



Financial Oversight Committee Meeting

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

Meeting Minutes

February 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:

Kristopher Schuh, Interim Superintendent

Staff Present:

Nicole Stewart, Interim Chief Financial Officer

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
Mary Donovan, Insight Investment
Brian Kelso, Dylana Gross, Corey Gebel – COLOTRUST

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

Approval of the Minutes: Brian Ballard moved to approve the minutes for January 5, 2021. Scott Tarbox seconded. There was no discussion. The motion carried unanimously, and the minutes were approved as presented.

Bond Proceeds Investment Options: The committee heard presentations on options for investment of bond proceeds. Stewart confirmed that members will hear from two firms about options based on discussion at the January meeting. She confirmed that the district already has a long relationship with Insight Investment and that the committee is familiar with Insight because they currently handle the district's investment portfolios. Because the committee is not familiar with ColoTrust and the Local Government Investment Pool (LGIP), that presentation will include background on the firm.

Mary Donovan with Insight Investment began with a market environment and economic conditions overview as of the fourth quarter 2020 that touched on growing optimism driven by vaccines and expectations for increased economic activity as restrictions are lifted and the economy reopens. Key takeaways were that there was a steepening of the yield curve in fourth quarter but that short term rates remain quite low anchored by the Federal Reserve's desire to keep interest rates low through 2023 and a willingness to allow inflationary conditions to go over the target rate of 2 percent to focus on allowing the employment situation to improve and prices to stabilize.

Donovan presented three portfolio options with Insight Investment that were based on allocations as directed at the last FOC meeting and a draw down schedule provided by the district. The first option included a cash piece with termed security allocations that matured September through May 2023; the second is a short term layered portfolio that matches draws to maturities and is consistent with how the last bond investment was handled where the large bucket with the LGIP is used to handle cash flows through summer with draw needs matched to maturities from September 2021 through the end; and the last strategy is cash off the top to LGIP to cover needs through Summer 2021 and cash matched shorter duration maturities running through the rest of 2021, structured with flexibility to reinvest funds.

Brian Kelso, Cory Gebel and Dylana Gross presented information on Public Trust Advisors that included background; an overview of their investment management process, philosophy and approach; history on the public sector focused ColoTrust LGIP that was established in 1995 to allow local governments to pool funds to take advantage of short term investments and add diversity to their portfolios; and an illustrative example of bond proceeds investment modeling. There was discussion regarding the difference between ColoTrust Prime and Plus accounts, portfolio composition, management of the portfolios, and benefits of being in the LGIP including interest that compounds and pays daily, liquidity, unlimited transactions, unlimited accounts, and rates net of fees. The three options from ColoTrust included one to lock in and immunize by buying a US treasury or corporate or municipal bond that lines up with draw schedule; the second would be 100 percent LGIP in ColoTrust; and then a blended solution throughout the entire bond program. All options provide liquidity with favorable yield opportunities.

Topics addressed included recognizing the extremely low and similar rates of return for all proposals, liquidity and flexibility of LGIP, potential limitations of fixed securities to take advantage of quick market changes, comparable fees, flexibility, liquidity, maturity durations, diversification, assumed risk, past relationships, compliance with statutes and district policy, transparency, and credit risk versus slightly higher yield.

The committee discussed commodity prices and interest rates, the challenges of the very low interest rate environment, limited yield opportunity, the ability to quickly react and take advantage of market changes, confidence that the options presented are sound strategies and do not present safety or security concerns and the need to stay positioned for forward opportunity. Members emphasized that any motion would be for the initial allocation with the understanding that the district will continue frequent monitoring of the investments and that shifts in strategy could be made ongoing in response to market changes to take advantage of investment opportunities. The district will continue to evaluate the best plan for expenditure of the invested funds based on market environment at the time of draws.

Following the presentations and discussion, Brian Ballard MOVED and Mary Everson seconded to invest the initial allocation of the bond proceeds with 30 percent to Insight Investment and 70 percent split 50/50 between ColoTrust and CSafe. The motion passed unanimously.

Second Quarter Financial Report and Auditor's Report: Paul Niedermuller, the independent auditor with CliftonLarsonAllen (CLA), reviewed the report on applying agreed upon procedures for the second quarter ending December 31, 2020. He commented on several funds, the General Fund, Debt Service Fund, Capital Reserve Fund, Building Fund, and Employee Benefits Fund, that were identified as above benchmark and may require a supplemental appropriation. He noted, however, that all are generally in line with historical trends due to typical timing for expenditures with the exception of the new Building Fund Capital Projects Fund that was established for the voter approved issuance of 2020A Series Bonds and not planned or budgeted thus will definitely require a supplemental. The report mentioned the updated status of management letter comments and single audit findings from the fiscal year June 30, 2020 audit that the district has communicated were rectified but that CLA will review after testing is completed. Based on the district's flag system, Niedermuller pointed out three funds being observed and monitored including the Food Service Fund, the Child Care Fund and Central Services Fund. He noted that the constant theme for all three funds was that without kids in seats there is no possible way of collecting fees thus resulting in net income loss. There was discussion regarding reserves for the flagged funds. Steve Bell commented on the limitations of Food Services to build reserves due to restrictions that don't allow reserves beyond a certain level due to the USDA funding that the district receives. Niedermuller confirmed that the district spent the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds it received prior to December 31, 2020, and that the single audit is underway and should be completed in next 30 days. Also discussed was how the district is monitoring and addressing impacts to the Child Care Fund.

Stewart presented the second quarter financial update. She reported that the district doesn't have any cash concerns and doesn't anticipate borrowing during the time prior to when property tax revenue is received in the spring. She confirmed the three funds that were flagged for second quarter and noted that the district is monitoring each fund closely. At this time, the district anticipates that the Food and Nutrition Services Fund and

the Child Care Fund will both require a General Fund transfer in the current year and likely in the next year. The Central Services Fund is being monitored and evaluated as the district begins to return to normal operations. Stewart pointed out that the loss of revenue in General Fund is primarily due to loss of state share and equalization and per pupil revenue, noting that the district has not seen a pullback of funds due to loss of enrollment in the current year. Stewart is working with the district's lobbyist to follow a request being brought forward by the Joint Budget Committee to potentially decrease the Budget Stabilization Factor. A decision as to whether the request will move forward isn't anticipated until sometime in March. She noted that even if the request to decrease the Budget Stabilization Factor goes through, the district will still see a loss of revenue. She noted that expenditures in the General Fund are lower than year over year primarily due to the fact that all of the CARES funding was moved to the grant side. She confirmed that a one-time payment to staff was made to all employees in November except for those in the Jeffco Employee Support Professionals Association (JESPA) group because JESPA did not accept the terms; thus, negotiations with that group has entered into fact finding.

Other highlights covered an overview of the Debt Service Fund; Capital Reserve Fund; the new Building Fund for the 2020 bond issuance; no concerns with Arbitrage compliance for either of the Building Funds; decreases in revenue and expenditures for the Campus Activity Fund, Transportation Fund, and the Property Management Fund due to impacts of less activity and closures from the pandemic; status of the Insurance Reserve Fund and General Fund transfer amount; and revenue and expenditure variances in the Technology Fund due to E-Rate funds and unfilled vacancies. Grants revenue and expenditures are higher due to the CARES funding activity. Stewart pointed out that the district will get Elementary and Secondary School Emergency Relief (ESSER) funds from the second wave of stimulus money but that no funds have been received so far. The district is working on a plan to allocate and spend as much as possible in the current fiscal year so that expenditures will go through audit process and allow some flexibility to allocate funds next year toward helping students who may have experienced learning loss to get caught up. All 16 district charter schools are operating with positive cash flow; Montessori Peaks and Collegiate Academy both refinanced bonds.

Budget Update, Negotiations Status and Fund Balance Reserve Planning: Stewart confirmed that the last budget presentation to the Board was in December and that the next update is scheduled for February 10. Development of the 2021/2022 budget is underway. Schools are finalizing their first round of allocations through the student based budgeting (SBB) process for review in February with an opportunity to make adjustments prior to spring break at the end of March. Stewart and Hendricks clarified that the only items schools can't adjust are paired positions for Art, Music and Physical Education (AMP), Social and Emotional Learning (SEL) and Digital Teacher Librarian (DTL). The March deadline will allow schools to make adjustments to address what they are seeing with enrollment changes.

The estimated budget shortfall is expected to be \$48 million to \$54 million based on current information. District leadership in partnership with Stewart and the superintendent have identified \$12.67 million as targeted reductions at the central level that will be reviewed with the Board on February 10. The intent is to let the Board know that the district is moving forward with these reductions. Stewart explained that many supports for schools are budgeted at the central level; thus, the process for identifying the reductions at the central department level followed the district's use of the Budgeting for Outcomes (BFO) process to align with the district's strategic plan, rather than just looking at line item reductions. This process ensured that departments utilized the BFO forms to identify those items that could be reduced with the goal of keeping reduction recommendations as far away from the student experience as possible. With these reductions, the district is recommending the use of reserves to address the remaining shortfall thereby reducing the number of hard decisions that the Board will need to make with regard to additional reductions.

Stewart reviewed the current unassigned reserves estimate and discussed the percentages recommended per best practices by the Government Finance Officers Association (GFOA) of 8 to 16 percent and the 4 percent required per Jeffco's Board of Education policy and how a spend down of \$30 million would put district's remaining unassigned reserves in the range of 5 to 6 percent. She noted that current unassigned reserves were around 12 percent.

There was discussion regarding the Community Budget Workgroup recommendation in December to spend down reserves at a rate of 4.5 percent in 2021/2022 and 2022/2023 with a lesser spend of 2 percent in 2023/2024.

Stewart asked for feedback on the committee's recommendation and comfort level with dropping below the GFOA recommendation of staying above 8 percent. Stewart provided more information on the makeup of reductions within the identified \$12.67 million noting that much of the reductions were from unfilled vacancies that had trended vacant for several years thus could be eliminated without affecting service delivery, and a remaining portion was from unbudgeted savings from retirement and turnover that was identified after second quarter results and further analysis.

Members discussed the rationale that the purpose of reserves is to ensure financial stability but to be used in times of financial challenges such as the district is facing now due to the pandemic and the uncertainty of how long it will take for the district and economy to recover. FOC members sitting on the Community Budget Workgroup discussed the range of opinions in that group with regard to the use of reserves based on the broad makeup of members and individual priorities, but noting that the group was able to find a middle ground with the recommendation in December. Stewart pointed out that based on current financial information some additional one-time money from underspend was identified that can fall to reserves. Thus, when the CBW meets in the next week, they will have an opportunity to revise their recommendation based on updated information.

There was further discussion regarding estimated reserves after adjustment for 5A, school carryforward and Board policy and how any additional underspend that can be dropped to the bottom line in 2020/2021 could change the dollar amount of the recommended reserves spend down. There was further clarification that because reserves are a percentage of expenditures, as expenditures are reduced for 2021/2022, the dollar amount of reserves will change; thus, the recommendation for an amount of reserves spend down can be calculated based on a percentage recommendation.

Stewart further clarified that the district has done everything it can at the central level to avoid impacting the student experience. However, to be aware that if more cuts are necessary, there are several levels of impacts. As an example only and not a recommendation, she noted that these could range from increased class sizes to shared social and emotional learning supports. Some decisions would have to be negotiated. Thus, if further cuts in these areas are made centrally, the cuts would be done prior to finalizing SBB so schools could make decisions as to what would need to be supported by SBB dollars based on individual school level priorities. Stewart pointed out that the estimates for the \$48 million to \$54 million shortfall do not include anything for compensation. She confirmed that the Board wants to hear this committee's bottom threshold for spending down reserves.

Members discussed the need to weather budget challenges from the pandemic for the next 2 to 3 years and how spending of reserves upfront could help offset difficult budget reductions now to allow time for the economy to recover. Other discussion touched on the need to remain attractive and retain services to assure students return to Jeffco and an acknowledgement that competing compensation pressures with other metro school districts exist because those districts have passed mill levy overrides to fund compensation.

Following discussion, the committee will review the CBW recommendation on use of reserves and any updated economic and budget information at the March meeting and formalize a recommendation to be communicated to the Board for the March 4 meeting.

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

Wrap Up, Updates and Next Meetings: Stewart announced that Jason Hendricks accepted the position of Director of Finance as of February 8 and thanked Lisa Anderson for stepping in during the vacancy. FOC members Franson and Emm will attend the February Board of Education meeting for a dialogue with the Board as part of the second quarter financial review. Members of the committee expressed appreciation to Stewart and her team for the additional work undertaken during an already difficult budget season to serve as a liaison to numerous community groups. The meeting adjourned at 12:03 p.m.