

Finance Advisory Council Special Meeting – Fund Balance Policy Review

Tuesday, March 8, 2016

4:00 PM – 5:12 PM

Crystal Lake Education Center – Media Center

Attendees:

- Community Members:
 - Patrick Arling
 - Kelly Hendricks
 - Erika Knips
 - Rochelle Lockwood
 - Tom Neitzke
 - Jacob Whittaker
- Board of Education Members:
 - Director Erickson
 - Director Keliher
- ISD 194 Staff:
 - Dr. Lisa Snyder
 - Marilyn Smith
 - Michael Baumann
 - Jaber Alsiddiqui
 - Emily Herman

Meeting Minutes:

- M. Baumann - new member: Jacob Whittaker. Introduction to the group.
 - J. Whittaker – 6 children. Moved here about 3 years ago. Oldest graduated from last year and youngest will be in Kindergarten next year. Children throughout the levels. Participating in LTF Planning Committee. Spent career in finance and planning. Started with Ford in Michigan (8 years), Whirlpool Company (8 years), and working for Viracon in Owatonna for 3 years.
 - M. Baumann – welcome
- M. Baumann – Fund Balance PPT
 - Want to talk about Fund Balance, want to talk to this group to share your thoughts and feedback around finance. Fund balance is an important part of that. Packet sent a while back and in paper form here for you.
 - Review of Agenda: GASB reference. Shape how public schools shape and determine fund balance. GFOA – send out recommendation of what Fund Balance should be. But differs from other agencies. Review of the ISD194 current policy and Fund Balance comparison – to give you some direct, clear information about what other school districts are doing.

- Slide 3 GASB – define the operating terminology for FB and calculation (look on the FY17 FB Analysis handout). Recommend adding the language about compliance. GASB says to defer to them in any conflict. GASB language prevails and ought to govern how you calculate FB.
- Slide 4 GFOA – no less than 2 months of expenditures. Let’s equate that to FY16 for Lakeville Area Public Schools, would be approximately \$19.6 m or 16.6% FB to achieve that.
 - Question – T. Neitzke – national reference. Have you asked local auditors to see?
 - M. Baumann – we have talked to our auditors. They are reluctant to say a number in range. When MMKR was here and when we change to new auditor, their response is similar. Achieving two months is very difficult for school district to do. We will talk about the whys around why that is hard to do. Political opinion around FB. More liberal thinking about would be why would you carry any FB moving forward. Lot of talk around how much money do you have around making cuts. Yes some guidance from auditors. Yes our current 4-8% aligns with that. What I will say if you probably have a floor but not a ceiling on that.
 - Dir. Keliher – MDE financial report card – one element is to have a FB in place. When that was added is when a lot of School districts did policies. When we did this policy, we did bring in MMKR, MMKR suggested a range. Lot of school district don’t do it. That is kind of how this all got started so we have a good scorecard
 - T. Neitzke – what was the result of the scorecard
 - Dir. Keliher – complete checklist of all the things the school district does to be financially sound. Don’t remember all the different ratings. What a lot of districts were using this tool at a time when there were a lot of levy and bond referendums going on and used the scorecard to show financially sound.
 - J. Alsiddiqui – for the bond rating, having a policy for FB is really important. When talking about GFOA is the best practice. Lot of school districts are going through this. Practically, not a lot of school districts have this. Especially during budget cuts. Hard to sit on a lot of money when doing cuts.
 - M. Baumann – Bond rating agency, not only if you have policy but have you lived by that. Have you done modifications of that?
 - Question – P. Arling – this isn’t for cash flow, to cover unaccepted expenses?
 - M. Baumann – rainy day fund. Situation that may arise but more importantly, it is so people can see you are planning and have confidence in the district to sustain with strategic plan. Are you foundationally solid or not. Any rating agency is going to look at the long

range on that. Floor and ceiling – we are talking about this. Floor for example – you go below the floor, diligent process to do that, what you are restoration. For you have a ceiling of 8%, what is the process to spend the surplus – what does that trigger. Do you expend in a certain way. That is why ceilings concern me a little bit.

- M. Baumann
 - Slide 5 – currently ISD 194 FB Policy. Review of items on slide. What does the min and max mean if you go below or above. What is the process to restore or spend?
 - Slide 6 FB Policy Comparison – Bloomington the only other one that has a ceiling. Average the mins and came out to 6%.
 - Question – T. Neitzke – why so many don't have max
 - M. Baumann – gives the Board the flexibility. What happens if you go over? Not having a max gives you the flexibility. Could get to GFOA
 - T. Neitzke – average for those districts and where they have run?
 - MB – no, I don't. We can look that up
 - Question – P. Arling – our average been?
 - J. Alsiddiqui – last 10.1%. We have been above the 4%
 - Question – J. Whittaker – policy is silent on if we go above?
 - J. Alsiddiqui – yes. And there isn't a timeline on the below. Want to talk about adding a timeline to restoring the FB.
 - Dir. Keliher – reads review of the MDE report card and definition of the MDE report card and purpose. We are on the list.
 - Dir. Erickson – from 2008 – FY15, we range from 4% during times of recession and up to 10.4
 - J. Alsiddiqui – policy only around unassigned FB
 - Add FB history slide to notes
 - Slide 7 – Change Recommendation
 - Set minimum at 5%, \$120k = 0.1%
 - Remove maximum from policy
 - Remove the exclusion of the categorical. Auditors have to break apart report to met GASB and Policy separately
 - Add time frame to restore. I don't see us going below but want that in place if it would helpful to have process in place.
 - Feedback
 - Question – T. Neitzke – what do you tell the non-financial citizen in Lakeville today
 - M. Baumann – want to keep a FB for the ability of the district to be financially sound for bond rating, sustain operations, and have dollars set aside in order to assure sustainment of the district. I think most people understand credit and home budget. Anyone can look at own situation and know they need a

rainy day fund. 6-8 months personally for rainy day fund. That may vary about education but that kind of thought can apply. I think that applies with business owners. Money set aside to survive during hard times.

- Question – Dir. Erickson – what did Moody say when you went through
 - M. Baumann – they were complementary of the district’s fidelity. We were able to sustain FB during recession. Our management of that.
 - Dir. Erickson – many lost their rating in 2015 in Moody’s new formula. We sustained our rating
 - M. Baumann – yes we sustained our rating. FB had a lot to do with that and other management of our funds. We were able to demonstrate evidence of good stewardship during time where all school districts doing through hard times.
- Question – K. Hendricks – during levy, any questions from Community members?
 - Dr. Snyder – one thing we see is a real misunderstanding around FB. We are asking for a need that is ongoing (e.g. art to the Elementary, staff to reduce fund size). Why don’t you just use the FB? FB is one time money only. You can use that one year. Trying to help folks understand that FB is not replenished unless budgeted to replenish.
 - M. Baumann – another component is legislative cycle and labor contracts. State of MN definitely not funding with gen Ed formula with any inflation. Your labor challenge when majority of expenditure is staffing. How do you manage and balance that challenge is a FB. You really need to have the capability in the 4-8% to do that year to year. Legislation back today. Things in there right now that we have to be attentive to that. We have to run different scenarios. We are in that right now. Things on the table – some good, some not good. FB gives a little flexibility to deal with that and the political decisions around that as well. Most important is to communicate what those situations might do to us. FB gives us that flexibility. That is why I say that not having a ceiling gives maximum flexibility.
 - Dir. Erickson – there were some questions in public forums. Handouts of FB Analysis – BOE is interested in following budget based on program impacts. In previous session, everyone was excited about all day kindergarten but didn’t have the space for that. Had to gear up and use FB or lease levy to pay for that. We were in a fortunate position that we could accommodate all day K in our current space. Two good examples: TRA deemed to be

short of meeting obligations moving forward. Concerns the State Pension Committee. Recommending employees to contribute 1% and ask employers to match 1%. If we were asked to match the 1% - our cost would be \$500k next year (example of legislative process). Pension Committee has never made a recommendation that the Legislation hasn't accepted. \$500k we weren't anticipating in Budget next year. RE – integration rule, recommend all Charter School accept the responsibility to implementing policy – Charter Schools would have to provide programmatic elements and eligible for the same pot of gold that all school districts are sharing based on the number of students of color and free and reduced lunches. When law is passed, Burnsville's 55% doubled their revenue to meet their needs. SPPS had less percentage than some cities like Osseo. Point, if Charter Schools are left in the rule, they need to be prepared to understand, less dollars for the rest of the school. I estimate we would lose about \$100k unless Legislative would act to sustain funding for all schools. Fiscal issues we won't know answers to until the end of the school year.

- Question – T. Neitzke – one time monies and in negotiations times, concerns I have that Government bodies create rainy day funds during good times. I would like to have more control with the citizens. It is one time funds or available during negotiations. How does it help in that process?
 - M. Baumann – with regard to flexible – BOE as representing the Community. Community speaks through BOE that LEA operates under. If BOE has flexibility, then community has flexibility. If BOE has flexibility then community has flexibility. Labor is not one time money. If labor is surpassing increase in revenue. Parallel process to balance that. Labor contracts on two year cycles. I cannot say that labor contracts are moving at the pace of inflation. One time only costs would be dollars that would come to the district.
 - Dr. Snyder – one time decision – do we make reduction (labor), do we use some fund balance, or some of both. That is where you use the FB as a bridge. You are still going to be facing some decision. You are pushing the cuts off and buying time to sustain quality educational programming while you are making longer term decisions. So you aren't just reacting.
 - M. Baumann – 2007 budget first budget I worked on. I have not seen the Legislation not move the district. Federal always sometimes gives a lot of one time

money. Not in Lakeville but in some district it through a lot off – especially around staffing. Goes onto your state gen ed

- J. Alsiddiqui – got to have a minimum. If the FB go high, we have revenue go high (driven by enrollment). Don't know the actual enrollment until the end of the year. Good to have additional fund balance. Wise to use for one time only. It is like your savings account, once you use, it is gone. You don't want it to happen with reoccurring or you have to deal with that next year.
 - Dr. Snyder – key question – we have had this range. Why would we not want to have a range? Think about some of the things that have happened because we have had a range. Notion that we have to stay within or something wrong. If above, you could be saving for labor that going to cost more. Save for innovation. Might have notion there is extra out that and how does that play in negotiation if it appears that the district has extra. Give the BOE and community flexibility. FB over goes to pilot new things, innovate. Special projects.
 - Dir. Erickson – serves 917 Committee and represents Lakeville Area Public Schools. Far exceeds 16.6% - having a meeting for the purpose of revisiting. Appreciate the BOE looking out one FY. If you give consideration, looking at one ahead FY. I think it fits with two year negotiation. Requires sustainable budget process. Aligns with legislative and labor contracts are negotiated. When mentioned to 917 Board, they all thought it makes sense. So, I believe Lakeville Area Public Schools has been a leader in sustainability of financial planning.
 - Dir. Keliher – I agree
- Dr. Snyder– committee about you providing advisory information as the BOE looks to revise.
 - E. Knips – remove the max, remove the perspective. Why change the minimum?
 - M. Baumann – my thinking, 4% gives me a little pause. If we had to bust that for a situation we have no control over. Our rating with Moody would be a challenge. I do think that Bond (we are an LTFM District) we do Bonding to keep dollars flowing to maintain facilities

and plant. For that rating purpose, below 5% would be concerning.

- E. Knips – policy at 4%
- M. Baumann – not below 4% since I've been in
- Dir. Erickson – 2008-2010 all in the 4% range.
- M. Baumann – even 5% is questionable for me
- P. Arling – have they said a number?
 - M. Baumann – they haven't said that. As a financial planner, you have to read all the documentation out there and read all information and talk to financial planners, and that is my sense that district going below 5% hurts the bond rating. It speaks to other things. Bond rating doesn't just affect bond. You can go to MDE or anywhere and defend that.
 - J. Alsiddiqui – we looked at the schools and average is 6%. We are at 4%; we could go to 5% with what is occurring around the state.
- E. Knips – don't think you have change the minimum and decide what you do if goes below. Idea to make a three tiered range, green, yellow, and red.
- Dir. Erickson – counter that, if Legislative makes the decision on TRA and other issues, one thing I am hearing from residents, they don't want us to have a FB that if something happens forces us into another operating levy. Hearing from Business they are anticipating big changes in tax statements to the levies we just approved. Impact of levies on big companies – anticipate an express concern. 4% and have something unforeseen, casted into the possibility to go to another levy – after having two levies succeed based on not having the resources to not deal with having the resources to deal with unforeseen.
- J. Alsiddiqui – when looking at our budget. Look at projecting and say within 2% projection is good but if you are off 2% expenditure and 2% revenue, you could be off 4% and close to the FB
- Dir. Keliher – cash flow numbers was 8% month expenditure and 4% was ½ month of expenditures. That was back in 2010. Overall size of budget has changed. Original different
- E. Knips – assignment for carry-over?
 - J. Alsiddiqui – school fundraising. Historically been. Definition that revenue has to be spent in restricted. Committed – BOE make the decision. Assigned – BOE delegate to the Business Manager – school carry-over.
- P. Arling – how much time to make adjustments? Decision coming through from Legislative

- Dir. Erickson – we can deal with that in the next FY.
 - Dr. Snyder – I agree
 - M. Baumann – I agree
 - Dir. Keliher – I agree
- Dir. Erickson – action item?
 - M. Baumann – move to approve recommendation
 - Dir. Erickson – doesn't include looking a year ahead.
 - M. Baumann – I'm comfortable adding that.
 - T. Neitzke – I like that.
 - K. Hendricks – that is why we are budgeting
 - M. Smith – connect to the timeframe if you are below.
- J. Alsiddiqui – we can put a draft together and send out and see if it captures everything.
- Dir. Keliher – check to see MSBA policy to see if anything else in there we didn't cover?
 - M. Baumann – yes we can do that but sometimes MSBA challenges some calculations
 - Dir. Keliher – agree
- Dir. Erickson – School districts at 917 had round table and talked about negotiations in Dakota County. Higher negotiations = higher settlements when districts have larger fund balances.
 - P. Arling – take that into consideration if FB gets too high.
- Adjourn – 5:12 PM