



Financial Oversight Committee

December 4, 2018

The committee received information from Brian Kelso and Yoon-Sook Moon with Robert W. Baird & Co. including a municipal market update and preliminary information on bond structure for the series 2018 general obligation bonds.

CONCLUSIONS

- Voters authorized \$567 million in general obligation bonds in the November 2018 election.
- FOC commends staff for scheduling reviews with rating agencies Moody's and S&P Capital immediately following Election Day. Both rating agencies are expected to affirm existing general obligation debt ratings of Aa2 / AA. This work, as well as preparing the preliminary offering statement, positioned the district for a December bond sale.
- The following factors: current market environment, interest rate volatility, municipal bond supply, and limited competition from other school district bonds, provide a favorable opportunity to issue bonds in December and is a sound business strategy.
- The staff's proposal to issue an initial \$341.4 million to generate an estimated \$375 million in proceeds in December is well justified based on reasonable estimates of the amount of funds the district can deploy over the next three years in the current construction environment. The remaining authorization will be issued in 2 to 3 years. This is a conservative and thoughtful strategy.
- The issuance amount is consistent with ballot language and is designed to comply with IRS criteria.
- The proposed bond structure is consistent with historically conservative debt management practices. The structure is in compliance with election authorization language and sensitive to taxpayers.
- FOC believes the recommendation by staff to make principal payments to reduce interest indebtedness is prudent.

RECOMMENDATIONS

- FOC concurs with the recommendation by staff and the bond underwriters to proceed with a bond issuance in December 2018 for \$341.4 million of the authorized \$567 million with the remaining 2018 authorization expected to be issued in 2-3 years as needed for capital projects.



Financial Oversight Committee

December 4, 2018

The committee received information on options for investment vehicles for bond proceeds including the Government Finance Officers Association Best Practice on Repurchase Agreements. The presentation covered background on repurchase agreements, policy compliance, risk mitigation, timing and structure of the agreement.

CONCLUSIONS

- Repurchase agreements are safe when properly established and monitored.
- Repurchase agreements provide higher yields and diversification compared to other money market alternatives.
- In addition, repurchase agreements accommodate a draw-down schedule and provide for multi-year investment.
- District policy allows for the use of repurchase agreements as an investment vehicle.

RECOMMENDATIONS

- FOC concurs with the recommendation by staff to use a repurchase agreement as a strategy for investment of bond proceeds in the interim until funds are spent.



Financial Oversight Committee

November 6, 2018

As part of the Investment Management Program Review by Mary Donovan of Insight Investment, the Financial Oversight Committee received an update on the status of General Electric Co.

CONCLUSIONS

- Jeffco Public Schools currently holds \$775,000 of General Electric (GE) Bonds that will mature in January 2020 as part of the district's general investment portfolio. This represents less than 1 percent of the total investment holdings for the district.
- Legacy management decisions and recent weakness in GE's power division have led to falling share prices and credit rating downgrades for GE. The district has been closely monitoring GE and has implemented a strategy to liquidate the position as the opportunity arises to recover any losses from an early sale of the investment.
- On October 2, Standard & Poor's changed GE's credit rating to BBB+ from A and raised the outlook to stable; Moody's and Fitch followed with equivalent actions on October 31 and November 2, respectively.
- Given the stable outlook by each rating agency at this time, these downgrades are likely the last for GE for a while. The portfolio manager feels that GE's size, balance sheet strength and financing alternatives are pluses to cover the short-term maturity.
- Holding GE as it is rated is not a violation of the district's investment policy; however, the portfolio manager and district are sensitive to having a BBB+ rated security in the portfolio and would like to continue the strategy of holding the investment and liquidating when opportunities become available to replace the GE exposure with higher rated and higher yielding investments that will recover the loss incurred in the sale.

RECOMMENDATIONS

- FOC concurs with the recommendation by staff and the portfolio manager to hold GE through the 14 month maturity with the strategy to liquidate as the opportunity becomes available to cover any loss and potentially improve yields.



Financial Oversight Committee

August 7, 2018

The Financial Oversight Committee received an update and overview of the Amendment 73 School Funding Ballot Issue (formerly Initiative 93), the 2018 Capital Improvement Program and proposals for a possible Bond and Mill Levy Override.

CONCLUSIONS

Amendment 73 (previously Initiative 93) – Great Schools, Thriving Communities

- Staff advised that Amendment 73, which proposes to create a funding stream for education, would raise an estimated \$1.6 billion in additional, annual revenue for Colorado Schools; the estimate for increased funding to Jeffco is \$1,609 additional per pupil, or \$134 million. Funding would go to all district schools, including charters.
- It is anticipated that enough signatures were collected to allow the Amendment to make the November ballot; signatures must be verified by August 11, and a vote of at least 55 percent statewide would be required to pass.
- The amendment seeks funding financed by increasing income taxes incrementally on wage earners above \$150,000 and an increase of 1.37 percentage points on the corporate income tax rate for C corporations. 92 percent of Coloradans would not pay a tax increase.
- The proposed tax increase would be offset by reducing the Gallagher tax assessment ratio for residential property tax rate by 0.2 percent from 7.2 to 7 and the nonresidential rate by 5 percent from 29 to 24.
- If Amendment 73 passes, the funding would be used for attracting and retaining quality teachers and staff, additional programs and services for students, lower class sizes, and early childhood education and full day kindergarten as well as targeted supports for gifted and talented, special education, at-risk students, and English language learners.

2018 Capital Improvement Program – Bond Options

- Staff presented an overview of a proposed 2018 Capital Improvement Plan that focuses on the objective of preparing schools to be 20th century ready as assessed and defined within six categories including, efficient & future ready, parity, programmatic needs, growth areas, replacements, and safety, security & technology.
- The capital plan proposals are not new but rather best models built from the long-term Facility Master Plan that is monitored and updated annually.
- Staff presented three models to address capital needs based on a 5 to 7 year program with options for a \$647 million, \$545 million or \$462 million proposed bond. The difference in the three proposals included scaling back to the elimination of funding for capital needs to address growth areas and five school replacements. All three proposals would address funding for efficient & future ready to all schools; parity, or renovation of 17 high schools to current educational specifications and additions to 7 elementary schools; programmatic needs to address renovations/additions for the K-5, 6-8 transition as well as a south area career tech facility; and safety, security and technology upgrades.

- Impacts of the three proposals to Jeffco taxpayers, based on a \$400,000 home value, are estimated to range from \$98/yr., \$83/yr. or \$70/yr. depending on the bond proposal amount.
- With the failure of the bond in 2016, Jeffco continues to fall behind in funding to address critical maintenance and growth needs.
- The Financial Oversight Committee confirmed to staff that it has communicated to the Board of Education every year since 2013 their support for funding capital needs preferably by passing a bond and, in addition, has encouraged the Board to take urgent action to educate Jeffco taxpayers on the crisis nature of the district's capital needs and the need for support of a future capital bond issuance.

Mill Levy Override

- Staff presented proposal options for a mill levy override to be funded through a property tax increase that could be used for ongoing expenses and needs.
- The tax impact for the \$35 million override would be approximately \$9/month or \$107/yr. on a home valued at \$400,000.
- The Mill Levy Override would pay for safety and security for schools including mental health and counseling supports, increased competitiveness with surrounding districts for quality teachers & staff, expanded career/technical education options, and improved educational technology.
- Staff noted that a Mill Levy Override is needed, even if Amendment 73 passes. Because all districts in the state would receive additional dollars, Jeffco would still lag behind in funding compared to other districts.

RECOMMENDATIONS

- FOC recognizes that the Facility Master Plan and proposed 2018 Capital Improvement Plan thoughtfully and thoroughly address the capital needs of the district in a responsible manner.
- FOC further commends the district staff for their proven track record of fiscal responsibility in successfully completing previous programs within scope, on time and within budget and ability to address capital and growth needs during past and current challenging times.
- FOC strongly supports the 2018 Capital Improvement Plan and feels the district would be justified going forward with the recommendation for a \$647 million bond issue on the November 2018 ballot.
- FOC supports the recommendation to go forward with a Mill Levy Override on the November ballot with the first priority of funding safety and security/mental health supports in schools. FOC recognizes Jefferson County School District's legacy as a leader in school safety and strongly encourages the Board to emphasize spending for safety and security/mental health in the Mill Levy Override to continue this legacy of leadership.



Financial Oversight Committee

June 5, 2018

The Financial Oversight Committee received an update on the 2018/2019 budget being proposed to the Board of Education for adoption/appropriation at the June 7, 2018, Board of education meeting and an update on capital needs.

CONCLUSIONS

District 2018/2019 Budget

- Highlights of the Colorado General Assembly's 2018 session ended with (1) adoption of the final School Finance Act that includes a \$150 million decrease to the budget stabilization factor statewide and (2) adoption of a bill that includes changes to the Public Employees Retirement Association (PERA) bill to commit ongoing funding to address the unfunded liability of the pension system as well as changes to the plan's retirement age, contributions by employees and employers and reduced retirement benefits.
- The state funding increase results in additional funding for Jeffco.
- The PERA bill employer and employee impacts begin in 2019/2020.
- The 2018/2019 Budget includes \$27.9 million in additional revenue and ongoing available funding of \$6.2 million.
- The budget demonstrates a commitment to the three top priorities of the Board and Jeffco community with an investment in Jeffco employees, students and facilities needs.
- Staff has identified proposed capital needs districtwide based on efficiency and future readiness, parity, programmatic needs, growth areas, replacements, specialty needs including safety and security, and district charter school needs.

RECOMMENDATIONS

- FOC supports the 2018/2019 Budget as presented.
- FOC agrees with the identified capital needs of the district.



Financial Oversight Committee

May 1, 2018

The Financial Oversight Committee received an update on the current financial status of the district through third quarter, information on the 2018/2019 proposed budget and industry benchmarks for capital transfers.

CONCLUSIONS

Capital Transfer

- Jeffco Public Schools portfolio value is \$2.8 billion.
- With 157 school sites and 26 support sites, deferred maintenance continues to grow.
- The real estate industry standard for annual capital contributions for deferred maintenance is 2-4 percent of portfolio value.
- Based on the real estate industry recommendation of 2-4 percent, Jeffco Public Schools should be budgeting between \$56 million and \$112 million annually for deferred maintenance.
- Jeffco's current transfer from general fund to capital reserve is \$22 million annually, which represents 0.8 percent of the district's portfolio value.
- In addition, the district currently uses \$3 million of the annual \$22 million transfer to pay for the debt service on the recent certificates of participation (COPs).
- As an example to understand the cost of maintenance on a Jeffco facility, the new Three Creeks school cost \$27 million to construct; assuming a 60 year service life, it would cost 10 times the construction cost to maintain the school over the life of the building.
- In its April annual report to the Board, the Capital Asset Advisory Committee recommended increasing the annual transfer.
- The original recommendation from Capital Advisory Committee as part of the development of the 2018/2019 budget development was to increase the transfer by \$2 million annually to \$24 million. Due to competing district funding priorities, the recommendation for increasing the transfer was reduced to \$500,000 bringing the annual transfer recommendation to \$22.5 million.

RECOMMENDATIONS

- FOC recommends that the district strives to achieve the industry standard of funding an annual capital transfer equal to 2-4 percent of portfolio value for deferred maintenance.
- FOC recommends establishing a near term, within 3 years, goal of increasing annual funding for the capital reserve to achieve at least a 1 percent of portfolio benchmark (currently \$28 million). If achieved this increase in annual capital transfer will offset the \$3 million currently paid annually from the capital transfer to cover debt service on the COPs used to finance new schools and additions to meet the urgent needs in Northwest Jefferson County.
- FOC recommends increasing the capital reserve transfer to \$2 million for the 2018/19 budget.



Financial Oversight Committee

March 6, 2018

The Financial Oversight Committee received updated information on the current financial status of the district and development of the 2018/2019 budget.

CONCLUSIONS

Budget Process

- The Budgeting for Outcomes (BFO) model requires departments to submit all budget funding requests, including renewals, with documentation that summarizes how the funds will be used, what the expectations are for improvements and efficiencies, how the funding supports the Jeffco Generations vision, and how the funding will be realized through a cost analysis and/or repurpose analysis.
- BFO requests are vetted and prioritized by district leadership and submitted to the Board of Education for consideration in their direction for development of the district's annual budget.
- BFO funded requests are made available to the public.
- The Student Based Budgeting (SBB) model provides funding to schools through a series of factors in an effort to provide equitable funding for all students and schools that allow principals the autonomy to meet the needs of their students and community in support of the district's core mission to prepare all students for a successful future.
- Each school accountability committee weighed in on school-level needs through a survey to identify and prioritize the needs of its school. These requests were reviewed and prioritized by the District Accountability Committee (DAC) and submitted by DAC to the Board of Education for consideration in development of the district's annual budget.
- The district provided numerous opportunities for the community and stakeholders to weigh in on budget priorities through outreach by Dr. Glass, budget updates and public comment at Board of Education meetings, recommendations and advice from the Financial Oversight and Capital Asset Advisory Committees, and through community conversations on Dollars & Sense with Dr. Glass.

RECOMMENDATIONS

- FOC strongly endorses the district's budgeting process :
 - The Budgeting for Outcomes and Student Based Budgeting models align the district's budget priorities with its long term strategy.
 - The district seeks and obtains community feedback at a variety of levels in this process and utilizes this information to identify and prioritize funding recommendations.



Financial Oversight Committee

December 5, 2017

The Financial Oversight Committee received updated information on the status of the general obligation bond refunding for a savings opportunity and background on funding innovation and three middle school additions.

CONCLUSIONS

Bond Refunding Opportunity

- R.W. Baird presented information on the current municipal market environment showing movement in 15-year municipal market and 5-year treasury rates since October 2017.
- Rates continue to fluctuate due to market volatility.
- Savings from the potential bond refunding based on current rates is estimated at 4.6 percent aggregate savings with the potential for some maturities to fall below the 3 percent minimum savings outlined in the district's debt policy.
- District policy allows flexibility for the chief financial officer to deviate from the three percent minimum savings threshold per maturity.
- Due to pending proposed tax legislation changes that could eliminate advance bond refunding, any savings that can be realized from the bond refunding opportunity requires immediate consideration.
- The refunding does not present additional financial risk for the district.

Innovation Fund

- The district is considering an innovation fund to allow any stakeholder or school to apply for start-up funding to capitalize on great ideas and entrepreneurial spirit of its educators and stakeholders.
- A process would be developed for application, rubric, tools, support and measuring and tracking results.
- The process would ensure that innovations align with the district's strategic plan – learning, conditions for learning and readiness for learning strategies and tactics.
- Initial funding of \$1 million would support start-up for innovations. Sustained funding would be provided through SBB.

Additions at Three Middle Schools

- The Board approved moving forward with a K-5, 6-8 elementary and middle school grade configuration.
- Columbine, Dakota Ridge and Lakewood Articulation Areas require additions to Ken Caryl, Summit Ridge and Creighton Middle Schools to support the implementation of the K-5, 6-8 grade configuration for the 2019/2020 school year.
- The costs for the additions to date are \$14 million.

RECOMMENDATIONS

- FOC recommends refunding every issue that results in savings for the district even if the savings falls below the 3 percent threshold per the district's debt policy.
- FOC recommends the use of 2017/2018 general fund reserves to fund the innovation start-up fund and facility additions at the three middle schools as long as unassigned reserves remains within the recommended range of 8 to 16 percent.



Financial Oversight Committee

November 7, 2017

The Financial Oversight Committee recently was provided a summary presentation of the First Quarter Financial Report, the general obligation bond refunding for savings opportunity and the Budgeting for Outcomes process.

Conclusions

First Quarter Financial Report

- Following review of the first quarter financial report for the district and an investment portfolio review, FOC feels confident that the district is performing on target as planned.

Bond Refunding Opportunity

- R.W. Baird presented information on the municipal market environment that supports a bond refunding opportunity to save the district money.
- Savings from the potential bond refunding is estimated at 5.6 percent which is above the 3 percent minimum that complies with the district's debt policy.
- The refunding does not present additional financial risk for the district.
- Due to pending proposed tax legislation changes that could eliminate advance bond refunding, as well as current favorable interest rates, timing of the bond refunding opportunity requires immediate consideration.

Budgeting for Outcomes (BFO)

- The BFO budget model provides a structure and process for departments to communicate, analyze and evaluate their programs and their integration with the strategic plan.
- BFO supports the district's strategic plan.
- BFO assists departments with identifying improvements and efficiencies that allow for budget realignment, rather than increases, to fund projects or programs to meet defined departmental and district goals.
- BFO ensures that all budget increase requests are vetted and meet district strategic goals.

Recommendations

- Jeffco's financial condition remains positive due to the strong financial management by the district.
- FOC recommends that the district move forward with ratings reviews in order to accomplish the potential bond refunding by the end of the year, as long as the refunding aligns with thresholds per the district's debt policy.
- The Budgeting for Outcomes (BFO) process, similar to the Student Based Budgeting process for schools, supports the strategic mission of the district and ensures solid fiscal management and accountability by providing a budgeting tool that:
 - emphasizes department goals and results; and
 - generates accountability and ownership of department performance
- FOC recommends that the district continue to use the BFO model as part of the budget development process.



Financial Oversight Committee

October 3, 2017

The Financial Oversight Committee recently conducted a review of the Student Based Budgeting (SBB) process for 2017. Following are the Committee's conclusions and recommendations from this review:

Conclusions

- SBB provides a structure and process to engage the local community in determining resource allocation at the school level.
- SBB allows for flexibility in spending in school budgets to support a variety of programs designed to meet the needs of the local community.
- Schools are thoughtfully maintaining and monitoring an appropriate level of reserves within their budgets.

Recommendations

- Schools should communicate the role of the local community in determining their priorities and how this is reflected in their budget.
 - Schools should list their priorities on their individual websites and acknowledge the community's contribution in determining these priorities, particularly the contributions from the Student Accountability Committees and PTAs.
 - Principals should address the impact these priorities have on the school's resource allocation through the SBB process.
- Staff should review the reserves in the school budgets to determine appropriate levels and usage on an ongoing basis.
- Given the positive attributes that were identified following this review, the Financial Oversight Committee fully supports the SBB process and recommends that the district continues to use this model as part of the budget development process.

Financial Oversight Committee Communique

Advice to the Jefferson County Public Schools Board of Education

Meeting Date: April 5, 2017

Members: Brian Ballard, Mary Everson, Bob West, Gordon Calahan,
Chris Johnson, Mike Bestor and Scott Tarbox

OVERSIGHT DUTIES & RESPONSIBILITIES	ADVICE/RECOMMENDATIONS
Financial Reporting	
Financial Information	The FOC supports the staff recommendation to fund up to 1% of the COLA increase, using reserves if necessary, in the event state funding falls short of providing the budgeted 2% increase. We also support the use of reserves, to a level no lower than 8 percent, for capital expansion projects necessary to support the 6-8 school model as a strategy to provide some immediate relief to the district's serious capacity problems.
Business Risk	
Independent Auditors	

Financial Oversight Committee Advice to Board of Education

Meeting Date: April 5, 2017

Internal Controls/Ethics	
Reporting Processes	
Adherence/Improvement of Policies	
Other	

Financial Oversight Committee Communique

Advice to the Jefferson County Public Schools Board of Education

Meeting Date: February 8, 2017

Members: Brian Ballard, Mary Everson, Bob West, Gordon Calahan,
Chris Johnson, Mike Bestor and Scott Tarbox

OVERSIGHT DUTIES & RESPONSIBILITIES	ADVICE/RECOMMENDATIONS
Financial Reporting	
Financial Information	<p>The Financial Oversight Committee recommends the use of one-time dollars from reserves to address the current budgetary needs of the district. While the use of reserves is most appropriate for capital expenditures, the Financial Oversight Committee also recognizes the need for flexibility in the use of reserves as determined by the Board. The Financial Oversight Committee also recommends maintaining reserve balances at or above the 8% level on an unassigned basis per Government Finance Officers Association best practices.</p>
Business Risk	
Independent Auditors	<p>Members of the Financial Oversight Committee support the recommendation by district leadership to eliminate the quarterly review by the external auditors in order to realize a savings for the district of approximately \$13,000.</p>

Financial Oversight Committee Advice to Board of Education

Meeting Date: February 8, 2017

Internal Controls/Ethics	
Reporting Processes	
Adherence/Improvement of Policies	
Other	