BOARD OF EDUCATION
COMMUNITY CONSOLIDATED SCHOOL DISTRICT 64

Minutes of the Committee-of-the-Whole on Finance
held at 7:00 p.m. February 14, 2011
Hendee Educational Service Center
164 S. Prospect Ave., Park Ridge, IL 60068

President John Heyde called the meeting to order at 6:35 p.m. Other Board members present were Genie Taddeo (arrived in progess), Eric Uhlig, Sharon Lawson, Ted Smart, and Scott Zimmerman. Also present were Superintendent Philip Bender, Assistant Superintendents Diane Betts and Sandra Stringer (arrived in progress), Business Manager Becky Allard, Director of EIS/RtI Lynne Farmer, Director of Pupil Services Kathleen Nelson, Director of Technology Terri Bresnahan, Director of Facility Management Scott Mackall (arrived in progress), Public Information Coordinator Bernadette Tramm, and four members of the public.

Mr. Heyde stated the purpose of the meeting was to receive an update to the District's 10-year financial projections prepared by Mr. Lawrence Heidemann of StratPlan Consulting & Modeling, and further updates prepared by Business Manager Becky Allard. Ms. Allard noted that this was the first annual review since the original report was submitted in February 2010.

Ms. Allard previewed the four cases to be reviewed at the meeting: current base case is the status quo and all other cases are plus/minus this base; strategic staffing case, which adds $300,000 or $400,000 of possible program improvements for the next four years; stagnation case, which decreases revenue through the Consumer Price Index-Urban (CPI-U) by 0.5% and also assumes some budget reductions in future years; and a rapid recovery case, which increases CPI-U by 1.0%. She noted that the model utilizes data publicly available from the Illinois State Board of Education, Cook County and District 64.

Ms. Allard noted that overall, the successful 2007 referendum had positioned District 64 well for the future. She noted that at that time, the Board said that absent any dire economic developments, it would not approach voters again for tax rate relief for 10 years and would maintain an operating fund balance policy of having 33% or approximately 120 days of cash on hand at the end of each fiscal year.

Ms. Allard reviewed the District's operating expense per student, which reflects the increased expenditures for Federal Aviation Administration (FAA) projects as well as American Recovery & Reinvestment Act (ARRA) grants. The expense per student would be lower if those one-time expenditures were removed. She offered to prepare a report for the Board without those unusual items that would be more reflective of the District's actual operating expenses. Ms. Allard then reviewed the CPI-U history, and pointed out that the highest level was in 2007 with a minimal 0.1% increase in 2008, followed by increases of 2.7% in 299 and 1.5% for 2010. She then noted that projections going forward for the base case would alternate between 1.5% and 2% each year.

Her report also displayed a sensitivity analysis, which provided as a rule of thumb that 1% in CPI is roughly equivalent to 5¢ in tax rate. In turn, the 5¢ is roughly equivalent to $1 million in annual revenues, 2-3% in salary and benefit costs, a class size increment plus/minus one or an additional 10 staff members. Ms. Allard then presented pie charts for the 2010-11 revenue and expenditure budgets.

- **Base Case**

Ms. Allard reported that this case had been modified by StratPlan to reflect current economic conditions, and incorporates another year of the District's actual audited financial results as well as the current fiscal year budget. She reviewed revenue and expenditure assumptions included in this case. The impact on the District's bonded indebtedness, tax rates, cash flows and end-of-year fund balances for total funds and by the education fund and working cash funds were noted. Ms. Allard noted that higher sustained spending for capital projects would reduce the cash on hand in later years. Under the base case, the District would have total cash on hand of 162 days in 2016-17, which would meet the 120 day target in the Board's operating fund balance policy. The District's financial status as designated by the Illinois State Board of Education would fall between the first or second categories of recognition or review. In all, she concluded that many districts would be very pleased to have District 64's financial story to tell.

- **Strategic Staffing Case**

Ms. Allard then reviewed the assumptions in three other scenarios that she had updated based on the new StratPlan base case. The first is adding $300,000 or $400,000 per year for five years to support educational program improvements possibly stemming from the District 64 Strategic Plan. She noted that a year ago, this case had modeled adding $500,000, but that she could no longer suggest adding this amount. The impact would be dropping the end-of-year fund balance to 148 days for the lower amount and 144 for the higher.

- **Stagnation Case**

Ms. Allard said this case includes both a reduction in CPI growth by 0.5% and a permanent reduction in expenditures for three years beginning in 2012-13. She stated that it might actually be possible to achieve these expenditure reductions in advance of this target through expected savings for transportation beginning next year and possibly in smaller increases in the cost of providing health insurance benefits. This scenario creates a year-end fund balance of 178 days in 2016-17, which is higher than the base case.

- **Rapid Recovery Case**

Ms. Allard noted that this final scenario boosts CPI growth by 1.0%, which also creates a higher end of year balance of 176 days in 2016-17.

In summary, Ms. Allard pointed out that the District would maintain the fund balance policy in all four scenarios through 2016-17. She then recommended that the Board review these projections twice a year: at final budget adoption in September and again in February when the next annual CPI factor is available. She noted that the District continues to position itself well with solid fund balances, positive cash flows and considerable flexibility, and that she looks forward to continuing to work with the Community Finance Committee to review the forecasts and to continue finding ways to manage spending.

Board members then asked for clarification of particular assumptions in some of the scenarios, such as enrollment projections, and the procedure to have Ms. Allard prepare other scenarios with alternate assumptions in coming months. Board members agreed that the District will need to continue focusing on expenditures to forestall the time when they outstrip revenues and the District's fund balance will begin declining.

Mr. Heyde expressed particular concern about salary escalation assumptions in the base case model. Ms. Allard noted that the current Park Ridge Education Association contract obligations are incorporated into the base case model using a 2.5% base salary adjustment and an average step increase of 2%, and that thereafter, the base salary will be adjusted using the CPI-U factor for that year plus the 2% average step increase. Mr. Heyde said he was concerned that salary increases this year totaled more towards 7%. Ms. Allard noted that the District's new expenditure system should make it easier to examine where expenses are going at each salary category and therefore to track where increases are coming from. Mr. Heyde requested that Ms. Allard prepare a scenario using a 5.5% increase instead of 4.5% for comparison.

Mr. Heyde summarized by noting that building on initial efforts prior to the referendum, the District had greatly improved its ability to do long-range financial forecasting, and that it continues to be an extremely helpful tool when the Board makes budgeting decisions. The Board was in agreement about the need to review budgeting decisions holistically, so that it could evaluate major expenditures not just in relation to current spending but within the long-range context as well. Ms. Allard was asked to continue providing sensitivity analysis whenever possible for major expenditures, such as for facility projects, when they are brought before the Board for consideration.

Mr. Heyde also expressed interest in having Ms. Allard maintain a running list of ways the District has cut expenditures or otherwise saved money, so that these incremental efforts each year are not forgotten over the longer term.

Mr. Heyde concluded the Committee-of-the-Whole on Finance meeting at 7:20 p.m., which was followed by a brief recess before the regular Board of Education meeting.

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President

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Secretary