

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

**Finance Advisory Committee  
Minutes  
October 21, 2013**

A Finance Advisory Committee meeting was held on Monday, October 21, 2013, in the Board Room. Mr. Weissglass opened the meeting at 7:02 p.m. A roll call included the following members: Tod Altenburg, Thomas F. Cofsky, Judy Greffin (arrived at 7:30 p.m.), Dr. Tina Halliman, Sheila Hardin (departed at 8:40 p.m.), Karen Latham, David Pope, Robert Spatz, Peter Traczyk, Louis Vitullo, Penny Wallingford, and Jeff Weissglass. Also attending was Gail Kalmerton. Dr. Steven Isoye, Dr. Jackie Moore, and Christopher Meister were not present.

Visitors: Karin Sullivan, OPRFHS Communications and Community Relations Coordinator; Sharon Patchak-Layman and Ralph H. Lee, OPRFHS Board of Education members; student Ross Constable; and Terry Dean of the *Wednesday Journal*.

**Approval of Minutes of September 23, 2013 Meeting**

Mr. Cofsky moved to approve the minutes of the September 23, 2013 meeting, as presented; seconded by Mr. Vitullo. A voice vote resulted in motion carried. Dr. Halliman abstained.

**Approval of Minutes of October 7, 2013 Meeting**

Mr. Pope moved to approve the minutes of the October 7, 2013 meeting, as presented; seconded by Mr. Vitullo. A voice vote resulted in motion carried.

**Discussion: Developing Guidelines**

Some committee members met in smaller groups for discussion since the last meeting. Ms. Latham distributed some thoughts that she had discussed with other committee members relative to the level of the fund balance. The parameters that could be in place if a higher fund balance or a lower fund balance were listed as follows.

All else equal, a higher fund balance would be needed if:

- 1) Budgeting process is without rigor
- 2) Risks to budget cannot be identified
- 3) Actual financials are not compared to budget and variance are not analyzed (on a timely and period basis)
- 4) Financial results are meaningfully unpredictable
- 5) Expenses are largely fixed
- 6) Lack of agreement that expenses should be constrained to be within revenues, i.e., the budget does not need to be balanced, in the short-as well as the long term
- 7) Dependent upon taxpayers to approve referendums to balance budgets
- 8) Low credit rating (so ability to access capital markets to finance needs is questionable)
- 9) Cash is invested with a primary focus on yield rather than safety and security (i.e., cash could become illiquid)

All else equal, a lower fund balance would be needed if:

- 1) budgeting process is rigorous (annual and rolling five-year plans with articulated key assumptions and known key drivers)

- 2) Risks to budget can be identified and contingency plans can be in place
- 3) Actual financials are compared to budget and variances are analyzed (on a timely and period basis)
- 4) Financial results are largely predictable
- 5) Expenses are largely variable
- 6) Agreement amongst all parties that expenses should be constrained to be within revenues, i.e., the budget should be balanced in the short-as well as the long term
- 7) No dependency upon taxpayers to approve referendums to balance budgets, only to fund major capital projects
- 8) High credit rating (and therefore able to access capital markets to finance major capital projects)
- 9) Cash is invested with a primary focus on safety and security rather than yield (i.e., so cash should always be available/liquid)

The group had not determined the percent of fund balance to have on hand because there is no one point that says it should be at a particular level and why. While some felt a range should be provided, they acknowledged much more work would be required to determine that range. The charge of the committee is not to look at expenses, as that has been relegated to the Advisory Leadership Team. If expenses are within revenue, then the District is in control of its future. Enrollment cycles occur and if they can be handled within the school in the least disruptive way to the school, that would be optimal.

Although communication was not listed on the chart, it is important to have the Board of Education, the administration, and the faculty work together. As time passes, if expenses rise higher than revenue, the community will understand the rationale and going for a referendum would be a non-event. One member commented that if 100% of the Debt Service Extension Base (DSEB) or non-referendum bonds were available and something unforeseen arose, the district could temporarily access those funds. District 97 did that to bridge to a referendum.

Another member commented that the purpose of the fund balance falls into 3 broad categories: 1) risk or variability exposure; 2) idea of utilization of the fund balance to deal with regular cycles as a result of imposed tax caps; and 3) specific cash flow purposes due timing of receipt of property taxes, i.e., state and federal payments, etc. While Cook County used to collect tax revenue in November that schedule changed and the new schedule should continue. A school that is able to control some of the factors in each of categories thus having a greater degree of certainty may result in a lower fund balance. If a school has things that are out of its control, a higher fund balance would be required. If an analysis is done as to what the fund balance should be in the future, one may be able to put a band around it and give high and low ranges. The District has insurances for many risks and it needs to be thoughtful about its real level of risk. In an 80/20 world, most things can be handled.

One group felt the current round of expenses should come from fund balances. Once the district is in a “steady” state, capital expenditures should come from a passed referendum. Although there was concern about having a “pot of cash” that would cause the finding of projects on which to spend it, they were not expressing that this was the experience at OPRFHS. Another group had not discussed from which fund money should be spent. The future role of the FAC might be to assist the Board of Education and the administration in analysis of special items. The professional experience of one member indicated that having hard and fast policies over time could lead to bizarre behavior.

Another group looked at what a fund balance policy should be toward some overarching goals. The members strongly felt that whatever policy was created by the Committee should generate credibility. The process and the targets should establish credibility within the community to engender faith and trust in the district and it should be grounded in being disciplined and include elements such as the budget versus variance analysis, multiple (best/most likely/worst) cases, and it should look backwards and

forwards for five years. Again members felt that setting parameters would require too much additional work. Communication was also an important factor. The group wanted to revisit the ways in which a referendum could be triggered, as there might be some value in limiting the tax burden in an early way. The group also felt that the District should be able to do its business in normal times and have the resources to support the financials. However, when a trigger, whether high or low, is hit, the FAC could be reconvened to help with the next steps as soon as possible as that would add credibility and openness. If communication has occurred all along, then there would be a high level of understanding and it would be easy to reconvene the FAC. One member felt the FAC should be a standby committee which would meet when a higher or lower fund balance limit was hit.

A suggestion was to have a citizens' financial advisory committee for all of the governing jurisdictions to help insure appropriate levels and insight, i.e., when jurisdictions might be going to for a referendum as that could have negative implications, etc.. District 97 had adhoc committees in 2003 and 2005, and decided in 2007 to meet quarterly, to deal with unusual circumstances. The standing community's involvement was relatively low but it was instituted to help insure the discipline as the board might have alternative issues to resolve. The Village of Oak Park's finance committee meets 15 to 20 times per year. It is the entity that does the quarterly analysis and takes the lead role in establishing the budget. Its membership is four members of the board and it is open to the public. Another member felt that the Board of Education should have a more rigorous review of assumptions, variances, etc., and it should consider what it needs to go forward in this process.

What can the District do in the short term as far as potentials/opportunities?

- 1) Pay off all of its debts, bonds and certificates, as this would lower taxes and avoid interest costs, either annually or defease.
- 2) Pay the necessary capital expenditures until the fund balance was within a target range, assuming there would be a long-term outcome on academics or investments. If the fund balance grew again, it should be dealt with on an individual basis.
- 3) Consider paying off and take over responsibility for the parking garage thus lowering taxes in Oak Park. It would have a short-term impact and better alignment with incentives.
- 4) When the fund balance reaches a steady state, major capital expenditures (estimated between \$30 and \$60 million) would be paid for with long-term capital paid or long-term bonds. Discussion: Issuing bonds with existing borrowing capacity would deny the community the opportunity to support or not support long-term capital expenditures via a referendum. However, running a referendum when the District has a high fund balance could be problematic. It would be possible to do an advisory referendum through the Township with respect to the pools or the long-term facilities as were being proposed. There are pros and cons of going in that direction.
- 5) Rebate, cut the D200 levy. The group did not know whether a rebate, reduction from the status quo (take the maximum permissible or abatement), or freeze from the maximum levy had PTELL differences. If they were synonymous, then reducing the levy is more sensible than rebating it. The concept around a rebate was to provide an opportunity for a one time or multi-year flow back to the taxpayer without undermining the district's ability to continue to tax at its rate, or retaining taxing ability.
- 6) Abatement of student fees. This raises the question of equity. It would be a method to reduce revenues.

From a communication message to levy less than what the District could do might be of interest to the taxpayers when the District has a high fund balance. A decision made to take the maximum amount would need to be explained to the community. Preserving money for the future would not be the right message with which to lead.

Little discussion occurred at this point about taking a flat levy as a multi-year way to reduce the fund balance i.e., taking advantage of compounding savings from neither the citizens' view, nor a discussion about the math, as much depends on reducing/rebating and whether that would have an impact on PTELL. If not, a flat levy for multi years would make more sense in order to see the new status quo. There is an equity issue and a question of equity of over time. Who has had paid in to the accumulated fund balance? The question is whether one tries to reduce the burden going forward or does one pay the taxpayers who paid into the fund (rebate). A rebate would be challenging to do as the money would have to be rebated to not only housing but to businesses, which have more turnover and complicated lease arrangements, and to people and businesses that are no longer in town.

A concern was expressed that if the Board of Education used the abatement process, i.e., passed a levy, and then immediately abated the same amount, would that prove to be a legal challenge under PTELL and how that would be applied going forward, as it would not be about the year in which one would pass it. If one wanted to rebate the money to those who paid into the fund balance it would be a logical way to do that because this would be closest in time to paying those who paid taxes into the fund balance. Would that fundamentally undermine the high school's ability to tax going forward. This has to do with abatement. If the district does not take the CPI levy it compounds going forward. A possibility might be if the District lowered its levy to look back three years. If the levy was \$50 million this year and \$49 million next year, the following year it could be \$50 million plus CPI. Mr. Altenburg will explore this option.

No discussion had ensued regarding the prefunding of pensions. This simply would be earmarking funds in an investment account until they were needed to meet the obligation.

What would a reasonable spread be in a steady state look like? From Mr. Spatz's presentation, 1% seemed reasonable, 3% was troubling, and 5% was unreasonable. Should the committee be making a suggestion to the Board? The premise of the question as to how often should referendums be run assumes that the difference between revenues and expenditures will always be in the wrong directions, i.e., marginal deficits. Some people felt that would not always be true and accepting the premise of the question is part of the problem. Referendums could be run on capital components rather than operating components.

Defining parameters for use as far out as 20 years from now is difficult and it would not be meaningful. What would be meaningful would be the community conversation around educational funding in Illinois and that running tax referendum in the current environment is a natural event, a necessary event, and not an indictment of the Board. There could be a point where operating income comes down and while enrollment is now beginning to peak, this is a landlocked community and enrollment could decrease, as it has done in the past. One member did not believe it was necessary to spend much time on the referendum cycle as the committee could not give sound advice. In a normal situation one would look to go for a referendum in "x" number of years to keep from having wild swings and thus could give predictive power of when one go for a referendum. However, it could not be predicted in this current environment.

While it was suggested that the committee look back at fund balances when they were "x" percent and the frequencies of referendum, it was noted that tax caps did not exist prior to 1994 and it was a different inflationary situation 20 years ago which throws the revenue and expenditure equation off. It is not really the fund balance that drives how often one goes to referendum but the difference between revenue and expenditures. It is also the issue of the difference between the reoccurring expenditures and reoccurring revenues. Given that 80%+ of cost drivers are personnel related, does that gap have to exist? That will dictate whether the District can match up revenues and expenditures and only run a referendum when there are significant capital expenditures or systemic increases that go beyond CPI increases and tax caps.

Ms. Latham was credited for work that she did on the chart. It was reiterated that the Committee's charge was to focus on revenue and it could give a parameter, advice and a chart for help, but the larger personnel costs are not in its purview. If communication and dialogue with the community is great and the community understands the driving operating variances, presumably strong bridges have been built with the community and there would be a higher degree of probably that a referendum would be successful. At this point, there is a need to rebuild trust with the community. The District is in a great position. It has a high fund balance and a high credit rating, expenses are within revenues. It is a great opportunity for the Board of Education, the administration, and the faculty to develop metrics to share with the community about expenses, i.e. pension, total salary comps, etc. This is not about being cheap; it is about having great teachers. The District could build trust by doing everything it can to manage expenses and explaining that to the community. While government accounting is about determining the expenses and then taxing the taxpayers, that is not the way the public lives. It has to be clearly demonstrate that the District is doing all it can to manage the expenses. People understand that expenses will go up. The ALT has been working on expense containment and salaries and benefits have been part of the communication. Cost containment occurred because teachers took a hard and a soft freeze. It is difficult to communicate the complexities but the District is telling a story and that needs to continue on a deeper level. Given where the District is now and what is known about the relationship between expenses and revenues and the term that can be predicted, perhaps 3 to 5 years, what to set aside for capital, what to bring down, flat levy, debt service prepayment, abatement, how much can be done and keep status quo, and yet not be in a position of having to go for a referendum for 3 years, or should it? One member felt that guidelines or metrics involved expenditures per student. A very good communication plan would be required if the District which is currently in the top 10 expenditures per student wanted to add more through capital, etc., moving the District up that list. When the District was in a steady state, the FAC could make a statement that after the District determine how much it costs to educate each student, that cost should be "x" in relationship to its peers. It was suggested if the District used its fund balance to pay for capital expenditures, it should be done through fund transfers as that would not be reflected as part of the operating expenses per child and thus easier to communication as to what were operating expenses versus total expenses. District 97's Finance Committee intends to look at comparable districts with half and double in terms enrollment, EAV per child, and Free and Reduced Lunch per child. It is not looking at districts that do not have Free & Reduced lunch, lower or high housing values, etc. The reasoning behind not choosing schools that District 97 wanted to compare itself against was that if there were more money to spend, it would be spent and that could skew the numbers upwards. District 97's Finance Committee felt that comparing it against things that it had no control over provided a more objective measure. It will be a financial metric only, not an academic metric.

Paying off the debt is presentable as it is good stewardship and makes sense. While the notion of establishing an integrated set of standards of between Districts 90, 97 and 200 is past the Committee's charge, it would be a real contribution to those in understanding what is happening. The statement that this process continues in the future while the District deals with the anomaly right now and into the future is what the community wants to hear.

One member commented that the District is looking at approximately \$100 million in capital expenditures over a 5-year period (\$55 million for long-term facilities, \$20 million for a pool, and \$25 million for regular capital expenditures over 5 years). It would seem reasonable and rational to expend fund balance dollars that are not generating a return to handle the cap X investments rather than bonding which would cost the taxpayers more money. With regard to making changes to the physical plan of the building that will be in place for the next 50 to 100 years, does the District have ability to look at what educational services will look like in 10 to 15 years? There are some potentially game-changing ideas that will occur over the next 10 to 15 years. Using comparable information from other district is valuable but there are potential things that that may go beyond that life time. FAC should give recommendations that provide latitude no matter which path the Board of Education chooses to go. The Board of Education could have

an if/then tree to follow as the capital expenditures might occur. The approach to levying out the levy is very different depending on what happens on the capital side. Regarding the facilities/capital expenditure question, any assumption that the Board of Education will commit in the near term to a \$30 to \$50 million program would be premature. The timeframes are discreet in some cases, as with the pool, but in others, they may take decades. It was suggested to provide recommendations that include a glide path for the pool and a glide path for a high- or low-end plan.

FAC agreed that the District should prepay approximately over \$5 million in debt in December, as it is fundamentally good for the taxpayer. An additional \$8.5 million in debt will be callable within the next 3 years. The callable bonds were themselves the result of a defeasement of earlier debt. Defeasance is the provision that provides for the payment of a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt. Certificates paid out of Life Safety at the Operating Rate as opposed to the Bond and Interest Rate, in addition to the interest savings people would receive if OPRFHS reduced the maximum increase by the amount that those certificates would be paying, is a rational reason to go under the maximum because prepaying 4 or 5 years. This year the District is transferring \$600,000 from Life Safety into Debt Service. It is a savings to the taxpayer. Mr. Altenburg will look into defeasement options with a 3-year horizon. Something else to consider was the fact that because the Board of Education abated the debt service last year, if it decided not to abate the debt service this year, there would be a big jump in the tax bill.

Another suggestion was to set aside a fund to meet the lion's share of the pension obligations, as that would be easily communicable to the community. The District is very restricted in what it can invest its funds. If the state begins to off load pension payment obligations, an option could be to provide a significant increase in the flexibility with respect to investments in order to pay the obligations, as it has with police and firefighters. Note: ED RED opposed all of the current bills as the state is separating payment responsibility from policy/investment responsibility. Again, because there is so much press about pensions, it was a great opportunity for the school to communicate about how the Board of Education, administration and faculty are working together. Other than communication and credibility building, having a special fund for pensions would have no short-term benefit to the taxpayers as it would not reduce the levy. The Board of Education, not FAC, should discuss earmarking some of the fund balance for pensions.

Capital expenditures, whether it is the pool (\$18 million to \$22 million) or the long-term plan (\$35 to 46 million without soft costs which is another 20 to 25%), or the suggestion about the garage related to the pool, it is less clear how to figure options. How should the committee determine an amount that should be preserved or dedicated for those uses and for how long? The garage is a current debt that is held by the Village and if assumed by the high school, the impact on the taxpayers would disappear. The components include the real, near-term cost issue and a misalignment of incentives. It is argued that financially, it is in the Village government's interest to have the garage fall down tomorrow as it would no longer have to maintain it. It would be in the high school's interest to do long-term maintenance to have that asset as long as possible as the replacement will be a high school cost. Because the life span continues to expand out, it ends up being a cost driver for the village without being a revenue driver. The District could save on the front end, real money to the taxpayers today, and limit its cost exposure in the future. While this would benefit only the Oak Park taxpayers, not River Forest taxpayers, the citizenry of Oak Park has incurred \$2.28 million related to the garage and has subsidized the River Forest taxpayers to this point. Because there is not a lot of understanding as to why the debt was structured as it was, there was hesitancy to have the committee discuss this option. It was noted that the number one option for the pool location was the garage; thus, not everyone was viewing it as an operating garage. It is important to consider the right thing for the school. If the village does not maintain the garage, it will fall down and then a new one will have to be built. If the incentive is to keep it in place for 30 years, one could push

that cost component further out. The high school has more capacity to obtain revenue from the garage than the Village.

A suggestion was made to recommend actions that would have implications for the December 2013 tax levy by mid-November and the additional recommendations for future things. Knowing how low to go would be challenging as there are short-term issues and the capital piece needs more work. While the desire is not to give an exact number, guidance should be given on the fund balance. Discussions ensued about what would be needed for each of the issues independently. They then could be put together. The ISBE has a financial test built in as to the amount of fund balance a school should have. The reason for not giving a range is that the lower end is so far away. One group wanted to provide a structure that would help the Board of Education get to where it wanted to be, given its other demands, and to give it options. It was not clear to one member of the committee how the committee could determine a range if expenses were not part of the discussion.

It may be helpful to the Board of Education in evaluating some of the other decisions to know the lower boundary as that could drive a decision in some issues. FAC should be able to monetize the elements in the buckets soon, to determine recommendations that would provide guidance to the Board of Education as it begins to take up the recommendations. The multiyear nature of this, even if looking at the high end of the ISBE's financial profile score of a 4 or 180 days as the highest minimum would give more direction. FAC may want to say go no lower than 50% and then the District could decrease the levy in future years to a lower number. The Committee has seen ranges most commonly for the low end from 25% to 45%. That does not answer the question of reserves for capital. The document on the web regarding the fund balance indicated 9 month reserves plus expenditures for pension, Early Childhood Collaboration, capital projects, enrollment increase. It is a question of an "all in" number instead of operating cash flow to manage the expense/revenue tensions. If the committee provided a range value for the standard ongoing issues related to a proper fund balance, then the Board of Education could take other components as they arise, monetize them, and layer them in for guidance. Changes in enrollment will always be a separate calculation. The best FAC would be able to do is to come up with optimal ranges and then take capital expenditures, etc., which would be layered in to determine a new number. Unless the Board of Education did a \$20 or \$30 million abatement, the projections would show that at the 50% level, the District could have a 50% fund balance and \$75 million for capital and still be in excess of what it has and be able to set a levy for next year given the capital expenditures. The Village once had a \$10 million hole in the general operating budget and this year, it is \$2 million positive position, instead of \$10 million negative position, but that is on \$50 million operating fund. Its target fund balance established is to have 10% to 25%, and over time the Village will build up to \$7 million, but the intent was not to do that overnight. Any FAC recommendation should allow for stability for the Board, the institution, and the taxpayers.

### **Next Steps**

What should be considered for the next meetings? The goal is to make a recommendation as to range for the fund balance. The 3 buckets were

- 1) Cash flow
- 2) Risk/variability exposure
  - Unanticipated or anticipated increased enrollment,
  - pension
  - state and federal funding
  - health care costs, which do not sync with the budget year so there is insurance premiums exposure if there are catastrophic increases
- 3) Long-term cycles.

It was suggested that district personnel build a straw man for the next meeting. Mr. Weissglass and Mr. Altenburg will determine resources and next steps. Mr. Weissglass welcomed additional comments. Switching the Committee's first two goals was suggested, i.e., moving the levy to the first position and the fund balance to the second position. The Board of Education will adopt the estimated levy at its November 12 Special Board of Education meeting. The Preliminary Levy is not binding. Cook County must receive the Levy no later than the last Tuesday in December. The Board of Education will take action December 19.

Mr. Weissglass will consider whether staff turnover information would be relevant at this time, as that was beyond the scope of this committee. It was an expense, not revenue. An argument for having this information was that it was in direct alignment with revenues and expenses and whether one can get to a point that is 0%, 1%, 3%, or 5%, and whether it were sustainable on a forward basis. Another calculation would be what new teachers are coming in at versus teachers who are retiring, i.e., what has been the marginal deficit, and what is anticipated going forward. The committee needs a range of a marginal deficit. Was the Committee trying to build a model or predict what it would be, or was it trying to instill the discipline that when "x" is occurring, project when a gap would occur, i.e., going from 1 to 3, or 2 to 4, and then that triggers how the fund balance is looked at because that gap has grown? Does the committee want to predict all of this in a model or does it want to have the indicators? A response was to provide the indicators. Staff turnover was not identified as a driver. It was suggested that whether the District can live within its means was a discussion for the Finance Committee of the Board of Education.

Both Mr. Weissglass and Mr. Cofsky noted that they appreciated the conversation. What resonated with Mr. Cofsky was the communication issue.

#### **Visitor Comments**

Ms. Patchak-Layman, resident of 612 Layman, Oak Park, and present OPRFHS Board of Education member, noted that the fund balance has been talked about in a global way. There are many fund balances in the budgeting process and not all funds are the same. Would all the funds need to have the same months discussed. It would be helpful to know if the parameter of 50% to 100% would be the same criteria for each of the funds in order to go back and judge the balance. If each fund is considered individually, there may be a clearer idea of the overall fund balance dollars. Since the District is self-insured, they are in a fund balance and unavailable for any other use.

Ms. Patchak-Layman commented that if it were found that tax dollars had been collected erroneously, they could be put into a special fund to be distributed to the taxpayers. While this avenue has not been used in the state, it is a possible option. The definition of what are erroneous or intended purpose has not been identified.

Mr. Weissglass acknowledged that funds have specific purposes and the big fund balance is in the education fund.

#### **Adjournment**

Mr. Pope moved to adjourn the meeting at 9:34 p.m. on October 21, 2013, seconded by Mr. Vitullo. A voice vote resulted in all ayes. Motion carried.