



Financial Oversight Committee Meeting

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

Meeting Minutes **March 2, 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:

Staff Present:

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

Independent Auditor and Other:

Paul Niedermuller, CliftonLarsonAllen, LLP
Brian Hicks, Jones Financial

Welcome and Introductions: The meeting was called to order and a quorum was declared.

Approval of the Minutes: Mary Everson moved to approve the minutes for February 2, 2021. Scott Tarbox seconded. There was no discussion. The motion carried unanimously, and the minutes were approved as presented.

Economic Update: Steve Bell introduced Brian Hicks, Jones Financial. Hicks presented an economic overview of global economies and their cycle in the recovery phase, outlooks and historical look-backs on global reflation, monetary policy, money supply, historical federal deficits, bond yields, interest rates, unemployment, inflation expectations, and GDP growth projections. Key takeaways from the University of Colorado's Economic Outlook for Colorado included expectations for strong growth in the U.S. and Colorado dependent upon the vaccine rollout; inflationary concerns that will remain in check; historically low interest rates; rebounding unemployment; and indications that the Federal Reserve remains very proactive and accommodative. As of December, Colorado job recovery in 2021 was expected to be a third of the job loss in 2020, due in part to the fact that Colorado didn't experience as much job loss as other areas in the country. Colorado is expected to fall out of the top 10 states for employment growth in 2020 and 2021 with employment growth over 5 years estimated at 1.5 percent. Population growth in Colorado is the slowest since 2003 with an estimated 53,300 people. The highest change is expected with 75 to 84 year olds and 85 plus and then 66 to 74 year olds and 25 to 54 year olds. Even with expectations for a strong rebound, the stimulus funds are expected to play a key role in the economic recovery over the long-term.

Budget Update: Nicole Stewart presented a budget update that included feedback from all community engagement groups with regard to proposed cuts and use of reserves to address the anticipated budget shortfall. Stewart pointed out that after formation of the District Accountability Committee (DAC) Budget Subcommittee, DAC broadened its recommendation beyond cuts to professional development and interventionists that was based on results from the school accountability committee survey to (1) avoid cuts to classroom teachers; (2) avoid cuts that impact the classroom learning experience; and (3) avoid cuts to mental/behavioral health supports. The Community Budget Workgroup (CBW) recommendation, endorsed by 81 percent of DAC, changed slightly to support spending down \$34 million from reserves and, if needed, to implement reductions per the prioritized list starting with central, furlough days, Student Based Budgeting and compensation. The full report was shared with the FOC. Stewart thanked members Scott Tarbox and Brian Ballard for serving on the workgroup.

One slide summarized feedback and recommendations from all community engagement including DAC, the CBW consensus reported through DAC, areas of tolerability identified through the community Board budget forums, and results from the online community budget survey. Members were advised that recordings from the budget forum group sessions are posted on the district's website. Feedback from the community engagement process was further summarized on a chart that showed by symbol a community tolerance for, support of, or lack of support for possible reductions in various budget categories.

Stewart discussed the current recommended budget scenario that reflects regaining 33 percent of the district's enrollment loss with a budget shortfall of approximately \$54 million. With the current identified Board-supported reductions of \$11.33 million from central, Education Research and Design and School Leadership and \$30 million from reserves, the district continues to look for ways to fill the remaining \$12.67 million budget shortfall.

An overview of unassigned reserves demonstrated how implementation of various spend down scenarios ranging from \$27 million to \$36 million could put unassigned reserves outside of the Government Finance Officers Association (GFOA) recommended range per best practices eventually requiring use of reserves held per Board policy.

Several reserves spenddown and reduction scenarios were presented to demonstrate the impact to reserves in the out years if the district doesn't see additional state funding or other revenues coming through. Stewart reviewed a list of several categories that the Board wanted to further discuss for possible reductions as well as a list of categories that the Board did not wish to pursue.

A list of potential one-time reductions on the table for the Board to consider include a reduction to the capital transfer, spend down of Information Technology (IT) reserves, implementation of furlough days, and a reduction to Student Based Budgeting (SBB) dollars. There was discussion regarding technology expenditures and the one-time use of IT reserves to offset the annual transfer from the General Fund. There were questions regarding the impact of furlough days on the required student contact days; Stewart clarified that the recommendation of no more than three will not impact student contact days. Staff will follow-up on a question regarding where the district stands on student contact days.

There was discussion regarding the General Fund transfer to the Capital Fund and clarification on how it is incorporated into the long term Capital Improvement Plan which includes deferred and on-going maintenance. There was discussion regarding how one-time bond proceeds could be used to offset the transfer for one year and concern about whether a reduction to the transfer could be guaranteed to be restored.

Stewart reviewed a list of increase requests that will be discussed with the Board should one-time dollars become available. An update on ESSER funds confirmed that the application process has opened but that the district is still waiting for information on allowable uses. In the meantime, the district is developing a plan to address learning loss.

Stewart continues to follow proposed legislation. She pointed out that while the Hold Harmless bill passed to address revenue decline due to enrollment loss in the current year. She noted that because the district did not do a revised budget to reflect the impact of the district's full enrollment loss and committed instead to strategically create underspend in the current year to offset the loss, the revenue from the Hold Harmless bill will be helpful but will not be enough to cover the budget shortfall. Staff will continue to monitor second quarter results for underspend.

Additional information was provided to assist the committee with discussion of reserves planning. Stewart pointed out that the monthly expenditures for the district for General Fund salary and benefits averages \$50 million per month with total expenditures at \$62 million. A comparison of reserves with other metro area school districts shows Jeffco ranking seventh.

Fund Balance and Reserves Planning: Leanne Emm asked members for input with regard to recommendations for reserves spend down, at what level and over what timeline to share with the Board.

Stewart pointed out that staff is recommending \$30M as the benchmark to allow flexibility in out years for additional spend down to avoid another round of major reductions in 2022/2023 and to give the Board some flexibility due to uncertainties in the current year.

Members commented on the economic update that showed an anticipated strong rebound contingent on vaccines. There was discussion regarding the fact that school finance is unique compared to the business world primarily due to how schools are funded and the uncertainties and unreliability of state funding which the district cannot control or predict. Although the property tax base is relatively stable in Jefferson County, the amount required to be backfilled by the state per the School Finance Act is uncertain and impacts the ability for forward planning.

Members of the FOC acknowledged that pressures on the state's budget as a result of the pandemic induced recession, seems to support concerns that the Governor's proposal to buy down the budget stabilization factor is uncertain. The March forecast from the state will be key and all funding estimates will remain uncertain until school finance is decided when the legislative session ends in May.

Staff reiterated that significant enrollment loss in the current year reduced the amount of per pupil funding the district received from the state and that the Hold Harmless bill will provide some help in 2021/2022 but that the budget impact for next year still remains. Revenue loss due to the district's inability to hold activities and collect fees significantly impacted revenues for food and nutrition services, child care and preschool, transportation, and facility rentals. A transfer to these funds from the General Fund may be necessary which will impact the amount of underspend in the current year.

There was discussion regarding how the district used the Budgeting for Outcomes process to identify the \$11.33 million in reductions at the central level. Staff clarified that some supports for schools are budgeted and provided at the central level and although costs are not included in SBB, central cuts can have varying impacts to schools without affecting SBB dollars that schools manage directly.

The committee expressed caution over making one-time reductions without the ability to guarantee restoration of a reduction due to changes in leadership, priorities and funding needs. The use of bond proceeds to offset a portion of the capital transfer for one-year was supported but members felt strongly that restoration of the reduction should be a priority.

There was additional discussion about the need to explore efficiencies in the areas of school closures and consolidations, transportation and bell to bell changes; that current estimates for use of General Fund dollars to offset shortfalls in the Food and Nutrition Services Fund and Child Care Fund could shift; and that given what is known now, the district's revenue forecast remains flat for the next three years.

FOC Conclusions/Recommendations: Based on discussion, the FOC recommends a slow spend down of reserves due to unknowns of how long the impacts of the recession will last and how long it will take for school finance to recover. FOC agrees that the proposal for a three-year spend down of reserves per the district's recommendation at a rate of \$30 million in 2021/2022, \$20 million in 2022/2023 and \$10 million in 2023/2024 is reasonable and will require reductions in the current year and out years assuming revenue remains flat. It further agrees that due to limited revenue sources going forward, the district will need to continue to look long term at efficiencies to save dollars including, but not limited to, the areas of school closures and consolidations, child care, and class sizes. In addition, FOC agrees that any unexpected underspend identified in the current year should be dropped to the bottom line to allow the Board flexibility as it considers expenditure decisions.

Wrap Up, Updates and Next Meetings:

Stewart pointed out the revised 5A spending summary report in the Appendix of the Second Quarter Financial Report. Any questions can be emailed and discussion of the report will be added to the April meeting.

An update on the investment of the bond proceeds confirmed that staff is moving forward per the recommendation from FOC at the February meeting. Set up of the custodial account is in process, and staff is working with Insight Investment and Public Trust Advisors to monitor and evaluate the market.

The calendar was shared showing upcoming Board of Education meetings on March 4 and 10 and the FOC meeting on April 6. The meeting adjourned at 11:43 p.m.