Horry County Board of Education

Horry County Schools

Finance Committee Meeting

Thursday, January 19, 2017

Board Members Present

John Poston, Board Member and Finance Committee Chair
Shanda Allen, Board Member and Finance Committee Member
Janet Graham, Board Member and Finance Committee Member

Staff Present

Rick Maxey, Superintendent
Mary Anderson, Chief Officer of Human Resources
Edward Boyd, Chief Accountability Officer
Daryl Brown, Chief Officer of Support Services
Carolyn Chestnut, Chief Officer of Instructional Services
John Gardner, Chief Financial Officer
Billy Saunders, Accounting Officer
Polly Dean, Administrative Assistant

Frannie Heizer, Bond Counsel, McNair Law Firm
Brian Nurick, Financial Advisor, Compass Municipal Advisors

1.WELCOME

Mr. Poston called the meeting to order at 12:00 pm and welcomed those in attendance.

2. INTRODUCTIONS

Mr. Poston asked everyone including the media in attendance to introduce themselves.

3. ACKNOWLEDGE COMPLIANCE WITH FOIA

As required by SC Law 30-4-80, local news media were informed of the date, time, place, and agenda of this meeting. Copies of the agenda were posted at the District Office and distributed to the schools for posting.

4.REVIEW AND APPROVAL OF AGENDA

Moved by Ms. Graham and seconded by Ms. Allen, the agenda was unanimously approved.

5. APPROVAL OF MINUTES

A motion was made by Ms. Graham and seconded by Ms. Allen to approve the December 12, 2016 minutes as presented. The motion carried unanimously.

6. NEW BUSINESS

A. Update on Capital Funding

Mr. Gardner asked Mr. Brian Nurick and Ms. Frannie to attend today's meeting to update the committee on the current capital facilities plan funding. Mr. Gardner stated that since the 2015-16 audit had just been completed, he asked Mr. Nurick to update the current Short-term Facilities Plan. In anticipation of potential changes to the Short-term Facilities Plan, he asked Mr. Nurick to prepare two scenarios-one adjusting from 10 mills to 12 mills and how much funding would that generate and the other scenario going from 10 mills to 14 mills and how much funding would that generate. The scenarios are intended to show the amount available for Pay As You Go (PAYGO) over the next 8 ½ years at certain mill rates. Funds available for future capital projects for 10 mills=$57,000,000 for 12 mills=$94,300,000 and for 14 mills=$131,800,000. Mr. Nurick explained that if the amounts above are not sufficient to carry the District's capital needs over the next 8 ½ years, the District could look to a bond referendum where debt could be issued for 20 to 25 years versus more short term with 8% debt.

Mr. Nurick mentioned to the committee that based on the sales tax referendum laws, our final opportunity to renew the sales tax referendum would be in the 2022 election cycle.

B. Historical General Fund Balance

Fund Balance Analysis – Mr. Gardner shared historical Fund Balance information (2008-09 to 2015-16) with ending Fund Balance depicted as a % of budget, % of total revenues, and % of total expenditures with the committee.

Fund Balance Designations – Mr. Gardner shared historical Fund Balance Designations (2008-09 to 2015-16) with the committee. Fund Balance is divided into several categories including non-spendable, assigned and unassigned. In addition, he shared that the Board of Education has changed the minimum fund balance requirement from 7.5% to the current minimum designation of 15% over that same period of time. He also noted that the results of the 2015-16 audit indicated that $23,511,380 was available for other uses, which is above and beyond the 15% minimum fund balance designation.

It was recommended by both Ms. Heizer and Mr. Nurick that the school district keep a higher fund balance than the minimum fund balance designated by the board of 15% because of natural disasters that are potential here on the coast.

C. How Rating Agencies View Fund Balance

Mr. Nurick reviewed with the committee the information on the handout from Moody's. He also reviewed the methodology Moody's uses to go through the process for general obligation debt. According to Moody's verbiage from ***Why It Matters***, *"A local government's fiscal position determines its cushion against the unexpected, its ability to meet existing financial obligations, and its flexibility to adjust to new ones. Financial structure reflects how well a local government's ability to extract predictable revenues adequate for its operational needs are matched to its economic base. Moody's financial analysis includes a review of historical financial performance as an indication of a local government's ability to weather budgetary pressures stemming from economic downturns or other factors.*

Horry County Schools' currently has an Aa2-AA rating and staying in the middle of Aa category is very important to the district. In Moody's eyes, if HCS wants to continue to support their credit rating of Aa2, it is recommended to have a 17% fund balance and keeping some 8% in reserves would be a prudent budget decision for HCS.

Mr. Poston would like to know the financial impact on Horry County Schools from both the Flood of 2015 and Hurricane Matthew.

D. Capital Planning Assumptions/Parameters

Mr. Gardner presented the draft copy of the Capital Planning Assumptions/Parameters document for the 2017-18 school year that was provided to the committee as a handout.

The administration will prepare a recommended capital funding plan based upon the following assumptions:

- The District will employ the services of a Financial Advisor and Bond Attorney in the formulation and modification of the capital funding plan.
- The capital funding plan will seek the lowest cost of capital available.
- 8% debt will be structured for the shortest period possible. Debt shall not be issued for a term that exceeds the useful life of the debt-financed asset.
- The District desires to obtain and maintain the highest possible credit ratings. The District will seek credit ratings from at least one of the three major ratings agencies on all debt, as appropriate.

The administration will prepare a recommended a capital plan that is in compliance with the Board of Education's governance policies and the following parameters:

- The District will comply with all applicable state and/or federal laws and regulations.
- The District will develop a short and long term facilities plan based upon an ongoing annual needs assessment and establish priorities for new facilities, additions, renovations, and sustainment projects.

- A clear estimate of all major components required to implement a project should be outlined including land acquisition, design, construction, contingency, and post-construction costs.
- For projects programmed beyond the first year of the plan, cost projections should be adjusted based on anticipated inflation.
- The facilities plan should provide information regarding the potential impact of the capital project(s) on the annual operation budget.
- The annual budget for capital improvements will be based on the projected expenditures for that fiscal year. As some projects may span multiple years, it is understood that multiyear projects may exceed the annual appropriation but may not exceed the total project budget.
- A stable and sufficient funding plan, which is both multiyear and reliable, must be established as a precursor to the final approval of the short and long term facilities plan or any modification to the plans.

Mr. Poston asked Mr. Gardner if this item could be shared with the Facilities Committee at their next meeting.

E. Operational and Capital Limits on Millage

Millage Analysis

Mr. Gardner reviewed the general fund (for operations) millage for the time period of 2008-09 to 2016-17. He explained the how ACT 388 and ACT 57 impacts the annual millage that the Board of Education can levy. In addition, he shared the debt service fund millage (capital) over that same period of time.

Millage FAQ's

What millage increase is available to the Board with a referendum and without a referendum? For operational millage, the limits are set by State law, specifically Section 6-1-320 of the Code of Laws of South Carolina, 1976, as amended and cannot be modified by a referendum. *On the debt side, there is no limit on debt service millage on general obligation debt whether approved by referendum or not. Without a referendum, the Board can only borrow up to its 8% constitutional debt limit. As long as the amount borrowed is within the 8% limit, the Board has no limitation on how much millage can be imposed to repay it. The Board controls the millage by setting the debt service schedule.*

Are we within our current bonding capacity, do we have any available, and can it be extended with a bond referendum. Are there any threshold numbers concerning the referendum amounts?

The School Board always has an option of ordering a bond referendum which if successful would authorize the Board to borrow the amount approved for the projects approved.

What is the operational limitation on millage: Is there a limit for debt service?
Under Act 388 and subsequent legislative amendments, the annual millage increase is limited to a total of the percentage of population growth and the consumer price index, as identified by the State. Beginning in 2011, local governments were authorized to add to the increase allowed in a year any increases allowed but not imposed for three preceding years.

In the attached worksheet for millage analysis, what would be the maximum millage that could be levied for 2017-18?
We have looked at your millage analysis and we agree that for the millage that will be set this year, the School District will be entitled to its annual increase together with a look back from 2016, 2015, and 2014 tax years. The percentage increase allowed for this year is not known and our calculation of the look back is 12.84 mills.

F. Multi-Year Budgeting

Mr. Gardner remarked to Mr. Poston that his staff was working on a plan for multi-year budgeting. Mr. Poston asked if this item could be placed as Item#1 on the next meeting's agenda.

G. Other Business

Mr. Poston asked the committee if they had any other business to discuss. There was no other business to discuss.

H. Next Meeting Date and Agenda Items

Mr. Poston asked the committee if the current location (Facilities Building) was suitable to schedule future meetings. The location is suitable. Mr. Gardner added that the next time the committee could meet again would be some time near the end of February.

7. ADJOURNMENT

A motion was made by Ms. Graham and seconded by Ms. Allen to adjourn the meeting. The motion carried and Mr. Poston adjourned the meeting at 1:05 pm.

Respectfully Submitted,

Polly Dean

Polly Dean
Administrative Assistant, Fiscal Services

Approved:_____