

BOARD OF EDUCATION
COMMUNITY CONSOLIDATED SCHOOL DISTRICT 64

Minutes of the Committee-of-the-Whole on Finance
held at 6:00 p.m. May 9, 2011
Roosevelt School
1001 S. Fairview Ave., Park Ridge, IL 60068

President John Heyde called the meeting to order at 6:02 p.m. Other Board members present were Scott Zimmerman, Eric Uhlig, Pat Fioretto, Sharon Lawson, Dan Collins and Anthony H. Borrelli. Also present were Superintendent Philip Bender, Assistant Superintendents Diane Betts and Sandra Stringer, Business Manager Becky Allard, Director of EIS/RtI Lynne Farmer, Director of Facility Management Scott Mackall, Public Information Coordinator Bernadette Tramm and one member of the public.

Mr. Heyde stated the purpose of the meeting was to receive the first draft of the District's proposed budget for 2011-12 from Business Manager Allard.

Ms. Allard began by reviewing the purpose of the budget, timing of the budget hearing and final adoption, and the legal format of fund accounting. She then provided an overview of the budget overall in comparison to the 2010-11 budget. Ms. Allard noted that operating fund revenues are expected to decrease by 11.51% due to reductions in funding from the Federal Aviation Administration (FAA), the American Recovery and Reinvestment Act (ARRA), and the state. When these sources are removed, operating fund revenues are still expected to decrease but only by 0.05%. On the expenditure side, she noted that operating fund expenditures are expected to decrease by 7.82% due to the reductions in FAA and ARRA expenditures. When these are removed, operating fund expenditures actually will increase by 2.6%. She further noted that salaries and employee benefits account for 78% of the operating fund budget, and that salary expenses are expected to increase 5.43% and benefit costs by 9.44%.

Ms. Allard then reviewed a projected statement of position on June 30, 2012, which indicates that the closing operating fund balance of \$37,474,029 is expected to increase by \$48,130 over the opening balance on July 1, 2011. She noted that this 2012 closing balance would represent a 55.53% estimated expense to fund balance ratio. Ms. Allard noted that the Board might want to adjust the levy in December to provide greater funding for the Education Fund and less for the Transportation Fund to better reflect the expected expenditures in those individual funds.

Ms. Allard then moved to a detailed revenue analysis, noting that 84% of operating fund revenues are contributed by local property taxes. She noted that property taxes are subject to the tax cap, the Property Tax Extension Limitation Law (PTELL), which limits the annual increase to the lesser of 5% or the CPI-U, which in 2011 was 1.5%. She said a very conservative estimate had been used for this budget. Ms. Allard also clarified the timing for the Board of the delays in how the CPI for each year impacts the levy and the actual tax installments received, and noted for example, that in spring 2011 the District is receiving the first installment of 2010 taxes that are based on the 0.1% CPI from 2009.

She also reviewed a history of property tax collections for eight years. She noted that the first installment paid in the spring is actually delayed this year by state law. The current collection percentage of 49.3% appears low on the budget, although she noted that the District had received a large tax deposit in early May that is not reflected on the current

draft. Following several Board member comments about the collection percentage used in the budget, Ms. Allard proposed that the Board in June discuss whether the 98.5% estimate for property tax collections should be adjusted for the proposed budget based on several more months of data from 2011. She then reviewed the composition of the tax collections received in fall 2011 and spring 2012.

Ms. Allard introduced the other revenue components in the proposed budget:

- Personal Property Replacement Tax (PPRT) is economy-driven and reflects that the economy is recovering. Ms. Allard stated that the budgeted amount for 2011-12 is conservative, because it is actually the amount the District already had received in the current fiscal year.
- The state's General State Aid foundation level is \$6,119 per student, however District 64 currently receives only \$397 based on an alternate formula applied to 147 school districts. Ms. Allard said this amount was maintained in the 2011-12 budget.
- Other local income includes tuition, student fees and other student fees that have been adjusted based on the Board-adopted fee schedules, according to Ms. Allard. The local Uptown Tax Increment Financing (TIF) revenue has been increased based on the City of Park Ridge projections.
- For other state revenue, Ms. Allard noted that the District was budgeting very conservatively due to the state's continuing cash flow problems by anticipating only three payments from 2010-11 being received and no payments for 2011-12. Several grants also were being eliminated. Ms. Allard announced that the state was going to a reimbursement mode, so that school districts would spend funds and then request reimbursement rather than automatically receiving payments.
- For other federal revenue, she noted that ARRA and FAA funding would be eliminated as projects were completed and that funding for those projects was expected to be received by June 30, 2011.

Turning to expenditures, Ms. Allard noted that overall, 66% of the operating fund budget is salary expense. The 2011-12 budget is the third year of the ongoing contractual agreements with teachers, teacher assistants and other staff groups. Ms. Allard said the budget reflects a base salary increase for all categories of 2.5%, and that all employees with the exception of the administrative staff, receive a "step" increment as they move through the salary schedule. The total operating fund salary budget will increase by 5.43% to \$44.1 million. She noted that the staffing level includes an additional 10 teachers to support fluctuations in class size sections due to enrollment and three instructional coaches for technology, which are currently under consideration by the Board as part of the 2011-12 Strategic Plan implementation activities.

Board President Heyde and Dr. Bender then clarified for other Board members the District's class size guidelines and how new sections are opened as actual enrollments become known at each grade level by school. Ms. Allard noted that the budget is built on hiring teachers with a Master's degree and five years of experience valued at \$65,000 for budget purposes, but that the Board could consider directing the District to hire at the lower end of the salary schedule for teachers with less education or experience, which would reduce the estimated cost.

Turning to benefits, Ms. Allard stated the benefits line item included an estimated health insurance increase of 10%, but that the actual increase would be known later in the summer when the insurance renewal is finalized. In addition, this line item also includes post-

retirement benefits for certified staff. Overall, benefit expense in the operating funds is budgeted to increase by 9.44% and accounts for 12% of operating fund expenditures.

Ms. Allard then reviewed each fund separately to point out key revenue and expenditure items, and illustrated the impact of the loss of ARRA and FAA funding and expenses as applicable. She particularly noted:

- Education Fund expenditures overall are expected to increase by 3.43%.
- When capital outlay and related architect, construction manager and engineering fees are removed, Operations & Maintenance Fund expenditures will decrease by 3.58% in 2011-12. The fund, however, does include the summer capital projects the Board will be asked to approve for Carpenter and Franklin schools as well as costs associated with preparing a facility master plan.
- Transportation costs will decline by 22.6% as a result of bidding of transportation services contract.
- Retirement fund costs are statutory benefit payments, and expenditures are expected to increase by 3.23%
- Tort fund costs are budgeted at current levels and will be updated when insurance costs are known in the summer.

Finally, Ms. Allard reviewed the budget adoption schedule, which includes an additional Committee-of-the-Whole review prior to adoption of the tentative budget on June 27. A hearing on the budget would be held on September 27, with adoption of the final budget that evening to meet the legal requirement. Several updates also would be presented over the summer.

In response to Board member concerns about a quorum being available on June 27, it was agreed to revert to the District's previous schedule of adopting the tentative budget at the July meeting, which this year will be July 11.

President Heyde then led the Board through a further discussion of various budget topics, including: collection rate of property taxes – Ms. Allard agreed to prepare a sensitivity analysis to indicate the impact on revenues for each 0.5% change in the collection rate that could be useful in developing different budget scenarios; tort fund salary line item – it had been used this year to indicate an insurance claim; and, interest income – was decreasing as new, lower rate investments were replacing higher interest investments as they are retired. The Board also discussed how to appropriately estimate the cost of the “step/lane” increase in the budget. Mr. Heyde noted that the rule of thumb in the past had been that a 2.5% base salary increase would result in an actual budget increase of 4.5% with step/lane worth 2%, but that this may no longer be accurate. He pointed to last year's Education Fund increase that had the same base salary increase but resulted in a 5% increase for step/lane in contrast to this year's budget of 3% for step/lane. He stated that this would be an area of continued study, and expressed appreciation for the detailed expenditure and revenue documents being provided as part of the budget, which permit even closer review.

Ms. Allard also responded to several other concerns:

- The Illinois State Board of Education financial profile ranking of a perfect 4.0 score will not be maintained indefinitely; the District's February 2011 long-range financial projections had the number declining, but being within the top “recognition” category for several years.
- Ms. Allard pointed out the cost of providing insurance benefits for employees is a continuing concern, and that the District's recent investigation of insurance pool

purchasing would not reduce our costs. She stated that federal action on health care would also have an influence on the trend of health care costs. The budget for 2011-12 is based conservatively, and that the District is working to obtain the best renewal rate possible, which will be known over the summer.

President Heyde suggested that Board members with specific line item questions forward them to Ms. Allard for response. He also commented that the budget seems to be reaching the top of the parabola, where revenues and expenditures are balanced but no longer generating a surplus for the operating fund balance. He stated that each year seems to bring that balance point closer, before expenditures exceed revenues and the operating fund balance begins to decline each year. He pointed out that the February 2010 financial projections indicated a peak fund balance of 67% in 2012-13 or 2013-14, and that the current budget for 2011-12 shows the District reaching a 55% fund balance as the top. Ms. Allard noted that the current budget draft is based on very conservative numbers for the coming year and that it will be refined in several future drafts as more data is known, which will help clarify the outlook for further Board discussion and analysis.

Mr. Heyde concluded the Committee-of-the-Whole on Finance meeting at 7:11 p.m., which was followed by a brief recess before the regular Board of Education meeting.

President

Secretary