

Lakeville Area Public Schools
Finance Advisory Council
Tuesday, October 4th, 2016 | 4:30 PM – 5:50 PM
Crystal Lake Education Center, Media Center

1) Attendance

a) Board of Education Member

- i) Treasurer Bob Erickson
- ii) Director Judy Keliher

b) ISD 194 Staff

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

c) Community Members

- i) Patrick Arling
- ii) Kelly Hendricks
- iii) Alan Williams
- iv) Ross French
- v) Tom Neitzke
- vi) Jacob Whittaker

d) Absent Members

- i) Jill Cochrane
- ii) Don Sinner

2) Introduction – M. Baumann

a) New Member Introduction

- i) Welcome Alan Williams, Accredited Investors Inc.
- ii) Welcome Ross French, Field Nation

3) FY18 Budget Timeline Process – M. Baumann

a) Handouts

- i) [Budget timeline table](#)
- ii) [Budget Development Doc](#)

b) M. Baumann - The District's Fiscal year is July 1 to June 30. Run on the same fiscal calendar as the State. The process in short terms in Planning, analyze, present and adopt. Work in quarters as normal fiscal calendars. We are currently in the October cycle. Pay 17 Levy has been brought to the board for presentation. Once certified, we have about 2 months to make any changes to the Levy. We will go into several planning sessions between BOE and cabinet for budget considerations for the upcoming year. Our goal is to do the development process and figure out the big macros and have the budget refined by November. Enrollment is based on October 1st numbers to use as the basis of enrollment. We use that guideline as we are dealing with tuition per student. Clean-up of that information is to be done around December 1st. Projections are done off Oct 1st, which gives a good snapshot for the year.

c) Question – Tom Neitzke – Why not do a zero based budget and why do you do the levy work upfront before you know what is all going into the budget.

- i) MB - That is very difficult to do in education. The way the state financing is set-up, it is not a zero based finance system and we can potentially become unaligned. We are built off the guidelines of Minnesota Department of Education (MDE) and how they operate the funding projections. Changing how we budget, you will very quickly become out of sync with MDE. Why can't this all be sorted out right now?

We don't get any information from MDE until September 8th. All we get is a snapshot and cannot confirm it will be exact.

- ii) Question – TN – What is your planning consumption? Does the board have ideas and goals for items that they would like to put for consideration of the budget?
 - iii) MB – I would put that under the budget recommendation section of the cycle. The budget is usually driven by the strategic plan. Administration has a duty to bring items to the board and discuss. This process does not serve a zero based budgeting system because of our timelines and when we get our information required to work on the budget.
 - iv) TN – I disagree with that budgeting method. All we typically hear in government is let's make sure we spend the money before we lose it and they go out and spend every dollar.
 - v) MB – I agree with you Tom as I have been in the government system for a long time between the Military and School Districts. There are a lot of entities of the government that try and spend everything during the last quarter of the fiscal year to spend every dime. However, I feel this does not happen in Lakeville as the BOE does a great job to prevent that. Another item that fights against us with zero based budgeting is labor contract negotiations. We have Custodians, Teachers, and several other organizations we have to negotiate contracts with well in advance of the next budget cycle.
 - vi) TN – Zero based budget does not say you have to be able to forecast potential open positions or position changes. I think the community needs to better understand Lakeville Schools is different than the rest of the government and state. I would prefer to say we are the dog and not the tail of the system.
 - vii) MB - Trying to operate outside of that window is impossible. I have tried and failed. I have proven out in my time here, which we strive to under spend our projection. I spend a lot of time doing that because it pays dividends to help the next year's budgets. Tough goal as I do not have control of everything, but that is why we watch expenditures and I feel the BOE expects that from me.
 - viii) TN – Thanks Michael. I am not trying to criticize anything; it is just hard when we are in a country that is running a lot of debt. I don't want to look at the state and say let's follow what they are doing.
 - ix) MB – We are not following them in utilization, but we are tied into them and have to follow the same timeline and their established process. We do not follow their fiscal example and operate based on the locale and direction of the BOE.
 - x) TN – Based on how I read the article in the Lakeville This Week about the levy, it was confusing and it did not make sense in a positive manner. I think explaining the change in the levy to the public and explaining the process would help the public better understand the levy and its usage.
 - xi) BE – Helping that could be giving the board better influence and sooner influence on the budget.
 - xii) MB – We are working to bring as much as possible to the board to work with on a regular basis. The timing is difficult with the pay levy. When you talk about a budget with millions of dollars and you are only off by in projection by +/- 1%, that's pretty good. A lot of people snarl at that, but 1% is a lot better than 2, 3 or 5%. We do the most we can do to have the BOE see that picture strategically. Our goal is how we can bring more meaningful items to the BOE with respect to the budget timing appropriately.
- d) Budget Timeline Continued: The timeline is December 13th to certify our final levy. Refinement of projections for the FY18 Budget will be done ongoing between January and April. We will be updating the BOE in almost every BOE meeting going forward.
- i) TN – Are you done with contracts currently?
 - ii) MB – Other than custodians, we do not have any contracts until next year.
- e) May/June, everything needs to come together to be able to adopt the budget on the 30th of June. Everything has been to the BOE and back several times. The BOE will hear the budget before the FAC.
- i) TN – What are the biggest concerns for this budget cycle?
 - ii) MB – We look at what are the biggest strategic items that will influence the budget. Keeping situation awareness with the classrooms, schools, community, state, etc. Items that fall under the big strategic agenda would include such things as Paid Transportation. That is a hot topic in the District that we review yearly. Labor contracts look to be in good shape. Long Term Facility task force does not look to bring any major items. Based on deferred maintenance and debt service, I have a good feel and the BOE has a strong, clear picture of the long term debt situation for the District. Capital dollars and deferred maintenance dollars, as you may know, typically come out of bonds that are sold. Could something

come out of the picture to affect FY18? Probably not as we are already far enough into the process with the budget and the Long Term Facility Committee is still developing recommendations.

- iii) JA – We are in the legislative session currently and they are working on the budgets. Revenue is driven by enrollment. The question becomes what assumptions are we going to use for our base. We used 5 million this past year of fund balance to balance the budget. Enrollment is huge and drives the revenue picture. We make revisions and adjustments throughout November. What the legislature is going to do and where will we land is not known, we have to pay attention to news, and plan for what we have for revenue based on current law and adjust once the legislature makes decisions. Even if the legislature is not done with their session, we need to have an approved balanced budget by June 30th.
 - iv) MB – Typically public Education gets more and not less. Although this does not keep up with inflation, there usually is not a planning session that results in a minus to Education. Maybe a zero dollar change, but not minus.
- 4) Pay 17 Levy – Jaber Alsiddiqui
- a) Handout: [Pay Levy 17](#)
 - b) The pay 17 levy was presented to the BOE and the maximum was approved. This number is just a placeholder and can be adjusted down at any time until December 13th.
 - i) TN – I think this should be communicated differently to the public as when we read a news article that portrays this in a completely different manner.
 - ii) JA - The District does not have a direct choice in the dollar amount provide in the levy. The Board approved the maximum and what that does is the county takes that information and uses that for the property tax notices that are send out to residence showing the potential change in their taxes. The citizens can come back and question the taxes. By the 13th of December, the BOE will adjust the level of the levy.
 - iii) TN – Where or who else does the maximum?
 - iv) JA – 99% of the Districts go with the maximum because they have a chance to reduce it. The only reason to go above the maximum would be to have a referendum. The standard is to go with the maximum at that time.
 - v) JK – If we approve less and find something we need the money for, we can't ask for the money back.
 - vi) BE – This is Truth in taxation. Unfortunately we do not get the notices about our property taxes until after the election. Typically it only shows a potential increase. If we adjust it down after that, the people never see the decrease until they receive their property tax bill.
 - vii) TN – The District could at least look at sending out some form of communication about that, whether it is an email or mailing.
 - viii) JA – Property owners really want to know what the impact on my taxes is. The county figures all of that out between their calculations of agriculture, industrial, residential, etc. Basically there are 3 funds that receive Levy - General Fund, Community Service fund and Debt Services. Depending upon the year, and how much is coming from the levy and state aid. All of these categories utilize both and if we lose state aid than the levy could potentially help cover some of the costs. If the BOE wanted to reduce the levy you have to be careful of other state aid we may or may not get.
 - c) Student Achievement – Part of it is state aid and part comes from Levy
 - d) Operating Capital – Capital expenditures come from the General Fund for leases and equipment purchases. This does not include any of the large capital projects.
 - e) Equity Revenue – This pertains to the long document in the original email ([Levy Financing Education](#)). Political background of the system and how the different Districts are proportioned out to get additional revenue.
 - f) Referendum – Needs to be approved by the BOE
 - g) Q Comp – New Model for Professional Development of Teachers.
 - i) Question – TN – What is Q Comp
 - ii) LS – Q Comp is a state mandated new approach to evaluate teachers. Districts have committees to drive the new approach. There are a variety of ways the District can use to measure if the teacher should receive the stipend. There are evaluation committees that use rubrics to evaluate the teachers. They are looking for particular goals, objective, etc to bring together to provide a score.
 - iii) BE – The Q Comp started last year FY16 with state money

- iv) LS – This is the first year the teachers have access to achieve the stipend through the District. This is part of the District side funding. ([Q-Comp Plan](#))
 - v) JA – Q Comp is a combination of 35% from revenue and 65% state
 - h) Capital Project Referendum – Capital Projects
 - i) Achievement and Integration – Used to be a part of the diversity group. State and Levy component.
 - j) Re-Employment – Term for unemployment. What are we going to spend on that? It is currently listed as a negative number and there are a lot of calculations about why it is listed as a negative number.
 - k) Safe School – Used to be called the Crime Levy. Pays for our School’s SRO’s. Comes from the Levy
 - l) Career & technical – Vocation Education – We send estimated costs to the State
 - m) OPED – All levy funded and that is to cover the health insurance for retirees
 - n) LFTM – New revenue this year. Deferred Maintenance and health and safety projects.
 - o) Health and Safety – This went away.
 - p) Lease Levy – This is for property that we lease. Mainly the ice arena. We are a part of the District 917 Levy. We work under that.
 - q) Other Adjustments – other adjustments
 - r) Community Service Fund - All of these services fall outside of the K-12. Pre-school and Adult programs. Each one has its own calculation. ECFE – State and levy aid.
 - s) Debt Service Fund – Used to pay for principal interest on bonds. Principal and interest that we levy for. The reduction is because the District and BOE refinanced the original LSHS/OHE addition bonds and went with a lower interest rate. Save on payments, levy goes down. We have to send the state our debt schedule to review.
 - t) LFTM – the Debt Service can be used for this.
 - u) Total levy – Difference of 0.10% = \$44,870.19. For an average home valued at 300K, this would decrease property taxes by approximately \$101.00 per household from the District. Legally required to have the BOE to approve the levy and hold a Truth in Taxation.
- 5) Audit Schedule – Jaber Alsiddiqui
- a) Handout - [Schedule](#)
 - b) This is our second year with Clifton Larson Allan Audit Company. We started a little early this year.
 - i) Preliminary Audit – August 8th
 - ii) Second Field Work – August 29th
 - iii) Draft to Committee – October 18th
 - iv) Final CAFR to BOE – October 25th
 - c) BE – MB can you please explain the CAFR.
 - i) MB – This subject came up a year ago. We wanted to be able to set a condition to be able to do the annual financial report. I talked with Jaber about this and he said let’s do it. This report will benefit the community who can understand this level of detail. Show it to everyone and create transparency. Meet the goal of fiscal responsibility. I agree with Tom N about communication and presenting it to the public. Helps everyone get a better picture of where the District is at. Clifton Allan Larson Audit Company has very detailed documentation that meets the standards. They have a template to kick it out fast and easy without having to draft the entire document. The opportunity was right to do this.
 - ii) BE – That is very commendable. This will create a good outcome and the community will appreciate it.
 - iii) JA – The best practice is to complete a CAFR
- 6) Asset Management Procedure – Jon Jackson
- a) Handout - [Asset Management](#)
 - b) MB – General introduction of the program and the need for it. This is one part missing from our audit that we need to get a handle on.
 - c) JJ – The first step is to define an asset. We define an asset by the federal regulation of anything over \$5,000 or anything that is Attractive and Portable. Items that fall under the attractive and portable category include Laptops, iPads, projectors, vacuums, etc. There are two parts to the system, Inventory Tracking and Inventory Management.
 - i) Inventory Tracking – How are we going to tag and enter the item into our system? Utilizing our existing TIES software we already have a database in place and it has somewhat been used. It really needs to be

cleaned up and probably have a few items added to it. The items get entered in TIES the same way as any other PO; however we just change one letter on the product type code. Once it is put into the system, it will be placed into a suspense account that I will review monthly. This way I can see the items that are being entered as assets and can approve or cancel the asset request. I also see all Purchase Orders over \$1,000 to help catch any potential misses. The product still gets delivered onsite and is used as normal without any delays. Once I receive the asset Identification number, than I will work with the buildings to be able to tag it in an appropriate method.

- ii) Inventory Management – Working with the school principals and head custodians, we will break the inventory out into 4 quarters throughout the fiscal year to make for ease of counting. Assuming everything comes back all accounted for; we will file the inventory sheet for our records. If there are missing items, I will report them to Michael Baumann and we will assess the situation to see what happened. If the item is broken or no longer in use Purchasing will take the appropriate measures to take the item of the books, or change storage location. The item will be moved to storage, put into public auction, put on the open market for quotes or recycled appropriately.

7) Questions? Please email MB

- a) KH – Can you send out the enrollment number for everyone to see?
- b) MB – That number is looking up
- c) JA – Every grade seems to be showing some sort of increase
- d) KH –I had heard rumors of buses being full.
- e) TN – The FY17 adopted budget is a great document to send to everyone that has not seen it.