powell mentioned she felt overwhelmed with paperwork

Mr. Marini explained that we are amending the budget with the latest data available. Commissioner Evans had no questions.

Commissioner Powell questioned the frequency of budget amendments.

Ms. Rohring noted that the Board amends the budget 3 times per Board policy and as needed if there are any significant decreases or increases in revenue.

Commissioner Evans said everything looking good.

Mr. Marini mentioned that this month we had a surprise with Special Ed tuition revenue, which is the primary change in the February amendment.

II. Receive and Review Resolutions for February Business Meeting

a. Budget Amendment Resolutions

Commissioner Powell asked if there were any other questions on the budget amendment. The resolution calls for the Board to amend the general fund, the grant fund, and to amend the total budget.

There being no further questions, Commissioner Powell asked for a motion to recommend the budget amendment resolutions to the Board for consideration.

Motion by Commissioner Garcia, seconded by Commissioner Evans. Adopted 3-0.

Mr. Marini mentioned that before we go on to the next agenda items, there was one e-rate resolution that remained after last month. The District has decided to wait until next year for a variety reasons summarized on page 3 of the memorandum on VoIP.

Commissioner Powell explained that we will not advance a resolution on VoIP now and that the Business Services team provided this information to explain why we are not advancing it this year.

Mr. Omiccioli explained there were three reasons the team decided not to go ahead with VoIP now. The primary reason is there were three different proposals with three different technical solutions and we weren't comfortable with any of the solutions. Secondly, to do VoIP over our existing network would require improved bandwidth of our network. We need to bring our infrastructure up to minimum standards to make this successful. Thirdly, we need additional time to evaluate the technology in order to determine the correct strategy for the District.

Commissioner Garcia remembered that there was one e-rate resolution left over, but not which one. He asked if the rationale could be put in the cover memo in the future.

Mr. Marini said he had challenged the staff and CELT personnel and he felt comfortable in making the decision to wait to make sure infrastructure is there. VoIP is the right thing for the District, but not at this time.

Commissioner Powell stated that her understanding of prerequisites needed for WAN and LAN wouldn't be installed until May of this year and she was grateful that common sense prevailed this time. She expressed hope that e-rate will still be around next year.

Mr. Marini said it is a risk we have to take. It doesn't always make sense to go after money just because the money is there.

b. Rochester Technical Consulting

Mr. Omiccioli explained that Rochester Technical Consulting will be doing an audit of the telecommunications billing process to ensure we are getting correct services for what we are paying. The District has had problems in the past with local telephone companies.

Commissioner Powell asked if this contract is similar to the ones we have for utility or energy audits, where vendors' fee is based on savings garnered.

Mr. Marini asked Mr. Omiccioli if he believed that even though the District is paying \$75,000, the District will realize savings of that and more.

Mr. Omiccioli anticipates that the reimbursements will pay us back for the amount of the contract.

Mr. Marini pointed out a typo in the resolution. It should say February not January. We are not doing any business with the firm at this time. We haven't done the audit yet.

Commissioner Evans asked if the savings would be \$16K per month.

Commissioner Powell asked if the structure is similar to utility audits or cable audits where, in some instances, consultants were paid depending on how much they save us.

Mr. Omiccioli said the company does not get paid a percentage of savings.

Commissioner Powell inquired if that would work in our favor.

Mr. Omiccioli said the amount of the savings would more than cover our cost.

Commissioner Powell said she would like to see a business process established. It would be helpful to know if a percentage of savings paid out from the savings is a better business model for future contracts on audits like these, rather than flat fee or fee plus percentage of savings.

Mr. Marini noted that when he worked in the corporate world, the company did it that way. Consultants love that because they will get more than flat fee. But it can work the other way and consultant can expend a lot of time and not make any money.

Commissioner Powell realizes that a consultant may prefer one method of payment over another, but that it will be a useful exercise to determine which methodology produces the better result for the District.

Motion to recommend the resolution to BOE for consideration by Commissioner Garcia. Seconded by Commissioner Evans. Adopted 3-0.

III. Partnership agreement with Microsoft.

Mr. Marini said he would talk about the partnership agreement with Microsoft on a conceptual level. Microsoft wants to be the provider of services to the District relative to think tank for technology. We are embarking on significant investment in technology. Dell is giving the District pricing better than state contract rates. Dell is a state approved vendor. For instance, Dell is providing the District with flat screens at bulky monitor pricing.

Microsoft has selected us as a medium-size district and they are looking to take the District to the next level in technology. They want to offer us Sharepoint where instructional leaders can collaborate on the Web to share lesson plans, documents, and information. This is the first project Microsoft will help us with.

Mr. Omiccioli said he had a conference call tomorrow with our Microsoft partner to lay out the actual structure so that our staff can find forms easily on our internal network.

Microsoft has offered the District a Microsoft K-12 expert. They will hook us up with a Gold certified integrator – NuSoft.

Mr. Marini anticipated that the Commissioners would want to know what's in it for Microsoft. They want to help Rochester be the benchmark for technology for medium-sized school districts. We would be the BETA site for Microsoft to replicate – through both positive and negative lessons learned and we would help them with other districts. NuSoft would kick in resources as well. It will be a collaborative project.

They are charging the District \$17,000, a nominal amount, to show they aren't giving us a free product. We will meet on Feb. 28 to outline where we are going and create the roadmap for what we want available and get from other companies.

CELT is helping us with technology also. We had a technology retreat last Thursday. We identified 61 projects we are working on over the next three years.

We had customers in the meeting. They told us they know IM &T spends a lot of money, but they don't know what we do. They pointed out our deficiency, our lack of communication with customers. I suggest we have 2-on-2 with Board members – technology breakfasts to meet with you and update you on technology. We can give you information, what our timeline is, what will students, staff and libraries have. We will create an At a Glance document with high level info. We see technology as the enabler to improve academic performance.

Commissioner Evans said he would be interested anytime they want to invite him to breakfast.

Commissioner Powell said most internal users really don't care. Unless it touches them, they will not understand or take time to learn more.

Mr. Marini said the message we got was we don't communicate enough.

Commissioner Powell asked about the partnership agreement with Microsoft. Are there any prerequisites or backbone items that Microsoft needs to see in place for us to be BETA site.

Mr. Omiccioli said Active Directory was one, and we are there already. That included a restructuring of network access and control and security. It is software that allows you to log on at one school, move to a different school and have access to the same information. It also establishes security so that if you are a principal you can have principal level information, while a secretary has a subset of that information.

Commissioner Powell asked if bandwidth was a consideration.

Mr. Marini said we are excited about what we are doing even though we are in infancy. We will be on the map. We are all keen on making that a reality.

Commissioner Powell asked about what the agreement is on our contribution.

Commissioner Powell asked if it is cost neutral.

Mr. Marini said it would be no more than \$17,000. The value is excellent for the investment.

Commissioner Evans clarified that this is for information purposes only.

IV. Budget process update – revenue projections; staffing and enrollment projections

a. Staffing and Enrollment Projections:

Andy Wheatcraft came to the table to discuss Staffing/enrollment projections. The first slide shows a 10-year projection with 1,000 less students at elementary level at 2005-06 and an increase of 250 students at the secondary level. Declines which began several years ago and continue indefinitely. We have been accurate in past. With the 5 year window, you can have confidence.

Commissioner Powell wanted to emphasize that projections are trustworthy.

Mr. Wheatcraft said that actual enrollment for this year stands at 33,055. Last year, projections were for 32,927. That is a very small variance. Quite good.

Mr. Marini interjected he believed it to be excellent.

Mr. Wheatcraft noted, we are generally within 3-4% every year on total enrollments.

Mr. Wheatcraft pointed out he included various graphs for the commissioners to reference on trends. Then there are slides on elementary and secondary enrollment and more slides on a grade by grade basis. We continue to see some decline.

Commissioner Powell commented that what you are starting to see is bubble roll through.

Mr. Wheatcraft said there are variances at the secondary level from year to year projection basis. We aren't doing a good job of projection due to secondary restructuring and moving. Mr. Robinson thought since we didn't have summer school last year, many students didn't move up. We anticipate we will have summer school this year, so we are trying to anticipate the number that will advance to next grade.

Additional charter school seats: 250 more coming on line next year with a new charter school and existing school growing. Can project how many we will lose. We are losing students at every grade level. We continually lose students to charter schools.

Commissioner Garcia asked what might occur if a couple of charter schools close.

Mr. Wheatcraft said we can't take rumors into consideration. If one of them closes, we know the students will end up on our doorstep. If one of larger schools closes, you could almost anticipate 80% or more of that population re-entering RCSD.

Commissioner Evans said it is prudent not to factor it in until it happens.

Mr. Marini asked if more than one charter school closes, would we have the seat capacity to have those students come back to the District.

Mr. Wheatcraft said we would. We have ample room to do that.

Commissioner Powell stated if you look at 2004-05, we have 17,489 and next year projection 16,446, or 1,000 difference.

Mr. Wheatcraft agreed if 1,000 came back we would have ample capacity to accommodate them.

Mr. Wheatcraft said the engines that drive this decline are the live birth rate and the declining population of the city. We also considered the number of parochial schools closing. There are only 200 students total and most will not come back to us. They join up with other parochial schools. There are only a handful per grade.

Commissioner Powell said the parochial schools are merging because of empty seats and only half full St. John's.

Mr. Wheatcraft said it would merge with St. Ambrose. Sacred Heart and Holy Rosary on Lexington will merge. All are small schools. We have ample seats for those who come to us.

Commissioner Powell stated that the charter schools have stripped the District more severely.

Mr. Wheatcraft said the decline in population is tremendous.

Commissioner Powell asked in light of the difficulty in projecting secondary seats, what is the staffing counterpoint. Can secondary staff backfill in middle schools.

Mr. Wheatcraft said secondary population enrollment limits set and staffed accordingly. Typically, we have enough seats for everybody.

Commissioner Powell reiterated her questions on staffing.

Mr. Marini said the SDO's are still working on that and that he had no information on staffing projections at this time.

Revenue Projections:

Mr. Marini said that the budgets have been inputted into the system as of last Friday. Management Cabinet will have a retreat on February 14. We know what our revenues are going to be from the Governor's budget.

The Fund for Innovation is a new state grant specific toward technology for approximately \$2.6 M. We need to determine if our partnerships with Dell and Microsoft if we can meet some of the criteria. We are trying to get information from SED. We're not comfortable at this time including the money in both revenue and expenses. There is not enough information for certainty. If the revenue materializes, we will put it online.

Commissioner Garcia noted that unless we have a signed agreement, there is not enough for projected budget.

Mr. Marini agreed that there is not enough detail. It's too nebulous.

Commissioner Powell said she is not certain it will pass. It is a new concept.

Mr. Marini noted there are other concepts in the Governor's proposal --\$8M for a Sound Basic Education to benefit the Big 5 and rural districts – comes with a catch – voted down last year, source video lottery terminals (VLT's). Even though the Governor specified what

each district will receive, the legislature might reject. We will include it in revenue projections for 2005-06.

If we back out \$2.6 M versus projected budget, there is approximately \$12M in recurring state aid revenue. That is more than in the recent past from the Governor.

If you look at the last 3-4 years, there's been a huge gap. It's gotten better in last two years. The problem with grants, such as Universal pre-K and Teachers of Tomorrow, is that they are held flat. Salary increases aren't covered. UPK has been \$7.06 M for the last 3 years, same dollars, etc.

Overall revenue is up from the state, down from federal. The District hopes to pass the state comptroller's audit and will be able to use reserve fund balance.

Mr. Marini pointed out we are still suffering from '00-'01 \$25 million gap. There is a \$66M structural revenue problem. We've escaped with creative ways working with legislature. Malik is working with state to capture \$2.2 M revenue by postponing EPE payments.

Commissioner Evans indicated the District won't have to pay until 2005-2006 should it pass.

Mr. Marini said that the District disagrees on the entire amount. Potentially could save \$13M in future expenses if we win appeal. We are hoping we won't have to spend \$2M in 2005-2006.

We are developing a strategy for our revenue problem. We are working on legislation to receive reimbursement of BOCES for nurses. On my last visit to Albany on January 10, we stressed the need for this and we were told to forward legislation, and our legislators would consider it. We may get additional state aid on this particular item, but there are no guarantees.

Commissioner Powell asked if Mr. Marini was reluctant to state a gap figure at this point.

Mr. Marini said we have a high level first draft of the budget which we have not shared with the superintendent. We haven't done any analysis yet. The gap is not \$68M, not \$58M, but it's a gap.

Commissioner Powell understood that Mr. Marini felt the need to protect that gap number. She inquired when the budget/finance group would be able to put forth a legislative strategy and share a gap figure.

Commissioner Evans said the Intergovernmental relations committee would meet with legislators on February 23rd.

Mr. Marini said that after the retreat, by the end of next week, we may have a gap and be able to give a range.

Ms. Tripi agreed that was possible.

Commissioner Powell suggested she meet when Mr. Marini has a figure she will communicate the information to other committee members.

IV. Preliminary CIP 2005-06 to 2009-2010

Commissioner Garcia wondered whether it was necessary to review the CIP today. It's very high level.

Commissioner Evans asked a question about the numbers on the proposed list for school closings. If those schools closed, what would impact be on capital plan or is that a non-issue?

Mr. Wheatcraft said there is a 2 year process. Summer of 2006 projects are now in design. There is an unknown regarding closing of schools. If a school closes, the only loss would be that some design work has been done for a project that won't happen. If a school closed, we would reallocate funds.

Commissioner Evans asked about the specs set forth by City Council. How does the debt ceiling preclude us from doing more work at one school?

Mr. Wheatcraft said we are limited to total amount of borrowing we can do. Frightening number in decline of amount of money over next five years.

Mr. Marini said the District can't borrow more than it pays down in debt in previous year. So that's hurting us. The debt ceiling is calculated based on the five year average tax assessed valued. We cannot borrow more. The city can borrow \$120M capacity. Hopefully, we can work with the City, if we are going to do modernization plan. The split is unique to Rochester.

Commissioner Garcia asked how much the City is using and what are they actually borrowing.

Mr. Wheatcraft said nothing dictates what we spend at an individual school. We try to be fair and balanced. We allocate dollars primarily for general maintenance of the building structure. We invest in some enhancements of program at secondary schools. We try to address needs for labs, roofs, windows, flooring.

Commissioner Powell asked if facilities people walk through with principals to identify needs at each school.

Mr. Wheatcraft said each school is given an allocation in cycle (split into 3 cycles). Principals create a wish list of smaller things. Facilities refer to the facilities audit, and we know the life span of various systems. We do annual inspections. There is a 5 year plan and we split the money between different systems to keep schools going. Design group works on a little bit every year.

Commissioner Evans asked about the budget process. The budget is due on March 29. Our next Finance Committee meeting is on March 8.

Commissioner Powell wondered if it would be useful to have another committee meeting.

Ms. Rohring said there was no room in the schedule to meet again prior to March 8th.

Mr. Marini said we can give detailed numbers and provide an advance copy to committee.

Commissioner Garcia said he wanted to hear about proposed legislation from Mr. Marini.

Mr. Marini said he wasn't aware that the Intergovernmental committee would talk about the comptroller's legislation, so he appreciated an opportunity to update the Committee.

He said the District is working with Internal Audit and presented a five point plan to the Superintendent back in December because Pres. Thompson had asked for the information about department operations. He said he could resurrect that and give to committee.

We are doing benchmarking with other CGCS districts. There is no consistency in reporting relationships. It's all over the map. Some members of the CGCS do not have an internal audit department, such as Boston.

We are doing an incredible job. We do not have an audit committee, and we don't have training for board members. We researched Miami Dade, Association of Internal Auditors, and LA Central Schools. We will make a recommendation to let you folks see what other charters are so you can pick what you want without having to reinvent the wheel. It's a sticky issue--getting people from public to be on an audit committee and not be compensated. That means you'll have a third party approving financial statements – are they going to be bonded. We have D&O insurance but will that cover this stuff? We have done a lot of work on this and we will give feedback to the Big 5. Should the Board have oversight – day-day management- annual audit plan- report to president? Do you want to sign off on travel vouchers and other administrative tasks? There are a lot of questions.

Commissioner Garcia remarked that the Board is thinking of making it as complicated as possible.

Commissioner Evans believes that if there is an audit committee, the District should compensate individual and hold them harmless otherwise people wouldn't participate. I wouldn't want to be held liable.

Mr. Marini asked the committee to tell him the best way to communicate this information.

The Committee members agreed e-mail would be appropriate.

VI. Next Meeting – March 8, 2005 at 6:15 p.m.

Motion to adjourn by Commissioner Evans seconded by Commissioner Garcia. Adopted 3-0 at 7:40 p.m.