Oak Park and River Forest High School
201 N. Scoville
Oak Park, IL 60302

Finance Advisory Committee
Minutes
August 19, 2013

A Finance Advisory Committee meeting was held on Monday, August 19, 2013, in the Board Room. Mr. Weissglass opened the meeting at 7:05 p.m. A roll call included the following members: Tod Altenburg, Thomas F. Cofsky, Judy Greffin, Sheila Hardin, Dr. Steven T. Isoye, Karen Latham, Christopher Meister, Dr. Jackie Moore, Robert Spatz, Peter Traczyk, Louis Vitullo, Penny Wallingford, and Jeff Weissglass. Also attending was: Gail Kalmerton. David Pope and Dr. Tina Halliman were not present.

Visitors: Sharon Patchak-Layman and Dr. Ralph H. Lee, OPRFHS Board of Education members, Karin Sullivan, OPRFHS Director of Communications and Community Relations; Steve Miller of PMA Associates, Erika Lindley of ED-RED, and student Ross Constable, and Terry Dean of the *Wednesday Journal*.

Mr. Weissglass stated that the goal of the meeting was to look at the expense side, the big drivers such as enrollment and pensions, the financial forecast projection model, and data analysis tools.

Approval of Minutes
Mr. Traczyk moved to approve the minutes of the August 5, 2013 Finance Advisory Committee meeting, as amended; seconded by Mr. Cofsky. A voice vote resulted in motion carried.
The amendments were:
Page 5 Insert Questions and Comments from the Committee after the 3rd transfer bullet.
Page 6 October 7 is the Long Term Facilities Plan and October 21 is Exploring Options and the Develop Recommendations will be on October 21.

Enrollment Projections
FAC reviewed the Ehlers and Associates' enrollment study commissioned by the Board of Education in 2011. Its purpose was to provide information and data pertaining to enrollment projections through 2016-17 School Year. In addition to the projections, enrollment trend information was developed for the years 2017/2018 through 2012/2022. Trend information for the years 2017/2018 and beyond is generally conceived estimates. A combination of statistical and analytic procedures was used to project the enrollment. Information was gleaned from District enrollment data from the official enrollment report on September 30 for the school years 2002-03 through 2011-12, the IDPH supplied live birth information, private schools' enrollment information, the Villages of Oak Park and River Forest planners and zoning commissions, and realtors.

Indicators of change are the affordability and availability of housing, changing in birth specifics to determine what is happening at the kindergarten grade, mobility (older residents move out and younger families move in), employment opportunities, shifts in non-public school enrollments, and transportation changes, i.e., gas prices, getting to and from work location, etc.

Ehlers projected a modest increase in the District 200 enrollment for the next four years ending in 2015-2016. It projected the enrollment will start making more dramatic increases of 131, 149, and 121 in years 2016-2107 through 2018-2019. In the 5th year of the projection, estimated enrollment will be 3,490

which is an additional 278 students. The enrollment trend in 10 years shows an estimate of 3,889 students, an additional 677 students more than the 2011-2012 numbers.

Questions/comments by committee members included:

- Is there an enrollment bubble from 2017 through 2021?
- What were the key drivers for the findings?

Both District 97 and District 200 commissioned the Ehler's Group to project enrollment. It was done by cohort survival or how many students went from one grade to another grade. Previously, the projections were based on birth rates and housing availability. This year District 97's enrollment had increased by approximately 600 to 800 students. Retention rates in grades other than kindergarten were at 101%.

Cost Containment Parameters

A Finance Advisory Committee was established in September 2009 as an outgrowth of the Board of Education's 2009-2010 goals. One recommendation adopted by the Board of Education was to establish an Advisory Leadership Team (ALT) to examine the financial projection model and recommend adjustments to the Superintendent. Its purpose was to generate a financial gap analysis and present suggested cost containment recommendations to the Superintendent with the expectation that the Superintendent would compile the findings for a presentation to the Board of Education. As part of that process, ideas were generated through divisional working groups and forwarded on to quality review committees that focused on maintaining quality instruction, and then to the ALT. The ALT looks at parameters.

The ALT used the following assumptions set forth in the FAC report to the Board of Education.

- Enrollment was projected as flat over the foreseeable planning horizon based on a community demographic analysis.
- The District is dependent on local property taxes for over 87% of its total budget. This source of revenue is capped at the greater of CPI-U or 5%, whichever is lower.
- Projected revenues are expected to increase at a compound annual growth rate approximately CPI. The CPI-U was 0.1% for levy 2008, 2.7% for levy 2009, and is projected to be 1.5% for levy 2010, 2% for levy 2011, and an average of 2.5% thereafter. In the documents of the PMA report, CPI is indicated for 2010 at 1.5% and a 2.0% assumption thereafter.
- The projected costs are expected to rise at a compound annual growth rate of more than 4% annually under current expenditures and staff approaches, largely governed by District contractual commitments. The majority of expenditures in the Education Fund are related to salaries and benefits.
- As a result, the District was projected to see expenses eclipse revenue by 2015 and exhaust current fund balances by approximately 2018-2019.
- The design of public education funding in the State of Illinois requires districts to periodically seek referendum increases.

The FAC membership composition was staff, administration and community members. The programs from PMA were used to understand the expenses. What will the future look like and once the District goes into deficit, what does that mean for the District and ultimately what will it look like when it goes out for a referendum.

After the first year's recommendations, there was an enrollment change (a lever), the 2010 Actual Tax Levy was known, and the health care trend model was amended to 7% versus 10% in order to be closer to the actual experience. The District's health care expenses were actually running at around 5%.

The ALT recommended that the District immediately adopt the revised projection model with new assumptions, incorporating the FY 2013 projections into the FY 2013 budget, and the Board of Education and administration should continue to establish and support the task forces (inclusive of strategic planning) necessary to investigate cost savings alternatives.

Dr. Isoye reviewed graphs that showed how revenue, fund balances, and expenditures intersected depending on what changes were made. In February 2013, the ALT recommended that its goals remain status quo. The FY 2013 budget was within the spending target established by ALT last year. The Ed fund spending target was $51,964,138 and the budget amount submitted and approved was $51,733,332.

While the District is experiencing changing demographics (changes to income levels), it is still gaining academically. All of ALT's work is to ensure that the District continues to provide a quality education. In planning for FY 2014, the District looked at the potential cost decisions that may impact the budget:

1) Partial reduction to the Levy
2) Flat Levy
3) Pension possibilities
4) Strategic Plan,
5) Long-Term Facilities Committee's recommendations
6) Repair of the pools
7) Support for the Collaboration of Early Childhood Care and Education

ALT could not make a projection due to these factors and, thus, did not change its targets and it kept the cost reductions target due to a 10-year effort.

Mr. Cofsky, a member of ALT, noted that the ALT's focus was the slowing of future cost increases, not necessarily cutting costs or reconciling the present and the past. He wanted to understand the impact of the key drivers that control the economic model of this entity. He concurred that many of the things listed above will have a tangible economic impact and it is important to understand how they fit together. The ALT is a work in progress. He believed there was a need to cross reference what the District was going to do versus what it has done. ALT was most concerned about the key levers of enrollment and human capital. Agreements and contracts were outside of the conversation.

One member noted that classroom size was a lever, not enrollments, as it affected the cost of base salary, the number of teachers, health care, and the delivery of instruction. ALT did look at different assumptions as to what would happen if FTE remained status quo, but it did not look at which point the District would be required to add another counselor, speech pathologist, student behavior interventionists, etc. And while discussions occurred about whether technology or another type of investment could be made that would reduce costs, no solutions were found.

Ms. Hardin stated that the faculty supported working with the administration on FAC. ALT was a smaller group where just Faculty Senate leadership participated. Overall, faculty supported the work, particularly the first year's work. However, they were not part of the conversation about holding FTE status quo with an enrollment increase of 600 students. The administration, faculty and staff have worked to do the same process with cost containment, but they now have exhausted cost containment ideas outside of those things that would affect education. Again the faculty supported the committee and they want to be good stewards.

Dr. Isoye noted that ALT has a learning curve, it is a work in progress, and it is a group that does have this discussion.

Pension Reform
Background and Legislative Status/Potential Impact on District 200
Eric Lindley, executive director of ED RED, spoke of ED-RED's work as an advocacy organization on behalf of 90 school districts on state education issues. Most of the interaction is with superintendents, business managers, and board members. Her primary focus is to 1) make sure members have the tools with which to communicate with their legislators and 2) educate legislators about schools. She recognized Bob Spatz as a long-term member of its executive board. While the answers to the following questions are unresolved, she did provide her vision.

1) Will cost shift happen? 2) If so, what is the phase in period? 3) What is the high end number?

Ms. Lindley believed that the final bill had not been written. The benefit changes under consideration will impact the final cost, i.e., what kinds of benefits, what kinds of benefit changes will be found constitutional, investments, etc. Over the past 5 years, various bills and approaches to pension reform have been introduced, such as looking at retirement age, moving teachers from the TRS system into 401K, etc. She felt the final bill would have changes to the COLA as it is a significant payment every year. A pension conference committee has met for 8 weeks and is taking this discussion seriously. It has forwarded several proposals to the five fund pensions so that they in turn can work on actuarial studies. Before action can be taken, legislators must have and understand the actual numbers as this will affect all employees. A proposal may be forthcoming as soon as September. It is unknown as to whether or not it will pass or if it is constitutional.

Governor Quinn, Senate Speaker Madigan and House President Cullerton support a cost shift. The rationale for doing so is that districts are responsible for setting salaries and, therefore, need more input with regard to costs and benefits. However, the legislature would still be in charge of the multiplier or the mechanism for controlling the costs. ED RED members feel that schools should also be given the ability to change the multipliers. ED RED does not support unfunded mandates, and it does not support a cost shift. However, if it becomes law, the legislature should consider other factors i.e., changing mandates required for districts, moving governance controls, etc. ED RED's position is that a cost shift would be the largest unfunded mandate and many districts are already in dire financial situations.

The House barely passed a proposal that shifted the normal cost benefits of higher education institutions, developing pension reduction benefits and cost shifts. The Senate did not pass it. Higher education is different from K-12 education in that it has more control over what it charges for tuition. If the state feels a change should take place, it has a responsibility to fund it. ISBE has reduced its funding by $900 billion over the past four years. While General State Aid increased last year, area districts did not receive much benefit from that. Unfunded mandates that could be reduced or changed would include bilingual education, class size, Special Education, Driver Education, and PE. When asked how one would justify the City of Chicago not being part of the state's share, Ms. Lindley had understood that when the residents of the City of Chicago took over that cost in 1995, it was part of a larger educational reform proposal, and it was built into its tax cap laws. Suburban districts have no new opportunity to find additional review because of PTEL. This would be a new cost and no opportunity to increase revenue. If the legislators were to give districts new authority over pension programs, districts might be more willing to pay for them. Currently districts pay toward pension systems and many districts pick up the employee share of the contribution; some districts are paying creditable earnings of 10% toward the pension system. Approximately half of the unfunded state pension obligation is tied to TRS-based pensions.

The normal cost is now around 7%. A change in the COLA, retirement age, cap on pensionable salaries, etc., could seek to lower that cost. The pension package would lower the number. Many reform packages have included an increase in employee contributions. While it is now 9.4% of creditable earnings, some proposals have it going ~~it could go~~ as high as 11.4%. The District pays .~~0~~58% of creditable earnings to

TRS. If this bill became effective July 1 2014, it would go from .58 to ~~and that could go~~ to 1.08% and go up ~~then~~ .~~0~~5% each year thereafter.

ED RED has asked the legislature to give districts as much lead time as possible so that they can manage any changes. However, she believes that it could be phased in as early as the 2014-15 school year and that districts should anticipate changes.

Ms. Lindley explained that of the annual payment that the state makes to the pension system, two-thirds of it pays down the debt (unfunded liabilities and bond issues) and only third of it pays for the state's share of the normal cost. The normal cost is the percentage of earnings needed to pay out for current employees. Illinois uses a system to determine this. Actual pension benefits will affect the normal cost, and that will change actuarial assumptions. TRS reviewed assumptions last fall, i.e., ERO 60 versus 65, interest earnings, market changes, and life-expectancy numbers. Legislators are now asking districts to take on more of the normal costs, not the debt, building a firewall between the normal costs and the debt. However, at a later time, the legislature may ask that districts to afford more than just normal costs.

While conversations have occurred about each district taking on its own costs or moving from TRS to a 401(k), no pension system currently has such a quality model. If all districts were to have their own plans, the revenue would no longer flow to TRS to help pay for pensions. If districts were provided the new authority, there would be a greater divide between the districts with money and those without money.

Discussions have occurred about whether one could shift normal costs and make it exempt from tax caps, although this has not been popular with the legislators.

Mr. Miller explained that the District has $27.5 million TRS salaries in this year's budget. The .058% contribution is approximately $160,000. He projected a 5% increase in salaries and staff going forward and arbitrary costs that aligned with scenarios noted. The budget could be increased as much as a $1 million ~~-~~if a 1/2% per year was added, capping out at 4% or 8%. ~~-and~~ Another case would be ~~then~~ a higher level of 1% per year~~, or~~ capping out at 4% or 8% ~~years~~ for five years or beyond.

Private discussions have occurred about the diminishment clause in the constitution. Many law firms have issued opinions on this issue. Some believe that once someone is in the system, his/her benefits are protected from diminishment, and some believe changes should be allowed if the state is in a fiscal crisis. It may become a public discussion if a resolution is not found. A concern is that people really do not understand pensions. If a constitutional convention were to pass, however, it would open up the constitution for future amendments. In the corporate world, an employer can freeze a benefit and allow no future earnings. The Pension Benefit Guarantee Corporation guarantees pensions for businesses that cannot fund their pension liabilities.

One member's personal reaction was that the pension question may not be as large as some may have thought as it was just a percentage of the Education Fund. Ms. Lindley predicted it would be about 7 to 8 percent, knowing that there were many variables, and acknowledging that this is a volatile market. ED RED asks for predictability and reliability from the legislature, and it has asked for a high-end number. Mr. Spatz stated that if legislators pass benefits that make normal costs higher than whatever number is agreed upon, then it should have to pick up the higher costs.

Ms. Lindley stated that Senate Bill I addresses the state's inability to pay its debts in an emergency situation. She also noted that constitutional protections are not black and white. Because of the amount of money the state is spending on pensions, it affects other human services such as public education and safety.

Budget vs. Actual Experience
Steve Miller of PMA presented data from his company's business intelligence tool in response the question about how effective budgeting has been in the past. He shared a spreadsheet showing all funds. The first few years the revenues were close, but in the last few years actual revenues (property taxes) were coming in higher than budget. Expenditures (salaries and benefits) were better than budget. There was a cumulative budget variance of $32 million over six years. ~~The District accumulated $32 million over six years~~. The largest fund is the Education Fund. Dr. Isoye stated that part of the fund balance ($1.7 million) is in the health insurance reserve.

Comments/suggestions:

1) Review 2007 projections as compared to 2012 budget.
2) How much change is there from the original budget to the revised budget? Provide the percentage.
3) Assumptions for property tax collection are 97%, but that may have been too conservative. Except for a couple of years when it collected 95%, the District has collected 98% or 99% in property taxes.
4) What had the District learned from this information? Mr. Altenburg is learning the District's budget, and ALT will reconvene this year to discuss the information learned through this process. Mr. Weissglass noted that if the variance was built into the 10-year forecast, the curve may be flatter than it was presented. Mr. Spatz felt it that if the forecast had been under $34 million over six years, it calls into question the issue of budgeting and forecasting.

Mr. Miller stated that significant positive variances were on the benefit side (health insurance) of expenses. Health insurance claims were not as high as expected, and ALT changed the assumption from 10% to 7% on health insurance premiums. Structural changes also occurred when retirees moving to the state's plan versus continuing the District's plan.

Mr. Altenburg explained that the insurance premium cost is based on the experience of OPRFHS. OPRFHS has an insurance company that assists. The District re-evaluates each year depending on variables such as new employees, pregnancies, etc. While the Village has asked other taxing bodies to consider joining a pool, adding fire fighters and police may not provide the best experience from a school district's perspective.

Mr. Miller referred to a one-page assumption summary that was developed a couple of years ago to go to the ALT. It was updated to include a sensitivity analysis of the variables. All assumptions were from February ALT report, unless the assumption is different from the report.

Calendar year revenue assumptions:
1) A 1% change to CPI represents approximately $650,000 in revenue. While the assumption was 2% in February, it is 1.7%.
2) EAV Change–does not affect revenue very much
3) New property EAV assumes $1.5 million of construction going forward (Madison and Downtown TIF). $1 million of new construction means approximately $50,000 in tax revenue if outside the TIF, and if inside a TIF, no revenue is collected.
4) Collection Rate assumption was 97%, but the actual collections have been closer to 98% or above. One percent is approximately $650,000. Page 98 of the 2012 CAFR has the collection history.

Fiscal year revenue assumptions:

1) An interest rate of a quarter percent. A tenth of a percent would generate approximately $130,000 in interest earnings.
2) CPPRT, share of the state corporate income tax, is $1.3 million. One percent change is approximately $13,000.
3) General State Aid. The Foundation Level is the per student amount set by the state, and it has not moved in last 5 years. However, the actual foundation level is less because it has not been funded in 3 years. A 1 percent change in the proration would be approximately $13,000.
4) State categoricals and grants in the budget is $2.5 million. A 1 percent change would be approximately $25,000.
5) Federal Grants in the budget is $1.8 million. A 1 percent change would be approximately $18,000.

Expenditure Assumptions

1) Certified Staff is 3%. A 1% variance would be $225,000. The benchmark of 16:1 class size was used. This is just on the base salary schedule amount. The average step is an additional 2.8%, ranging from less than one-half percent to almost 5% depending on where someone is on the schedule.
2) Administrators and Non-affiliated employees are 2%. A 1% variance would be $30,000 each.
3) CPA salaries are 3%. A 1% variance would be $30,000.
4) Safety & Support are 3%. A 1% variance would be $30,000.
5) TRS Contribution rate. A 1% variance would be $275,000.
6) Medical Insurance Change. A 1% variance would be $50,000.

Using a 16:1 student/teacher ratio and with the projected enrollment would mean an increase of 30 teachers within five years. This numbers include all aspects of education (study halls, tutoring center) including special education, which may be a separate conversation. A suggestion was made to look at ratios from different schools, but it was noted that number is sometimes misleading as some schools include planning periods, etc. The class size benchmarks that the school uses are 28 to 30 for Honors/AP, 26 to 28 for College Prep, and 22 to 24 for Transitional classes. Using a benchmark of 16:1 does not take into consideration when a counselor should be added, etc.

Financial Projections and Modeling Application

Mr. Miller also reviewed what one percent change would mean in the following funds: Education Fund, O&M Fund, Transportation Fund, IMRF Fund, Tort Fund and Facility Capital Outlay which the committee will review at a later date. This is being funded from transfers from the Operating Fund to the Capital Project Fund. These funds are independent of CPI. District 97's model shows these funds as being independent, and everything that is not a primary driver, use 2.5 CPI assumption, except for tuition to educate students that have to go out of the district, medical insurance, etc. A suggestion was made to come to a consensus of what was relative to K-8 versus 9-12 grades and include District 90 in that discussion as well.

What are the next steps?

1) It is critical to understand the levers and their assumptions both from revenue and expenditure perspective.
2) What is the best case, worse case changes? District 97 reviewed 5-year projections to see how much projections were off and why.
3) When the model is developed does one go through best case worse case and if so, see sensitivity analysis more closely aligned. Mr. Miller has done this with other districts.
4) Is there a way to track the 3 largest areas of variance and the 3 most frequent areas of variances? If so, it would allow dissect assumptions going forward.
5) Use the original budget versus the amended budget to see where the budget was amended.

6) What are the largest sources of revenue, largest sources expenditures, and the key assumptions that are driving the focus? Need to understand the history and then the key sources. Revenue: property taxes. Expenses: salaries and benefits. The approximate cost of adding a new teacher is $75,000.
7) Write text around the top three levers.

The budget timeline follows:
1) Preliminary Budget in June
2) Tentative Budget in August
3) Adoption of Final Budget in September
4) Amended Budget in March/April/May (required to adopt amended budget when exceeded by 10% and best financial practices)

Dr. Isoye noted that Mr. Miller, Mr. Altenburg and himself would debrief about this discussion and how to go forward.

5 Sight Data Analysis Application
Mr. Miller previewed software that would do comparison of data to other school districts. The example he provided was that of class size in various schools. He offered to generate additional reports for the committee if they so desired.

Next Steps
The next meeting is scheduled for September 9 and the focus will be the community's view, and the referendum cycles on residents, businesses, etc.

Visitor Comments
Dr. Ralph Lee, seven-year board member and former OPRFHS teacher, spoke as a member of the public.

"I am sure that you may wonder why a member of the school board would make recommendations to a committee whose function is to make recommendations to the school board. My purpose is simple: this committee is uniquely equipped to perform some tasks that just cannot be accomplished by the board itself, because of the wide range of concerns that it is obligated to address, and because of the limited time that our board can spend in meetings on narrowly defined topics.

"I am here to ask the FAC to analyze several financial management assumptions that we have made without serious question for many years, and which I believe are faulty. These assumptions around found in many areas of activity. However, since 80 to 85% of our money is spent on employee compensation, I will confine my concerns to that area for the immediate future.

"These faulty assumptions fall into four categories:
1) What we, the Board of Education think we can and cannot control;
2) The factors that ought to control increases in employee compensation;
3) How we find money to fund new and different educational initiatives; and
4) Our lack of belief in the need for formally adopted board policies in determining our direction forward.

"Over the next several weeks, I will send more detailed written statements to the FAC members and to anyone else who would like to receive them. It is my hope that this committee will seriously investigate the claims that I am making, and will take the ones that it considers valid seriously enough to influence the recommendations that I understand will be made by December regarding the fund balance. If anyone had any questions, they could call."

Adjournment
Mr. Vitullo moved to adjourn the meeting at 9:31 p.m., seconded by Ms. Hardin. A voice vote resulted in all ayes. Motion carried.