

December 10, 2013

A special meeting of the Board of Education of the Oak Park and River Forest High School was held on December 10, 2013 in the Board Room of the high school.

Call to Order President Phelan called the meeting to order at 8:40 p.m. A roll call indicated the following members were present: Thomas F. Cofsky, Dr. Steven Gevinson, Dr. Ralph H. Lee, Sharon Patchak Layman, John Phelan, and Jeff Weissglass. Also in attendance was Steven T. Isoye, Superintendent; Nathaniel L. Rouse, Principal; Tod Altenburg, Chief Financial Officer; Gail Kalmerton, Executive Assistant/Clerk of the Board.

Visitors Karin Sullivan, Community Relations and Communications Coordinator, Joe Herbst, Faculty Senate Representative; Jeannie Affelder, Peter Traczyk, and Kevin Peppard, community members; Carolyn Roselli of Robbins Schwartz; Wes Venteicher of the *TribLocal*, Terry Dean of the *Wednesday Journal*; Rebecca Bibbs of the *Oak Leaves*.

Visitor Comments None

FAC Recommendations Mr. Weissglass acknowledged and thanked the following people who participated in the Finance Advisory Committee (FAC).

Tom Cofsky – OPRFHS Board Finance Committee Chair
Jackie Moore – OPRFHS Board Secretary, Board Policy Committee Chair
Steve Isoye – OPRFHS Superintendent
Tod Altenburg – OPRFHS Chief Financial Officer
Tina Halliman – OPRFHS Asst. Superintendent for Pupil Personnel Services
Sheila Hardin – OPRFHS Faculty Senate Chair
Judy Greffin – Community Member
Penny Wallingford – Community Member
Karen Nyman Latham – Community Member
Christopher Meister – Community Member
David Pope – Community Member
Bob Spatz – Community Member
Peter Traczyk – Community Member
Louis Vitullo – Community Member

Mr. Weissglass also thanked Steve Miller of PMA Financial Networks.

The prior board authorized the FAC in February 2013. It was organized in June 2013 and met on the following dates: July 15, 2013, August 5, 2013, August 19, 2013, September 9, 2013, September 23, 2013, October 7, 2013, October 21, 2013, November 4, 2013, November 18, 2013, and December 2, 2013. Its goals were:

1. Recommend target range for size of fund balance
2. Recommend expectations for an operating referendum.
3. Recommend guidelines for future tax levies.
4. Recommend communications strategies.
5. Provide advice regarding continuation of Finance Advisory Committee

The first phase of the process was to learn about School Finance Basics, which included the topics as follows:

Budgets and Projections	Tax Rates from Ali ElSaffar
Enrollment Projections	Impact on Citizens and Businesses
Cost Containment/ALT	Pension Reform
Comparative Fund Balance	Facilities Needs and Concepts
Data	Fund Balance Policy Across Districts
Comparative Expense Data	Referendum Drivers from Bob Spatz
Phase-In History	

Key Finding: Budget Variance

The Committee found that the District was beating its budget by approximately \$5 million per year and that raised the question as to whether projected fund balances were understated. Thus, the projections were scrubbed and variances were found on both the revenue and expense sides. While collection rates were projected at 97%, the District was receiving approximately 98%.

FAC looked at all of the assumptions and created best-case, worst-case, and most-likely scenarios, rather than the most conservative scenarios used in the past. A revised base model mapped all of the projections. The biggest observation in 2024 was that the District would still have a fund balance equal to 10 months of operating expenses. The assumptions included projected enrollment increases, early childhood contributions, and a shift of the pension responsibility to the District. The pension shift expected will not occur due to recently passed legislation and, thus, the projections will change again.

Revenue from neither the Madison Street TIF nor any cost containment efforts was included. If enrollment trends were overstated, it would be positive for the bottom line. Projections included a growth in enrollment and thus an FTE increase for teachers, but not counselors, etc. Also, costs for the strategic plan or capital projects were not included because an assumption was made that they would be paid for out of the existing fund balance and that was reflected in the chart.

One risk of a high fund balance is a high tax rate; Oak Park has the third highest tax rate in the area. Another risk is that of community distrust. The use of the fund balance to pay for deficits over several years could lead to a need to request a large tax increase in a future referendum. There were also concerns about expending money without community input.

FAC's approach to developing recommendations included developing models, determining fund balance goals, identifying mechanisms for reducing fund balances, identifying key considerations to balance, providing specific options for the Board of Education for 2013, and providing guidance for the Board from 2014 to 2016.

The key fund balance recommendation was to bring down the operating fund balance under 100% of expenses in 2 to 4 years, ending between 40 and 25 percent in 8 to 10 years and going for a referendum with a deficit of 7 to 10 percent. A fund balance of 100 percent is the high end but it will need to be refined later to reach a steady state. None of the models showed the need for a fund balance above 9 months. The FAC expects to discuss this further in January. However, if the District continues to pay annual capital outlays from its

Operating Fund, the referendum amount might have to be somewhat higher or sooner. FAC considered the referendum needs of Districts 90 and 97 in projecting this timeframe. By minimizing the expense rate of growth, FAC expects to be able to hold the amount of a referendum down or perhaps defer its necessity even further.

FAC examined various ways to accomplish these goals via a combination of debt prepayment, tax relief, and capital investments. The Board of Education has the role of the ultimate decision-maker of the timing and the combination used, so the FAC was providing guidance and scenarios, all of which will succeed in meeting these objectives.

The ten key considerations for the Board of Education to balance are:

- 1) Assure sound financial footing to be able to focus on educational objectives
- 2) Material action sooner than later will do more to build trust
- 3) Constrain growth of taxes over the long term
- 4) Provide tax relief in the near term in an effort to benefit more property owners who helped build the fund balance.
- 5) Seek to have significant capital projects paid over time
- 6) Minimize financing costs and additional taxes for debt service when possible
- 7) Plan for a reasonably sized and timed referendum
- 8) Maintain ability to borrow money a favorable rates if needed
- 9) Provide district with flexibility to adjust strategy for phase down based on refinement of capital plan and adoption of 5-year strategic plan currently under consideration by the Board of Education.
- 10) Continuously improve financial oversight and communications practices (additional recommendations to be provided by FAC)

Guiding Models: All presume the debt certificates will be prepaid and debt service abatement on the 8.5 million over four years

- 1) Cut \$615,000 for 3 years (Option 1a) (debt service on the debt certificates to be paid)
- 2) 2012 level (flat) for 4 years (Option 2)
- 3) 2012 level minus \$10 million for 2 years, then flat for 1 year (Option 5)
- 4) 2012 level minus \$10 for 1 year, then 2012 minus \$30 million of one year, then flat for one year (Option 6). The look-back law requires that the second year must be lower than then the first year.

Tax impact for each of the scenarios was provided on the following chart.

Models in Recommendation			Cumulative
		Tax Level vs	Taxes Foregone
	Taxes Foregone	Base Model	\$300,000
	Over 10 Years	at Year 10	Home*
Option 1a	\$61,870,000	92.5%	\$2,784.15
Option 2	\$67,900,000	91.1%	\$3,055.50
Option 5	\$72,430,000	93.4%	\$3,259.35
Option 6			
Non-Referendum Bonds	\$67,270,000	92.4%	\$3,027.15
Referendum Bonds	\$76,280,000	93.5%	\$3,432.60
*Estimated impact on \$300,000 home per \$1M of taxes:	3		
	\$45.00		

Notes: Cumulative taxes over next 10 years if the full CR were collected, compared to the base model if the full CR were not collected.

taken during that time. Option 2 had the biggest impact on taxpayers. The higher tax level in the out years is balanced against tax cuts sooner and then going back to CPI increases, making the tax rates higher later. The third column used a \$300,000 home as an average price and showed what would not be collected. For each \$1,000 per assessed value, it amounts to approximately \$45.00.

Recommendations for 2013

- 1) Abate taxes for debt service (less \$2.5 million)
- 2) Adopt a levy at one of the following levels
 - A. 2012 level (assessed in 2013 with no changes (flat)
 - B. 2012 level less the a of debt service in the last year of the debt certificates being prepaid (less \$616,000)
- 3) \$10 million dollars below the 2012 level.

Mr. Weissglass continued that it would be awkward for Cook County to collect 55% of the taxes because, analytically, it would owe homeowners money. A \$10 million reduction is large enough not to be restrictive and yet gives relief. A clear majority of the FAC community members favored cutting the amount of the levy as soon as possible. FAC respected the Board of Education's authority and did not make specific recommendations. Concerns were raised about the "bounce back," i.e., cutting taxes, raising taxes, representation to the real estate markets, and understanding of this by the community.

The recommendations for the 2014-2016 were:

- Abate taxes annually for remaining debt service on any outstanding bonds.
- Bring Operating Fund Balance below 100% of annual expenses through a combination of actions informed by the four models discussed

The broad next steps included:

- A decision on the 2013 levy
- A decision on the current year tax abatement
- Continued analysis over next year and beyond

Next steps for FAC included:

- Finalize Financial Practices Recommendations
- Develop Communications Recommendations
- Developing Recommendations on continuing FAC Role

All of the Board of Education members, FAC Committee members present, and administrators thanked Mr. Weissglass for chairing the committee, noting that he did "a vast amount of work on a very complex subject in a careful and considered way." The Board of Education was grateful to the community members who participated.

Mr. Phelan felt the Board of Education would make better decisions due to the work of the FAC. The Committee considered that students need to be educated well, not just for the present but also for the long term.

Mr. Cofsky felt that many views had been put forth during the meetings. He affirmed that much attention had been given to the model and looking at realistic assumptions.

It is common for school districts to have conservative budgets. FAC's recommendations provide several paths for the Board of Education to choose. The work of this committee will have a lasting impact. Community members wanted quicker action rather than slower action.

Dr. Moore appreciated the transformation of the community members with finance backgrounds as the meetings progressed. They learned how difficult school finance is and, thus, everyone gained equal footing. She reminded the committee that the students need to be well educated and she felt the proposals reflected that fact. There was a tension between the "act fast" approach and the "long-term" approach between FAC's community members. She did not know if other community members shared the philosophy of "acting fast". The administrators and faculty had eloquently reminded FAC that these recommendations maintained status quo.

Dr. Isoye affirmed that the administrators reminded FAC that the projection models reflected status quo; the projection lines based on calculations support the status quo. That is a red flag to him. The previous Board of Education asked the administration to defer the next referendum and to do cost containment with expenditures. A fund balance exists because the money was not spent. If the Strategic Plan suggests a larger number of staff, the fund balance lines will bend dramatically faster.

Dr. Halliman was honored to be part of FAC. She stated that the District needed to be mindful that the projections were not at status quo level. As a participant of the Strategic Plan Steering Committee and the Long-Term Facilities Planning Committee, she wanted to make sure that their visions, mission, and plans were considered.

Mr. Altenburg reminded the Board of Education that he had started his tenure with OPRFHS July 1, 2013, and the first FAC meeting was July 15. He quickly learned the history of the school in his first six months and the group learned much together. Typically, the chief financial officer comes from the private sector and has an accounting background. His background, however, includes being a teacher, a principal, and an assistant superintendent for finance and operations. He concurred that it was important to look at the Strategic Plan and other initiatives for students, i.e., 1-to-1 computing devices, equity, race, gender, etc.

Mr. Traczyk enjoyed being a FAC member. As a community member, he was happy to see this important issue given the amount of detail and thoughtfulness in which it had. While he supported Option 5, FAC had not reached the point of recommending rebating to those who had paid taxes. He too cautioned about the whiplash effect of decreasing the levy by \$20 million and then increasing it.

Mr. Meister noted that this was a rewarding experience for him. A great deal of effort was given to a complex, esoteric concept and then translated into concepts to which people can understand and grapple. He echoed Mr. Traczyk's comments about a whiplash. FAC agreed it was important to maintain the high quality of a public institution in these communities. His contribution was to note that this Board of Education has brought a new perspective to this institution and it was incumbent on community members to pay attention to what is going on at the local governmental level. The high fund balance was a result of conscious agendas; it was discussed and considered in open meetings by the Board of Education and staff over a period of years.

He complimented this Board of Education for tackling a series of wrong choices that led to a wrong path of undermining the tax base and souring the members of the community about their elected officials.

Mr. Phelan aligned his comments with the administrators and Dr. Moore on education. Status quo was a result of cost containment over years. Some of that cost containment might have compromised the quality of education at OPRFHS and may have even damaged it. Not factored into the discussion were the expenses related to returning the school back to its prior state. He asked for a discussion on capital abatement, the tax levy, and educational initiatives. He desired a menu of educational options with dollar figures, with which the District might experiment and/or continue depending on their successes. While it is hard to measure the relative excellence of a school, he believed all would like the excellence now enjoyed to become “more excellent.” Some suggested solutions over the years were not implemented because they were too expensive. The fund balance provides an opportunity to give some of those ideas a shot. He asked the administration to work out coherent options. Rarely does a school have a fund balance and he understood that it was built partly through highly conservative projections and cost containment. This community greatly values a quality high school. As a community member for 30 years, he values the quality of the school more than a modest amount of taxes. The Board of Education owes it to the community to look at what it can do institutionally and bring down fund balance.

Ms. Patchak-Layman asked questions about distinguishing between the amount of the fund balance and the amount of the tax levy. In a perfect world, the next referendum would take place around 2019, when the fund balance would be between 40 and 25 percent. What number would be needed today in order to have a levy that would put the District in that place? What is the tax levy number that would get the District to a referendum in 2021? What does that do to the fund balance and the money available? How was the distinction made between different funds in terms of what has been accumulated? What is needed if this is a combination of the Working Cash Fund and the Education Fund? \$8.2 million?

Ms. Patchak-Layman noted that the District has the option of going out to the community and setting the “new day” referendum, including those things to happen in the next 8 years and the money available for use. Referendums do not have to be just about increases: they set the rate and the amount of money desired for the next 8 years. FAC talked about wanting to know about where the community stood on various things in terms of the dollars in the fund balance, so just setting the rates and following the parameters is one set of options. The other option exists with the fund balance, i.e., setting a referendum at “x” to accomplish identified projects in the next 8 years. Start with a fund balance of a 100 percent and then take the amount between 100 percent and 75 percent to spend for capital projects, strategic planning, etc.

She believed that state law allowed tax refund account, with parameters, to refund what is considered to be additional amounts of the fund balance. That does not put the District at the optimal level of having the rate of putting the District on an 8-year cycle in terms of going out for a referendum. What were the specific numbers?

She also felt the District should go for a referendum now because there was a question about collecting the dollars, if the levy were to be reduced by a great amount. If the

levy were reduced by \$30 million, there would be much confusion with the escrow. One way to work with that is to have a referendum would set the levy.

Dr. Lee attended all FAC meetings. The intensity of the work and the commitment of the people at the table were obvious and an enormous amount was accomplished through that process. He was thankful to everyone who participated; it was also not a trivial process nor was the fact that Mr. Weissglass was able to conclude things so smoothly. He did feel, however, the question of whether the recommendations were wise could not be answered without the Board of Education acknowledging that it has the ability to affect expenditures as well as levying taxes. It is possible to control expenditures without being catastrophic. Expenditures have increased for the last 12 years at a higher rate than revenues. He believed that referendums were only used to gain power to increase taxes. For the Board of Education to give immediately taxpayers a “check” would be seen as a stunt. If the Board of Education believes that the reason for the rise in expenditures is to maintain the current quality of education, then the District will continue to raise taxes and the only way to sustain that is to have residents who are able to afford those taxes. Oak Park and River Forest are becoming a more affluent community because of taxes. He believed the District could define what is expected from the taxpayers in five, seven, and/or ten years from now. He supported either Option 1 or 2, because he wanted more information before cutting \$10 million in taxes. The Board of Education has not addressed systematically expenditures during his tenure on the Board.

Mr. Weissglass responded to the questions raised and suggested that the Board of Education consider all of the comments. With respect to expenditures for educational purposes, from his perspective and that of FAC, while those expenditures were key, the question was whether they should be paid for with the fund balance or with annual revenues. The concern is that the District will increase its expenses, pay for them with the fund balance, and will one day not be able to cover them. A difference exists between using the fund balance for an experimental program and using the fund balance. If a pilot program were to continue, it would be funded through funds annually collected. He continued that there is no answer to Ms. Patchak-Layman’s questions regarding numbers, because the District was moving through a spectrum. Chart 29 showed models 1a, 2, 5, and 6 illustrates that each model would move up at different rates at different times and, essentially, end up at the same place. The dotted lines are fund balance levels. This shows year-end numbers. To get to 2023 (a 2021 levy), there is no one number. FAC did not need to separate out funds. Consideration was not given to going out for referendum. The committee did not pursue reimbursing taxpayers, as had been suggested was legal under statute, because he did not believe the taxes were collected wrongly. Many members of FAC had expressed Dr. Lee’s concerns and that was the reason for building into the financial practices, included in the material, the idea of a marginal deficit being the driving force for going for a referendum. Most people say under the tax caps in Illinois, institutions that are employee driven, will end up there, but limiting how much faster expenses grow than revenue is a strong financial management practice that the District should adopt. The Board of Education will recommend how to establish limits. While he understood the decision made to cut \$10 million and while he was somewhat uncomfortable doing that, all models pointed to it. Mr. Weissglass believed all the options put forward by FAC accomplished the goals of decreasing the fund balance and securing the financial stability of the school.

Mr. Phelan agreed with the administrators and Dr. Moore's statements—the focus should be about providing education. He did not believe it was an either/or question, i.e., either the Board of Education provides for an outstanding education or it builds trust with the community. It is ironic that the District has been under the community's microscope that made the District thrifter, in defense of the large amount fund balance. The vote on the levy is only the first step.

Closed Session

At 10:15 p.m. on Tuesday, December 10, Mr. Phelan moved to enter closed session for the purpose of discussing Student disciplinary cases 5 ILCS 120/2(c)(10); seconded by Mr. Weissglass. A roll call vote resulted in all ayes. Motion carried.

At 10:46 p.m., the Board of Education resumed open session.

Student Discipline

Mr. Phelan moved to approve the disenrollment of RES Student 12-10-13-3 at the end of first semester from the Oak Park and River Forest High School. The per capita tuition rate of \$19,157.23 or \$108.23 per day is chargeable to the person who enrolled the student for the first semester (80 school days) beginning August 20, 2013 through December 20, 2013; seconded by Dr. Lee. A roll call vote resulted in six ayes and one nay. Ms. Patchak-Layman voted nay. Motion carried.

Adjournment

At 10:50 p.m. on December 10, 2013, Mr. Phelan moved to adjourn the Special Board Meeting; seconded by Dr. Moore. A voice vote resulted in all ayes. Motion carried.

John Phelan
President

Dr. Jackie Moore
Secretary