



Financial Oversight Committee Meeting

Remotely via Zoom
1829 Denver West Dr., Building 27
Golden, CO 80401

Meeting Minutes

January 5, 2021 – 10:00 a.m. via Zoom

Financial Oversight Committee (FOC)

Members Present:

Brian Ballard
Gordon Calahan
Leanne Emm, Chair
Mary Everson
Charlotte Franson
Kyla Jones
Scott Tarbox

Committee Members and Staff Absent:

None

Staff Present:

Nicole Stewart, Interim Chief Financial Officer
Kristopher Schuh, Interim Superintendent
Steve Bell, Chief Operating Officer
Jason Hendricks, Acting Budget Director
Lisa Anderson, Controller
Debbie Ranguet, Exec. Assistant to CFO

Independent Auditor and Other:

Paul Niedermuller, CliftonLarsonAllen, LLP
Rick Rush, Director – Board of Education

Welcome and Introductions: The meeting was called to order and a quorum was declared. Stewart stepped through the agenda.

Approval of the Minutes: Brian Ballard moved to approve the minutes for December 1, 2020. Mary Everson seconded. There was no discussion. The motion carried unanimously, and the minutes were approved as presented.

Budget Update and Negotiations Status: Nicole Stewart shared the presentation given to the Board of Education on December 9. The presentation included the timeline; budget objectives; an overview of the 2020/2021 budget and issues being monitored due to loss of revenue, potential actions by the state, ongoing negotiations with JESPA and evaluation of spenddown of reserves as it relates to revenue loss; estimated enrollment loss for October count of 3,700 students for a net loss of \$7 million after the budgeted loss of 350 students; and charts showing enrollment loss by articulation area, free and reduced loss, and student withdrawals by grade level. There was discussion regarding the number of students who switched to home schools and clarification that the charts include data for option schools but not for charters, which has been flat compared to district neighborhood schools. District staff is continuing work to identify why students left and where they went.

With regard to the Governor's budget proposal from November, Stewart noted it includes 2.5 percent inflation, a statewide student loss, and a buy down of the budget stabilization factor which would mean more funding to school districts. Current concerns with the proposal are that it doesn't address drastic enrollment declines, potential impacts of Proposition 116 and the sustainability of a buy down of the budget stabilization factor. Stewart provided an update on the December forecast which was just released. Highlights, which she pointed out that the Board as not yet received, included an update from the Legislative (Leg) Council that revenues are up directly related to income tax collections that will happen between March and May; no TABOR refunds forecasted by either the Leg Council or the Office of State Planning and Budgeting (OSPB); continued concern about impacts of the continuing pandemic; and a quicker than anticipated economic rebound. There is general concern that the governor's proposal to buy down the budget stabilization factor is not sustainable. We will continue to monitor this as it will impact district funding. The good news, according

to Leg Council, is that districts may be able to see some buy down to the budget stabilization factor, not at the level proposed by the governor and dependent on the Joint Budget Committee.

Stewart reviewed the budget scenarios presented to the Board for the 2021/2022 Budget. Key points included assumptions that funding will remain flat; Specific Ownership Tax revenue will decrease, and an expenditure placeholder for Other Funds because the General Fund will need to contribute some dollars in order to have Food Service and Child Care Funds be sustainable. With those placeholders, it puts the net loss at \$56.7 million which the district anticipates will need to be covered through reductions. The scenario recommended by staff assumes a 33 percent gain in lost enrollment that occurred as a result of the pandemic for a \$53.6 million shortfall. The final scenario reflects the Governor's Proposal which staff feels is unrealistic and not sustainable.

Stewart stepped through the status of community engagement results from the school accountability committee (SAC) survey and Community Budget Workgroup through the District Accountability Committee and results from the online community budget survey. Two areas of reduction identified by SACs include professional development and interventionists. Stewart pointed out that professional development would not be impactful toward reductions but that interventionists could be helpful. She reminded the committee of the reduction priorities identified by the Community Budget Workgroup which included central reductions, furlough days, student based budgeting (SBB), compensation reductions and 4.5 percent spend down of reserves in year 1 and 2. She noted that the online community survey had 3,894 respondents of which 55 percent were non staff and 45 percent staff. Recommendations were to spend reserves over reductions; decrease professional development in terms of instructional reductions; and increase walking distance and shorten 4-day school week to address operational reductions.

There was discussion regarding the financial impact of going to a 4-day week. Stewart explained that the goal of the survey was to identify the community's appetite for various reductions and that further evaluation would be necessary. In general, the savings would come from salaries with lesser savings on the facilities side. Steve Bell commented on the challenges of going to 4 days due to impacts to extended days, extracurricular activities, food services and facility management. He noted that based on past evaluations from a business perspective, which he noted were not during a pandemic environment, the move to a 4 day week would require the district to overcome problems from a public perspective and with staffing. Stewart noted that the district will be evaluating options based on input from the community engagement process for communication to the Board.

There was discussion regarding a historical perspective with regard to the process used to determine how to the district spent down reserves when faced with reductions in the past.

Stewart shared two charts that illustrated expenditures by category for the current year noting that general instruction, instructional support and school administration is 73 percent of the budget. Knowing this, it will be hard to keep cuts away from the classroom; however, the district is striving to keep any needed reductions as far away from the student experience as possible. The remainder of the expenditure budget is 10 percent for operations and maintenance, 8 percent for special education instruction and 4 percent for general administration. The next chart shows the staffing components of the district's budget with 72 percent licensed, 17 percent support staff, 7 percent school based administration, and 4 percent in central administration.

Stewart confirmed that principals have received their budgets. Currently, the district is not recommending cutting SBB to offset the \$53.6 million needed to balance the budget. Hiring restrictions are in place with delayed phased hiring to be rolled out in stages March to May to provide some flexibility to the Board as the district continues to evaluate reductions.

Staff will continue to monitor the legislative session once it begins, and another round of community budget workgroup meetings will happen in late January or February.

There was discussion regarding variables in SBB and reductions to school budgets to account for enrollment decreases. Because this is the first year since implementation of SBB that the district experienced a huge reduction in revenue, Stewart advised that staff made a slight change to how funds are being allocated to help with the dramatic enrollment decrease. Staff and district leadership will evaluate and work with schools on identified struggle points to understand what can be done to support them.

Next steps were reviewed for January through March. In February, second quarter results will be presented to the Board and the results will help staff determine if a supplemental will need to be presented to the Board to allow for spend down of reserves in the current year. The Board will receive information on central reduction recommendations and reserves spend down recommendations. Also in February will be the community budget forums with Board members to be held virtually. In March, the budget team will be looking for Board direction to build the proposed budget.

There was discussion regarding the timing of the March legislative forecast which won't be released prior to the timing for when Board direction is needed. Stewart clarified that timing with the legislative forecasts and sessions is a continuing issue but that the goal will be to have conversations with the Board for initial placeholders on items such as use of reserves and staffing/compensation. Other discussion included information on student work participation in Japanese schools.

Stewart stepped through the 2019/2020 Budget Increase Results section of the presentation that was presented to the Board on December 9. The presentation included a slide for each budget increase that included the purpose, amount and results/impacts.

Bond Issuance and Investment: Stewart and Bell recapped the results of the bond issuance and refunding that closed on December 22, 2020. Bell noted the decision to avoid issuance prior to the election put the district in an extraordinary position for the offering that resulted in the lowest interest in history for Jeffco Public Schools. The district's initial offering was for \$240 million in bonds for new money for the second phase of the capital improvement program and about \$38 million in refunding bonds to take advantage of cost savings for our taxpayers. An oversubscription of the bonds, which meant more orders than bonds, allowed the district to reduce its borrowing rate. The district's total interest cost (TIC) for the 20 year issue of \$240 million is 1.81 percent. For the shorter term \$38 million in refunding bonds the TIC is .825 percent; this allowed the district to capitalize on savings for our taxpayers. The district's target rate of 3 percent refunded amount was exceeded by almost double to achieve a 5.71 percent savings rate which is over \$2 million of tax assessment to our taxpayers in Jeffco. Bell reiterated that it was an extraordinarily successful financing for Jeffco going forward.

Bell noted that the coupon rates on the bonds were higher than the capital market environment prefers which enabled Jeffco to issue premium bonds, the same as in 2018. Because of the low rates and coupon demand, the district was able to realize a premium of \$68 million on the phase two bonds which will allow the district to expand its capital improvement program to benefit facilities across the district.

Bell commended Stewart, the finance team and the underwriters on securing very attractive borrowing rates for the district's capital improvements. He noted that the decision making and, most importantly, the strong financial management of reserves, one of the pillars for national ratings analysis, were key to the decision by each rating agency to hold the district's ratings. Despite scrutiny around the current economic situation, tax base, diversification and reliability of tax base, decreasing revenue, and staffing changes including an interim Superintendent and interim Chief Financial Officer, Moody's confirmed an Aa2 rating and Standard & Poor's an AA. Both agencies specifically called out Jeffco's strong financial management practices as one of the reasons for maintaining these levels of ratings without any qualifications on the ratings.

Bell pointed out that the ratings and comment by the ratings agencies are a third party confirmation that the district's finance and budget team are doing good work and being good stewards of taxpayer dollars.

Stewart provided an overview of the current status of the bond proceeds and options for next steps to invest the funds for a longer term. Currently, the money is being held short term at CSafe and ColoTrust. She discussed next steps. The district is limited to where it can invest due to a requirement that it has to invest in governmental pools of which there are four options in Colorado. She noted that the district currently has its investment portfolio with Insight Investment and invests its liquid cash with CSafe. She commented on the current relationship and history with Insight and CSafe and provided information on ColoTrust, another option being considered that the district has worked with in the past. Stewart pointed out that because yields are low much of the decision comes down to relationship, who we trust and want to work with, where the money is safest, where it can attain the highest yield possible, and where to get the best diversity of funds to match the draw down schedule.

Stewart asked for recommendations and feedback with the intent to bring back investment proposals for the committee's review. There was discussion regarding desired yield curves to match the capital program needs, yield averages based on total package proposals, the need to focus on investments that are liquid but comply with the School Finance Act investment provisions, and assurance that investments are safe and secure. There was further discussion regarding if and how to distribute the investments including how to split the monies, considerations for current relationships and trust, past performance, compliance with district policy, complexities of investing with more than one firm, and similarity of fees and yields. Stewart commented that investing in phases will make it easier to manage maturities and move funds.

Following discussion, Mary Everson moved to invest the bond proceeds at a split of 75 percent with Insight Investment and 25 percent with ColoTrust in three phases. Kyla Jones seconded. The motion carried unanimously.

Stewart will reach out to Insight and ColoTrust to bring back investment portfolio proposals for review at the February meeting. In response to a question, she noted that the dollar amount will be determined after looking at the cash flow needs.

Stewart thanked Bell for his support and extensive knowledge that contributed to a successful bond offering and learning experience.

Stewart provided information on the new stimulus package. The estimate is \$54 billion to education to be distributed through the Elementary and Secondary School Emergency Relief (ESSER) Fund which is based on title status. She noted that the district received the majority of its funding in the first wave through Coronavirus Relief funds (CRF) and that the district received \$7 million in the first round of ESSER funds. Currently, we are waiting on Colorado Department of Education (CDE) to determine how much we will receive and what stipulations will be attached.

Audit Committee December Meeting Recap: Leanne Emm recapped the items covered at the Audit Committee meeting including the first quarter financial report and auditor's report on agreed upon procedures and the Comprehensive Annual Financial Report and annual audit.

Stewart asked for any questions on the management letter as part of the annual audit that was received from CliftonLarsonAllen (CLA) and emailed with the meeting packet.

Emm confirmed that Mary Everson will serve on the Audit Committee as the Financial Oversight Committee (FOC) representative starting with the February meeting. Staff will follow up with Everson on the meeting schedule and background documents.

Everson commented on a correspondence received from a citizen regarding allegations of potential fraud in the capital improvement program. It was noted that the letter was also sent to other individuals in the district and on this committee and others, Board members and CLA. Bell advised that the district is pursuing some avenues to

resolve the situation and that when information can be shared it will be passed along. There was discussion regarding the repetitive practice of letters by this individual, past discussions with other members of the committee and staff, discussions at past FOC and Audit Committee meetings, district actions regarding the accusations, and concerns about potential harm to the district. Interim Superintendent Schuh assured the committee that the district is well aware of the accusations and are taking steps to address it.

Paul Niedermuller with CLA discussed the letter and confirmed that similar correspondence from this individual have been a pattern. He noted that CLA communicated to the FOC that a letter had been received in early fall. He also engaged with Audit Committee members and discussed information around the allegations and clarification on what the audit does. Niedermuller clarified that CLA audits the financial statements whereas some of the allegations and comments within the document are program performance related; thus, he wants to make sure that everyone understands what CLA's scope of work includes. He confirmed that there has been conversations around this with the district as well as with FOC and Audit Committee. In addition, Niedermuller reiterated that CLA does not engage with the public and will work through the Board or district management in terms of any allegations. He confirmed that the allegations are taken very seriously and that it will look to the district to respond appropriately based upon the items that have been presented.

Staff acknowledged that the concerns raised over the allegations are valid and that information on the response will be shared with the committee when it is available.

FOC Conclusions/Recommendations: Following discussion, the committee did not have a communication for the Board at this time.

Wrap Up, Updates and Next Meetings: Stewart recapped upcoming meetings and stressed the importance of having members of the committee to attend Board meetings for dialogue with Board members as part of the quarterly reviews. The Second Quarter Financial Report is scheduled for presentation at the Board of Education study session on February 10 which will also include a budget update. Charlotte Franson and Leanne Emm will plan to attend; information for discussion with the Board will be covered at the February FOC meeting. There was discussion regarding what input from FOC members will be helpful for the Board including confirmation that the committee is actively performing its role as an oversight committee as well as any opinions and recommendations about the finances of the district going forward based on member financial expertise.

Stewart noted that only two members of the Board sit on the Audit Committee thus the other Board members look to FOC to hear more information from the perspective of FOC members.

Charlotte Franson commended the financial team for the work on the bond issuance and noted that it is something the district should be proud of and should share with the community.

Stewart confirmed the next meeting of the FOC is February 2, 2021, via Zoom.

The meeting adjourned at 11:15 AM.