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

**Finance Advisory Committee**
**Minutes**
**September 23, 2013**

A Finance Advisory Committee meeting was held on Monday, September 23, 2013, in the Board Room. Mr. Weissglass opened the meeting at 7:08 p.m. A roll call included the following members: Tod Altenburg, Thomas F. Cofsky; Judy Greffin, Sheila Hardin, Dr. Steven T. Isoye, Christopher Meister, David Pope, Robert Spatz, Peter Traczyk, Louis Vitullo, Penny Wallingford, and Jeff Weissglass. Also attending was: Gail Kalmerton. Dr. Moore, Dr. Tina Halliman and Ms. Hardin were not present.

Visitors: Mary Ludgin, Director of Global Investment Research of Heitman Corporation; Steve Miller of PMA; Sharon Patchak-Layman, Ralph H. Lee, OPRFHS Board of Education members, student Ross Constable, and Terry Dean of the *Wednesday Journal*.

**Approval of Minutes**
Mr. Pope moved to approve the minutes of September 9, 2013, as presented; seconded by Dr. Isoye. A voice vote resulted in motion carried.

Mr. Weissglass reviewed the agenda.

**Real Estate Taxes Impact on Local Businesses and Attracting New Investment**
Mr. Pope introduced Mary Ludgin, Director of Global Investment Research at Heitman Corporation, and parent of a 14-year old freshman girl attending OPRFHS. Heitman manages and operates the Shops in Downtown Oak Park (Old Navy, Pier I, etc.) and the River Forest Town Center. Ms. Ludgin is also a member of the Oak Park Development Corp (OPDC) and sees the broader implications of development, investment, and retail attraction issues facing the region and these communities. She has been the keynote speaker at the OPDC's annual meetings and a resource to it. She will look at the decisions made in Oak Park and River Forest and the implications for retail and commercial attraction in this area.

Ms. Ludgin noted that her investors are large pension plans, college endowments, and foundations that look at real estate investment as a diversifier in a portfolio that includes stocks and bonds. The charge is to look for the returns that will allow the beneficiaries of these pension plans, etc., to be able to pay the liabilities. Heitman has had a positive experience in Oak Park and River Forest. She shared some insight on property that Heitman has owned for over a decade and the shops are currently 98% leased.

River Forest Phase I is where Whole Foods resides and Phase II is where Linen & Things resided (a space which went vacant for approximately four years). Heitman had investments in 11 Linen & Things across the country. The River Forest property was the last to lease to another tenant.

Heitman feels demand will accelerate across property types as the economy grows. It also feels that this community's mix of culture, access, diversity, housing types, and history position it well to capture more than its fair share of residents and business. National retailers, such as Old Navy, do well here and attract other national retailers. Their sales are in the top quartile of sales nationally. However, good demand can be undermined with high taxes. When retailers look for a location, they estimate what their sales potential is by aggregating income, which is population multiplied by either medium or average household income. On that dimension Oak Park and River Forest score well. Some retailers do a 3-mile radius, and these communities would not do well with that analysis as some income level areas are not high.

She provided a comparison of property taxes paid by Walgreens in River Forest, 2 locations in Naperville, Evanston, Highland Park and LaGrange, noting that property taxes were substantially higher in Oak Park and River Forest. This information was provided by MidAmerica Property Management Group based in Oak Brook. Property taxes vary significantly by county in northern Illinois with Cook County being the highest and the highest in River Forest. Retailers look at sales potential and the total cost of occupancy in a specific location, i.e., rent and added charges. The dominant added charge is property tax (90% of the additional charges), maintenance, landscaping, etc. Retailers would look at total sales potential and divide that into that the total cost and come up with a ratio which would be 12% to 13% maximum of expected total sales—a health ratio. A dollar can make difference to a retailer that is not sure what their total sales will be. Retailers will line up the array of choices and under the idea that if taxes are higher than another center, they will go there first, all other things being equal. DSW contracted with other properties before the property in River Forest. Retailers look at a combination of spending potential and total costs. Average rents range between $20 and $25 in downtown Oak Park and a third of the taxes could be attributed to the high school. A retailer would look at the sales potential and determine if they could take the risk.

MidAmerica Property Management categorized Oak Park and River Forest as a “tweener” market as it is a located between downtown Chicago, Oak Brook and North Riverside mall. Certain tenants have location strategies that mean they are already covering this market, i.e., the Container Store which puts their stores five miles apart, etc. Both the Container Store and APPLE are served well in downtown Chicago and Oak Brook. The more moderately price-point tenants are typically present on North Avenue or North Riverside mall. Because the Oak Park downtown (Harlem and Lake Streets) is not adjacent to a regional mall or expressway, it is a community center, not a regional center. A regional mall, like Oak Brook, will draw from between 10 to 15 miles depending on traffic. Downtown Oak Park will draw from only three miles generally.

A slide also showed property tax comparisons of community shopping centers in metro Chicago 2012. The Shops of Downtown Oak Park are the highest. The Park Ridge shopping center is almost $10 per square foot less. Certain retailers do well in the Oak Park and River Forest area, particularly food. However, retailers do not know how deep the pool of dollars is. Will the positive of this island be sufficient to offset the higher costs? It took a long time to negotiate the deals with DSW, Ultra, and Tilley’s. The environment of retail construction is at a national year low. In forty years, there has never been a time when so little retail was being developed. It is a great time for Oak Park and River Forest to lease up their vacancies. For retailers that are expanding on a net basis, there is an increase of 2% in retail space demand with limited new supply. This enabled Heitman to bring in new retailers and release those retailers that had wanted to be released from their leases. However, there are periods when retailers go into "pause terms," economic down times, when too much space is being built.

Local and regional tenants are the "bread and butter" of Marion Street, Oak Park Avenue, and Lake Street in River Forest as they often use a different calculus. They do not have much comparison and they want to be in this area. There is an abundance of risk takers in these communities. The heart of Oak Park was at 100% occupancy during the height of the recession.

A question was raised about the almost 30% difference in square footage when the tax bills are identical between the two phases in River Forest. It was speculated that there was the assessed value and the rate that was applied. During this period, the vacancy could have influenced all other values. A real estate investor looks at current and future income.

Ms. Ludgin was thanked for her presentation.

**Balancing Interests**
The Committee then began a reflection of what had been learned about residential and commercial property taxes and what additional information the committee might want on the impact on the community, additional financial analysis about the school district, e.g., metrics, etc. Committee members reflected on the presentations by Mr. ElSaffar at the prior meeting and by Ms. Ludgin.

1) The public had the opportunity to review these presentations. A suggestion was made to watch the presentation and view the slides on a split screen. The slides can be accessed through the meeting's agenda on the OPRF website.
2) Both presentations were helpful. Another valuable contribution may be a chart that compared Oak Park to other communities (Deerfield, Evanston, Park Ridge, etc.) on the residential side to help the committee as it is engages in the communication process and why it is looking at different actions.
3) *Crain's* showed housing values and whether the value of the house had dropped. Note: The cost structure would be higher in Oak Park than in other communities, considered comparable, because of investment choices. Oak Park has a higher ratio of police officers in its community than any other community outside of Chicago. That decision was made in the 1980's. That cost structure is not a fair comparison in terms of the relevant demand and the accompanying costs with regard to certain municipal services in comparing Park Ridge and Oak Park that.

Mr. Weissglass noted that a direct correlation to these communities' real estate taxes as compared to others was not possible; however, what is happening in the communities is a relevant conversation.

**Base Projection Model Update**
An updated projection model was presented to the Committee for consideration. It focused on assumptions that were the most likely, the best case, and the worst case. The most likely scenario is the most historical. The best case is the highest revenue and lowest expenditures. The worse case equals the lowest revenue and highest expenditures. The key assumptions were: 1) CPI, Collection Rate, Enrollment Projections, Certified Staff, Faculty Senate Salaries (CPI plus average 2.6% or 2.7% STEP and changes in staff or a total of 5.2% increase), Medical Insurance,

TRS Contribution Rate, ALT Cost Control Recommendation, and Technology Equipment. The expenditures are for the FY 2014 school year. A sensitivity rate for each category was provided. Enrollment projections were based on the 2010 Ehlers report.

Comments included:

- The total average increase in the contract should be reflected in the charts in order to be clear on the assumptions.
- Had any discussion about employees cost sharing occurred or been included in the model? The employer portion had been included. Mr. Miller had also heard that there had been discussion about decreasing the employee contribution rate.
- ALT cost control recommendations targeted a 0.5% savings in the best case scenario but not in the other two scenarios, as that did not seem to be realistic.
- Capital items for technology and facilities are growing.
- The schedule for facility spending is last year's schedule. The District is spending more this year, but that amount is projected to be less next year.

In addition, a chart of actual and projected year-end fund balances (all funds) was provided. It showed the trends of each of the three scenarios—most likely, best case and worse case—for the next five years, reflecting a $40 million spread. The $3 million abatement approved by the Board of Education created a big divergence. The projected year-end balances were as follows:

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| Best Case | $157 million |
| Most Likely | $134 million |
| Worst Case: | $117 million |

Knowing the assumptions used in previous years and seeing the variances had prompted this work. The 5-year plan submitted to the Board of Education last fall projected out to 2018 with a year-end fund balance of $130 million, excluding bond and interest that has a midyear balance of about $3 million. The abatement and the pension calculations had not been included previously. The assumptions now include the abatement, the pension, and the Collaboration of Early Childhood Care and Education expenses. A suggestion was made to predict beyond 2019 as some of the recommendations the committee would develop would depend on further years and crossing points to adequately inform the discussion. The discussion about presenting this information included putting together a Board of Education agreed-to process in order to have consistent projections and to be able to test whether the process was correct in future years in order to better understand the assumptions. While one member felt it would be equally important for other governmental bodies to apply this process in order to allow all to do a better job of planning and forecasting, another was unsure about whether it would help all public bodies but that whatever process they choose should be transparent to the public. One member found it frustrating that the governing bodies were not using a common inflation number. Not having correct assumptions can have a significant compounding effect. This information includes inflation-based increases, STEP, (total salary cost), increased FTE because of increased enrollment, and a 7% increase to health care expenditures. One person asked to see the Compound Average Growth Rate (CAGR). Mr. Pope noted that while revenue is projected to be the same, growth could occur due to an increase in the number of taxpayers because of new investment in the community. New investment can lead new taxes into the system. Note: The downtown TIF funds will be received in 2020 and, thus, not reflected in these projections.

The committee recessed at 8:23 p.m. and resumed at 8:30 p.m.

**Fund Balance and Referendums in Other Districts**
The presentation of bar graphs and the history of recent referenda results will be made at the next meeting.

**Modeling**
Bob Spatz presented a hypothetical example of how referenda could affect fund balances. If expenditures exceeded revenues by 1% each year and it was time to go for a referendum and a school used a static number of 15%, over a 30-year period, the school may need 1 or 2 referendums to get the fund balance curve to swing up. If at 3% greater than revenues at 15%, 8 referendums would be needed, and at 5%, the school would have to have 15 referendums.

Mr. Spatz spoke about referendum drivers. They are: expense growth projection, revenue growth projection, low balance threshold (at which time a referendum is run), and referendum percent increase. The inputs are starting expenses, starting revenues, and starting fund balances. The marginal deficit is the difference between the expense growth and the revenue growth on an annual basis. The structural deficit is the aggregate difference. A marginal deficit of 2% differences behave very similarly, whether it is 7% expenses growth and 5% revenue growth or 4% expenses growth and 2% revenue growth. At what fund balance percent should a district go to a referendum? At 25%? At 50%? At 75%? A low fund balance percent is different from a low fund balance amount because if one would have a $50 million fund balance and run a balanced budget, the amount of the fund balance will never change. However, if looking at fund balance percent, the fund balance amount will stay the same, the denominator will drop, and the fund balance percent will drop even if there is a balanced budget. The community then will need to determine the size of the referendum. Less frequent referenda has a bigger risk of failure as it has a bigger impact on the community. For simplicity sake, it was modeled as a total increase.

The hypothetical "Stable" situation presented had the following components.

- – 2% Revenue Growth
- – 5% Expense Growth
- – 50% Low Fund Balance – 100% High Fund Balance
- – 15% Increase at Referenda
- – $75M Revenue
- – $75M Expense (balanced budget)
- – $56.25M Fund Balance (75% - half way)
- – Assumes all referenda will pass

The first graph showed a relatively smooth looking scenario with eight 15% successful referenda in 30 years. The second graph showed dramatic swings in the surpluses and deficits during this same period. The Fund Balance View showed the percent to fund balance and the total dollar fund balance. The percentages hide the fact that overall fund balance numbers go up dramatically. OPRFHS's current fund balance is 163%.

The next graph showed a 3% marginal with eight referendums over the 30-year period. The next graph showed the differential between a 3% and a 5% marginal. The next graph showed a differential between a 1%, 3%, and 5% marginal. A 1% marginal would require two referendums instead of 8.

Charts comparing different beginning fund balances of $56.25 million (75%), $100 million fund balance (133%), and $125 million (167%) were presented. It showed that even starting with a higher fund balance, seven referenda were needed. The starting fund balance did change the referendum needed. The last chart showed the acceleration of deficit using a 5% (28.8% - year 6), 3% (21.8% - year 7), and 1% (13.4% year 13) marginal. Using the 1% margin and starting at 167%, deficit spending would occur in year 13. At 3%, and 50% margin deficit spending would occur at year 7. At 5%, deficit spending would occur in year 6.

In the worst case scenario of 5%, it would take significant referendums to turn the trajectory around. That may not be politically possible.

Mr. Spatz stated that the key consideration in doing 30 years is that a flat dollar amount is not realistic because the deficit was $20 million in a single year. One member noted that it was important to use a realistic, refined set of assumptions.

It was noted that there should be no expectation that Illinois funding will remain the same for 30 years. These are just models and the reality is that one adjusts over time. This presentation was instructive to understand how the fund balance differential between revenue and expense growth and timing and size related to one another. Those relationships are not dependent upon 30 years. They are clear and do exist in the 5- or 10-year timeframe. The next step would be to know how they relate to each other and the committee's next steps. What was learned from this model? How can this be applied to the question of a steady state policy for the district? A separate question is that all of these models start at the cross over point, but OPRFHS has a high fund balance that exceeds expenses at this time.

One member reflected that the board that approved the phase in probably had wanted to defer going for a referendum. This modeling shows that a high fund balance does not accomplish that in a tax-capped environment, although it may delay going for a referendum for some years. Eventually instead of having an image of a stone skipping on the water, it is more like plunging into the water and it cannot be rescued. That is the risk of a high fund balance. A key learning for one member was the difference between the incremental spending and the referendum. That is what flattens the drop. When looking at the most likely scenario and knowing that some things change, there is even more deficit spending than projected. The total revenue versus expenditures and the "most likely" scenario is consistent with the assumptions.

The committee discussed next steps.

1) Working groups could review how to project expenditure growth for a longer period of time, how that would apply, and review projections on revenue. The biggest driver is the marginal deficit, but revenue and expense growth are independent in school systems.

Revenue is based on property taxes and expenses are based on the number of students and how much people should be paid.

2) Revenue and expenses should be reviewed separately.
3) What is the history of OPRFHS employee quitting and going to other districts? District 97 had looked at Bureau of Labor Statistics and Employee Costs Index data statistics in 2011, where this type of information was broken down by governmental workers. A separate category exists for elementary and high school teachers and includes how over a long period of time teacher salaries have compared with CPI.
4) More conversations about next steps and how much prep will be done before the next meeting and how much will have to happen as a group.

Mr. Meister felt the Committee would be the doing the residences of both of these communities a disservice if the Committee completed this work and did not have an introduction as to how things got to the present state. A series of intentional acts by predecessor boards and management teams were made that led to having a fund balance of 168%, not due to quirks in the state law, and that should be an important part of the work of this committee. OPRFHS is in the small minority of schools that have a balance of this percentage.

Several members felt it was important to have as many committee members as possible involved in these discussions.

**Public Comments**

Dr. Lee believed that there were certain assumptions not yet discussed, i.e., the rate of acceleration of expenditures matches with the rate of acceleration of income comparison. Three years ago, expenditures were accelerating by $250,000 per year. He believed that while the Board of Education could control the rate of acceleration of expenditures, it had not done so, particularly around salaries. He wanted the Board of Education to have a discussion about that. He believed expenditures could be aligned with revenue and then a referendum would be a moot point.

**Adjournment**

Mr. Pope moved to adjourn the meeting at 9:30 p.m. on September 23, 2013, seconded by Mr. Cofsky. A voice vote resulted in all ayes. Motion carried.