


**BOARD OF EDUCATION
COMMUNITY CONSOLIDATED SCHOOL DISTRICT 64
COMMITTEE-OF-THE-WHOLE ON FINANCE**

**MONDAY, OCTOBER 25, 2010
8:45 P.M.
WASHINGTON ELEMENTARY SCHOOL
1500 STEWART AVENUE**

AGENDA

1. DISCUSSION ON PARAMETERS FOR FINANCIAL PROJECTIONS
2. OTHER
3. ADJOURNMENT

To: Board of Education
Philip Bender, Superintendent

From: Rebecca Allard, Business Manager 

Subject: Committee of the Whole Discussion on Parameters for Financial Projections

Date: October 25, 2010

To facilitate the discussion on parameters to be built into the financial projections that will be prepared by Lawrence Heidemann, StratPlan Consulting, the following documents may assist the Board in their discussion:

- January 2010 StratPlan Projections
 - Pages 3 – 7 Proactive Financial Planning
 - Pages 8 – 10 Current Base Case
- Summary of 2009 Tax Extension
- History of CPI-U
- History of EAV
- History of Tax Collections

In addition, the following issues should be considered when the long-range financial projections are prepared:

1. Student Enrollment
2. Staffing
3. Health insurance
4. Retirement incentives
5. Supply and capital equipment needs
6. Special Education private school tuitions

PROACTIVE FINANCIAL PLANNING

Background

To calibrate the financial projection model for Park Ridge - Niles 64, three years of actual financial data, via audits and Annual Financial Report ("AFR") data, along with the current budget were analyzed in detail. That analysis provided factors that uniquely reflect both the revenue and expense patterns within District 64, and allowed investigation of the trends that they represent in order to subsequently forecast the financial health of the district over a 10-year financial horizon. District 64 is thus uniquely modeled in this plan development and almost any permutation or combination of circumstances or relationships can be projected into the future.

Variables

The overall basis for this study is the current actual situation, with the following considerations and assumptions:

General

- **Inflation** - Inflation, as measured by the government's Consumer Price Index (CPI), is a critical variable as the current sluggish economy struggles to recover, since it is the primary revenue driver in a tax capped district. After the known 0.1% for FY11 and 2.7% for FY12, CPI is projected to hesitate at 1.0% before stabilizing at 2.5% thereafter.
- **Enrollment** - Enrollment is expected to be relatively stable with only modest fluctuations over time. Demographic data just supplied by Kasarda has been incorporated in this development.
- **Class Size and New Programs** - Class size guidelines range from 22 at the lower grades to 28 in the upper grades. Current averages are in the 23-24 range.

Revenue

- **CPI** - as noted above
- **Equalized Assessed Valuation – EAV.**
 - **New construction EAV** - is assumed to continue at historical levels of about 1.5% per year
 - **Existing EAV** - is forecast by the county to go down 12% next year and is then assumed to resume the historical sawtooth patterns of tri-ennial increases followed by no to slow increases. The base case assumes that after next year the pattern will be a moderated to a recurring 10%, 1%, -3%, 10%, 1%, -3%.
- **Tax Rates** - Tax rates will comply with the PTELL (tax cap) calculations. Tax rates generally move inversely to the reassessments in existing EAVs and will thus result in a similar but inverse sawtooth pattern to EAV reassessments over time.

- **Stable State and Federal Funding.** As a base case, state and federal funding are assumed to be stable at current rates. Federal funding (at less than 1% of budget) is negligible in any case. State funding (at only about 6-7% of the budget) continues to be hard to predict given the budget woes in Springfield, but can be adjusted in the model as it evolves from Springfield; given its relatively small proportion, however, even significant changes are unlikely to have an appreciable effect on District 64.
- **Impact Fees.** Impact fees are generally modest and are included in ongoing O&M background revenue.
- **Other Funding.** There are several current sources of one-time/project related funding including the current federal "stimulus" dollars, and a current project for sound abatement. Those funds, amounting to about \$8 million in total, are expended as they are received and do not have any long term carryover effect.

Expenses

- **Wage and Benefit Escalations.** The PREA current contract obligations are incorporated into the base case model using a 2.5% base salary adjustment and an average step increase of 2%. Thereafter the base salary will be adjusted using the CPI-U factor for that year plus the 2% average step increase. Benefits are projected to increase at 7.5% over that CPI-U factor. This will of course be very dependent upon the overall economy and competitive pressures in the area as the situation evolves, but is a *critical* strategic factor in the district's future.
- **Debt Retirement.** Debt retirement is modeled according to the currently scheduled commitments, at payments of \$2.5-3.0 million/yr. The debt is scheduled to be retired in 2017.
- **Project Expenses.** There are a variety of current projects underway and some longer term potential projects that are included in these cases. Those include the current project of \$6 million for sound abatement and an ongoing commitment for miscellaneous projects that have been estimated at about \$2 million/yr this year and next and then averaging about \$1 million/yr thereafter.
- **Discretionary Improvements.** The board may also want to consider and prioritize any discretionary projects that might evolve over the coming years.
- **Other Costs.** O&M, Transportation, and other costs are assumed to escalate from current levels with CPI.

Any of these assumptions can be easily changed but these are used as the default basis. Sensitivities are investigated in a subsequent section.

Key Planning Issues

While there are a variety of variables that can affect Park Ridge Niles in the future, from a *strategic* point of view, the key emerging issues that can most dramatically affect District 64's future appear to be the evolution of the CPI in the evolving economy, and the level of salary and benefit escalations relative to that CPI.

These in turn can have an eventual effect on the ability to implement potential components of the strategic plan and the opportunity to enhance educational quality.

Many other factors can be (and are) accurately modeled, but these are the primary *strategic* drivers that will significantly affect District 64's future.

Methodology

This study examines these issues in a variety of permutations and combinations. In order to frame the issues and enable a thoughtful approach to future strategy and financial planning, several scenarios have been investigated in the following sequence.

- **Current Base Case (Section 3)**

The Current Base Case is developed using the current budget and historical revenue and expense data, and develops factors that accurately represent the district's current status and near term future. Analysis of the data suggests there is a high degree of correlation and confidence level that the district is in fact very accurately modeled. To frame the issues, the base case assumes current operations and expectations, and is used to highlight potential problems, opportunities and considerations. The primary thrust of this case is to examine the ability of the recent referendum to sustain future operations in the dramatically different economy that has evolved since it passed.

- **Strategic Staffing Case (Section 4)**

One of the possibilities offered by the recent referendum was the potential to enhance educational quality by implementing some strategic staffing initiatives. This case considers the financial capability to do this in the projected economic environment.

- **Stagnation Case (Section 5)**

This case investigates the effect on the school district of an economy that continues to flounder for several years. The primary variants are lower CPIs and negligible additions to the tax base

- **Rapid Recovery Case (Section 6)**

While Section 4 investigates the district's ability to weather a continuing economic storm, this case evaluates the prospects if the economy recovers more quickly and sustains its recent historical growth more effectively than is currently forecast. Such a robust rebound is suggested by only the most optimistic forecasters, but it does serve to frame the other end of the spectrum from the Section 5 Stagnation Case.

- **Future Cases (Section 7)**

- **Sensitivities (Section 8)**

The above cases are used to frame the boundaries for future strategic planning for Park Ridge-Niles. The Sensitivities section then investigates a wide range of sensitivities to the actual cases (none of which are likely to materialize exactly as outlined). A wide variety of assumptions have been investigated for different enrollment patterns and class sizes; with different EAV assumptions; at different levels of inflation, CPI and cost escalations; using alternate tax strategies; and in different timing scenarios. The model can be used to quickly project any combination or permutation of variants but this section also presents several useful approximations that can be used in "back-of-the-envelope" and "what-if?" discussions.

- **Summary (Section 9)**

This section provides a thumbnail summary of the results of this overall study.

- **Appendix (Section 10)**

The Appendix includes detailed tabular data of all input and output parameters, which are generally presented in visual/graphic format in the body of the report.

CURRENT BASE CASE

Basis

The *Current Base Case* is developed using historical revenue and expense data (via “AFRs”) along with current budget data, and develops factors and drivers that accurately represent the district’s current status and near term future. There is a high degree of correlation and confidence level that the district is in fact very accurately modeled. This case projects the current environment and expectations into the future, in order to develop and better understand emerging issues.

The assumptions in this case include:

Revenue Drivers

- A CPI inflation rate fluctuating at the known 01% and 2.7%, and then 1.0% before eventually stabilizing at a more historical 2.5%.
- Stable - albeit minimal - state and federal funding, with no ongoing "stimulus".
- EAVs escalating slower than historical patterns, at only about 3% on average for ongoing reassessments – but sporadically in the context of triennials. New construction is projected to continue at its historical levels of about 1.5% annually.
- Tax rates will be determined by evolving combinations of EAV and CPI within the PTELL tax cap formula.

Cost Drivers

- Enrollment patterns reflecting Kasarda’s Series B projections.
- A nominal average class size “index” of 24.
- Project work including current sound abatement, \$2 million of scheduled improvements this year and next, and a base sustaining level of \$1 million/yr thereafter.
- Cost increases that reflect the current contractual commitments. Thereafter the base salary will be adjusted annually using the CPI-U factor plus a 2% average step increase. Benefits will be escalated at 10% overall.
- Debt retirement as obligated by existing schedules.
- Other costs generally increasing at an inflationary CPI rate.

Significant Issues

The key strategic question in District 64's future appears to be the ability of the recently enacted referendum increases to sustain operations into the future, and particularly in the unexpected economic environment that has evolved in the meantime. The strategic issues in District 64's projected base case appear to be:

- The evolution of the CPI in the emerging economy and its effect on revenues within the new tax structure.
- The ongoing escalation of expenses, particularly salaries and benefits, which constitute the bulk of operating expenses.
- The financial ability to implement various educational enhancements proposed by the Strategic Planning Team.

Evolution of the CPI and Revenue Stream

In a tax-capped district like 64, and particularly when 80-90% of the revenue stream comes from local tax dollars, revenue increases are directly linked to the CPI by the PTELL (tax cap) formula. With the current CPI at 0.1%, capped districts will see essentially *no* increase in revenue in FY11 although expenses will likely escalate in the 4-6% range, imbedding a permanent cash flow deficit of that amount into ongoing budgets. The two-fold question then becomes how does that downward reset in base level finances this year affect the long-range picture, and is that trend likely to continue. In the case of Park Ridge-Niles, the question is cast in the context of the sustainability of the recent referendum increases.

As of this writing, the CPI for FY12 has just been set at 2.7% with an emerging consensus that it may flatten for a year at 1% or so before recovering. This base case projects it to then continue in more historical range of 2.5% after the economy recovers from its current doldrums. As a result, next year's 0.1% anomaly (hopefully), and short term fluctuations, will dampen the level of positive cash flows and moderate the trend of increasing fund balances, but should produce a solid long range trend nonetheless.

Ongoing Expense Control

Certainly the largest expense factor in any school budget is salaries and benefits. In District 64's case, S&B constitute about 70-75% of the operating budget. Balancing this primary expense element against available revenue is always a critical strategic issue.

In a tax-capped district like 64, increases in tax revenue are generally limited to the CPI level by the PTELL (tax cap) Law. As a result, expenses must also be controlled within that same CPI level of inflation in order to keep cash flows in balance and fund balances in the black. This is particularly true in District 64 where 80-90% of its revenue typically comes from these local tax dollars. As a consequence, the absolute level of increases in salaries and benefits is *not* the key variable, but rather the level of increase *relative to CPI* is the strategic consideration. Expense increases above CPI are generally possible only if new additions to the tax base add comparable amounts to the revenue side of the cash flow ledger. New construction additions to the EAV tax base have generally averaged about 1-2% in Park Ridge-Niles and that level is projected to continue in this base case.

This base case assumes a CPI eventually stabilizing at an average of 2.5%. Salary and benefit increases above that level will be a critical factor to consider in future years, particularly in combination with the evolution of any additions to the tax base which might support those increases. The model provides the tools and ability to model any combination of salary and benefit escalations, additional EAVs, and other factors that may develop.

Strategic Staffing Initiatives

Potential strategic staffing initiatives are *not* considered in this base case but are investigated separately later.

Capital/Project Work

There are several sizeable capital projects currently underway and a smaller ongoing base level envisioned. Those should not be a long term strategic issue since the current projects are adequately funded by outside sources and the longer term projects can be accommodated within ongoing budgeted cash flows.

Other Issues

Enrollment, debt obligations, and a variety of other issues can of course also affect the District 64 future. All can be and have been evaluated within this modeling framework. They are generally of much smaller *strategic* importance, however, and/or are generally masked by the larger issues outlined above

Summary

This *Current Base Case* reflects the current situation and expectations, and projects them into the future. Key issues, as outlined above, include the evolution of the CPI and revenue drivers on one side of the ledger, control of ongoing expenses on the other side, and in combination the sustainability of current operations within the financial framework created by the recent tax increases.

A breakdown of the Park Ridge Niles current revenue sources and expense elements is presented first for reference in the next 2 pages. Then the subsequent set of charts illustrates the overall picture for District 64 over the next decade under these base case assumptions.

In general, the completion of the referendum phase-in has in fact positioned District 64 as intended with solid fund balances and the flexibility to consider a variety of strategic initiatives in the future.

Subsequent cases investigate strategic variations to this base case.

To: Board of Education
Philip Bender, Superintendent

From: Rebecca Allard, Business Manager

Subject: Summary of Tentative 2009 Tax Extension

Date: October 14, 2010

The tentative 2009 tax extension information has been received. The impact on the 2010-11 budget will be minimal depending on actual collections for the 2nd installment of the 2009 and the first installment of the 2010 tax extension. Remember the first installment has been delayed from March 1 to April 1. The following is a comparison to the 2008 tax extension:

	2008 Tax Rate*	2009 Tax Rate**	Rate Change	% Change
Education	1.9570	1.8996	(0.0574)	-2.93%
Special Education***	0.0158	0.0212	0.0054	34.18%
Operations & Maintenance	0.2917	0.3177	0.0260	8.91%
Transportation	0.0893	0.0953	0.0060	6.72%
IMRF****	0.0446	0.0529	0.0083	18.61%
Social Security****	0.0566	0.0593	0.0027	4.77%
Working Cash	0.0428	0.0500	0.0072	16.82%
Tort Immunity	0.0595	0.0635	0.0040	6.72%
Sub-Total	<u>2.5573</u>	<u>2.5595</u>	0.0022	0.09%
Debt Service	<u>0.1271</u>	<u>0.1258</u>	(0.0013)	-1.02%
Total	<u>2.6844</u>	<u>2.6853</u>	0.0009	0.03%

* 2008 Levy calculated using a CPI-U factor of 4.1% / limiting rate 2.558

**2009 Levy calculated using a CPI-U factor of 0.1% / limiting rate 2.560

***Special Education monies are a part of the Education Fund

****IMRF & Social Security monies are a part of the Retirement Fund

2008 Tax Extension*	2009 Tax Extension**	\$ Change	% Change
\$41,516,066	\$40,611,477	(\$904,589)	-2.18%
\$335,209	\$452,746	\$117,537	35.06%
\$6,189,180	\$6,791,191	\$602,011	9.73%
\$1,894,305	\$2,037,358	\$143,053	7.55%
\$947,153	\$1,131,865	\$184,712	19.50%
\$1,199,728	\$1,267,689	\$67,961	5.66%
\$908,869	\$1,068,457	\$159,588	17.56%
\$1,262,871	\$1,358,238	\$95,367	7.55%
<u>\$54,253,381</u>	<u>\$54,719,021</u>	<u>\$465,640</u>	<u>0.86%</u>
<u>\$2,697,385</u>	<u>\$2,690,520</u>	<u>(\$6,865)</u>	<u>-0.25%</u>
<u>\$56,950,766</u>	<u>\$57,409,541</u>	<u>\$458,775</u>	<u>0.81%</u>

* 2008 Levy calculated using a CPI-U factor of 4.1% / limiting rate 2.558

**2009 Levy calculated using a CPI-U factor of 0.1% / limiting rate 2.560

***Special Education monies are a part of the Education Fund

****IMRF & Social Security monies are a part of the Retirement Fund

The change in Equalized Assessed Valuation (EAV) from 2008 to 2009 is:

District Summary	2008 Tax Year	2009 Tax Year	Change in Value	% Change
Total EAV	2,121,453,047	2,137,881,366	16,428,319	0.77%
New Construction	23,786,571	15,461,652	(8,324,919)	-35.00%
Township Summary	TOTAL EAV 2008 Tax Year	TOTAL EAV 2009 Tax Year	Change in Value	% Change
Leyden	112,329,623	112,692,281	362,658	0.32%
Maine	1,811,563,508	1,829,113,517	17,550,009	0.97%
Norwood Park	197,559,916	196,075,568	(1,484,348)	-0.75%
	2,121,453,047	2,137,881,366	16,428,319	0.77%
Township Summary	NEW Construction 2008 Tax Year	New Construction 2009 Tax Year	Change in Value	% Change
Leyden	2,624,542	742,180	(1,882,362)	-71.72%
Maine	19,608,706	13,451,065	(6,157,641)	-31.40%
Norwood Park	1,553,323	1,268,407	(284,916)	-18.34%
	23,786,571	15,461,652	(8,324,919)	-35.00%

Bureau of Labor Statistics

**Consumer Price Index - All Urban Consumers
Factor Used in Tax Cap Formula**

Calendar Year	Dec	Levy Year
2000	3.4	2001
2001	1.6	2002
2002	2.4	2003
2003	1.9	2004
2004	3.3	2005
2005	3.4	2006
2006	2.5	2007
2007	4.1	2008
2008	0.1	2009
2009	2.7	2010
2010		2011

District 64 - EAV and New Property Projection

Levy Year	Total EAV	% Inc	Reassessment of Existing Property	% Inc	New Property	% of Total EAV	Historical CPI
1993	738,811,766	2.22%			na	na	2.90%
1994	731,907,590	-0.93%	729,819,026		2,088,564	0.28%	2.70%
1995	815,292,747	11.39%	807,983,533	10.71%	7,309,214	1.00%	2.70%
1996	832,461,443	2.11%	820,663,308		11,798,135	1.45%	2.50%
1997	834,460,709	0.24%	827,530,524		6,930,185	0.83%	3.30%
1998	948,479,779	13.66%	930,965,075		17,514,704	2.10%	1.70%
1999	990,987,653	4.48%	972,422,640		18,565,013	1.96%	1.60%
2000	982,104,432	-0.90%	973,407,766		8,696,666	0.88%	2.70%
2001	1,207,541,055	22.95%	1,187,604,462		19,936,593	2.03%	3.40%
2002	1,297,844,521	7.48%	1,285,696,938		12,147,583	1.01%	1.60%
2003	1,283,624,374	-1.10%	1,273,432,789	-1.9%	10,191,585	0.79%	2.40%
2004	1,492,147,457	16.24%	1,470,758,943	14.6%	21,388,514	1.67%	1.90%
2005	1,594,439,099	6.86%	1,558,057,711	4.4%	36,381,388	2.44%	3.30%
2006	1,625,641,143	1.96%	1,587,537,544	-0.4%	38,103,599	2.39%	3.40%
2007	1,968,799,003	21.11%	1,922,966,246	18.3%	45,832,757	2.82%	2.50%
2008	2,121,453,047	7.75%	2,097,666,476	6.5%	23,786,571	1.12%	4.10%
2009	2,137,881,366	0.77%	2,122,419,714	0.0%	15,461,652	0.72%	0.10%
2010	2,502,882,055	17.07%	2,484,780,634	16.2%	18,101,421	0.72%	2.70%
2011	2,646,421,362	5.73%	2,627,281,831	5.0%	19,139,531	0.72%	1.00%
2012	2,651,605,211	0.20%	2,632,428,190	-0.5%	19,177,022	0.72%	2.50%
2013	3,104,314,021	17.07%	3,081,862,905	16.2%	22,451,116	0.72%	2.50%
2014	3,282,345,216	5.73%	3,258,606,537	5.0%	23,738,679	0.72%	2.50%
2015	3,288,774,722	0.20%	3,264,989,543	-0.5%	23,785,119	0.72%	2.50%

Average Tri-Annual
1st Year 17.07%
2nd Year 5.73%
3rd Year 0.20%

Park Ridge - Niles Community Consolidated School District 64
History of Tax Collections - as of September 30, 2010

Tax Year	Taxes Extended	Gross Taxes Distributed	General Refunds	Illegal Rate Refunds	SP/PTAB Refunds	Net Tax Collections Distributed	% of Collections	TIF Rebates	Interest Earning
1990	\$18,031,072.98	\$18,159,728.43	(\$305,619.96)	(\$3,813.99)	(\$2,095.16)	\$17,848,199.32	98.99%	\$0.00	\$24,577.40
1991	\$18,359,259.35	\$18,452,110.72	(\$243,461.92)	(\$3,651.73)	(\$46,875.30)	\$18,158,121.77	98.90%	\$0.00	\$16,692.27
1992	\$18,423,208.78	\$18,734,295.93	(\$425,232.17)	(\$3,593.69)	(\$169,256.14)	\$18,136,213.93	98.44%	\$0.00	\$10,868.57
1993	\$21,455,093.45	\$21,692,511.02	(\$283,065.43)	\$0.00	(\$116,826.26)	\$21,292,619.33	99.24%	\$0.00	\$8,710.87
1994	\$22,271,947.61	\$22,351,068.67	(\$354,735.14)	\$0.00	(\$118,888.85)	\$21,877,444.68	98.23%	\$0.00	\$10,795.40
1995	\$22,909,725.99	\$22,966,829.27	(\$282,542.77)	(\$6,942.58)	(\$239,507.25)	\$22,437,836.67	97.94%	\$0.00	\$14,400.57
1996	\$24,049,826.96	\$24,174,139.10	(\$206,791.75)	(\$6,983.23)	(\$228,642.60)	\$23,731,721.52	98.68%	\$0.00	\$12,131.88
1997	\$29,606,666.20	\$29,371,099.98	(\$273,339.94)	(\$5,773.07)	(\$252,056.97)	\$28,839,930.00	97.41%	\$0.00	\$184,695.77
1998	\$29,924,348.57	\$30,097,042.98	(\$409,449.34)	(\$5,323.59)	(\$189,543.92)	\$29,492,726.13	98.56%	\$0.00	\$77,090.66
1999	\$31,810,704.85	\$32,088,818.76	(\$247,118.75)	(\$4,474.01)	(\$143,270.92)	\$31,693,955.08	99.63%	\$0.00	\$67,545.10
2000	\$32,664,793.01	\$32,797,294.81	(\$293,671.83)	(\$3,477.43)	(\$110,081.03)	\$32,390,064.52	99.16%	\$0.00	\$76,603.65
2001	\$34,439,070.94	\$34,742,611.82	(\$384,117.82)	\$0.00	(\$234,941.89)	\$34,123,552.11	99.08%	\$0.00	\$18,094.78
2002	\$35,249,456.69	\$34,440,284.28	(\$347,986.15)	\$0.00	(\$198,611.53)	\$33,893,686.60	96.15%	\$0.00	\$14,968.03
2003	\$36,313,734.40	\$36,550,648.40	(\$473,380.68)	\$0.00	(\$98,438.57)	\$35,978,829.15	99.08%	\$0.00	\$19,732.31
2004	\$37,689,842.84	\$37,747,619.68	(\$540,258.49)	\$0.00	(\$193,636.38)	\$37,013,724.81	98.21%	\$0.00	\$59,877.94
2005	\$41,168,072.93	\$41,339,326.49	(\$675,075.26)	\$0.00	(\$154,061.79)	\$40,510,189.44	98.40%	\$0.00	\$84,940.08
2006	\$49,026,951.98	\$49,262,486.60	(\$691,629.03)	\$0.00	(\$137,333.53)	\$48,433,524.04	98.79%	\$0.00	\$96,026.55
2007	\$56,109,794.06	\$56,187,784.39	(\$893,776.48)	\$0.00	(\$64,064.54)	\$55,229,943.37	98.43%	\$0.00	\$50,707.54
2008	\$56,946,822.21	\$56,489,594.25	(\$589,721.58)	\$0.00	(\$2,425.09)	\$55,897,447.58	98.16%	\$0.00	\$11,697.97
2009	\$57,409,541.00	\$30,294,461.09	\$0.00	\$0.00	\$0.00	\$30,294,461.09	52.77%	\$0.00	\$2,709.76
2010									

Tentative

Source of Information: http://tae.cookcountytreasurer.com/report2.wu4?tae_id=04-0260-000