

**Dallas School District No. 2
Finance Committee Agenda
Thursday, February 21, 2019**

6:30 pm Dallas School District Board Room

- 1. Call to Order – Dave**
- 2. Approval of January 17, 2019 Minutes**
- 3. Reports**
 - a. Board response to committee EFB recommendation
 - b. Current year budget update
 - c. 2019-20 Projections
- 4. Discussion**
 - a. Debt Management Policy draft
 - b. Next Bond timeline
- 5. Next Meeting**
 - a. Committee interest
 - i. ESSA Financial
 - ii. Forecast 5
- 6. Reports (Written)**
 - a. Monthly Financial Board Report
 - b. Bond Projects Financial Report
- 7. Adjourn – 8:00 p.m.**

2018-19 Meeting Schedule

March 21, 2019

DALLAS SCHOOL DISTRICT NO. 2

FINANCE COMMITTEE MEETING MINUTES

Thursday, January 17, 2019 at 6:30 p.m.
Dallas School District Board Room

Present: Debbie MacLean, Michelle Johnstone, Trista Girt, Mike Blanchard, Steve Travis, Mike Bollman, Linda Fox, Mike Holland, Rich Slack

Excused: Dave Morris, LaVonne Wilson

1. **Called to order** at 6:28 p.m. by Linda Fox.
2. **Approval of Minutes** from 12/13 meeting. Mike Bollman moved to approve, Mike Blanchard seconded.
3. **Discussion: Review of Recommendation for School Board.** Mike Holland asked for clarification on what the actual starting point for building the ending fund balance was based upon. Clarification was provided that the intention of the committee was to build 1% each year based on General Fund adopted revenue excluding federal funding and all were in agreement that the starting point for the build in the ending fund balance should begin with the 17-18 audited ending fund balance of \$921K. The discussion lead into possibly defining the 5-8% goal further and whether that should be fixed at a single rate or how does the committee define the goal and at what point does the committee review, stop building, etc. The consensus was that building to a minimum of 5% with the goal of reaching 8% which is one month's worth of operating costs. Ultimately the committee agrees that having 3 months operating expenses in contingency would be ideal but likely unrealistic given the historical pattern and a likely recession in the next 3-5 years. The committee asked Debbie to prepare a chart showing what the 1% build would look like graphically beginning at the agreed starting point of \$921K at the end of 17-18 to accompany the board recommendation.

Considering the lack of a Debt Management Policy noted by S&P Global Ratings, Debbie shared information from Piper Jaffrey that this policy is lacking even in the larger school districts and so this note in S&P's ratings report is common. OSBA responded that this policy is not in their district policy catalog. Mike Blanchard provided some samples he found and the consensus of the committee is to use the Hughson Unified School District sample as the boilerplate to develop Dallas' Debt Management Policy. Mike Bollman stated that even though it doesn't seem to be a deal breaker, the district wants to be proactive in maintaining our credit rating for future bonds.

The committee agreed, after inclusion of discussed edits, the ending fund balance recommendation could go directly to the board.

4. **Future Topics:** Michelle would like the committee to review the ESSA report that Debbie is working on and some Forecast5 projections.
5. **Reports:** Debbie directed the committee to the financial reports attached in the packet. Mike Holland asked for an update on the enrollment numbers. Michelle shared that we are currently sitting at 122ish so down from the 130 at the beginning of the year. There was a brief discussion about the future housing developments and the uncertainty of how that will affect enrollment in the future. Michelle shared that we do have some kids with varying high cost needs coming in and that she and Debbie are working on a plan to allow for those in the upcoming budget process.
6. **Other:** Mike Bollman shared that he spoke with Dave Morris earlier in the day and wanted to share Dave's "kudos" to the committee for the work that is being done, especially in regard to the ending fund balance issue and the plan outlined in the December 13 meeting.

Adjourn - 7:24 p.m.



Date: January 28, 2019

To: Dallas School District School Board Members

From: Finance Committee Members

Subject: Ending Fund Balance Recommendation

The Finance Committee has reviewed the general operating fund historical ending fund balance for Dallas School District since convening in November 2018. The concerns raised by the committee are summarized below as they relate to board policy and the last bond credit rating report received by the district.

1. Board Policy # DBDB – Fund Balance. As currently written, establishes “ending fund cash balance of at least 8-10 percent of total adopted revenues.”
 - a. The district fell below this percent beginning 2010-11 and has been unable to regain policy level. The district has not prioritized the fund balance over student academic and support programs while inadequate state funding exists.
 - b. The 2017-18 ending fund balance reached a new low of \$921,086, or 2.8%.
 - c. The 2018-19 ending fund balance is currently projected to be \$1,388,409.
 - d. The cash flow necessary to fund one months’ current operating expenditures in the general fund is calculated to be \$2,702,448 for 2018-19.
2. Standard & Poor’s Bond Rating Summary report provided to investors during the last general obligation bond sale in December 2017.
 - a. Several comments in the body of the report highlight the fact that the district is out of compliance with the formal unreserved general fund balance target of 8-10 percent.
 - b. In the “Outlook” section the report warns that the credit rating could be lowered “if the trend of....declining available balances does not abate...particularly without what we consider a credible plan to restore structural balance.”
 - c. Timeline for the next bond sale would be after June 2022, in three years.

The Finance Committee respectfully submits the following recommendation to the Dallas School District Board of Directors to amend current policy and implement a plan to begin to restore the ending fund balance over the next several years. We believe these steps will increase the financial stability of the district as well as position the district to maintain its strong credit rating for future bond sales.

1. Change the current Fund Balance policy to 5-8%, with a requirement that a drop below 5% requires immediate budget review and planning.

Dr. Michelle L. Johnstone, Superintendent

Board of Directors: Michael Blanchard • Michael Bollman • Dave Hunt • Matt Posey • Jonathan Woods

2. Implement a formal plan to add a minimum 1% of adopted revenue each year over the next 3-5 years in order to meet the new policy level. Committee proposes the 1% addition begin with 2017-18 audited ending fund balance of \$921,086. A chart demonstrating progression of the formal plan is shown below.
3. Research, review and adopt a Debt Management Policy.

	Year	Beg Fund Balance	Adopted (Projected) Revenue	1% increase	End Fund Balance	% Adopted Revenue
	2018-19	⁽¹⁾ \$ 921,086	\$ 31,772,655	\$ 317,727	\$ 1,238,813	3.9%
	2019-20	\$ 1,238,813	\$ 35,142,043	⁽²⁾ \$ 351,420	\$ 1,590,233	4.5%
	2020-21	\$ 1,590,233	\$ 35,493,463	\$ 354,935	\$ 1,945,168	5.5%
	2021-22	\$ 1,945,168	\$ 36,558,267	⁽³⁾ \$ 365,583	\$ 2,310,750	6.3%
	2022-23	\$ 2,310,750	\$ 36,196,304	\$ 361,963	\$ 2,672,713	7.4%
⁽¹⁾	Actual audited 2017-18 General Fund Ending Balance, Adopted Revenue Budget excludes Beginning Fund Balance					
⁽²⁾	Projected General Fund Revenue based on Governor's Recommended Budget for 2019-21 biennium					
⁽³⁾	Projected General Fund Revenue based on 3% increase from 2019-21 biennium					

Respectfully,
Finance Committee

Finance Committee Members: Dave Morris, Linda Fox, LaVonne Wilson, Mike Holland, Steve Travis, Rich Slack, Mike Blanchard, Mike Bollman, Michelle Johnstone, Trista Girt, Debbie MacLean

DEBT MANAGEMENT POLICY

The purpose of this Debt Management Policy is to provide functional tools for debt management and capital planning, as well as to ensure compliance with all state and federal regulation with regard to public finance borrowings.

Dallas School District's School Board recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the District's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, and the District's general fund, from poorly structured or overly costly capital financings.
- Ensure that the District's debt is consistent with the District's planning goals and objectives, facilities planning documentation and/or budget, as applicable.

I. Purposes For Which Debt May Be Issued

A. **Long-Term Debt.** Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District.

- 1) Long-term debt financings are appropriate when the following conditions exist:
 - When the project to be financed is necessary to provide services which the District is authorized to provide.
 - When the project to be financed will provide benefit to constituents over multiple years.
 - When total debt does not constitute an unreasonable burden to the District and its taxpayers.
 - When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
- 2) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.
- 3) The District may use long-term debt financings subject to the following conditions:
 - The project to be financed must be approved by the District's governing board.
 - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
 - The District estimates that the identified source of repayment, whether property taxes, general fund revenues or other identified source, will be available to service the debt through its maturity.
 - The District determines that the issuance of the debt will comply with applicable state and federal laws.

- B. Short-term debt.** Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.
- C. Financings on Behalf of Other Entities.** The District may also find it beneficial to issue debt on behalf of or in concert with other governmental agencies, nonprofit corporations or other authorities in order to further the public purposes of District. In such cases, the District shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

II. Types of Debt That May be Issued

The following types of debt are allowable under this Debt Policy:

- general obligation bonds
- full faith and credit obligations
- bond or grant anticipation notes
- lease revenue bonds, certificates of participation and lease-purchase transactions
- other revenue bonds and certificates of participation
- tax and revenue anticipation notes

The District may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

III. Relationship of Debt to Capital Improvement Program and Budget

The District is committed to long-term capital planning. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and master facilities plan.

The District shall integrate its debt issuances with the goals of its capital improvement or master facilities plan by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

IV. Policy Goals Related to Planning Goals and Objectives

The District is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The

District intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the District's annual operations budget.

It is a policy goal of the District to protect taxpayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, fees and charges, as applicable, and in the case of refinancing of existing debt, achieving savings as may be required by law or achieving other objectives of substantial benefit to the District.

V. Internal Control Procedures

Compliance With Debt Policy. The District's business official is responsible for implementing and monitoring compliance with this Debt Policy.

Compliance with SEC Rule 15c2-12. The District may have undertaken, and may undertake in the future, obligations for continuing disclosure pursuant to SEC Rule 15c2-12. The District's business official will periodically review the requirements of Rule 15c2-12 and each of the District's undertakings, and ensure that annual and other periodic filings which may be required are done in a complete and timely manner. **It shall be the policy of the District to engage a third party dissemination agent to assist the District to make complete and timely filings and ensure compliance for the benefit of bondholders or other investors in District debt.**

Compliance with Federal Tax Laws. The District shall have a policy of full compliance with all applicable federal tax law requirements. In connection with prior and new debt issues, the District's business official shall review applicable federal tax requirements, including requirements relating to arbitrage and rebate compliance. In connection with each debt issue the District shall contract with a rebate consultant to undertake arbitrage calculations, if such debt is not otherwise exempt from rebate.

Investments. Proceeds of debt issued by the District shall be invested in accordance with applicable law or as otherwise permitted in the resolution or other document governing the issuance of the debt.

Expenditure of Proceeds of Debt. Written requisitions identifying the amount and purpose of a proposed draw of bond or other debt proceeds shall be signed by a District official and submitted to the appropriate County officials or bond trustee, as applicable.