OAK PARK AND RIVER FOREST HIGH SCHOOL

201 NORTH SCOVILLE AVENUE • OAK PARK, IL 60302-2296

TO: Board of Education

FROM: Robert Grossi, Consultant to the District

DATE: December 4, 2018

Re: Recommendation of Establishment of Capital Reserve Fund as Part of Major Fiscal and Facility Stabilization Plan

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BACKGROUND

The administration has recommended that the Board of Education immediately proceed on $32.2 million of major capital projects and to stay the course on spending approximately $4 million on annual maintenance and repair expenses to address on-going facility needs. The District, however, has major facility work beyond these commitments that must be addressed over the next several years. It is critical that the District maintain a focus on the long-term viability and functionality of its aged building.

RECOMMENDATION

The administration is recommending that the Board of Education immediately establish a capital reserve fund to ensure that funds are available to address future projects within its facilities. Without proper planning, the District is exposing itself to the likelihood that its facilities cannot adequately address the needs and the safety of future generations of students attending OPRF. Specifically, the administration recommends that the District immediately transfer $20 million of operating fund reserves into a capital reserve fund. This reserve amount is consistent with the recommendation of the 2013 Finance Advisory Committee. Going forward, this reserve can grow from (1) interest earnings generated from fund balances, (2) transfers of additional dollars into the reserve made in future budget years and (3) private donations made to OPRF for capital projects.

CRITICAL PRE-CONDITION TO THIS RECOMMENDATION

The District's future financial condition is directly tied to the available funds for capital projects. From my perspective, the most important focus of the Board of Education is maintaining a structural balanced budget, whereby on-going annual revenues are always equal or greater than on-going annual expenses. This is the key to providing not only long-term fiscal stability, but is also the key to addressing long-term facility needs and long-term avoidance of property tax spikes that can shock the District's tax base.

This next section is the most important point I can make as financial advisor to the District and is directly tied to this recommendation:

The District is in very good financial condition now, but its revenue and expenditure trends, if not reversed, make the District extremely vulnerable to exploding deficits and rapidly deteriorating fund balance reserves.

Recent historical trends in the annual growth rates of District expenses are reflected in the table below:

Salaries	4.5%
Employee Benefits	3.2%
Purchased Services	3.0%
Supplies and Materials	2.7%
Out of District Tuition	5.0%

For illustrative purposes, I ran a simple projection assuming the following:

- Future annual growth rates in expenses equal to historical trends stated above
- $4 million of annual capital expenses (excluding technology, furniture, and transportation – below historical average)
- District maximizing its tax levy to highest increase available under property tax cap legislation (projected CPI of 2.1% annually)
- One more year of TIF surplus distribution
- TIF expiration in 2019 tax year (approximately $113 million in new taxable property) fully captured in levy
- Property tax relief grant equal to actual property tax relief given.

Under this scenario, (which includes maximizing the annual levy permitted by law), revenues would grow at an average annual rate of 1.9% over the next five years and expenses would grow at an average annual rate of 3.5% during the same period. This gap in expense growth over revenue growth would create annual deficits that would grow to $7 million by year five (FY 2023) and fund balance reserves would be depleted by $18 million. The Board of Education cannot allow this to happen.

Therefore, this recommendation to establish a capital reserve fund must be paired with a commitment by the District to align future expenditure growth to future revenue growth. This would require both maximizing the growth in the annual tax levy and reducing expenditure growth to a level at or below the future rate of revenue growth.