

Lakeville Area Public Schools  
Finance Advisory Council  
Tuesday, December 6<sup>th</sup>, 2016 | 4:30 PM – 5:50 PM  
Crystal Lake Education Center, Media Center

## 1) Attendance

### a) Board of Education Member

- i) Treasurer Bob Erickson (in attendance from 4:30 to 4:45. Left for a District 917 Meeting)
- ii) Director Judy Keliher

### b) ISD 194 Staff

- i) Michael Baumann, Executive Director of Business Services
- ii) Marilyn Smith, Principal Impact Academy at Orchard Lake Elementary School
- iii) Jaber Alsiddiqui, Controller
- iv) Jon Jackson, Purchasing Coordinator
- v) Todd Mooney, LEAF President

### c) Community Members

- i) Alan Williams
- ii) Ross French
- iii) Jill Cochrane

### d) Absent Members

- i) Dr. Lisa Snyder, Superintendent
- ii) Patrick Arling
- iii) Kelly Henricks
- iv) Tom Neitzke
- v) Jacob Whittaker
- vi) Don Sinner, EML President

## 2) Introduction – M. Baumann

- a) Welcome. Extensive Agenda with updated information that has been presented to the BOE. The major item in process right now is the FY18 budget and refining that. With the Legislature coming into session, there is a surplus. A lot of eyes will be on this developing situation having \$1.4 billion in surplus. It will be interesting to see whether the legislature chooses a refund to taxpayers or if some increased funding may go towards education. We have to watch that decision process and then apply it as part of the refinement process for our budget. The other major item is the concluding process for the levy. We have guidance from the Board; we would appreciate your input on that. We are also going to share FY16 Audit results. We will also give you the FY17 QTR 1 update.

## 3) FY16 Final Audit Report – Jaber Alsiddiqui

- a) With our audit ending June 30<sup>th</sup>, 2016. Three areas: financial statements, federal programs and student activity accounts. The student activity accounts are not considered Board controlled and they have their own checking accounts. Based on state law these need to be audited. What did they find?
    - i) The financial statements had an unmodified opinion. A significant deficiency was noted with our asset management process. We knew this was coming as we explained in our last FAC meeting when we presented the corrective action plan to our District asset management process.
    - ii) Unmodified opinion for federal programs. Each program assigned to Federal, the supervisor needs to put proper documentation to the Federal government in order to get the appropriate grant for the funding. That was a finding last year as well. We are working with SPED to correct that year after year.
- Todd Mooney (TM) – Do you know what the exact position of the employee(s) are responsible?

JA – Not sure the exact titles, but the position(s) do not pertain to it.

TM – OK, just wasn't sure if they are licensed vs non-licensed?

JA – mostly PARA's

Cell Phone Documentation – We do this annually, and they should be submitting new documents each year. Found a few employees that we didn't have updated information. We have since corrected this problem.

iii) The last part was the Student Activities information. They use the cash basis and that is not a generally acceptable accounting practice, so they did not give an opinion on it. They want to make sure all of the money collected is recorded. When they are selling something to the public, there are no receipts given to the buyers. We talked about the cost to have the system to give everyone a receipt. Typically, you do not have to give receipts nor do you ever give one. The District Need to assess the cost of complying with this finding.

These are all the findings.

- b) Summary of all funds. There is an increase in the general fund balance. There is a reduction in food service, which is good. Fed Gov doesn't want you to have too much money in the Student Nutrition. The refunding bonds were issued and we didn't get to pay the old debt so that is why you see the extra balance. We look at the fund balance versus what was projected to the actual numbers of what we projected from last spring. We have \$2.2 million in additional revenue, which is favorable to the District. We are within 1.69% of our revenue. Our Expenditures, we came in under projection by under 1%. That is all good news for the general fund. Detail of how we breakout the fund balance. Assigned and unassigned balance. The board policy has the minimum of 5% of unassigned the balance. The board did not decide how much money they were going to set aside at this point in the chart. Our total fund balance is \$17.59 million and the unassigned fund balance is at 8.2% is a good place to be.

4) FY17 Quarterly Update – Jaber Alsiddiqui

- a) This is our first projection looking at the budget when we put it together last spring and once students start coming, we can really see where we are at in terms of revenue and expenditures. Enrollment has an increase which is very positive. The FY14 depiction was a anomaly. We ended up with Open Enrollment in the positive since the last 10 years. This is the second year in a row. That is good news about enrollment and is looking even better now. We typically only look at the Gen Fund with QTR1. When we adopted budget we thought the beginning fund balance was \$13.8 M and we ended up with \$17.9 Million; even better fund balance. We increased the revenue base on the additional enrollment we saw. The other local revenue that is the student activity fundraising which we did not appropriate the full amount. Salaries and employees wages are coming in under what was projected. We always figure the worst case and we hired at less than the highest. Pension Liability; the TRA, PERA these are separate entities, GASB said each District must take on a portion of the liability. It is one time journal entry and it goes to the state. That is a plus \$1.3 million in the revenue and plus \$1.3million in the expenses. It is just a required accounting requirement. That is the biggest change in expenditures.
- b) We started the year higher and we anticipate unassigned fund balance to go up to 9.1%.
- c) The last chart shows the history of the balance (slide projected).

5) FY18 Budget Update - Jaber Alsiddiqui

- a) Revenue is based on current laws. Unlike the private sector we look at the current law of how we get money from state, federal and taxes. Q-comp we discussed last time about the teachers spiff. There are some changes we are going to fund it with state and levy money. Salary items are based on current contracts, steps and COLA adjustments. Health insurance cost to the District is projected to increase at 4%. Other line items are rolled over from the adopted FY17 budget, with a few adjustments based on trend analysis. Assumes a 3% increase in transportation cost.
- i) MB – we are currently in a RFP for transportation, so we used an extra 1% because we do not really know but anticipate increased costs.
- ii) JC – what drives that extra percentage?
- iii) MB – Certain things, such as our current contractor does not have GPS in any bus. The principals have expressed concerns on time timeliness of buses. Customer service needs. Our current contractor does

not have the best customer service, provisions in the RFP require improved support and performance. We anticipate a contractor may pass those costs to the District via the contract. Also, driver wages are going up in competition for a diminishing pool, it is hard to hire the full complement of need. Schmitt's has been with the district for 49-50 years according to Bill Forbord. We had a meeting last Thursday with bus companies who are interested in the RFP.

- iv) JA – Looking at the current programs and activities if we rolled them over for two years what is the impact. Referendum, we made promises on how we were going to use that money and we are going to report to the BOE on that.
- b) Enrollment history – this is the first year we show an increase in enrollment using the enrollment model. Each scenario we found showed we are going to progress on this route. If you look at the charts, the trend will keep going up.
- c) General Fund, same format, start with FY16, what we adopted and what did we project for FY18. Using those assumptions and although our expenditures is below our revenue, even with that the fund balance will go down to 9.7 million which puts us right at above the required 5%W
- d) Fund balance analysis, if this happened to be the budget; the change would be put into next year's fund balance.
- e) NEXT STEPS: working with BOE and the administration to work out any more refinements. If the current law changes what we get from the state, we may change the budget budget. We will continue to monitor legislature. If there are other expenditures the BOE wants to look at, we can go down to the 5% fund balance limit. It is a balancing act of working with the current law, BOE guidance, administration guidance and keeping the fund balance in check. Administration will not bring anything new to the BOE. BOE has the Administration recommendations. If we get more funding, we will work with the BOE on what we want to do. One analysis that has been presented to the BOE is based on the paid transportation. Reducing Elementary to .5 miles and cutting other costs associated with paid transportation would cost about \$1 million dollars to the District's general fund; includes additional 3% for a new contract that has an RFP out right now.
  - i) AW – that would be a ½ mile from the school?
  - ii) MB – Correct. Other districts use a ½ mile. The state law is 2 miles. Another item that the BOE has asked to implement is a safety zone committee and anyone in those zones would be bussed at no charge. Have not done the exact analysis of the costs of the safety zone implementation; many more parts to be determined to shape that impact analysis; that is in -progress.
  - iii) JC – how do you handle that with funding for security and access points? How do you choose the Priority funding option?
  - iv) MB – Priorities are debated within Administration and brought forward to the BOE.
  - v) JC – How do you decide what to cut to make up for the Transportation? Where did it fall since it was cut in 2008 and 2009.
  - vi) MB – over the last election paid transportation has been escalated to a higher issue. Debate and guidance from the BOE prevails.
  - vii) JK – From what some board members have been hearing in the community this is a top priority.
  - viii) MS – Is this one of the last items to be restored?
  - ix) JK – No not from the 12 million some cut from the budget.
  - x) JC – Right, how do you judge versus lowering class room size, more teachers? How do you decide?
  - xi) JK – It is what some board members are hearing in the community and they are bringing it into the Board discussions.
  - xii) AW – Transportation shouldn't be funded by taxes. It should be funded by the individual parents that have children within a walking distance. I would feel that this is much less important to others than of those who live within the 2 miles.
  - xiii) MB – I appreciate your stance on this. One of the concerns that comes from the community that does not pay, is: the fee is viewed as a user tax that is statutorily regulated and you have to pay to play. In other words, "if you want a bus inside 2 miles then why should my neighbor pay?" What I hear the most to put our budget towards is class size and learning. Anytime that is not serviced, it causes issues. What do the analytics tell us?
  - xiv) JC- What do surveys say? Did this surface as a community priority?

- xv) MB- Surveys can be a great tool. One thing to be mindful of though is, what are you stirring and who are you pinning when doing a survey; need to be aware of the political component to respect the public and community perspective on these kinds of issues and how surveys impact that.
- xvi) JK- In the past, we used to have safe zones and different distances for the winter, versus spring and summer. What we heard in the last levy session was class size and security were high concerns. At the last long term facilities committee, Security elevated to a major area of concern. Others are asking why they are being taxed for living so close to the school; versus tax the other users more.
- xvii) AW – the reason I wonder why we couldn't charge everyone \$50 to ride the bus.
- xviii) JK – we can't because of state law.
- xix) MB – We have a variety of more difficult issues than those just offered; one of the the worst being, we can have 4 kids not paying and 5 kids paying at the same bus stop.
- xx) JC – I just worry that reducing or eliminating a transportation fee will not have a big enough impact across the community and there will be more backlash from the community if paid transportation is removed and other needs are not addressed first.
- xxi) JK – That is the same scenario we are crossing with STEM in Middle School.

6) PAY17 Levy Update – Michael Baumann

- a) I will have a truth in taxation presentation at the BOE meeting December 13<sup>th</sup>. We (Administration) had to bring to the BOE our tax levy recommendation. Administration recommended, at the time, to give the optimum latitude to the BOE, the max allowable levy that MDE calculated for LAPS. This will allow us to optimize all of the programs and assess between SEP and DEC if we could afford to cut back from there. Even with the maximum allowable levy, assessing a \$300K home, would see a decrease from the school district portion. In the past we did not have Q-Comp; Quality compensation. Q-Comp has morphed into a funding stream for schools to have Teacher Development and Evaluation (TDE). 35% of funds are property tax and the 65% of funds are state aid if your Q- comp plan is approved by MDE. This 35% is roughly under 1 million dollars for LAPS. We have been asked to look at this from the BOE to lower this to \$700K. The other item that was asked to look at was a reduction in the community service levy; reduce by \$60K. MDE levy limit for Q-comp \$979,757.87, BOE suggested – \$700K. Comm Serv 303,482.06 to BOE suggested \$243,482. We are going down in our expenditure and levy. This is the total for the levy. Overall decrease -0.77%. Impact on a \$300K home (\$102.94) for full levy and with BOE suggestions (\$117.56) for \$300K home. We do not show the commercial side, but that will be done at the truth in taxation on Dec 13<sup>th</sup>. I can send out the tables for commercial if you would like.
  - i) JK – This is a part of the regular board meeting and you can stream it online if you cannot make it.
  - ii) MS – Q-comp levy, one time PD funds. Does that mean the 9 coaches can be sustained at \$700K?
  - iii) MB – No it cannot be sustained. In the future we would have to levy or adjust budget to sustain that.
  - iv) MS – Is there a reason why we are going to 9 if we cannot sustain that? There is a lot of pressure on administrators to keep this up.
  - v) MB – Administration will have to review this each budget cycle and work with stakeholders to sustain.
  - vi) JC – do you see Q-Comp staying around?
  - vii) MB – It is at risk in the future. If you look at the political “tea leaves”, with a Republican legislature, that puts it at risk since the fund utilization has migrated away from its original intent. As of right now, the governor would veto any cuts that he doesn't like. The Governor wants early education funding and could trade Q-comp off. It is at risk but to what level? TDE at the school level has a lot of potential and has high staff direction. That has been changed and we will see what time brings. To me, any school District, any business has to invest in its core mission and ours is professional development of our teachers to provide better education. How to do this? 2% of the general fund by statute has to go to Professional Development. You have to invest in Teachers.
  - viii) JC – It happened today in the business I am consulting with. Working with a client and we didn't have the right licenses. We have to now fund extra money that was not in the budget.
  - ix) JA – this has been through a lot of changes through different political parties. If Q-Comp goes away, something will replace it.
  - x) AW – the problem I have is this is one time funding now to kick it down the road.

- xi) MB – The mechanism for sustainment is the levy which will be available. How that works for the District is the work of Administration with stakeholders and recommendations to the BOE.
- xii) AW - The way I look at it, if you go with the max levy right now it is a decrease which is what people want to hear. Why make cuts?
- xiii) MB – I fully concur and my job as the CFO of the District is to bring the facts. While the reduction we are moving ahead with is subtle the principle is that we are demonstrating clear reduction for taxpayers. This is important.
- xiv) JK – This is what the robust discussion at the last work session was about is the 16 dollar extra savings.
- xv) MB – there is the business process and the political process. These have to be balanced in a sensible manner.
- xvi) JK – to be fair to the conversation, this is to the home and doesn't include businesses. Trying to
- xvii) minimize it for business as well. I think everyone was seeing decreases across the board.
- xviii) JA – This levy could go up and down every year. This time of year, we have more houses and taxes distribute across more houses. This is the time you suggest to say let's cut it, but if it is already a decrease why change it?
- xix) JK – When we were growing so much in the past it was hard to be accurate with tax impact estimate because community was growing so fast.
- xx) MB- What other people need to consider as well is how these numbers are tracking against inflation. When you are in the position to always be below the line (below CPI), it is hard to deal with the numbers when it is below inflation. Ultimately, if not careful, District's end up cutting jobs because of the gap of funding with inflation. To set priorities planners have to go back to core mission and that is where your priorities should always start.

7) Questions? Please email MB

- a) START TIME 4:35PM
- b) END TIME 5:39 PM