



# CITY OF GERMANTOWN TENNESSEE

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## **FINANCIAL ADVISORY COMMISSION MEETING MINUTES**

Tuesday, March 31, 2015, 6:00 pm

Blue Conference Room -- Economic & Community Development Building  
1920 S. Germantown Road

**Members Present:** Sudhir Agrawal, Clint Hardin, Mark Holland, Alderman Rocky Janda, David Jackson, Russell Johnson, Juliet Klein, Howard Lasley, Jason Lowe, Michael McLaughlin, Christine Menzel, Chris Miller, Frederick Miller, Julius Moody, Paul Mosteller, Michael New, David Rea, Donnie Rose, Dale Stover and Jonathan Turner

**Members Absent:** Christy Gilmour and Walter Krug

**Staff Present:** Patrick Lawton and Ralph Gabb

**Others Present:**

- Alderman Mary Ann Gibson
- Jason Manuel, Linda Fisher, Teresa Price, Mason Grace, Autumn Enochs and Lisa Parker all of GMSD
- Lauren Lowe —The PFM Group
- Jen Pigolet — the Commercial Appeal
- Michael Stoll

### **CALL TO ORDER**

Chairman Moody called the March 31, 2015 Financial Advisory Commission meeting to order at 6:00 p.m.

### **ESTABLISHMENT OF A QUORUM**

Ralph Gabb called roll and announced that a quorum was present.

### **APPROVAL OF THE MINUTES**

#### **\*\*MOTION\*\***

Chairman Moody moved to approve the minutes from the March 10th, 2015 Financial Advisory Commission meeting as presented. Mr. Turner made a motion to approve the minutes as corrected. Ms. Klein seconded and the motion passed unanimously.

## **DEBT MANAGEMENT POLICY AMENDMENT**

Mr. Gabb introduced Ms. Lauren Lowe with Public Financial Management, Inc. (PFM). He explained that this is the consulting firm that helps us as we go out into the market to issue bonds, debt and things of this nature. He said that because the City wanted to re-look at our Debt Management Policy, a FAC Sub-Committee was formed and thus met last week. Mr. Hardin who served as Chairman stated that basically, it's safe parameters under which we can operate. He feels what was accomplished by the group will definitely help the City to move forward.

Ms. Lowe then spoke on the Amended Debt Management Policy. She recalled from our first FAC meeting that a comparison of data was presented based on cities that were very similar to Germantown and also cities that have very similar ratings (AAA or high AA category). She also recalled that data points were given for areas that have flexibility within some of the debt ratios and within the policy itself. This information was utilized by the sub-committee to determine the levels used in the amended policy. Ms. Lowe emphasized that these are just policy parameters, not goals with the intent to max out or get to that level. Mr. Gabb advised that this is one component as we put together a budget this year; the question is *can we afford it* OR *can we not afford it* as we have changed and expanded the amount. He further explained that each individual year is looked at to determine where we are and how this will work within the budget model that is developed and submitted to both the Financial Advisory Commission (FAC) as well as to the Board of Mayor and Aldermen (BMA).

### **\*\*MOTION\*\***

Mr. Gabb recommended that the Debt Management Policy Amendment be approved for submittal to the Board of Mayor and Aldermen. Mr. Lasley made a motion to approve the Debt Management Policy Amendment. Mr. Mosteller seconded and the motion passed unanimously.

## **PENSION FUNDING POLICY**

Mr. Gabb advised that the Funding Policy was presented to the Retirement Plan Administrative Commission (RPAC) and deals with the pension for City employees. Treasurer, David Lillard sent a requirement stating that all municipalities become fully funded:

- *The Actuarially Determined Contribution (ADC), as determined by an actuarial valuation, shall provided funding at a level of no less than one hundred percent (100%).*
- *The budget adopted by the City each year, as approved by the BMA, shall include funding of the ADC as provided above.*

Per Mr. Gabb, when the budget is being developed, both of the above are included with the numbers that are submitted each year. Sufficient funds are set aside to ensure that we are able to meet these requirements.

Mr. Lawton explained the reason why this came down from the State Treasurer's Office is because other municipalities were not fully funding their retirement plan; this policy was put in place to assure and require that local governments fully fund their pension plans so that they will be 100% able to pay their retirees when that time comes.

Chairman Moody moved that the Pension Funding Policy be approved.

**\*\*MOTION\*\***

Mr. Hardin made a motion to approve the Pension Funding Policy. Mr. Lasley seconded and the motion passed unanimously.

**REVIEW OF GERMANTOWN MUNICIPAL SCHOOL DISTRICT (GMSD)**

Superintendent Manuel advised that this presentation will be in two parts—1) what was accomplished this past year and 2) budget proposal for the next year.

Accomplishments include:

- Addition of Strings Program at Riverdale, Farmington and Dogwood
- Partnership with Parks and Recreation for REACH program at all three elementary schools
- Added rigorous Chinese program for all schools
- Added professional quality television studio at Houston High
- Added STEM programs to Riverdale and Houston High
- Converted to a student created website at Houston Middle School
- Upgrading Windows at Farmington Elementary School Moving to Online Registration for all Schools
- Built reserve funds of approximately \$ 2,100,000 – New budget allots an additional \$300,000 for next year
- Improved exterior lighting and added sidewalk additions at Houston High School
- Expanded car line sidewalks at Riverdale Elementary School
- Re-keyed all school exterior doors
- Improved Wi-Fi infrastructure at all schools
- Increased special education assistant staffing
- Added a nurse to every school
- Increased clerical staffing at Houston High
- Added interventionist at Houston High and Riverdale
- Increased technology support in schools 10:1 ratio to 2:1

Mr. Manuel stated that during his meeting with this body approximately a year ago, there really wasn't a budget at that point however, it didn't come until later that season after enrollment was established and some other issues had been resolved. Per Mr. Manuel, some of these issues/challenges which still exist as of today are:

1. Student Enrollment and Capacity (How Many Will Actually Fit) -- Historically, there were eight schools with 8,770 students located within Germantown's City limits with about half (4,576) of the students being Germantown residents. Boundaries had to be created because Shelby County Schools kept three of the existing schools. According to plotted demographics of Germantown (Geo-Code), Pre-GMSD north of Poplar for every one hundred households, 19 had public high school children; south of Poplar for every one hundred households, 9 had public high school children. Superintendent Manuel advised that in year one of GMSD there was a dramatic change—households north of Poplar remained the same however, households to the south increased to 11 children now attending our schools resulting in an increase of approximately 233 students for year one. He said although growth is a good thing, there is still a concern regarding an adequate amount of space and/or capacity. Superintendent Manuel further stated that approximately 691 students that

came over from the “3 G” schools and also over the next 5 years, this number will increase by 600. If we stay at the same 100 to 19 (north of Poplar) and 100 to 9 (south of Poplar) ratio there will be 932 additional new students which again is a major concern for capacity. After briefly discussing the average to maximum students per class, Superintendent Manuel spoke on Growth Needs for the GMSD. He said that existing accommodations do not allow changes to the classroom sizes; new classroom space and a building addition are needed at Riverdale Elementary right now. Currently there are 22 portable classrooms at Riverdale that need to be replaced with a brick and mortar building addition. Estimated cost is \$7,000,000. Also, per Superintendent Manuel, a second Growth Need for GMSD is to construct a new elementary school. He said that they are probably 30-35 students away to being over capacitated at Dogwood Elementary. If the State’s numbers cannot be met, either a new Elementary school would have to be built or portables would have to be placed on the campus grounds. Estimated cost is \$15,000,000. The third Growth Need is a Multipurpose Facility at Houston High School. Superintendent Manuel advised that although there are currently two gyms, this is still not enough recreational space for the 1,900 attending students who also use the gym in The Grace of Evangelical Church located just across the street. With a third gymnasium, after 5:00 p.m. it can be opened up to Parks and Recreation for all of the youth leagues here in the Germantown area—this would be a true common space for all Germantown residents as well as for our schools. Estimated Cost is \$1,500,000.

2. Funding Issues – Superintendent Manuel explained that the funding for GMSD is from three sources. The .15¢ property tax equivalent provides \$2.1 million for FY15 from the City of Germantown, approximately \$4,500 per student, per month from the BEP funding from the State and Average Daily Attendance (ADA) funds \$3,500 per student. No reserve when first starting up created a cash flow issue and required the need for a Revenue Anticipatory Note (RAN) of \$8.6 million dollars to open the doors for the district. The loan was repaid once ADA funds were received in December and February.
3. Deferred Maintenance – Superintendent Manuel stated that GMSD’s buildings and facilities have been drastically neglected and has not had major upgrades in years. Dogwood Elementary was built in 1976 and was rated *fair to poor* on the Facilities Condition Index. They currently have \$5.2 million in deferred maintenance. Major CIP items include:

1. Major construction to bring Dogwood up to ADA compliance
2. Replacement of old HVAC units
3. Replacement of roof
4. Resurfacing of parking lot
5. Installation of hardwood gym floors
6. Repaint
7. Move from zone control to total control

Farmington Elementary was built in 1973 and rated *fair* on the Facilities Condition Index. They currently have \$3.7 million in deferred maintenance. Major CIP items include:

1. Replacement of Exterior Windows (2015 Summer)
2. Replacement of HVAC units
3. Resurfacing of parking lot
4. Installation of hardwood gym floors
5. Replacement of roof
6. Increased capacity to include the removal of 4 portables
7. Repaint
8. Move from zone control to total control

Houston Middle School was built in 1992 and rated *good to fair* on the Facilities Condition Index. They currently have \$3.1 million in deferred maintenance. Major CIP items include:

1. Replacement of HVAC units
2. Resurfacing of parking lot
3. Installation of hardwood gym floors
4. Repaint
5. Reconstruct front entrance

Houston High School was built in 1989 and rated fair on the Facilities Condition Index. They currently Have \$8.4 million in deferred maintenance. Major CIP items include:

1. Replacement of roof
2. Replacement of HVAC units
3. Resurfacing of parking lot
4. Installation of hardwood gym floors in P.E. gym
5. Repaint
6. Multipurpose Athletic Facility (not included in \$8.4 million)
7. Move from zone control to total control

And lastly, Riverdale K-8 was built in 1968 and rated fair to poor on the Facilities Condition Index. They currently Have 4.7 million in deferred maintenance. Major CIP items include:

1. Replacement of 23 portables
2. Replacement of HVAC units
3. Resurfacing of parking lot
4. Replace Chiller/Boiler with traditional configuration
5. Repaint
6. Move from zone control to total control

Ms. Autumn Enochs presented the GMSD FY 2016 Budget. She began with the FY15 Revenue Projections by re-stating that BEP funds are received from the State of Tennessee (\$4,500 per student) and vary from year to year based on how much is allocated to us. She also advised that ADA funds (\$3,500 per student) consist of sales and property taxes, a share of the Pilot Program tax payments and other small taxes paid to Shelby County. Other Revenues include a large portion of Federal grant money received and a small ILA Agreement whereby the Town of Collierville is being charged for bussing their resident students to our schools and additionally, we receive their BEP and ADA money as well. Also included in Other Revenue is the PEG Grant money that the City provides for the television studio. As for Charges for Services, Ms. Enochs explained that quite a few local organizations and clubs rent the schools for different uses and purposes on the weekend. The General Fund Transfer amount of \$2.1 million is what the City of Germantown provides to GMSD and Transfers from Other Funds (\$6,070) comes from the Federal Project Fund and is shown as a transfer out. The Federal Project Revenue is all federal money that is received for students with academic, language and special education needs as well as to help provide classroom equipment and training for vocational students.

Ms. Enochs advised that Capital Improvement Projects (CIP) Revenue is money received from the Shelby County Commission who allocates \$50 million per year to all of the school districts within Shelby County; based on last year's figures, GMSD received \$975,000 which is approximately 4% which is to be used to replace the windows at

Farmington Elementary School. Prior to June 30<sup>th</sup>, 2015 GMSD expects to spend only \$23,000 of that for consulting services needed to prepare the project which is scheduled to start in June and end in late July, 2015. Per Ms. Enochs, the Nutrition Fund has presented a challenge for GMSD this year. A small reimbursement is received from USDA (\$152,000) and is used for students who eat meals at their schools. Unfortunately, we receive such a low percentage because we have a small number of free and reduced students. Although \$488,000 is expected to be collected from students, teachers and parents who actually eat and pay for their lunches, the Nutrition Fund will fall short approximately \$318,000 this year because of what it takes to fully staff and operate cafeterias on a day to day basis. In total, Ms. Enochs stated that Revenues for all four funds together is \$47,122,000.

Ms. Enoch then discussed GMSD Expenditure Projections for the current year. She advised for the General Fund the bulk of expenses are tied to wages, salaries and all benefits related to Personnel. The next largest expenditure is Professional Fees (approximately \$1.5 million) which include attorneys and the Durham contract for bussing services. Approximately \$2 million is spent for Supplies which includes not only office supplies, but instructional and supplemental materials as well and a little over \$1.1 million of General Fund expenditures are spent on Utilities. According to Ms. Enochs, GMSD expects to spend \$890,000 in Capital Outlay by the end of the year mostly on IT and infrastructure type projects. Also, a significant amount of money was spent to get the television studio up and running this year. She further advised that Contract Maintenance is for custodial services that are in place through GCA and again, \$318,000 is transferred out of the Nutrition Fund. Federal Projects again include Title and IDEA money which is spent mostly on personnel and training for teachers. Professional Fees are used for certain services that are required by some students; because there is not a need for a full-time individual this service is usually outsourced as an effort to reduce cost. There is approximately \$180,000 budgeted for Special Project Needs. There is a \$6,000 transfer out from the Special Projects Fund into the General Fund to cover overhead expense which in turn offsets General Fund Expenditures. Capital Improvements is an in and an out transaction—what we get, we spend; what we spend, we get. Ms. Enochs explained that major changes were made in the Nutrition Fund with staffing and cafeteria personnel in January, 2015. Superintendent Manuel said that approximately two to three individuals were terminated at each of the cafeterias because students were just not buying the lunches. In total, Ms. Enochs stated that Expenditures for all four funds combined is \$44,875,000.

Starting with a \$3,000 balance at the beginning of the year, Ms. Enochs advised that the Fund Balance now has approximately \$2.2 million to carry forward into the new year. Echoing Superintendent Manuel, Ms. Enochs said because GMSD is at capacity, Fund Balance projections for next year did not change much; since the number of students drives the vast majority of revenue, numbers were left relatively stable for the year. She further advised that the State has a bill on the floor that will provide additional BEP funding however, it has not been approved yet. Superintendent Manuel added that the Governor's objective is to increase teacher's salaries two to four percent but because this is the State's minimum required salary it will be a very small increase for GMSD as their teacher's salaries are already well above the minimum. Another transfer in for the General Fund comes from the Federal Projects Fund; there will be no figures from the State for next year's budget until sometime in mid to late April and it is anticipated that approximately the same amount will be received this year. As for the Capital Improvement Fund, the GMSD plan on exhausting the remaining \$975,000 that was allotted by the County this year to use or spend within a two year period of time and as stated earlier, based on current year participation rate and expenditures, the Nutrition Fund is expected to fall short by \$218,000 next year. Per Superintendent Manuel, because we have only five to seven percent free and reduced students they are not getting a lot of funding back; a cap is set on how much can be charged which is what is reimbursed back to the school. He said because Germantown is a very affluent community with students that are used to going out to restaurants and are also used to a level of food quality, the cafeteria food is just not meeting their expectations.

Ms. Enochs stated that there will be a large increase in Supplies next year because of two text book adoptions. Ms. Teresa Price explained during the pre-merger of Shelby County and Memphis City Schools, it was decided

that text books would not be purchased until after the merger. Once merged, it was then decided that text books would not be purchased during that first year as well. So as of today, they are three years behind on adopting or acquiring new text books. Ms. Price advised that the most needed book right now is Social Studies. Because history has happened and State standards have changed, the text book by now is somewhat outdated. She said resources are being used to learn the State standards in order to be ready for next year. So this year GMSD is looking at a total mass text book adoption which includes the current year adoption and trying to catch up in the area of Social Studies, especially where the standards have changed so drastically.

In summary, Ms. Enochs recapped what will happen with the Fund Balance at the end of next year. She said this is pretty much a “break-even” budget in which the State requires GMSD to spend all money, including new revenue that is currently budgeted. Although the Fund Balance can be rolled forward, the State will not allow any of the balance forward until 3% of expenditures have been built up from the prior year.

Chairman Moody moved that the budget as presented by the Germantown Municipal School District be approved for submittal to the Board of Mayor and Aldermen.

**\*\*MOTION\*\***

Mr. Hardin made a motion to approve the GMSD budget. Mr. Rea seconded and the motion passed unanimously.

**OTHER BUSINESS**

Mr. Gabb announced this budget will again be presented to the Board of Mayor and Aldermen at a work session tomorrow night. Also, he reminded everyone about the next FAC meeting on April 14<sup>th</sup>, 2015 in which the Special Revenue Funds and Capital Improvement Projects will be presented.

Mr. Lawton reflected back to GMSD one year ago; he said they have done so much in a twelve month period of time with a very successful year in the first year of operation. He further stated that GMSD did a fantastic job of building a Reserve of \$2.1 million and reducing the RAN by re-paying the full amount of \$8.6 million by March, 2015.

**ADJOURNMENT**

The meeting adjourned at 7:20 p.m.