

MIDDLETOWN AREA SCHOOL DISTRICT
Finance Committee Meeting
November 9, 2016 - 9:00 p.m.
MINUTES

Members in attendance: Newton Davis, Terry Gilman and Christopher Lupp

Members not in attendance: None

Non-Voting Members in attendance: Mike Corradi, Mel Fager, Linda Mehaffie and Jennifer Scott

Staff/Public in attendance: David Franklin and Lori Suski, District Administrators

Opportunity for Public Comment No one addressed the committee at this time.

Approvals **Information Item – 2015-2016 Budget Transfers:** Mr. Franklin referenced the School Board action in June 2016 to allow for budget transfers between line items with no change in the overall budget as part of the process necessary to close the 2015-2016 school year. Mr. Franklin said that the auditors have concluded their field work and he has processed the budget transfers required for the financial statement presentation. Mr. Franklin said that the June 2016 Board action requires that the budget transfer detail be provided upon completion of the audit. Mr. Franklin said that there are two documents attached to the agenda for the budget transfers – one document is the actual journal entry and provides an explanation for the transfers made and the other summarizes the expenditures before and after the transfers in the PDE level of detail. Mr. Franklin noted that the total expenditure budget did not change as a result of the budget transfers.

Discussion Item / Possible Action Item – Preliminary Review of 2015-2016 Audit / Transfer to Capital Reserve Fund: Mr. Franklin reviewed the preliminary figures for the 2015-2016 audit of the General Fund. Mr. Franklin said that overall General Fund revenue exceeded the budget by approximately \$1,482,000 or 3.55%. Mr. Franklin highlighted several line items that were the source of the positive budget variance. Mr. Franklin said that interim real estate taxes exceeded the budget by \$467,000. Mr. Franklin said that historically the District budgets for interim taxes of \$100,000, but there were two properties with interim assessments that alone generated \$457,000 in taxes. Mr. Franklin said that earned income tax collections exceeded the budget by \$153,000 and local service tax collections exceeded the budget by \$36,000 and credited both to the collections efforts of Keystone Collections Group. Mr. Franklin said that real estate transfer tax exceeded the budget by \$118,000, noting that two properties alone had real estate transfer taxes totaling \$86,000. Mr. Franklin said that tuition from other school districts exceeded the budget by \$134,000 and credited the District’s willingness to accept special education consortium students for the added revenue. Mr. Franklin said that overall local sources accounted for approximately \$900,000 of the revenue surplus. Mr. Franklin said that state sources accounted for approximately \$525,000 of the revenue surplus with \$221,000 coming from the Basic Education Subsidy that was increased when the state budget was adopted after the District had already adopted its budget. Mr. Franklin said that the Special Education Subsidy also increased with the adoption of the state budget and resulted in an increase of \$28,000 in revenue. Mr. Franklin said that the transportation subsidy

exceeded the budget estimate by \$33,000. Mr. Franklin said that the Building Reimbursement Subsidy showed an increase of \$48,000 over the budget and is the result of the District recording reimbursement for the High School project that was not budgeted because the PlanCon Part H had not been approved by the state. Mr. Franklin noted that the Ready to Learn Grant also increased with the adoption of the state budget, resulting in additional revenue of \$70,000. Mr. Franklin said that the retirement subsidy showed a \$135,000 increase over the budget and explained that the District has been budgeting to receive reimbursement for 50% of the cost when the aid ratio is actually slightly higher. Mr. Franklin said that federal sources accounted for \$73,000 of the budget surplus. Mr. Franklin said that the District received FEMA funding of \$22,000 for snow removal for this year's major storm and the District withdrew \$66,000 more in Access funds to cover added special education costs during the school year. Mr. Franklin said that overall General Fund expenditures were lower than the budget by \$873,000 or 2.08%. Mr. Franklin said that salaries were \$64,000 under budget. Mr. Franklin attributed the salaries difference to savings realized from staffing changes that occurred after the budget was adopted and employee leave situations. Mr. Franklin said that benefits were approximately \$354,000 under budget. Mr. Franklin said that \$171,000 of the difference is attributable to medical insurance. Mr. Franklin said that employee benefit elections were not known when the budget was adopted and the number of employees waiving health care increased along with changes in dependent coverage. Mr. Franklin said that social security expenses fell below budget estimates by \$39,000 and noted that pre-tax deductions would have an impact on this figure. Mr. Franklin said that retirement contributions fell below budget estimates by \$38,000. Mr. Franklin said that leave payouts fell below budget estimates by \$66,000 and that is a line item that is not known in advance. Mr. Franklin said that professional and technical services were \$69,000 under budget with educational services and staff development costs accounting for the favorable variance. Mr. Franklin said that purchased property services slightly exceeded budget estimates by \$15,000. Mr. Franklin said that the technology lease line item was up by this amount. Mr. Franklin said that other purchased services exceeded budget estimates by \$204,000. Mr. Franklin said that charter school tuition and other tuition accounted for \$175,000 and \$71,000 of the increase, respectively, but other line items fell below budget estimates to hold the excess to \$204,000. Mr. Franklin said that supplies fell below budget estimates by \$142,000, but equipment exceeded budget estimates by \$139,000, which essentially resulted in a "wash" with just a classification difference accounting for the change. Mr. Franklin said that other objects fell below budget estimates by \$398,000, which equates to the utilization of the budgetary reserve line item. Mr. Franklin said that fund transfers fell below budget estimates by \$206,000, pointing to the savings from the District's variable rate debt over the fixed rate budget amount. Mr. Franklin reviewed the District's amounts in the various General Fund fund balance categories. Mr. Franklin said that the non-spendable category must match the amount of the District's prepaid assets, which is lower than the amount at the end of the 2014-2015 school year. Mr. Franklin said that the reduction in the non-spendable category results in an increase to the unassigned category. Mr. Franklin said that there is no change to the restricted fund balance. Mr. Franklin said that the assigned fund balance is an amount that the District's Chief Financial Officer can set aside without Board action. Mr. Franklin said that he has generally

only assigned fund balance to correspond with any planned use of fund balance in the next year's budget. Mr. Franklin said that the 2016-2017 budget does require the use of fund balance that had not been committed by the Board and he has adjusted the assigned fund balance to cover this need. Mr. Franklin said that he has also assigned fund balance in the amount of \$200,000 for possible legal costs associated with pending special education litigation. Mr. Franklin said that he recommends an increase to committed fund balance of \$760,296 (see next agenda item) which would decrease unassigned fund balance by that amount. Mr. Franklin said that even with the changes referenced, he believes that unassigned fund balance would grow to an amount that could pose future problems with the Act 43 requirement to maintain a fund balance that is not greater than 8% of budgeted expenditures. Mr. Franklin said that in order to avoid this problem in the future, he recommends that \$1,150,000 be transferred to the Capital Reserve fund. Mr. Franklin noted that there is a lengthy project list of capital needs that are part of the multi-year plan and these additional funds would be beneficial to help tackle some of these projects. The committee recommended that a transfer of \$1,150,000 to the Capital Reserve fund be placed on the Board agenda for approval.

Discussion Item / Possible Action Item – Fund Balance Commitments: Mr. Franklin reviewed the calculation for the amount of retirement rate stabilization funds needed to fulfill the District's planned use of fund balance to offset some of the future increases in the employer contribution rate to PSERS. Mr. Franklin said that the unused health insurance terminal liability commitment of \$228,478 and the unused variable debt commitment of \$75,548 can both be reclassified to cover a portion of the additional retirement rate stabilization commitment needed. Mr. Franklin said that an additional \$510,584 would also be needed to commit a total of \$5,701,132 for retirement rate stabilization. Mr. Franklin said that the \$510,584 was referenced earlier and is part of the \$760,296 adjustment between unassigned and committed fund balance. Mr. Franklin said that the other part of that adjustment is \$249,712 that would allow for a total commitment of \$1,659,712 for health insurance cost stabilization. Mr. Franklin said that this commitment amount allows for the District to set aside six months' worth of health premiums for possible self-funding in the future. Mr. Franklin said that three months of reserves are recommended, but the District decided to set aside six months in reserves last year to allow for the potential of a bad year with self-funding so that all of the reserves would not be depleted. Mr. Franklin said that the remaining commitment is \$685,433 for health insurance terminal liability. Mr. Franklin said that this is the remaining amount needed to pay off the previous Capital Blue Cross contract and had been previously set aside. Mr. Franklin said that overall the committed fund balance would be \$8,046,276 for retirement rate stabilization, health insurance cost stabilization and health insurance terminal liability. The committee recommended that the fund balance commitments be moved to the Board agenda for approval.

Equipment Purchases

Possible Action Item – Replacement Shredder: Mr. Franklin said that the large capacity shredder housed in the District office has broken and can no longer be serviced. Mr. Franklin said that the machine is 16 years old. Mr. Franklin reviewed cost estimates that have been received for the replacement of the shredder and

said that the lowest cost was received from Monroe Business Systems for \$2,107.15. Mr. Franklin said that Capital Reserve funds could be used for the equipment replacement. The committee recommended that the shredder replacement be moved to the Board agenda for approval.

Exonerations

Action Item – 2016 Real Estate Taxes: Mr. Franklin reviewed the exoneration of a 2016 tax bill for a property that no longer qualifies for the homestead exemption. Mr. Franklin said that, accordingly, the property will be rebilled with the exemption removed. The committee recommended that the exoneration be moved to the Board agenda for approval.

Communications

Information Item – PASBO Webcast: Mr. Franklin said that he participated in a PASBO webcast the previous week regarding tax collector compensation. Mr. Franklin said that the District is only able to make changes to the compensation every four years and the deadline to make the next change is in February 2017. Mr. Franklin discussed the various collection methods that can be used and said that the District has been using the “direct collection” method for over 10 years and it has worked well. Mr. Franklin explained some of the challenges that have occurred in other school districts with tax collection. The committee discussed whether there was any need to revisit the compensation this time. Mr. Franklin said that although Fulton Bank does a very good job with the lockbox collection for the District, the District hasn’t received the full advantage of the “direct collection” method because use of the lockbox system has not been required of residents. Mr. Franklin said that a significant number of taxpayers still come to the District office or mail the payment to the District office instead of going through the lockbox. Mr. Franklin said that the automated lockbox system is the most efficient method of collection because it reduces manpower needs and removes the fraud potential that exists with collection of cash. Mr. Franklin said that because Fulton Bank doesn’t have a branch in Middletown there has been reservation in the past to require use of the lockbox system exclusively. Mr. Franklin said that he would like to contact some of the banks with branches in Middletown to see if they have the capabilities for lockbox collection that are parallel to what Fulton Bank can do. Mr. Franklin asked whether the committee would consider exclusive use of a lockbox system if the District were also able to make a branch available in Middletown for walk-up collection instead of going through the District office. The committee was willing to entertain obtaining additional information.

Adjournment

The meeting adjourned at 9:59 p.m.