A Finance Advisory Committee meeting was held on Monday, September 9, 2013, in the Board Room. Mr. Weissglass opened the meeting at 7:06 p.m. A roll call included the following members: Tod Altenburg, Judy Greffin, Sheila Hardin, Dr. Steven T. Isoye, Karen Latham, Christopher Meister (arrived at 7:15), Dr. Jackie Moore, Robert Spatz, Peter Traczyk, Louis Vitullo (arrived at 8:05 p.m.), Penny Wallingford, and Jeff Weissglass. Also attending was: Gail Kalmerton. Tom Cofsky and Dr. Tina Halliman were not present.

Visitors: John Phelan, Sharon Patchak-Layman, Dr. Ralph H. Lee OPRFHS Board of Education members; Ali ElSaffar, Oak Park Township Assessor; student Ross Constable, and Terry Dean of the Wednesday Journal.

Approval of Minutes
Mr. Weissglass moved to approve the minutes of August 19, 2013, as presented; seconded by Ms. Hardin. A voice vote resulted in motion carried. Mr. Pope abstained as he was not present at the last meeting.

Mr. Weissglass reviewed the agenda.

Local Real Estate Taxes and Referendums
Mr. Ali ElSaffar, Oak Park Township Assessor since 2001, was invited to speak to the community about the impact of taxes on the community. Mr. ElSaffar grew up in Oak Park and was a proud graduate of OPRFHS. He referred to the following quote that appeared in the Wednesday Journal April 1, 2009, and asked if it were true or false.

“That geyser is slowing. Decreasing home values will lead to lower tax bills for homeowners (hooray!) and less tax revenue for local boards.”

In order to answer whether this was a true statement, he explained the following formulas.

Income Tax Formula
Taxable Income Multiplied by Income Tax RATE

Sales Tax Formula
Taxable Purchases Multiplied by Sales Tax RATE

Real Estate Transfer Tax Formula
Real Estate Sale Price Multiplied by Transfer Tax RATE

Property Tax Formula
Equalized Assessed Value Multiplied by Property Tax RATE
The only rate that is flexible is the property tax rate. In a booming economy more people buy things and there is more sales revenue, but not in property taxes. The main goal is to raise a specific rate of value.

The total tax bill or “tab” is divided by the number of property owners. Last year the “tax tab” for all Oak Park property owners was $170,480,061. In River Forest, it was $54,120,478. He presented a breakdown of where those monies go, noting that in Oak Park education receives 65% and in River Forest education receives 73%. The tax tab is the combined levy for all local governments within a community. The tab directly influences the taxes paid by each property owner in the community. While tax appeals, tax exemptions and tax policy can change a property owner’s share of the tax tab, they do not change the tab itself.

He presented the tax levies for the government units in Oak Park and in River Forest for 2012 as well as a comparison of the overall levies, by year, since 1999. The levy growth in Oak Park is the lowest it has been in the last 12 to 13 years. Referring to the high school’s decision to abate its levy, he noted that this was the first time he has seen any taxing body reduce its levy in Oak Park. The high school’s board decision to lower the levy had a real impact, as its levy represents 28% of the tax bill.

He continued that every year the tax levy has increased by a significant amount. In 1999 in Oak Park, it was $88 million and in 2012, it is $170 million. A similar story exists in River Forest. River Forest Elementary School District 90 chose not to increase its levy this year. When schools choose no increase or a lesser increase, it has an overall tax effect.

How is the tax tab divided between Oak Park and River Forest? The Oak Park EAV divided by OPRF EAV is the OP share of the OPRF Tax Levy (approximately 75%). The same holds true for River Forest (approximately 25%). State law governs a taxing district’s ability to increase its annual tax levy. Most taxing districts can increase their levies by no more than the rate of inflation, except for the following reasons: The government of Oak Park as it is a “home rule” community and therefore not subject to tax caps, which limit levy increases to the rate of inflation, a referendum was passed, new growth and/or the expiration of a Tax Increment Finance (TIF) District. There is a dramatic difference in the rate of inflation in the United States since 1999 and the rate of levy growth during the same time period. Inflation has been 37% since 1999-2012, while the levy growth is in excess of 90% in Oak Park and a similar scenario in River Forest.

In 2011, the Oak Park School District 97 put a tax increase referendum on the ballot. Before and after the referendum, the district’s tax levy increases were at around the level of inflation. In the 2010 tax year, the levy increase was 14.61%. It reverted to the ordinary inflation level increases over the previous years after that year. District 90 passed a multi-year referendum in 2006, which was phased in over four years.

In 2002, OPRFHS put a referendum on the ballot that would increase the District’s annual budget by approximately $6.5 million. If the referendum had failed, the District could have received an increase by 5% because of inflation. After the 2001 taxes were paid (in calendar year 2002), the school received a little more than the expected 30% increase.

Because of a quirk in state law, the school discovered that it could phase-in levy increases of more than $6.5 million, much like District 90 did in 2006-2010. He characterized a recent conversation with Ms. Witham, the former Assistant Superintendent of Finance at District 200, that the school was unaware that it was getting the extra money. The high school board had asked for a maximum rate of $2.95 from the voters. Schools cannot ask for a dollar amount; they have to ask for a rate increase. The rate prior to referendum was $2.30 and the District asked for a 65 cent increase. At the time, the high school stated that if it could get $2.95 or $6.5 million, that was reasonable for the Education Fund. It added $6.5
million to the Levy; but when Cook County calculated the tax rate, it only got to $2.79. State law says that if a school district does not reach its levied amount, it can phase it in over a number of years. After that time, housing boomed and 2002 was a reassessment year. The average increase in tax bills was 46%. However, no school district got 46%. Due to much higher values and not asking for more, the tax rate went down. The EAV plummeted to $1.79. Even though it was not intended, the high school was able to get much more money. In fact, the high school never did get to the $2.95 rate because of reassessments and reductions in the rate. According to Mr. ElSaffar, the board discussion at the time included the fact that the school was “leaving money on the table.” Between 2002 and 2011, the District did collect $102,068,225 in additional levy from the phase-in, assuming there was no phase in and no additional referendum.

The fact that the referendum in 2002 coincided with the reassessment and coincided with the property value boom, allowed the Board of Education to levy more money, which it did not have to do. There is an effort to change the law so that schools would have to ask for an amount of money, not a rate. Mr. ElSaffar noted that most taxing districts have two sets of levies, one of which is related to the capped levy and the second to debt service for capital improvement bonds. He sees the capped levy as what drives the tax bill. The Board of Education made a choice every year.

Mr. Pope stated that more levy is asked for in anticipation that projects might be coming on line and affect a particular tax year. It is not illogical to balloon a levy to be able to capture the new property. If the new property does not come on, the County Clerk will take it away. The relationship that people were not thinking about at the time was what was motivating the increases, the phase in situation, and the dollars levied from one source were coming from another source which could account for some of the increases and explain how the school could have been unaware of the phase in benefits for the first couple of years. In looking back, it is impossible not to see in the increases. Mr. ElSaffar added that the carve-out of the TIF was additional money, but the amount is unknown.

In 2006, normal levy increases resumed.

With regard to new growth/TIF expirations, the legislature concluded that taxing districts might need additional money to provide services when there were new properties in the jurisdiction. The law allows for tax levy increases greater than inflation when there are new growth/new properties in a jurisdiction. This is achieved by applying the district’s tax rate onto new properties. Mr. ElSaffar provided an example. If the tax rate was $10 per house and there were 10 houses, the tax levy would be $100. If inflation were 5%, then the tax rate per house would be $10 X 1.05 or $10.50 and the government would receive $105.00. With one new house, however, the total tax levy would be $115.50. Each existing homeowner would still have an increase of 5%, but the government’s revenues go up 15.5% from $100 to $115.50 because of a new house. With new growth, tax levies on existing taxpayers can increase by inflation. Government revenue can grow by more than inflation. Some think a larger tax base due to new growth means lower taxes. However, this can only happen if taxing districts do not use the tax cap exception for new growth. Most local districts use this exception.

Oak Park has a history of controversy and lawsuits relating to TIF districts in Oak Park. District 97 first sued the Village of Oak Park in 1984 and there is still a consequence today. In a TIF district, new growth goes into a special fund controlled by the municipality. Schools and other tax districts cannot access the growth until the TIF expires. Mr. Spatz noted that it was not new growth but the increase of EAV within the TIF.

In 2010, the Lake Street TIF in River Forest expired and inflation was 2.7%. But because the expired TIF was treated as new growth, districts could increase their levies by more than 2.7%. The average taxpayer did not pay a large tax increase because the money went into the coffers of the taxing bodies.
The Oak Park TIFs have not expired, but the “carve out” agreement from 2003 released some new growth to the taxing districts. The agreement allowed Oak Park taxing districts to increase their levies by more than inflation. Mr. ElSaffar provided a chart showing the unit of government, the 1999 total levy, the 2012 total levy, overall inflation, overall levy growth, and reasons levies grew above inflation.

Mr. ElSaffar provided information about tax levies within classes of properties in Oak Park. In Oak Park in 2001, 70% of the tax burden was paid by homeowners. Over the last decade, a shift has occurred where that number has gone from 70% to 81% and business has shifted from 30% to 18.8%. Why? 1) Home values increased dramatically between 1999 and 2006, 2) changes in county tax policy reduced assessment on large apartment buildings and commercial properties and 3) many large apartments buildings converted to condominiums. The shift in the tax burden exacerbated the effect of rapidly rising tax levies on Oak Park homeowners. Taxes on Oak Park homeowners have more than doubled since 1999, in part because they were paying a greater share of that levy. When asked if there were any shrinkage in business, Mr. ElSaffar stated that the numbers have not changed, but every year there is question of value. In 2002, homes were increasing about 46% but businesses were not, meaning that homes have a greater share of the taxes.

Dr. Moore noted that when talking about getting what one is entitled to in terms of going for the highest rate and getting what one needs is something that the committee will need to discuss and that includes educating the community at large about how District 200 plays into a bigger system rather than the high school getting all of this money. Mr. ElSaffar had worked in Berwyn before coming to Oak Park and he saw a different approach to taxes. Its township board did not increase its levy even though it could. The approach in Oak Park under tax cap law is to use it or lose it. This year was the first time he has seen a governmental entity, the high school, not take the levy increase. The tax cap law was meant as a ceiling and in some ways it has been treated as a floor.

Responding to a question, Mr. ElSaffar noted that the change in assessment rates for multifamily units was county driven. In 1999, it was 13% of the tax base and in 2011 it was under 5%. It is due to condo conversions. It was a tax incentive to developers; a policy decision to save rental buildings, viable ongoing businesses. On equity basis, it was unfair to be taxing an apartment building at a higher rate, which was passed on to the renter and made rental housing less competitive.

**Budget vs. Actual Variance Analysis**

Mr. Altenburg reviewed the total revenue variance between FY 2007 and FY 2012 in the Education and in the Operations Funds, which amounted to about $9.5 million. He noted that these variances were from the amended budget. The largest variance was $8,236,158, annual average of $885,656 in the Education Fund, and $191,513 in the O&M Fund, which was due in part to conservative budgeting. Historically, OPRFHS was budgeting as if it were only collecting 97% of property taxes. The collection rate has been about 98%. The assumptions will be increased for collection from 97% to 98% moving forward.

The Interest earnings variance was $1,952,950, an annual average of $325,492, which could be attributed to better than anticipated returns on investments back in FY ‘07 and ‘08 along with conservative budgeting in terms of interest revenue.

On the expenditure side, Steve Miller of PMA had presented information at a prior meeting of a total expenditure variance of $22.6 million over 6 years. The major variances amounted to $18,576,152 or approximately $537,181 per year in the Education Fund. The budget had faculty salary lines to accommodate unpredictable step and lane changes, staffing changes, additional support for overtime and extra duties of SST staff. These dollars are not always expended. One year money was budgeted for the increase in safety and support staff for the modified closed campus with a 3% increase going forward.
Another year, a 3% increase was budgeted due to ongoing contract negotiations, but it was settled at 2%. It is also challenging to budget accurately for substitute teacher costs as this numbers fluctuates due to various factors.

The Education Fund’s variance of benefits was $9,045,977, an annual average of $1,507,663. State reporting requires that the net income from self-insurance funds (health and dental) be entered as a reduction to expenditures. ORFHS has good claim history and the budgeted amount of net income in the self-insurance funds has always been much less than realized. This resulted in a larger reduction to benefits than anticipated. While the District had trended health and dental insurance increases at 10% for the second half of the fiscal year, the actual increase for benefits health insurance for second semester was between 3% and 5%

The Education Fund’s variance of purchased services was $3,298,050, an annual average of $549,675. While no specific trend was discovered as to why it was under budget, copy machine replacement was under budget, strategic planning was budgeted in one year and did not start until the next year, and legal fees were less than budgeted.

The Education Fund’s variance of Other Objects was $1,941,936, an annual averaged $323,656 was due to special education private facility tuition. This is based on the needs of the children and does fluctuate as off campus placement is difficult to predict. Also the District has implemented the educational program Response to Intervention (RtI) which provides different tiers of intervention and has helped reduce costs.

The O&M Fund’s variance in FY 2010 was $1,067,101, due to the construction work that was completed prior to June 30, 2010 and was well under the projections used to develop the budget. The funds were most likely budgeted and expended in the following fiscal year. Additionally, projects may have been bid out and came in under what was budgeted.

Mr. Altenburg appreciated this work as it would help him build future budgets. Mr. Weissglass noted that the committee’s work will determine to what degree these assumptions were built into the five-year forecast that has been used for the planning work. Mr. Pope stated that it raised the ability to be able to work inter-jurisdictionally on how to apply assumptions consistently over all taxing bodies. Mr. Spatz stated that conservative budgeting is less of a problem than conservative forecasting. The way governments work, it is best to be conservative.

**Key Drivers of Projection Model**

Mr. Altenburg and Mr. Miller put together some key financial assumptions to determine key drivers. They looked at revenues, expenditure, and to the future. The two key drivers for the District’s property revenues are inflation (CPI-U) and the collection rate. From Levy year 2008, the collection rate was 98.7 and then 97%, and then 98% for the next several years. In 2012, only 94.9% had been collected as of August. CPI has fluctuated but is projected at 2.0% for future years. The District will modify the collection percentage to reflect the actual being received which is 98.1% or 98.2%. A .5% increase in CPI would be approximately $325,000 or at 1%, the sensitivity is $650,000.

Two key drivers of expenditures include enrollment and certified staffing costs. Teacher salary schedules and steps are negotiated with the OPRFHS Faculty Senate; the number of staff employed is also factor. The current contract expires at the end of the 2013-14 school year.

Discussion at the District Leadership had ensued regarding the discrepancy in enrollment versus FTE in 2011, 2012, 2013. The enrollment projection in FY 2012 was 3112 students but the actual enrollment was 3,268. The reasons for changes were the projections, the history in that year showed that the
decreases in sections accounted for lower FTE throughout divisions, and an unexpected number of enrollment. In FY 13 and FY 14, the District is working with Ehlers & Associates on enrollment projections and last year and this year the District was much closer to the projected number. However, a change exists in FTE because the District has one less librarian and three dean positions to Student Intervention Directors and thus that FTE was moved out of FTE and put into administration.

Enrollment, not the Average Daily Attendance (ADA), drives the expenses as enrollment determines sectioning and that determines staffing needs. What drives the difference in ADA? Is the ADA the cost per student in the CAFR based on ADA, not enrollment? Mr. Altenburg will confirm whether or not Special Education students are included in ADA. The District has to build the schedule in the spring based upon a predicted number and the actual attendance is taken at the beginning of the school year. The ADA is used for General State Aid and is affected by student illness, vacation, truant, etc. Does the district determine that class size should be based on absences? If a child shows up late, attendance can be decreased by a half day. More discussion will occur about the costs of Special Education.

The other key driver is the pension contributions. Currently the primary burden of funding the Teachers’ Retirement Fund pension system for certified staff falls on the employees and the state. The district’s current contribution is .58% of creditable salaries. A pension cost shift of the TRS normal cost could result in an increase in employer contributions from 3% to 8% of salaries as illustrated in Mr. Miller’s August 19 analysis.

Discussion ensued. What is the purpose of discussing key drivers? Is it to talk about salaries and benefits or even the most variable? Ms. Greffin felt it was important to know the key items in the budget and then what the key variables could be; it is more about levers and what could change/vary the projections the most. From this information, it seemed like the District could predict teachers’ salaries and debt service going forward. If a conservative budget is the problem, it can be fixed. If it is the inability to predict costs, the Committee needs to be aware of that fact. Mr. Pope stated that projecting for salary is possible through the end of the contract, but beyond that it is a question mark in budgeting. The Village had to cover pension obligations and it has to predict contributions that go beyond the length of contract while not negotiating contracts in a forum that is not intended for that purpose.

District 97 is able to make better financial projections because it is in the Foundation Level of General State Aid; if enrollment numbers are larger than expected, it receives more GSA and vice versa. The last teachers’ contract was tied to CPI so if the District was off on its projections on the expenditure side, the revenue side went together. If both off in the same direction, it can be OK. It can be problematic when the projections are off in both directions.

Other drivers could include benefits as they are tied to staffing costs. While, historically, the District has had low claim experience, no one is able to predict healthcare expenses two years from now. Another driver could be capital expenditures. The Long-Term Facilities Committee report will be provided to the Board of Education and then to the FAC. The 5-year projection has a significant capital line item and FAC will have to understand how predictable that is and how it relates to the long-term facility plan. Mr. Spatz stated that capital expenditures could be a lever if were being paid for out of the operating fund. However, if it were being paid out of bond sales, it would not be a lever. Presently, they are financed out of the Education Fund.

Dr. Moore noted that teacher/staffing costs have to do with enrollment. What is an appropriate student teacher ratio? The Committee must remember to talk about the how the district will provide a quality of education.
Mr. Meister stated for the record that the management of expenditures may not be within this appointed committee’s scope, as there is an elected school board.

**Framework for Developing Guidelines and Next Steps**

Mr. Weissglass attempted to organize how this committee will solve the problems and answer the questions. He asked for committee input. He first reviewed the committee’s goals.

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

He then reviewed the next meetings’ agendas items, i.e., the comparison of taxes of other communities, the impact on local business, impact on diversity, referendum experience and debt schedules and terms.

On October 7, the Committee will receive a presentation that will have already been presented to the Board of Education on the Long-Term Facilities Committee Plan. The Board of Education will make no decision at this time. It will contain information from both the pool committee and the long term facilities planning committee.

Mr. Meister liked the agenda for October 7, as he felt that after the presentation by Mr. ElSaffar, the committee needed a more in-depth discussion about how one tax jurisdiction’s decision can overwhelm the decisions and needs of others. Mr. ElSaffar’s presentation was graphic as to how the phase in period had a disproportionate impact on other jurisdictions. The high school board and some other boards appear to be entering a new level of conversation but it is worth a more in-depth discussion.

The committee can use task forces or working groups to work on two issues: the long-term policy parameters on a steady state and if it is determined that lowering the fund balance is what would be recommended, how would that be lowered?

Mr. Weissglass outlined potential guideline elements as follows and he clarified that these were not yet recommendations, but a list of things he has heard during the discussions, which included the following.

1) Fund balance (Lower limit; Upper limit (Barrington District and District 97 have upper limits in their policies); Contingency carve outs (Barrington District says plus any reserve that the Board of Education creates); and Response to exceeding upper limit)

2) Structural Deficit (spread between tax cap limit and expense increase); Time between referendums; and Referendum rate increase

3) Variables (levers) Levy (Maximum increase, Partial Increase, Freeze (District 90 last year), Reduction)); Debt (last year it was maximum increase in the operating levy combined with the abatement of debt service that brought the levy down); (Prepayment (as allowed), and Abatement ($2.8 million last year). OPRFHS has a debt of $16 to $18 million.

4) Facilities Plan (offset pieces in the current projections, as noted, the committee is not doing any cost containment recommendations to this but will make recommendations about the implications), Expense range (note implications), Self-financing, Debt financing)

5) Other: (Special Projects (one-time costs), Tax Refund, Inter-governmental Loans;
Additional Key drivers –

1) Projected (Best/likely/worst case);
2) Value of retaining taxing capacity (If the District took $1 million less than permitted in a current year, that amount is foregone in each year until a referendum);
3) Value of retaining borrowing capacity (currently this is high);
4) Importance of Triple A bond rating (what is the outcome might be between Triple A versus Double A and how tied to it the District should be; Appropriate use of debt (what, when, and why);
5) The ability to increase investment income, although that may not be increased very much; the Smoothness and predictability of taxes including levy and referendum and the balance of major interests – school stability, citizen tax burden, etc.

Discussion ensued. Ms. Greffin agreed with most of these points. In thinking about keeping this at a high level she asked if a recommendation were made to the Board of Education to adopt best practices in governance for finance and budgeting in a tax-capped world, would the school know what that is. Both Mr. Spatz and Mr. Traczyk did not believe there were best practices for that. Mr. Weissglass felt it was the committee’s job to come up with a hypothesis as to what best practices were for this school at this time in this community. Is it the Committee’s goal to get to best practices for this community for governance? Perhaps it is defining a rationale for reaching conclusions so that best practices could be better identified. The Committee was not charged with looking at the expenses and costs detailed, as the Advisory Leadership Team does that. Ms. Greffin concurred but the projections were critical to forecasting and setting guidance. Mr. Spatz felt that where the targets were coming from were important in what the Committee does.

A question was asked about how the agenda items for the next meeting would inform the process. The response was that the District 200 debt schedule and its terms related to what the school does with the levy. The referendum experience is related to policies. The Board of Education wants to understand best practices. The tax comparison with other districts, impact on business; and demographic changes are more about context and understanding the communities’ interest and balancing the school’s interests with the communities’ interest. More information may be needed.

Dr. Moore believed an additional committee goal should be added that had to do with the bigger picture or a balancing of major interests. One member felt that could fall under #4, communication strategies. Mr. Pope stated that it may be difficult to model out in projections but the reality is that there are impacts from this committee’s decisions that will influence retail competitiveness and the level of new investment and the tax revenue in all jurisdictions. With any ultimate recommendations, it will be important to articulate the why. Mr. Weissglass noted that he would consider whether this should be a goal or an understanding of the committee.

It was the consensus of the committee for Mr. Weissglass to reach out to individual committee members about working on task groups. The categories will be Session Planning, Projection Analysis (one member would work with Mr. Altenburg and Dr. Isoye to get a base model with which the committee is comfortable and have ranges); Long Term Policy. A suggestion was made to start with reflections on developing guidelines at the next session. Mr. Weissglass will give that consideration and invited further input from members before the next meeting.

Public Comments:
Dr. Lee, resident of 332 N. Cuyler, Oak Park and a sitting member of D200 board, distributed a resolution that the Board of Education passed in 2009 by a 7 to 0 vote. He concentrated his remarks on one of the four things in the resolution as he believed the Board of Education would receive the committee’s recommendation in a more meaningful way.
Dr. Lee felt the Board of Education should concentrate on spending priorities rather than seeking higher tax revenues. The Board of Education does not speak about setting educational priorities when it talks about spending. While the cynical side of him says that if one starts talking about priorities it is setting up targets, some community members would strongly disagree. He hoped the FAC would convince the Board of Education to set educational priorities in the process of fixing its financial problems, whatever they are believed to be.

Adjournment
Ms. Latham moved to adjourn the meeting at 9:39 p.m. on September 9, 2013, seconded by Ms. Hardin. A voice vote resulted in all ayes. Motion carried.