

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

**Finance Advisory Committee
Minutes
November 4, 2013**

A Finance Advisory Committee meeting was held on Monday, November 4, 2013, in the Board Room. Mr. Weissglass opened the meeting at 7:06 p.m. A roll call included the following members: Tod Altenburg, Thomas F. Cofsky; Sheila Hardin; Dr. Isoye, Karen Latham, Dr. Jackie Moore, David Pope, Robert Spatz, Peter Traczyk, Penny Wallingford, and Jeff Weissglass. Judy Greffin and Louis Vitullo arrived during the meeting. Also attending was: Gail Kalmerton. Dr. Tina Halliman and Christopher Meister were not present.

Visitors: Karin Sullivan, OPRFHS Communications and Community Relations Coordinator; Ralph H. Lee, OPRFHS Board of Education members, Andrew Jackson and Cassandra West, community members; student Ross Constable; Steve Miller of PMA, and Terry Dean of the *Wednesday Journal*.

Approval of Minutes

Mr. Weissglass moved to approve the minutes of October 21, 2013 as presented; seconded by Mr. Cofsky. A voice vote resulted in motion carried.

Revised Projections

Post-audit Update

Mr. Miller updated the projections with the new audited numbers and ran the numbers for debt prepayment, abatement and flat levy. The first document was unchanged from the October 7 meeting. The second document, using the same assumptions and budget, reflected the 2013 audit results. The 2013 actual results showed a \$15 million surplus, the same as was in 2012 and in 2011.

Testing debt and levy assumptions

Reflected in the first document were paying off the debt certificates early in the fiscal year, adjusting the budget to reflect \$5 million transfers from the Operation Funds, saving the District approximately \$1.25 million in interest, and keeping the 2013 operating levy flat at the 2012 levy amount, i.e., not taking the 1.75% CPI or any dollars for new construction. Paying off the debt certificates would reduce what had been a levy and a transfer from the Life Safety Fund. Going forward local revenues will increase because the District is no longer levying for Life Safety and an increase in the Education Fund. This continues to account for the abatement of the bond and interest until all of the bonds are paid. So the transfers will be higher through 2018 from the additional transfers from the operating funds to cover the debt service because the District would abate the debt service levy. A question was raised about revenues in the most likely scenario as compared to the most likely with the audit scenario. While it was thought that the change was due to higher interest, Mr. Miller will look at the detail to see if something changed, as it should

be higher revenues with a higher fund balance. The debt service levy is in addition to the operating levy, so there is no relationship between that and CPI. The district does not levy for debt service; the County does that for the District. Life safety is under the tax cap and the Debt Service Levy is outside of the tax caps.

Next displayed was the hurricane graph which projected a large surplus, short of abatement in the operating budget. The reason for this is the high school has a tradition of taking last year's levy, increasing it by CPI, and budgeting for it to grow the fund balance until deficit spending occurs. In the immediate year end, the surplus may be as large as \$7 million; however, in three years that surplus would be eroded to zero. That will no longer occur due to the changes that were made to the model.

The last chart reflects last week's conversation about what the impact would be if there were a maximum levy, except for the current levy which would be flat, and the debt was prepaid. The green line represented the most likely scenario and extrapolated the trend for five more years. Because of abatements and capital spending, there will be nonrevenue expenditures that will affect the fund balance. Even though the revenue and expense lines cross in 2020/21, aggregate fund balances will decrease because of transfers of capital. This also assumes abating all future debt service levies for four years after this year. The debt totals approximately \$13.5 million and through prepayment and abatement for the next three years plus interest that would be using the fund balance to pay. The District would not be levying for that. On the flat levy, \$1.1 million in taxes was calculated that would not be levied. Compounding that figure every year would mean that approximately \$8 million would not be levied. Note: in looking at fund balances of approximately \$100 million and expenditures of \$100 million, the fund balance would be still be 100% of operating costs ten years out in this model of assumptions and debt.

One member commented that it would be politically untenable for operating expenses to go from \$65 to \$100 million over the next 10 years as projected. Another responded that it was difficult to discern the assumptions when trying to understand the marginal deficit. While in 2015 and 2016 it is hard to tell the growth and expenditures, the last three years do work through that information and provide a good sense of what is being projected, based on history, as a marginal deficit. The change in total expenditures averages out to be approximately 4.2%, leaving a marginal deficit of 2.5% in the model that includes assumptions about increased enrollment and shifting pension liability, accounting for 1% of the 2.5%; so it is 1.5%+, plus the impact of enrollment and pension. What was not included in this information was the impact of the TIF expiration in the second five years, i.e., \$600,000 for the Madison TIF for District 200 per year. This will bring the marginal deficit down approximately another half point.

What are the underlying assumptions among the transfer among funds and how they relate to facility plans, i.e., capital improvements, etc. The transfer line from the October 7 was solely capital and that is what is assumed going forward and that is \$3 million.

The worst case scenario shows expenditures exceed revenues in 2019 and continuing to grow far apart 10 years out. The main drivers between the most likely and worst scenarios were lower collection rate (1%) and CPI (.5%), higher enrollment (plus or minus 1 or 2%), salary (1 to 3%) and medical (3% either way), the ALT cost control was only in the best case. The most likely

case has no additional cost control for the ALT. With everything on the table currently, the District would still have a positive surplus through 2012 and would not go into deficit spending until 2021, short of anything the FAC recommended.

Questions:

- 1) Are these still the right first steps?
- 2) What else should be looked at in these scenarios?

Next week and before FAC has considered everything, the administration will recommend a levy amount to the Board of Education for adoption. The Board of Education must act on 1) a preliminary levy in November and 2) a final levy on December 19. While FAC community members seemed to feel the fund balance was too large, and the questions to be resolved were how to bring it down and how fast to bring it down. Responses to these questions included: 1) make a recommendation to hold the levy flat; 2) make a recommendation on a levy without working through how far and how fast; and 3) make a recommendation of a hold pattern versus determining how far and how fast.

The committee was informed that the fund balance could pay for capital expenditures that were long term if a public hearing were held to transfer the money from the educational to operations funds and then to capital fund projects. While that may be a legal response, how voters would receive this should be considered and FAC did not believe it would be well received. Nor did it feel that selling bonds and paying interest costs would be politically tenable. The fund balance falls into the category of non-current operating revenue, derived from operating revenue. A recommendation was made that FAC determine various options and lay out the ramifications on the fund balance and then allow the Board of Education make the political decision inherent in weighing competing interests.

If the current fund balance is too high, then what is right? The buckets that fit into that question included cash flow, cash needs for unanticipated risks, and the tax cap component. At the last meeting, it was suggested that the three buckets be monetized in the current dollar amount and on a percentage basis going forward, use that as a guide for a target range with low and high boundaries. With that information the FC could make suggestions, set parameters, and make recommendations on the District should do if it went outside of those parameters. The cash flow question is about the low range of the fund balance, not the upper range. The risk and variability piece is a combination of best and worst cases scenarios and capital projects. If the district runs a marginal deficit, how long does it need to go with the tax caps? If at 1 ½%, then six years for 15% levies, yet enrollment is projected to increase for only another six years.

Mr. Miller plotted the cash balances for 2008-2013. Now that Cook County was paying on time, the low cash point is in February before the first installment tax bill and is not different than the end of the year. He suggested a 1 to 1 ½ months fund balance so long as the County did not change its payment schedule. At this time the end of the year fiscal year is the low point. What happens at the crossing point four or five years from now if 50% of taxes are collected each time? Schools have few expenses in July and August and summer expenses are paid June 30.

Mr. Weissglass felt FAC should recommend a policy with 3 or 4 months of reserve even though that will not be a reality for some time. The Board of Education and its Finance Committee would have the opportunity to revisit the policy to adjust for changes in circumstances.

Another consideration is the need to cover revenue risks as there are bills in the legislature that could affect fund balances. District 97 needs about \$12 million to cover risk of state funding. As OPRFHS has little risk on revenue from the state, approximately \$5 million would suffice, i.e., one month for cash flow, one month for funding risks and what would be needed before a referendum which has to do with the marginal deficit projection. Additional revenue may be a consideration as new buildings are added to the tax roll. A suggestion was made to focus on the 25% to 40%, because a referendum will not pass with a fund balance of 40%. Where will the District's fund balance be in two years if it is currently at 180% of expenditures? The FAC could determine the upper boundary, where the District should be, and the timeframe if the upper boundary were touched.

While legal counsel has not yet responded to the following, the plain language of the statute says that a District may lower the levy below what was done last year for two years and then it may look back to the highest levy taken in the last three years as the base for CPI going forward. If the District levied \$50 million, it could levy \$51 million in the next year. If at \$50 million in the next year, then in year 3, it could levy for \$51 million plus CPI. In year two if at \$45 million, the District could still go to \$51 million plus CPI in year 3. The negative consequence is that the tax rate would increase and result in a large tax increase the year that is done. If the County knows a District is doing a \$55 million levy, it will still collect 55% in February and the rest in the fall which makes the tax rate go up and down. It would be a major communication effort to explain the ramifications to the tax bills. One member commented that homeowners were given a choice of paying \$3,000, \$3,400 and \$3,200, or \$3,000, \$2,000 and \$3,200 most would opt for the second issue.

In 2014 the fund balance will be \$129 million. As expenses now are \$65 million, meaning \$55 million over 100% of expenses over 12 months, a suggestion was made to reduce the levy over the next 10 years to see if that was sustainable or take the fund balance down significantly over the next two years. Is the percentage then 25% to 40%? If so, then that would establish the number. An upper boundary must be established. One member felt 100% was too high and 40% was all right. The timing of referendum will be the upper limit driver.

Four options:

- 1) Most likely scenario
- 2) Commit to a flat levy for next 5 years or more
- 3) Because of 3 year gap, take a levy that results in a balanced operating budget for the next two years and then reevaluate, cutting the levy by \$8 million.
- 4) Reduce the levy over two budget cycles because in the third budget cycle it could be brought back to where it was originally. Or, it could be done two years down, one year up, and then two more years down, over five years. Both these options would provide significant reductions to the tax rate in a window of time with an understanding that the District would return to the original levy and give back a significant part of the current fund balance to fund them. Two important issues need to be considered: 1) the

administration and the Board of Education are considering capital needs and using a portion of the fund balance. Thus, the critical question is how much should be retained for capital needs. As discussion occurs about multi-year levies, anything below the CPI increase in each of one of those years has a compounding impact. A flat levy this year would have an approximately \$7.7 million impact over 7 years. If that were done every year, the additional amount below the flat levy does not compound and would have a big impact quickly. There must be a recognition that CPI also bounces around. Currently the District is using 2.5% CPI appropriately in its projections. It would better to do a reduction in a single year and then get it back up in the third year in terms of retaining taxing capacity.

A FAC recommendation could include different capital expenditure options. If the Board of Education decided to implement everything, it would have two choices—paying cash or issuing bonds. If only the pool were implemented, the choices would be paying cash or issuing bonds. The Board of Education would be able to see the long-term implications of each recommendation. The pool will not be an option, as it must be fixed. One suggestion was to determine how much room there was for a levy reduction if the pool were paid for out of the fund balance. Then do reiteration of pool plus low-end of optional plans and pool plus high-end of optional plans and one could get six reiterations from that. It was suggested that an option be that of using non-referendum bonds as well.

In thinking about the upper number and what it should look like for the annual budget, one member stated that the number changes based on the marginal deficit. If the marginal deficit is bigger, a bigger number is needed. Another member stated that one could ball park it as the marginal deficit times the number of years added up. If the District wanted to go four years, it would be ten times 25% to run a 2.5 marginal percent for four years. Because building up one side and down the other, it would be an 8-year referendum cycle. If it is 10 years, one would multiple the marginal deficit by 15.

Questions: What is sustainable? Should the FAC provide the ability to do capital expenditures and put the referendum point within 7 to 10 years with a flat enough slope that the District would reasonably be able to expect to pass a referendum? What is the right balance of shaping the tax level so that a referendum could be passed? Legislation is being considered that would allow more options. It would be beneficial if the District could reduce revenue by \$8 million and balance the budget and not tied to CPI or bring the \$8 million back up so the District would not lose the taxing capacity.

The fund balance can be used in two ways: 1) reduce or avoid increases in taxes and 2) use it in ways that are investments in education and facilities. Part of the reason for giving the Board of Education choices is about bringing down the overall tax burden and how much is being used for school and educational purposes. The facility plans came to the Board of Education at this point because they were on the horizon. The pool is closer to being brought to the Board of Education because of its immediacy. The District is waiting for the enrollment figures before going forward with facility plans.

It was suggested that FAC brainstorm ideas or numbers in order to provide useful information to the Board of Education and for the model to be dynamic. As there were both lump sum changes and ongoing changes, what events should be considered as lump sum? The issue is that the lump sum on the revenue side does change the line. A menu of items with the financial impact for each of them would be helpful to the Board of Education. Members can work to find 3 to 5 scenarios that can be presented at the next meeting.

One member offered a caution about assuming that everyone is in agreement on what the fund balance should be. How the fund balance is reduced will make a difference. It could be reduced by having it to go the people paying taxes, to the facilities or to education. If the money is returned to the system, it will not affect the educational services, yet there may be good benefits to reducing the burden on the citizens. Another member noted that the Board of Education continues to work on the Strategic Plan recommendations could influence funding such as one-to-one technology, delivery of instruction, etc. The Board of Education will wrap up the Strategic Plan in the next couple of months and funds need to be available for those recommendations.

One member asked if what the FAC was stating was consistent with a referendum being passed at a specific time, should that be specified. Will the modeling be aimed at establishing the type of transparency and dialogue with the community to allow an opportunity to go pass a referendum in the future, as that is part of this committee's goal? This is a terrific opportunity to rebuild goodwill with the community. The funds are not just being used because the district has the money. If the district did not have the current balance and it had to address the pool situation, the District would issue bonds to raise the money.

One member was concerned about taxing businesses out of the area. Fund balances can be used to 1) invest in the school and 2) ease the burden on the tax payers.

Metrics and Practices

Mr. Weissglass reviewed the preliminary metrics and practices provided in the packet. They were:

- Annual and rolling five-year plans with articulated key assumptions and known key drivers
- Projections use best, worst and most likely case scenarios
- Risks to budget identified and contingency plans in place
- Actual financials are compared to budget and variances are analyzed (on a timely and period basis)
- Seek to maintain high credit rating (and therefore be able to access capital markets to finance major capital projects)
- Invest cash with a primary focus on safety and security rather than yield (i.e., so cash should always be available/liquid).
- Clear triggers and early warning regarding a need for a referendum
- Communications mechanisms
- Range expectation on fund balance
- Define marginal deficit as change in expenses minus change in revenue with guidelines as to what's included.
- Establish limits on marginal deficits, closing the gap as much as possible.

- Metrics including:
 - Costs per student/fund balance per student versus other districts
 - Rethink comparison districts
 - What else?
 - Borrowing capacity.
 - Standards and Poor's could provide the average fund balance for Triple A versus Double AA ratings. Having a Triple A rating is necessary if there is no intent to sell bonds.

The Committee will have a set of recommendations regarding

- 1) Modeling
- 2) Metrics and practices
- 3) Background and overall goals of the committee, assumptions (JW)
- 4) Communication plan
- 5) Potential of ongoing FAC

Committee members will advise Mr. Weissglass as to their availability to work on any of the above subjects. Any options brought forward should be accompanied by rationale.

Discussion ensued about what recommendation should go to the board with regard to the preliminary levy. Several members suggested giving the maximum flexibility with the understanding that further recommendations would be forthcoming. Approving the preliminary is a legal mechanism required by the state. Two members felt a flat levy recommendation should be made. One member suggested that it would be a welcomed if the District could move up the 2013 bond levy abatement at the same time.

Public Comments

Andrew Jack and Cassandra West, of 175 Linden, spoke of incidents where the baseball team has hit baseballs over the fence and have damaged their cars. Previously the District provided the money to pay for the damages, but this time the District wants them to pay for the damages before reimbursing them. Ms. West provided the committee with the details of the incident and the District responses. The administration will respond to this request.

Dr. Ralph Lee, resident of 333 N. Cuyler, Oak Park, appreciated FAC's work. He noted that lowering the fund balance was not difficult to do and could be done in many ways. Referring to the graph showing the point where the red line and blue line cross seemed rather straight, but he did not feel that was true. Zooming out showed they were not straight as the lower red line is curving upward at an increasing rate. The higher blue line, while sloping upward, was doing so at a decreasing rate. To some, the second derivative of the blue curve is negative while the second derivative of the red curve is positive. They have real meaning when one looks at a 2-year period of time. When there is money, there are many options. Not only are expenditures increasing, they are doing so at a compounding rate and that is why the lines are getting farther apart. This is not a two-year problem. What matters is what is accomplished over the next 5 to 10 years.

Adjournment

At 9:21 p.m., Ms. Greffin moved to adjourn; seconded by Ms. Hardin. A voice vote resulted in all ayes. Motion carried.