

## Board Special Meeting

### Work Sessions: Budget; State Auditors Exit Conference

May 7, 2019, 4:30 pm – 6:00pm

Auditorium, John Stanford Center

2445 – 3<sup>rd</sup> Avenue South, Seattle WA 98134



## Minutes

### Call to Order

#### Call to Order

This meeting was called to order at 4:35pm. Directors Burke, Patu, Pinkham DeWolf, Mack, Harris, and Geary were present.

This meeting was staffed by Chief Financial Officer JoLynn Berge, Director of Budget Linda Sebring, Superintendent Denise Juneau, and Capital Projects Finance Manager Melissa Coan.

Chief Financial Officer Berge summarized the agenda and highlighted the main topics of discussion including review of the Budget timeline and out year projections, restoration options based on legislative action and an overview of the capital budget. Ms. Berge went on to discuss the desired outcomes of the work session noting the restoration process would be reviewed with a few options presented to the Board with the hopes of reaching consensus on one of them based on the amount of money received.

Ms. Berge outlined the 2019-20 Budget Development Calendar highlighting the Budget Book Development and Final General Fund Balancing process before discussing the June and July dates when a Board Action Report would be brought before the Audit and Finance Committee and full Board with a Budget Resolution. Ms. Berge continued, highlighting the budget outlook summary for 2019-20 before and after enrollment reduction before noting that in June an updated projection would be available with the enrollment update plus 2020-21, 2021-22, and 2022-23 numbers in accordance with state requirements.

Director Mack asked if the outlook was going to be based on enrollment projections and not post open enrollment and actuals. Ms. Berge confirmed that enrollment projections would be most accurate, adding that the budget and enrollment numbers constantly move and that they are updated based on revenue or expenditure or revised assumptions.

Director Mack followed up, noting that in high schools, 1,000 more students are assigned than what was currently projected, highlighting the fiscal impact to the revenue projections and consequently the possibility of making cuts that may not necessarily need to be made. Ms. Berge

responded saying that staff had reviewed the numbers and was confident in the enrollment projections while also noting that April 30<sup>th</sup> numbers were generally the highest for the subsequent year before declining to the October 1 real number. Ms. Berge added that Director of Enrollment and Planning Services Ashley Davies would be providing more detail in the next Enrollment Work Session scheduled for May 8, 2019.

Director DeWolf asked if the Seattle Promise program was attracting any high school students back to the district with Ms. Berge replying that there was no data point showing that the program would bring students back before highlighting that the district's running start program was growing along with programs enabling colleges to issue high school diplomas and increased dual credit opportunities. Ms. Berge continued noting that the hope was that the enrollment projections were conservative, and that more students would come back before mentioning that elementary projections were significantly down for the upcoming year.

Ms. Berge then spoke about restoration and highlighted the restoration plan recommendation. Ms. Berge discussed the three components, fully restoring the WSS at \$12,200,000 restoring 50% of Fall enrollment and central admin funding and prorating the remaining amount which included the remaining Fall enrollment, central admin funding, curriculum and 24 credits. Director Mack asked for clarification around what the total amount of funding the district would be getting back as a result of not cutting versus previous estimates based on levy increases of \$500 per student that were affected by enrollment. Ms. Berge responded that the next slide she was going to present containing the restoration options would include that figure. She continued, mentioning that the Superintendent recommendation was to cut \$40,000,000. Ms. Berge then covered what it would take to restore items one and two from the restoration options list mentioning the WSS, half of central reductions, and half of fall enrollment adjustments which totaled \$14,450,000. Ms. Berge followed up saying the district had received a total of \$16,500,000 as a result of legislative action increasing the levy amount per pupil from \$2,500 to \$3,000, which translated to an additional \$14,200,000 in additional revenue for the 2019-20 year. Ms. Berge continued mentioning that figure would roughly double in the 2020-21 year.

Ms. Berge thanked Directors Mack, Geary and DeWolf for their legislative work before speaking about the projection for 24 credit resources needing to be addressed. She continued, saying that only about \$10,000,000 would be saved from 24 credits before noting that \$1,050,000 is still needed to save over years 2018-19 and 2019-20. Ms. Berge then reviewed two options, the first, option A being to adjust the projection and put the remaining money into the fall enrollment adjustment and mitigation bucket. The other option, option B Ms. Berge continued would be the strict proration following the restoration plan. She continued, saying that the roughly \$2,000,000 would get spread across curriculum, 24 credits, central and fall enrollment. Ms. Berge ended by saying that option A was the recommendation due to flexibility.

Director Mack asked about context of the budget and what the total budget for curriculum was. Ms. Berge referred Board Directors to their work binders, highlighting that out of \$12,000,000 for the 2018-19 and 2019-20 school years, consensus was reached to cut \$7,000,000 leaving \$5,000,000 total budgeted over both years. Ms. Mack followed up asking if science was partially funded or fully funded and what it meant for current proposals. Ms. Berge responded

that there was enough money to move forward fully with middle and high school science but not elementary.

Director Geary said her understanding was that not all the adoptions could be funded immediately. Rather, as money became available the process could be initiated.

Director Harris asked about the price of each grade level adoption to which Ms. Berge replied a few hundred thousand for high school, a million for middle school and a million and a half for Elementary not counting professional development.

Director Mack recounted asking if there was enough funding for all three grade level adoptions and being told yes. Director Mack followed up, saying she had received two different answers, requesting additional clarification before moving forward with Board Action Report introduction. Ms. Berge confirmed that money was available for both middle and high school science adoption, however not for elementary. Ms. Mack asked if the professional development mentioned earlier was budgeted for and where it would come from. Ms. Berge responded that the professional development along with kits, supplies, licenses, refurbishment, etc. came from the curriculum budget and was based on a nine-year number. Ms. Berge continued saying that a lesson learned from the K-5 ELA adoption was to make sure that if a commitment was being made to curriculum, money would be set aside that would be sustainable and consistent with the level of curriculum being adopted.

Director Burke asked for confirmation that all the items spread over the period of nine years allocated in the budget that were earmarked would only be expensed in the year used not the year an adoption would be approved to which Ms. Berge replied yes before asking Directors what they thought of options A and B.

Director Burke asked if other adoptions would be affected such as a Spanish adoption. Ms. Berge replied that she had not reviewed anything related to language adoptions, however, was positive when having reviewed the original numbers.

Director DeWolf asked if there was a benefit to prorating and what the justification for staff recommending option A was compared with option B. Ms. Berge explained that there was concern amongst the Board regarding what would happen if Fall enrollment came in higher and that option A addressed that concern and option B didn't leave enough money to.

Director Mack asked what would happen if enrollment and revenue came in higher than expected. Ms. Berge responded that if more enrollment happened at schools, more revenue would be generated causing staffing adjustments and staffing to get sent those schools. Any remaining revenue by way of fall enrollment adjustments and mitigation she continued would be held over for the 2020-21 deficit.

Director Harris asked about central reductions and if the \$1,250,000 restored would be held in escrow versus hiring people back. Ms. Berge responded that the money would be held in escrow before Director Harris asked what the 2020-21 deficit was expected to be. Ms. Berge said the deficit would be approximately \$91,000,000 before adding that additional levy revenue would be coming along with upcoming bargaining negotiations. Ms. Berge continued, noting that year

over year expenditures were expected to outpace revenues, also mentioning that the current levy policy was no longer tied to assessed valuation, but rather per pupil in Seattle.

Director Burke asked about the amount of money carried over, specifically how much was available for fall enrollment and mitigations. Ms. Berge replied that there was \$4,000,000 available with consensus reached to cut \$2,000,000 leaving \$2,000,000 for fall enrollment and mitigation adjustments. Ms. Berge went on to explain that option A would fully restore the \$4,000,000 making it available for 2019-20. Director Burke asked how much of that amount historically had been spent with Ms. Berge saying it depended on enrollment at schools, before mentioning it varied from \$3,000,000 to \$7,000,000. Director Burke followed up asking Chief Financial Officer Berge if she believed re-baselining our enrollment improved the district's odds of spending less which Ms. Berge replied that was the hope.

Director Mack asked for clarification regarding the per pupil amount that came from the state, specifically asking what the revenue on average per pupil was. Ms. Berge responded that it was about \$13,000 on average before Director Mack inquired if that figure took the levy increase into account, which Ms. Berge replied it did to the effect of \$3,000. Director Mack stressed that accuracy was key when projecting enrollments, citing that 100 students off would translate to \$1,300,000 in under projected revenue.

In response to Ms. Berge asking what Directors thought of both restoration options, Director DeWolf pointed out that option B aligned with the district's values and supported what was previously communicated. Director Geary asked if the \$700,000 being discussed for curriculum wasn't spent this year would it be available next year to which Ms. Berge responded yes. Director Geary followed up asking if the \$7,000,000 proposed to be spent next year for curriculum was going to increase with Ms. Berge responding that the bulk of the money while spread across nine years would be spent the first year for professional development and licenses which are paid first. Director Geary commented that she was in favor placing money towards curriculum with Director Mack agreeing that it wouldn't make sense to commit to something the district didn't have money to fund.

Director Mack brought up enrollment projections, discussing how off numbers could potentially free up funding that could be utilized, rather than be kept in reserves. Ms. Berge brought up the deficit facing the district in 2020-21, and the limited options available in order to balance the budget before Director Burke stressed how important it was to make sure monetary investments aligned with the Strategic Plan and how both restoration options presented had the potential to be discussed next year if there was an underspend on curriculum or fall enrollment.

Director Harris asked if all the mitigation funds were spent creating a higher baseline, would that result in higher expectations of what amount of money would be given back the following year to which Ms. Berge responded that that was true and that the needs and wants of individual schools far outweighed the amount of money available. Superintendent Juneau mentioned how the restoration process had shifted, noting that there were ways to balance the budget through strict adherence to the WSS before noting that it would not be popular. Director Mack agreed that the WSS had shifted over time, adding that the consistency and commitment related to

programs and promises established are the same ones that get threatened every year by the WSS. In response, Director Harris spoke about the challenging conversations that would need to occur as a result of not being able to afford sustainable aspirations citing dual languages and small schools.

### Capital Budget Overview

Chief Financial Officer Berge then introduced the Capital Budget Manager, Melissa Coan. Director Mack spoke about the Operations Committee charter, mentioning that questions or concerns should be raised since it wasn't fully discussed previously due to time restraints. In response, Director Harris inquired about how best to balance between staff recommendations, committee charters and reporting out. Ms. Berge mentioned that many decisions the Board had already made had been factored in when establishing the Capital budget, adding that the projects list had already been approved and included staffing decisions, software costs and projects approved under both the Buildings, Technology, and Academics (BTA) and Building Excellence (BEX) levies. Director Harris asked about the Technology Plan and where it would fit in asking if what it encompassed was paid for or if it was going to be approved. Ms. Berge responded that if projects within the Technology Plan were Board approved it would be included in the Capital budget for 2019-20, before mentioning that there was some amount of reserve for the unknown. Ms. Berge followed up, adding that when the Board approves the budget, they're approving overall spending authority. Director Harris asked if the Budget office had reviewed the Technology Plan to ensure proposed projects were sustainable with Ms. Berge responding that the Budget office does check that commitments made for BTA and BEX levies are being kept with out-year costs accounted for. Ms. Berge added that where applicable, some projects outlined in the Technology Plan may already have been approved under the Capital budget and it would just be a matter of assigning them to an already established line item.

Director Burke noted that the total direct expenditures for 2017-18 was significantly lower than the 2018-19 budget asking what was causing the difference. Capital Projects Finance Manager Melissa Coan responded that the levies were much larger before providing an overview of the 2018-19 budget and recommended 2019-20 budget. Ms. Coan then spoke about the different funding sources encompassing the 2019-20 recommended budget highlighting local taxes, lease income and interest earnings and non-local dollars. Director Mack asked if self-help donations were included to which Ms. Coan said they were not reflected before adding that the typical amount received is approximately \$75,000 for self-help works. Director Mack followed up asking whether or not the current capital award of 19,000,000 that was given by the State's Capital budget was included with Ms. Coan saying it was not due to the projects not being scheduled to start in the next fiscal year.

Director Burke asked about the cash flow bond being used for project staging and asked for confirmation that it was only legally permissible in Capital, not in Operations to potentially address budget fluctuations caused by legislative action. Ms. Berge responded that he was correct and it could not be used in Operations.

Ms. Coan then highlighted the available non-levy, state-funding sources noting \$37,986,000 was identified in Distressed Schools Funding with approximately \$7,300,000 received for the 2019-20 year. She continued, highlighting the class size reduction and school construction assistance program budgets, before providing an overview of the 2019-20 Capital Activities broken out by fund. Ms. Coan noted the beginning balance of each fund, anticipated revenue, transfers and ending fund balance for each levy source. Ms. Berge added that the slide was illustrative of what money was available from all the levy funds. Director Mack asked for clarification regarding the levy collection and how all non levy dollars are incorporated and rolled in to those specific lines with Ms. Coan confirming that they follow the program in which the expenditures are posted.

Director Pinkham asked about messaging confusion around enrollment dropping, yet extraordinary growth also being mentioned as a reason when discussing projected budgets. Ms. Berge responded that there were still around 200 portables the district was catching up on with Director Pinkham then requesting a more consistent and clear message going forward.

Director Mack asked why building leases are paid out of general fund, specifically citing the Center School. Ms. Berge responded that State Accounting rules mandated the decision, adding that they differentiated between operating leases and capital leases. Director Mack asked what constituted a capital lease, with Ms. Berge responding that in the case of Center School, their lease was directly for operation purposes. Ms. Berge provided the example of renting space because of a capital project to accommodate a school being moved temporarily as a capital lease eligible project.

Ms. Coan provided an overview of the 2019-20 recommended total use of capital funds broken down by scopes of work including additions, modernizations, and reopening's and playgrounds, fields, field lights, and academics. Director Mack asked about Technology Enhancements and Modernizations, asking whether or not the Technology Plan had been approved and discussed at the Information Technology Advisory Committee adding that \$45,000,000 for technology in one year appeared like a large expenditure. Ms. Coan responded that this figure included what was already approved in the BEX and BTA levies.

Ms. Coan continued, highlighting the projects and sites along with their corresponding budgets included in the 2019-20 recommended capital project expenditures before Director Mack asked about where the deferred maintenance projects fit in, with Ms. Coan responding that they would be outlined in the transfers slide. Director Pinkham asked if carry forward projects were included, with Ms. Coan responding yes before adding that the breakdown was by scopes of work with the first carry forward being roof and seismic works with secondary carry forward projects being facility projects. Director Patu asked how projects were moved forward, with Ms. Coan responding that cash on hand was a determining factor along with scoping the projects out over the six year levy cycle based on security and necessity.

In response to Ms. Coan providing details on the 2019-20 recommended capital project expenditures for playgrounds, fields, field lights, and academics, Director Pinkham asked about Hazel Wolf's playground conditions with Ms. Coan acknowledging the request and stating she would follow up with an update. In response to Ms. Coan detailing district wide support and

program support services, Director Mack asked if volunteer projects included donations or just the district share. Ms. Coan replied that it just included district share and didn't include the volunteer match with the donations. Director Mack followed up, asking about the \$8,000,000 in property acquisition with Ms. Coan stating it was a placeholder and the remainder of what was left from the \$15,000,000 BTA IV program. Director Mack asked what was set aside in BEX V, with Ms. Coan replying \$30,000,000.

Ms. Coan provided an overview of the capital transfers, highlighting major preventative maintenance and facilities technology before explaining the district wide technology support recommended capital project expenditures for 2019-20 which was broken down into three main project areas: Student Learning and Support, District Data Systems and Data and Infrastructure and Security.

Chief Financial Officer Berge then spoke about the two restoration options discussed earlier asking for Directors to put forth their opinions in favor of option A or B. Director Mack expressed that the staff recommendation of option A made the most sense, while also wanting to support curriculum and see money applied towards it if enrollment increases. Director DeWolf expressed his support for option B citing what was previously communicated to the public. Director Burke expressed his support for option B over A adding that when money is put into mitigations and adjustments, a norm is set that may not lend itself to operational efficiency. Director Pinkham expressed his support for option B, with Directors Harris and Patu being split before Director Geary expressed her support for option B. Ms. Berge concluded by stating that staff would move forward with option B before adding that language contained in the budget that would allow operating dollars identified for minor maintenance to capital as part of a solution to address the 2020-21 deficit would be presented and discussed in the form of qualifying items at a later work session.

### State Auditors Exit Conference

Audit Manager Joe Simmons began the meeting introducing his team and the meeting materials including the agenda and financial statements single audit report before Audit Lead Rae Estell provided recognition to Director of Accounting Amy Fleming. Ms. Estell noted that two reports would be published, the financial statement grant compliance report and the accountability report before summarizing the results. Ms. Estell reported no instances of noncompliance that were material to the financial statements of the district. Ms. Berge addressed the adverse opinion given on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP), noting that it was normal for districts in Washington State. She continued, stating that OSPI instructs districts on how to prepare financial statements and that the GAAP method is optional, with Seattle having to comply with the State's method.

Ms. Estell continued to provide highlights of the report, noting that during the audit, it was determined that the district did not have adequate internal controls to comply with graduation rate reporting requirements. Ms. Estell added that district must report graduation –rate data for all public high schools to OSPI that includes student's enrollment status as graduated, transferred out, dropped out, migrated to another country or deceased. The audit determined that the district

did not confirm that students reported as transferred out had appropriate supporting documentation before submitting the report to OSPI resulting in a recommendation that it establish and follow controls to obtain and keep support for all students coded as transferred before submitting the annual report. Ms. Estell provided background, noting that out of 20 students tested, nine did not have the appropriate official written documentation to support their transfer status. Director Harris asked about the number of students tested, inquiring about the total number of students having been listed as transferred out. In response, Ms. Estell replied that 202 students had been listed with that designation. Director Harris asked how many high school students the district had with Director Mack responding that 14,000 were currently assigned. Director Mack asked if the purpose was to determine if graduation rates were going to be reported appropriately, or if transfers weren't being reported accurately to which Ms. Estell reminded everyone that the issue was lack of documentation to support the transfer designation.

In relation to the 20 students tested, Director Burke asked how many schools were involved with Ms. Estell replying the number was either five or seven, which were randomly selected. Superintendent Juneau asked if the State had student identifier numbers, with Ms. Estell replying yes. Ms. Juneau followed up asking if the State was able to see if a student showed up at a different school. Ms. Estell replied the State would, only if the new school was within Washington State. Ms. Berge added that the CEDARS system does track in-state transfers but not out of state. Ms. Juneau asked about public charter schools and if it was possible to see if students started showing up in their systems with Ms. Estell replying yes.

Ms. Estell continued, thanking the district for their response before moving on to highlight the summary schedule of prior audits conducted between September 2017 and August 2018 of the Special Education Grants to States. Ms. Estell noted the audit determined the district did not follow a competitive process as required and did not have documentation supporting that an evaluation of submitted qualifications was performed for one of eight contracts. Ms. Estell then highlighted the district's corrective action plan stating they issued a formal RFQ for special education services and awarded contracts on July.

Ms. Estell continued, providing highlights of the Independent Auditor's Report on Internal Control over Financial Reporting. Under Compliance and Other Matters, the results of the audit disclosed no instances of noncompliance or other matters that required to be reported under Government Auditing Standards according to Ms. Estell.

Ms. Estell then provided the corrective action plans the district intended on implementing to address the internal controls related to graduation rate reporting requirements highlighting additional training to all high school registrars.

Ms. Estell then moved to provide highlights of the Accountability Audit Report. Ms. Estell continued saying the audit did identify areas the district could make improvements noting school support organizations, cash receiving, vendor disbursements and credit card payments were areas of examination. Ms. Estell noted that the district requested Thornton Creek's school support organization to be reviewed, which prompted Director Harris to ask if the finding was based on one review and if Ms. Estell knew if it was a Parent Teacher Organization or Parent Teacher



Student Association. Ms. Estell said the findings were based on one school, before Director Mack stated that Thornton Creek was a 501 (c)3. Director Mack asked if this school was the focus of two different audits asking for an explanation of why if so with Ms. Berge stating that the District asked for it due to the sensitivity of the issues facing the school and need for an outside independent source to corroborate previous findings and offer corrective suggestions to help improve process. Director Geary added that there was a change in leadership around the same time that disrupted the perception of the school and introducing a source appearing to be neutral would help to support the community.

Director Burke asked if the audit was requested with Ms. Berge responding that an accountability audit was scheduled to happen with staff identifying certain areas of focus. Director Burke then asked about the specific areas examined under the accountability audit with Ms. Estell responding that the cash receipting, credit card payments and vendor disbursements applied throughout the entire district. Director Harris asked about potentially changing the language in the introductory paragraph to differentiate what applied to the district and what applied to the one individual school that was audited with the request being acknowledged by Ms. Estell.

Director DeWolf left meeting at 6:31p.m.

Ms. Estell went on to provide details regarding the audit findings from Thornton Creek, highlighting the following aspects: parent group bookkeeping, classroom fees, field trips, fundraising events and gift card donations. Ms. Estell provided details regarding the hiring of school staff assistants, entering into personal service contracts without adhering to the district's background check policy and applicable state laws. During the explanation of findings done regarding fundraising, Director Burke asked what a co-sponsored event would be. Ms. Estell replied that co-sponsored events should have an agreement between the parent group and school outlining the responsibilities of each group. Ms. Berge added that if students or staff is involved, district accounting policies and procedures have to be followed. Director Mack added that training was available through the State Parent Teacher Organization for organizations regarding roles in sponsoring events. Director Harris inquired what the next steps would be for the parent group and site council also asking how many other issues might be happening given the district has 102 schools. Ms. Berge replied that the Executive team was meeting to discuss how best to support Thornton Creek, with someone from the fiscal department going out to the school to review the report with them. Director Geary asked if the Parent Teacher Organization that was being formed at the school would be included. Ms. Berge said all would be welcome to review their audit report.

Director Patu asked if parent groups referred to Parent Teacher Student Organizations, to which Ms. Berge replied it was mostly the site council when talking about Thornton Creek. Director Patu asked if every school had site council's, with Ms. Berge saying she knew of only two. In response to Director Geary raising concerns around long term accountability when forming new school groups, Director Patu expressed the need for follow through on consistency of what parent's role can be and how the district could help clarify that.

Ms. Estell concluded her remarks by highlighting the exit conference document, noting recommendations for management consideration related to the following items: lack of controls related to contracts procured through the piggybacking process. Director Geary asked for an example of the piggybacking process with Ms. Berge citing the use of federal contracts. Ms. Estelle ended her remarks stating that the next audit was scheduled for December of 2019.

Meeting adjourned at 6:46p.m.