BOARD OF EDUCATION
COMMUNITY CONSOLIDATED SCHOOL DISTRICT 64

COMMITTEE-OF-THE-WHOLE:

FINANCE

MONDAY, FEBRUARY 13, 2012
7:00 P.M.

RAYMOND HENDEE EDUCATIONAL SERVICE CENTER
164 SOUTH PROSPECT AVENUE

AGENDA

	APPENDIX
CALL TO ORDER AND ROLL CALL	
PRESENTATION OF LONG-RANGE FINANCIAL PROJECTIONS	A-1
DISCUSSION OF BORROWING OPPORTUNITIES/CAPITAL IMPROVEMENTS	A-2
CONTINUATION OF FACILITY MASTER PLAN: ROLES, GOALS & CONTROLS	A-3

BOARD ADJOURNED TO CLOSED SESSION
- THE EMPLOYMENT OF SPECIFIC INDIVIDUAL(S) – 5 ILCS 120/2(c)(1)
- COLLECTIVE NEGOTIATIONS - 5 ILCS 120/2(c)(2)

To: Board of Education
Philip Bender, Superintendent

From: Rebecca Allard, Business Manager

Date: February 13, 2012

Subject: StratPlan Financial Projections

For the third year, StratPlan Consulting & Modeling has assisted the District in the preparation of the 2012 financial projections. The attached report is for Board review in preparation for the February 13, 2012, Committee of the Whole (COW) meeting.

More than ever the creditability of a schools financial condition is subject to public scrutiny. The current economic times demand that a school district analyze future spending plans under various assumptions to determine if spending patterns need to be altered in the short-term to support the stability of the District's financial future.

The assumptions built into the 10-year financial projections were developed based on the Board's discussion on November 14, 2011, and the CPI-U factor that will be used in 2011 tax extension.

The StratPlan Financial model will provide the District with a level of comfort only if the assumptions used to develop the base case are realistic from the perspective of the Board of Education, Administration, and the Community Finance Committee. There is flexibility built into the model so the District can build additional cases as it deems necessary.

The 10-year financial projections can be presented in multiple versions to assist the Board in analyzing variations that can occur over time depending on the assumptions used. The report that is attached is the Current Base Case and assumes status quo. During the COW you will be presented information that supports the strategic plan, a more rapid recovery in the economy and the economy in a downward spiral.

On Monday, February 13, during the COW, I will provide an extensive overview of the assumptions built into each of the cases.

Park Ridge - Niles Community Consolidated School District 64

Ten Year Financial Projections
February 2012 Update

Prepared by:
Lawrence Heidemann
StratPlan Consulting & Modeling

File Copy

FINANCIAL PROJECTIONS

Recent History

Park Ridge-Niles School District has a history of thoughtful strategic planning and responsible financial management. At the turn of the century, an operating tax rate of $3.32 (in FY99) was adequate to sustain ongoing operations even though the combination of federal and state support continued to provide only about 10% of the budget. As the decade progressed, however, it was becoming apparent that finances were under stress as the tax cap continued to nibble away at the property tax rate. By the 2007 school year that operating rate had been reduced to $2.31. As fund balances continued to drop and cash flows turned negative, expense cuts were initiated and class sizes increased. In the spring of 2007, however, voters approved a tax increase to reinstate part of that rate. The operating tax rate for 2008 was restored to $2.75 with the promise not to approach voters again before at least 2017, absent any dire economic developments.

Against that backdrop, the economy did take some dramatic turns in 2008 and 2009 and *StratPlan© Consulting* was enlisted in 2009 to evaluate District 64's financial outlook, to help investigate the sustainability of current operations in the emerging economic climate, and to consider whether the recent referendum would in fact accomplish its stated purpose in the new economic environment. That study recognized the evolving economic climate with reduced tax rates and flat revenue growth, and investigated variations on an evolving economy and District 64 planning options for the future.

The general conclusions were that Park Ridge-Niles had in fact positioned itself with solid fund balances, positive cash flows, considerable flexibility, and a bright future. Those fund balances were projected to provide the time and flexibility to enable thoughtful strategic consideration of such things as discretionary educational projects, class size considerations, additional facility improvements, or simple contingency to ward off the proverbial "Murphy" should he prove even more capricious.

In 2010-11, StratPlan was again enlisted to provide updated projections, armed with a new AFR (the audited "Annual Financial Report" for FY2010), a new budget for FY2011, and with new estimates on the outlook for the struggling economy and the local environment. Those projections were marginally worse, due to the ongoing malaise in the economy and weaker estimates for the local economic future.

Overall conclusions, however, were still similar. District 64 had established a solid foundation that should allow it to weather the current economic storms and evaluate its evolving status. Furthermore, the existence of its ongoing strategic planning process, and tools such as StratPlan, should enable the district to monitor economic developments and provide adequate early warnings of the need for proactive adjustments.

Looking Ahead

With that background and after another troubling year in the economy, StratPlan has again been enlisted to update previous projections, and to help keep a watchful eye on the financial horizon for the district. This update reflects current economic data, and incorporates another year of actual audited financial results for the last fiscal year and a new budget for the current year. Assumptions about the future and the economy are updated with the district's best estimates and a new base case is developed.

Variables & Assumptions

The economic outlook has not changed dramatically over the last year, but ongoing projections have evolved enough to alter anticipated trends somewhat. The overall basis for this study is the current actual situation, with the following updated considerations and assumptions:

General

- **Inflation/CPI** - 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 1.5% for FY13 and 3.0% for FY14, CPI is projected to fluctuate within the historical range of about 2.0 to 2.5% in the future.
- **Enrollment** - Enrollment is expected to be relatively stable with only modest fluctuations over time. Deltas from demographic data supplied by Kasarda have 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 and are assumed to remain at those levels.

Revenue

- **CPI** - as noted above
- **Equalized Assessed Valuation – EAV.**
  - **New Construction EAV** - is assumed to increase only slightly from current flat levels to a more historical level of about 1% growth per year.
  - **Existing EAV** - is forecast to resume the historical sawtooth patterns of tri-ennial increases followed by no to slow increases. The base case assumes that after this relatively flat year, the pattern will be revert to a recurring progression pattern of 1%, -3%, 10%, 1%, -3%, 10%.
- **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. No additional stimulus funds are anticipated.

- **Impact Fees.** Impact fees are generally modest and are included in ongoing O&M background revenue.
- **Other Funding.** There have been several current sources of one-time/project related funding including the recent federal "stimulus" dollars, and the current sound abatement project. Those funds have been expended as they were received and do not have any long term carryover effect. Those projects and those funds are not expected to be ongoing in the future.

Expenses

- **Salary and Benefit (S&B) Escalations.** The PREA current contract obligations are incorporated into the base case model. With negotiations for the next contract in the offing, current levels of 2.5% base salary adjustments, and 2% average step increases are repeated until that situation clarifies. Thereafter the base salary is adjusted using the CPI-U factor for that year plus the 2% average step increase. Benefits are projected to increase at about 5%, or about 2.5-3.0% over the assumed 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 (such as the sound abatement project) that are being completed and are included in these cases. This update includes estimates for significant new long-term project work currently estimated in the range of about $2.5-$3.0 million/yr. to be funded from ongoing O&M operating funds. There are, however, more in-depth studies underway to further clarify these rough initial estimates.
- **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.

CURRENT BASE CASE

General Conclusions

The outlook in this update is affected by several factors. The underlying picture is marginally better than last year's, due to evolving assumptions about the economy noted earlier. In addition, however, there are significant new considerations beginning to emerge on the expense side of the ledger.

- Due primarily to effective expense control, recent operations have provided budget under-runs about $3 million in operating funds and thus a more healthy starting point. The critical factor is whether these economic efficiencies have now been permanently imbedded in a lower expense profile. That lower profile is reflected in this update and has a significant compounding effect for the long term.
- On the other side of the ledger, however, are significantly higher estimates for future project costs of about that same magnitude (which are currently being refined).

The net of these two major factors (and numerous smaller factors) does result in better fund balance projections than last year, although trends still eventually turn downward as in previous work.

The short term, however, (3-5 years, or until an unofficial 2017 focal point) appears to be fairly stable. Previous solid planning efforts should now allow the flexibility to continue to watch the evolution in the economy and the environment, without the need to take any dramatic near term actions other than the ongoing prudent control of operating expenses. It should also provide the ability to at least begin some of the anticipated project work. There is ample time, flexibility, and resources to monitor the situation as it evolves over the next several years.

The major ***strategic*** factors on the respective sides of the ledger during that time frame continue to be:

> **Revenue - Evolution of the Tax Base.** The evolution of the EAV tax base is one of only two factors with the potential to have any significant impact on available revenues. Over the last decade, a modest amount of new construction combined with some "tear down/rebuilds" has gradually expanded the tax base enough to cope with expenses that were increasing faster than the CPI. With reduced to flat expansions now projected, that emphasizes the need to match ongoing expenses to expected CPI revenue increases. Resumption of historical levels of about 1% would add that amount of minimal annual revenue to the tax base.
>
> **Revenue - CPI-Driven Tax Income.** As noted previously, revenues will generally escalate only in direct proportion to CPI in a tax-cap district. If the slightly higher CPI estimates in this development do materialize, they may provide very modest revenue improvements – about 2.0-2.5% vs. the of 1.5-2.0% previously estimated.

Expenses - Recent Savings. As noted above, recent budget under-runs of about $3 million/yr have been incorporated into this development. The ability to sustain that new profile will be a critical factor in any ongoing financial strategies.

Expenses - Project Work. Studies are currently underway for significant increases in project work to be funded from O&M operating funds (or perhaps limited tax bonds). This update assumes $2.8M/yr from O&M funds until those studies are more refined.

Expenses - Salary and Benefit Escalations. As outlined in previous work, with the tax cap law limiting revenue increases to the CPI, overall expense escalations must be held around that same level. With S&B constituting 70-80% of operating expenses, those are the primary costs that must then be controlled within that same general range. Other overhead type costs such as utilities and maintenance, at 20-30% of the budget, tend to be either fixed or difficult to control. S&B will always be the critical factor in long term finances – and in particular their relation to ongoing CPI driven revenue increases.

Many Other Factors can of course affect long term planning. All have been included in this development and changes can be easily modeled. Most, however, are generally of smaller import and can either be accommodated in ongoing operations or are generally masked by larger issues.

The combination of those major factors suggest the following strategic conclusions for the near-term:

- The modest 4% or so projected increases in tax revenues from new construction and higher CPI do need to materialize to be able to fund the projected 5% increases in salaries and benefits initially assumed in this base case. That conceptual pairing is important since tax revenues constitute about 90% of total revenues and S&B expenses in turn are 70-80% of total expenses.

- If recent budget under-runs of about $3 million or so can be institutionalized, that may be an adequate source of net funding for possible longer-range project commitments. Otherwise that capital level may be unsustainable from operating funds.

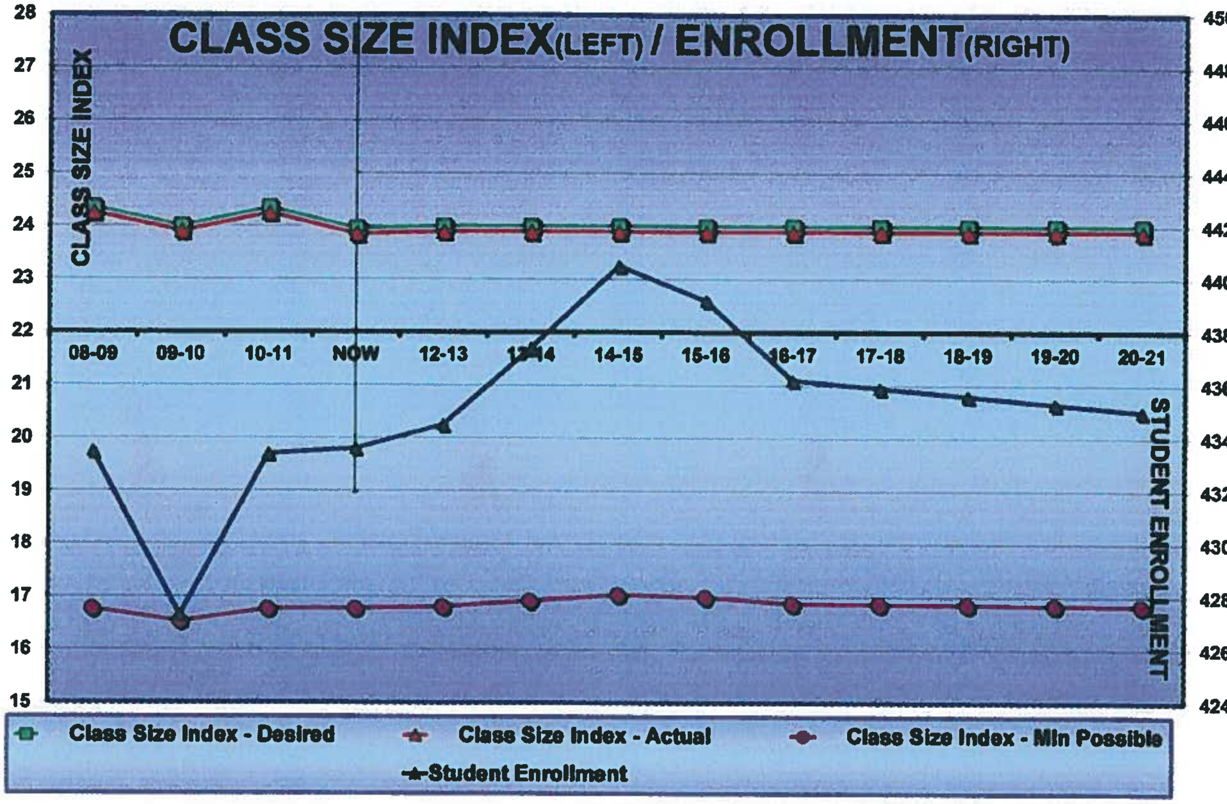
Overall, previous conclusions are still generally applicable:

> *"Park Ridge-Niles has in fact positioned itself with solid fund balances, positive cash flows, considerable flexibility, and a bright future. Those fund balances and that flexibility will enable thoughtful strategic consideration of such things as discretionary educational projects, class size considerations, additional facility improvements, or simple contingency to ward off the proverbial 'Murphy' should he arrive."*

That analysis does, however, come with the caveat to be constantly vigilant in the near term, and does suggest the need to do periodic re-evaluations such as this.

The following charts illustrate that overall position.

Current Base Case

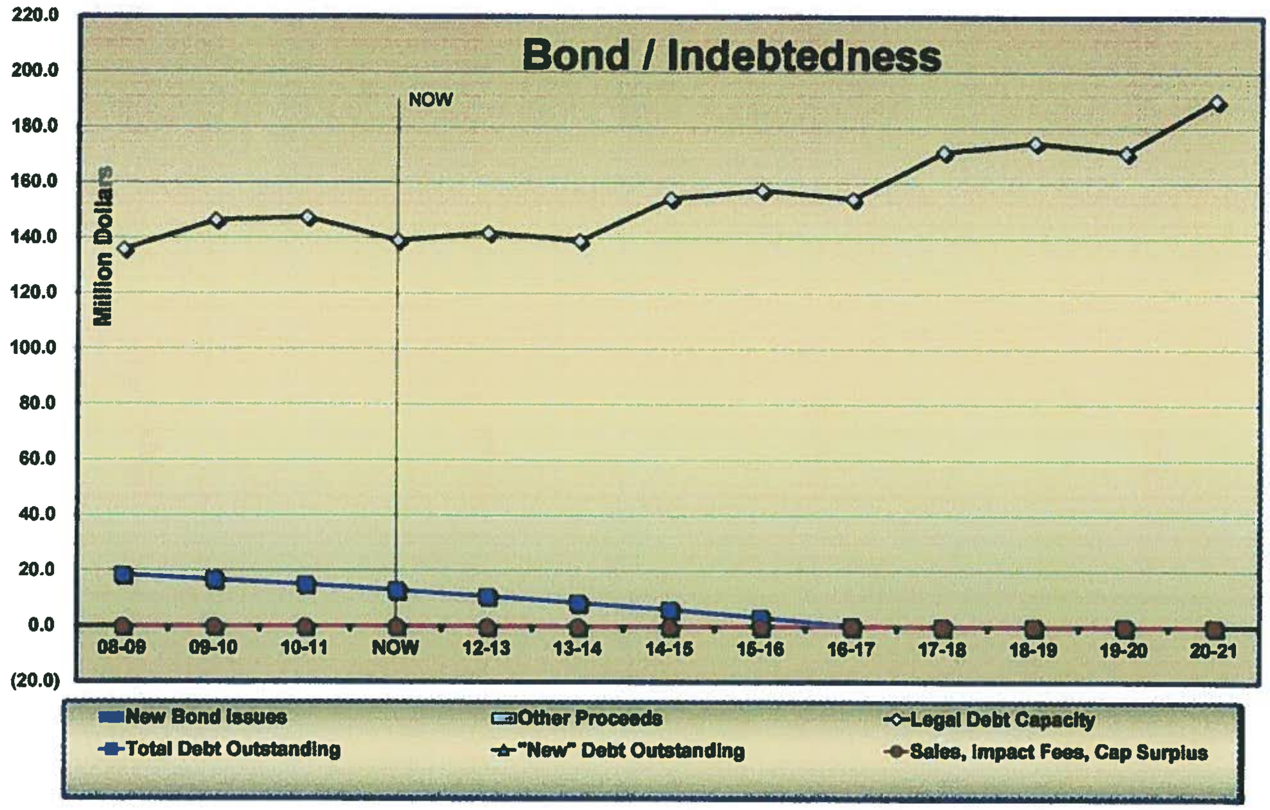


Current guidelines for class sizes range from the low 20s in the lower grades to the upper 20s in the upper grades and most schools have average class sizes below those target guidelines. Sixth day enrollment and October 30 attendance data indicate an ***overall*** district average in the 23-24 range (red/green - left scale), recognizing of course that averages can be deceptive given the planned difference between grades and the general variations between schools.

Various demographic studies in recent years have predicted enrollment in the 4,000-4,500 range. Kasarda has recently updated those studies and projections now suggest a stable enrollment in the relatively narrow range of 4,200-4,400 (blue - right scale). Deltas from the most recent Kasarda study have been used as increments from the current actual enrollment.

The district has considerable capacity available if needed. Average class sizes (from a purely capacity standpoint) could in fact be lowered into the upper teens (purple - left scale) if educationally beneficial or financially acceptable. For purposes of this study, the targeted class size index is held constant at 24 - recognizing of course that "averages" can mask considerable variations between grades and between schools.

Current Base Case

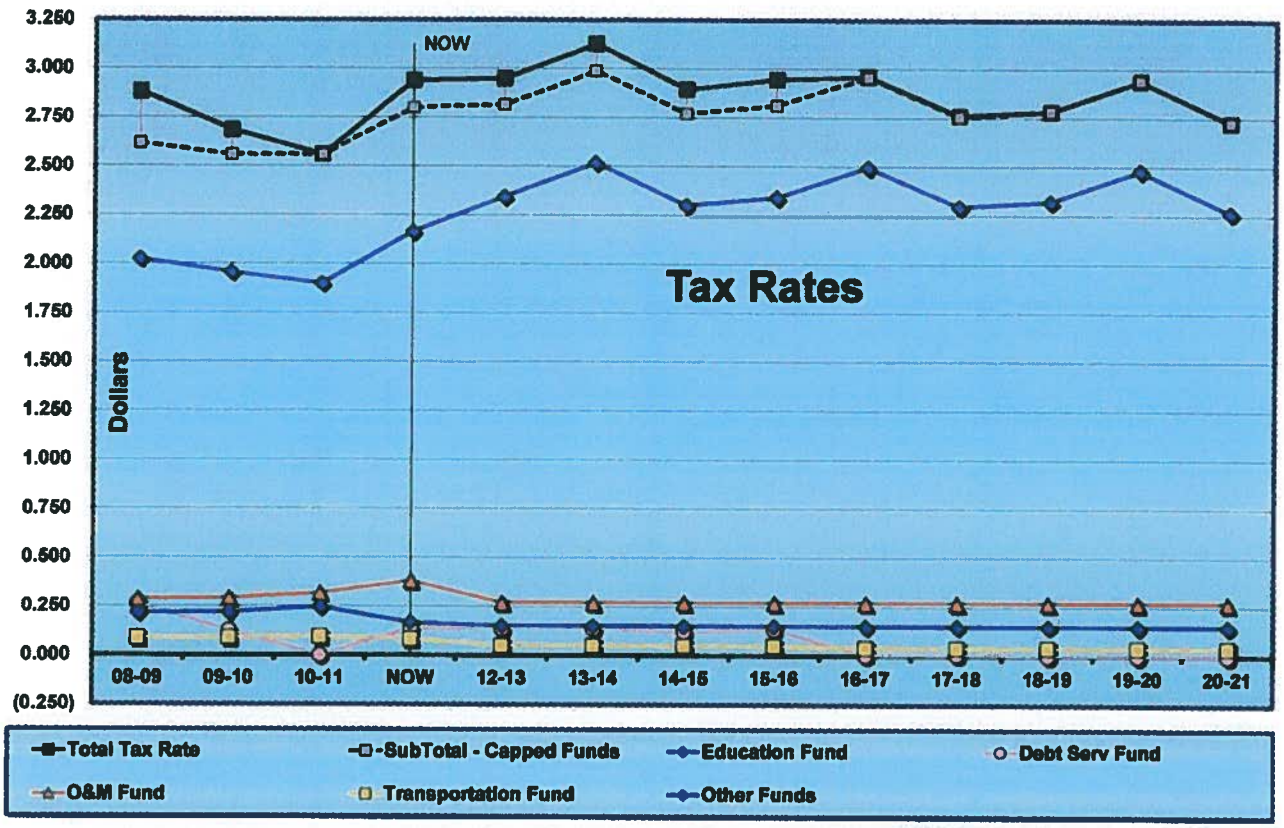


Debt is not a significant strategic issue for Park Ridge - Niles.

"Legal" debt capacity (black), as determined by EAV, is considerable and is not an issue. Actual debt (blue) is being steadily reduced and should be retired completely within a relatively few number of years.

(Interestingly, if an operating referendum were eventually considered necessary, the timing would be at about the time debt is retired and the B&I levy would disappear from the tax bills. That could potentially allow a strategic referendum asking the voters to simply replace the expiring debt levy of about 10-15 cents with a comparable operating levy - at ***no net tax rate increase.*** *That strategy has occasionally been effective in other districts.)*

Current Base Case



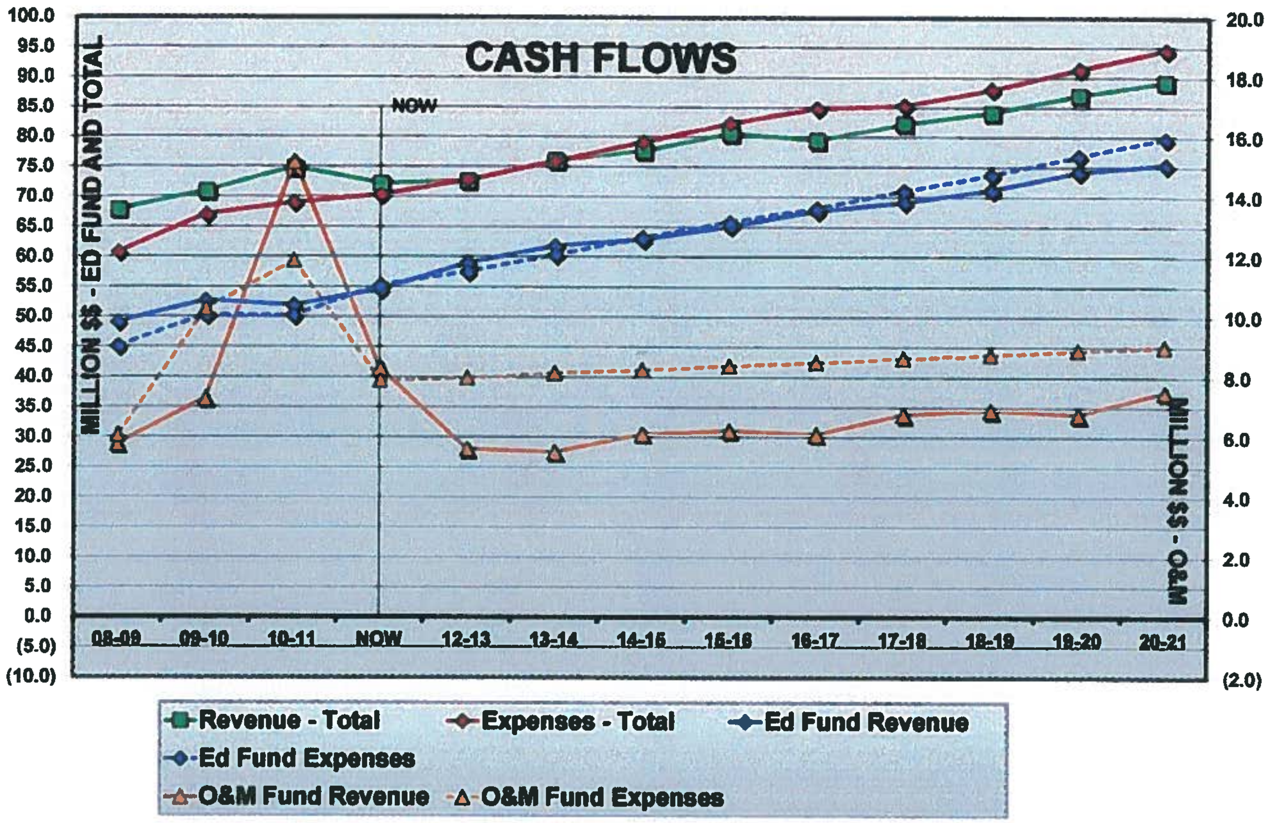
Operating tax rates are of course "capped" in District 64. That (gray) capped rate is the composite of all the individual rates below it, with the exception of the (pink) Debt Service rate which is not capped. That (pink) Debt wedge is added to the (gray) operating rate to yield the (black) total rate above it.

The "tri-ennial" re-assessment process in Cook County has historically created a sawtooth pattern for tax rates. When EAVs are reassessed upward in a given year, capped tax rates drop inversely to it and then are relatively flat to increasing in the subsequent two years.

Tax rates for the smaller funds have been held relatively flat to meet their ongoing obligations. The tax cap and tri-ennial variation are then absorbed in the larger Ed Fund (turquoise), which of course then translates into the same overall pattern for the Total (black) rate.

Note also that debt is retired in 2017 and the base line tax rate permanently drops 10-12 cents as that (pink) Debt Service wedge goes away.

Current Base Case



Cash flows for the major funds and totals are reflected in this chart.

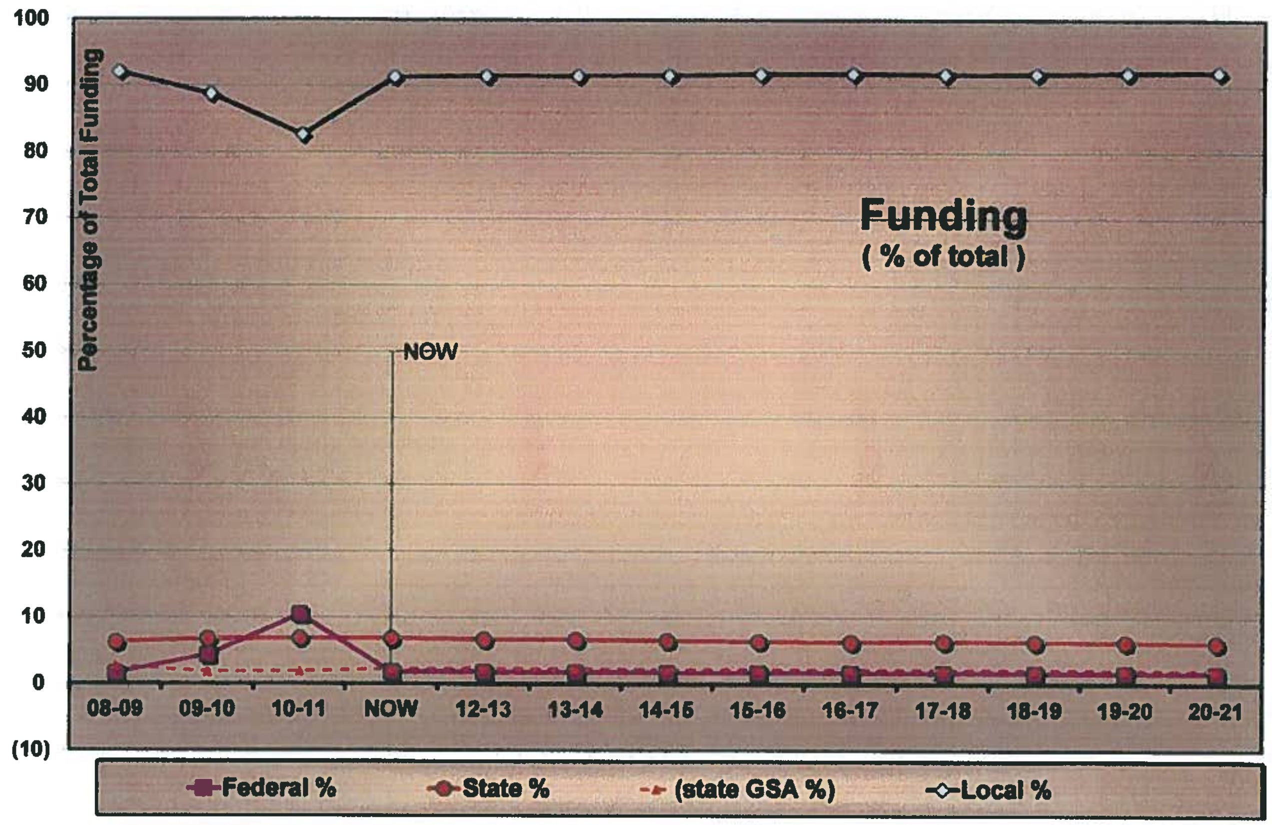
Operating cash flows for the smaller funds (not shown) are typically kept in relative balance by adjusting the annual levy process. The larger Ed Fund then absorbs any differences.

The recent and current blip in O&M (orange - ***smaller right scale***) is largely the result of abatement projects, funded primarily by extra federal dollars. Future O&M expenses (orange dashed - right scale) include significant capital expenditures in addition to ongoing operating expenses, and do exceed routine tax revenue for O&M operations. The deficit is addressed by drawing down Working Cash, as illustrated in the next set of Fund Balance Charts.

The recent referendum has provided the desired Ed Fund revenue (solid turquoise - larger left scale) to meet ongoing expenses (dashed turquoise - larger left scale) before a slight deficit begins to emerge. That slowly expanding deficit is the result of presumed contract escalations in salaries and benefits that continue to exceed the CPI-driven revenue increases.

In total, Revenues (green - left scale) are projected to adequately cover Expenses (red - left scale) for several years before the Ed Fund deficit, and in particular the ongoing O&M capital expenditures, begin to affect it.

Current Base Case



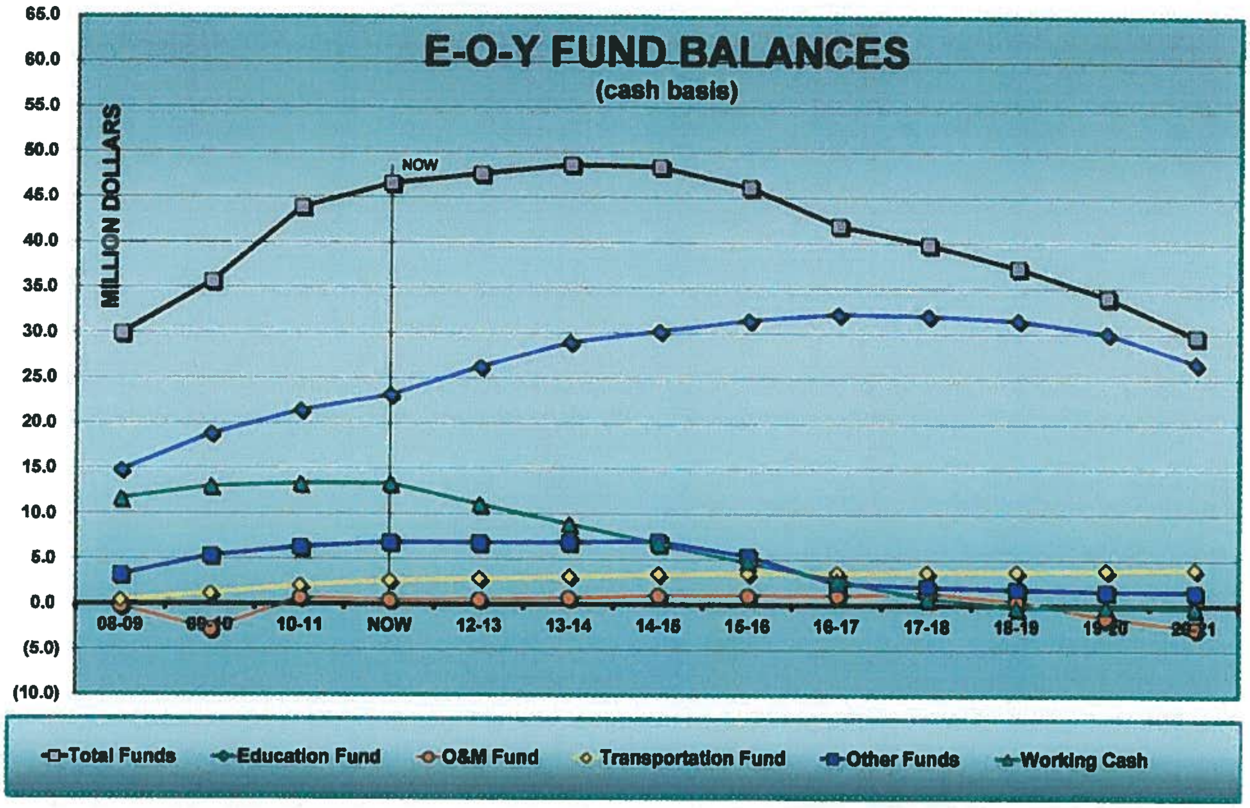
A significant feature of District 64's financial picture is the source of funding.

Federal revenue (purple) is minimal at about 1% of the budget, except for the temporary "stimulus" in 2009-11.

State support (red), including General State Aid, "Categoricals", and some transportation, typically total only 6-8% of the budget.

Essentially all of Park Ridge-Niles funding comes from local sources (black), primarily local property taxes.

Current Base Case



EAVs, tax rates, and cash flows result in these all important E-O-Y (end-of-year) Fund Balances.

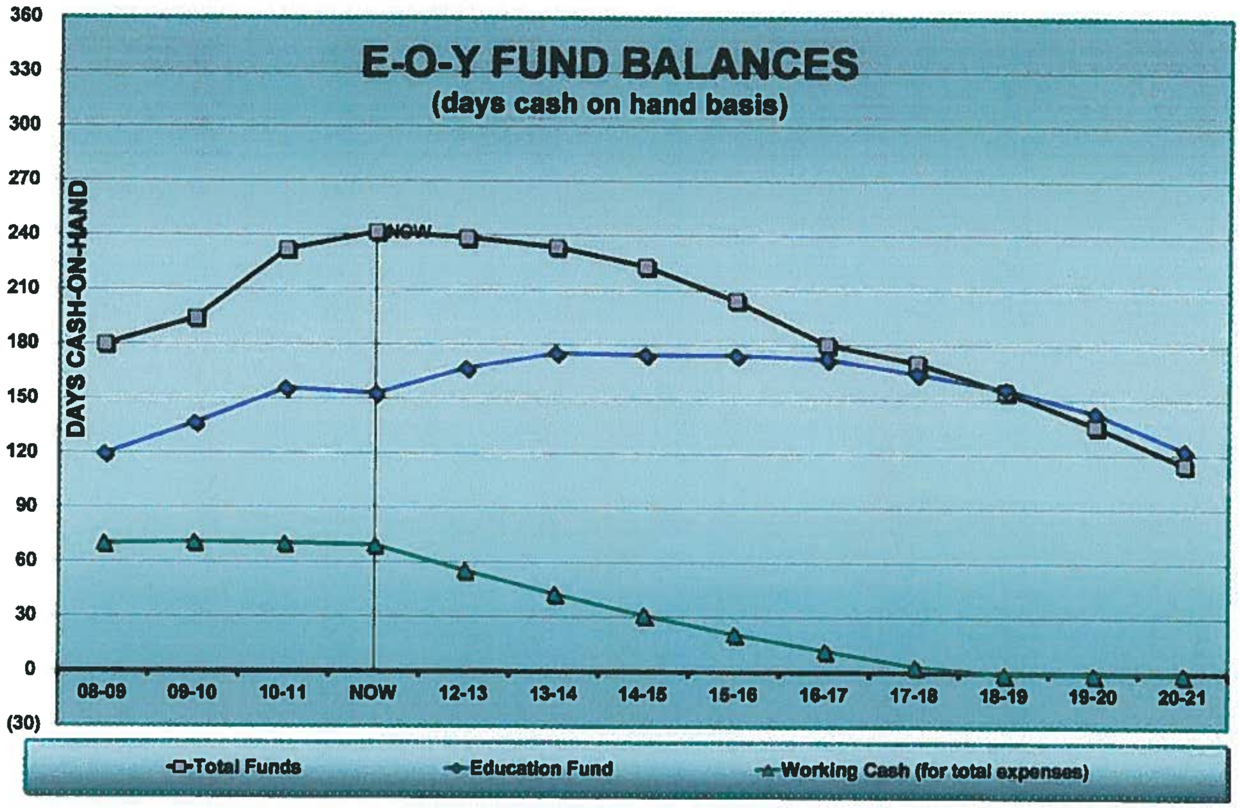
The smaller funds are routinely anchored with solid fund balances as levies are assessed over time to meet their ***operating*** obligations. The larger Ed Fund usually absorbs any larger fluctuations.

This base case, however, assumes an ongoing capital program being funded from the O&M Fund. Since routine O&M tax levies are inadequate to support that program, Working Cash (green) is routinely abated to the O&M fund to keep it solvent during the capital program until the working cash is depleted. (In effect the capital projects are being funded from accumulated working cash while available).

As expected from previous tax and cash flow charts, Total Fund Balances (black) are stable for several years until the compounding effects of increasing salaries and benefits and the ongoing capital program begin to turn the trend downward. Eventually both the Ed Fund (turquoise) and the Working Cash Fund (green) cannot support the ongoing drain and the drop in Total Fund Balances begins to mirror their decline.

There is considerable flexibility over time to adjust the fund balances of the smaller funds as needed via the levy process. In addition, the current healthy balances in both the (turquoise) Ed Fund and the (green) Working Cash Fund continue to provide an important strategic source of flexibility to make internal allocations and consider emerging strategic decisions (as illustrated here) as the environment evolves. ***Overall Total Funds (black) remains the key strategic parameter.***

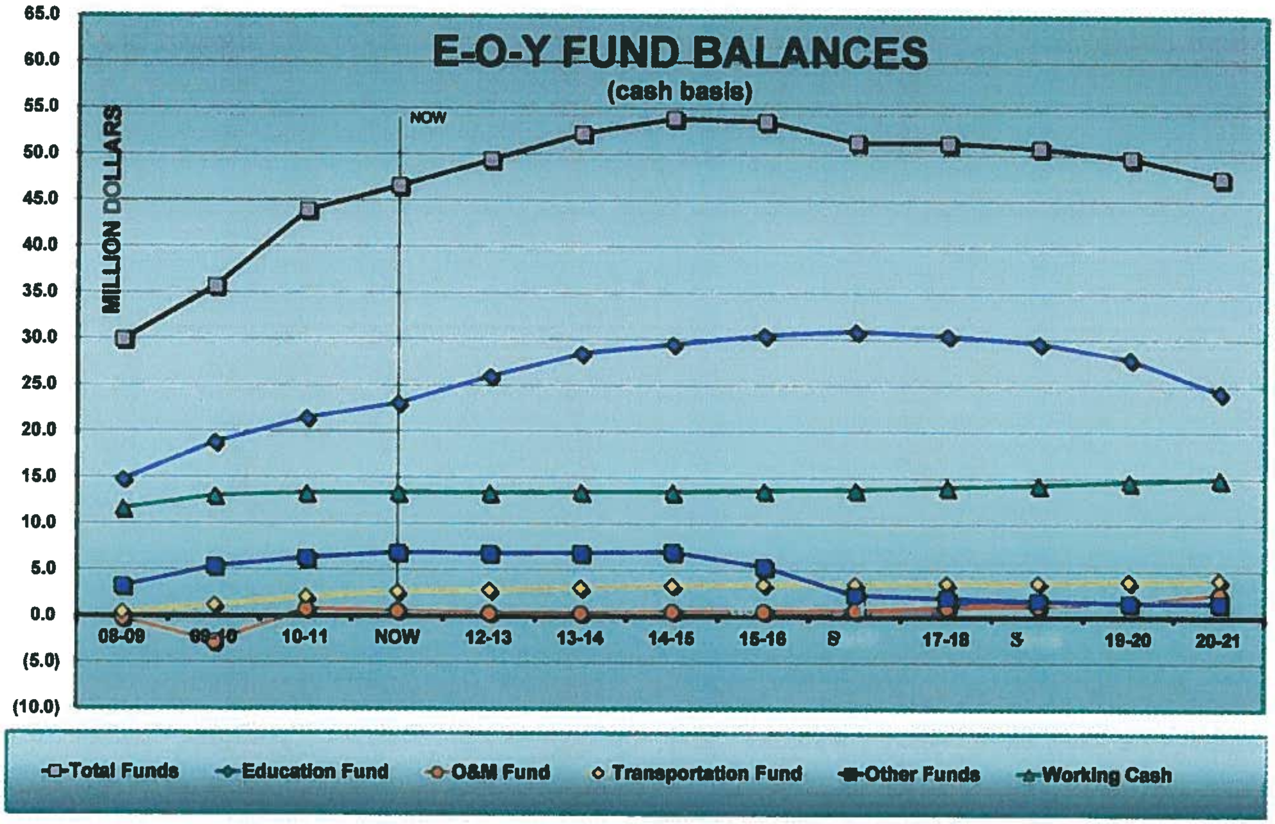
Current Base Case



An alternative way to look at fund balances is on a "days-cash-on-hand" basis. As future fund balances were changing on previous charts, so were expense obligations. This chart normalizes those effects and looks at how many days expenses can be paid without new cash infusions. Since tax receipts generally arrive in two major dispersements from the county, most districts target for a 3-6 month range in total. Park Ridge - Niles in fact targets for 4 months (⅓ year) and is projected in total to fall comfortably above or within that range well into the future.

This chart does suggest that there is probably little need for immediate concern about projections of eventually declining fund balances. That declining trend is very gradual for a number of years and is dependent in any case on the assumptions of increasing S&B escalations, a continued flat EAV tax base, and hefty project work. Those longer term effect can be monitored over the next several years as long as potential concerns continue to be recognized this far in advance.

Alternate Base Cases



It is also instructive to isolate the comparative effect of the sizeable capital program currently under consideration.

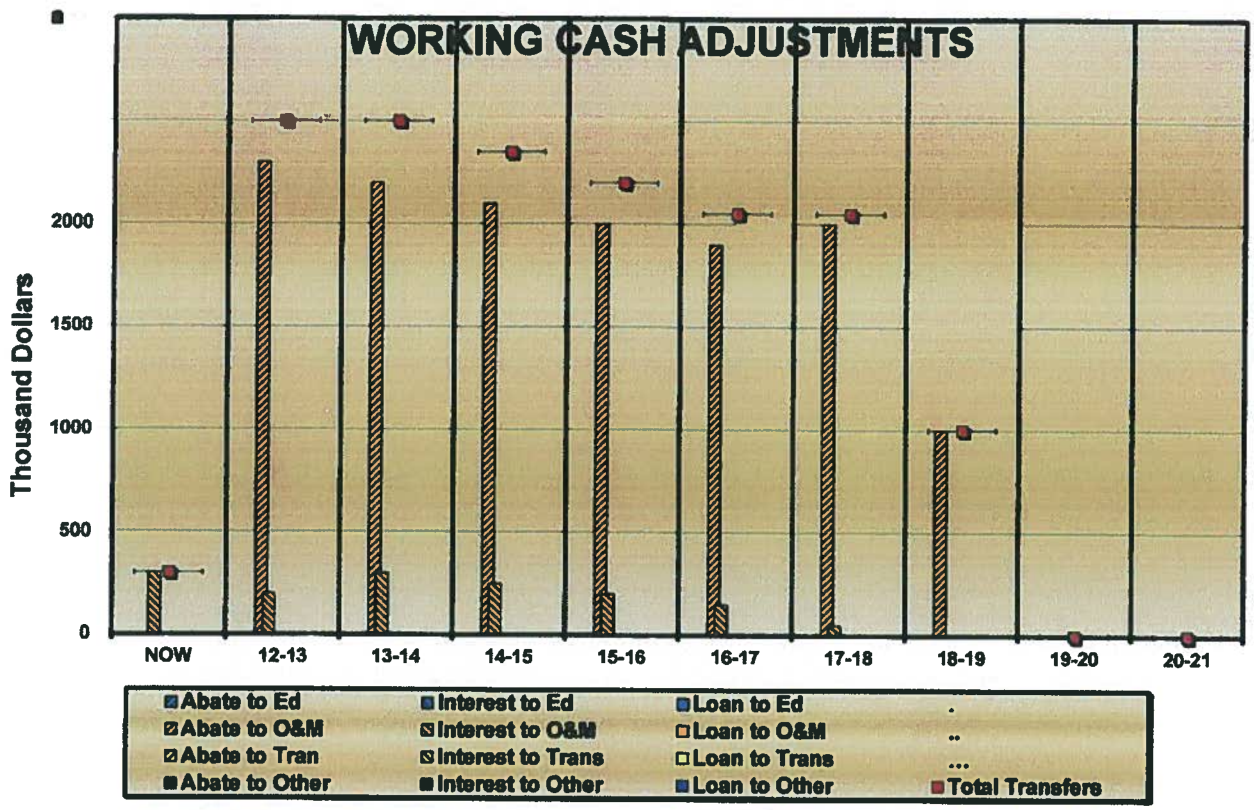
The above comparison is identical to the previous case, except that a nominal $1 million/yr capital program assumed in previous financial studies is retained, instead of the estimated $2.8 million/yr now being considered.

As a result, the (orange) O&M Fund can accommodate that level of program within its normal levies, the (green) Working Cash remains intact as a strategic reserve, the smaller funds are unaffected, and the (turquoise) Ed Fund trend is similar due to the eventual compounding effect of salary and benefit increases.

As before, there is considerable flexibility over time to adjust the fund balances of the smaller funds as needed via the levy process. The current healthy balances in both the (turquoise) Ed Fund and the (green) Working Cash Fund continue to provide an important strategic source of flexibility to make internal allocations and consider emerging strategic decisions as the environment evolves.

Overall Total Funds (black) continues to remain the key strategic parameter.

Current Base Case

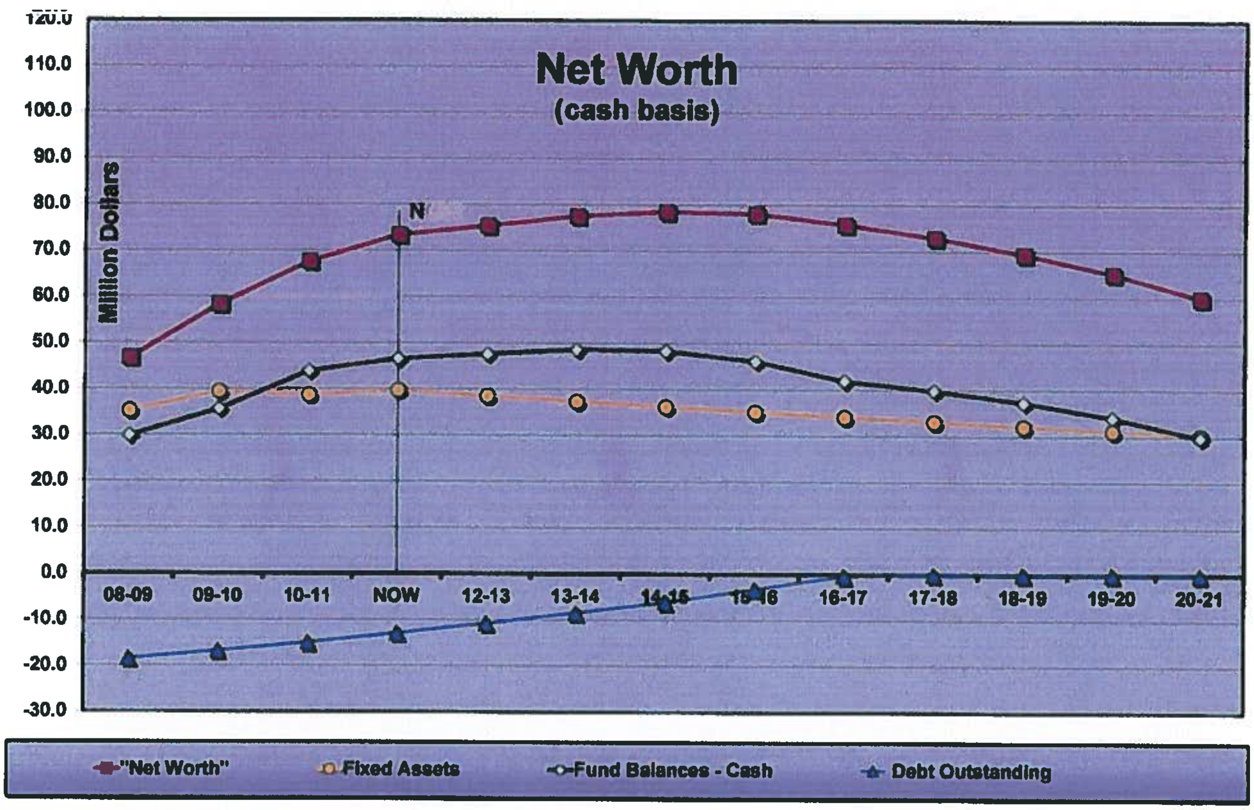


In this base case scenario, about $15 million in working cash and earned interest is abated to the O&M fund to support the capital projects, until the working cash fund is depleted.

Alternatively, the possibility of issuing limited tax bonds has also been raised as a potential source of funding.

In an interesting coincidence, at this rate of project expense and W/C abatement, working cash would be depleted in about the 2017 time frame that had been suggested as the next possible referendum date if needed.

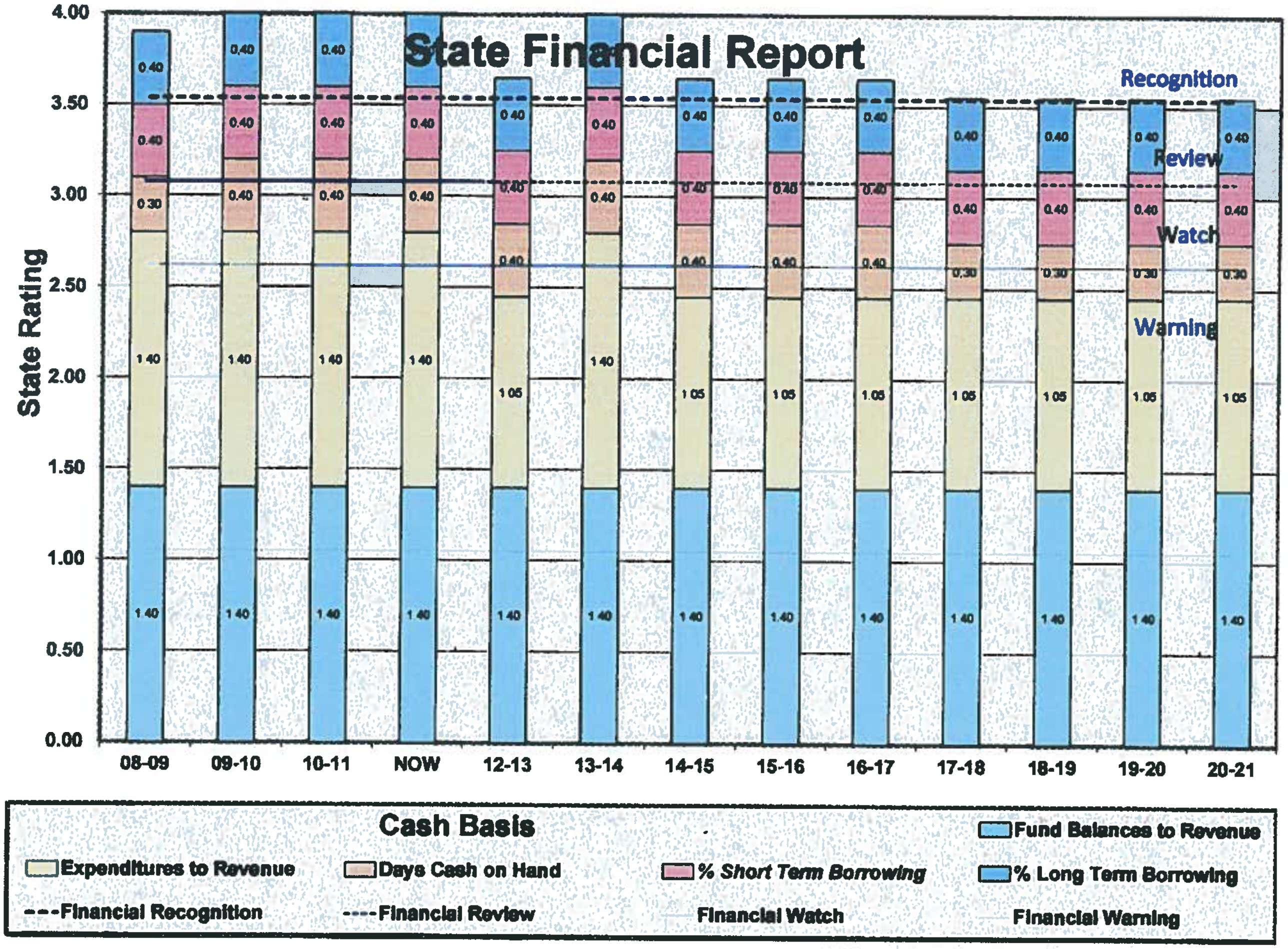
Current Base Case



Although public entities are not strictly analogous to private industry, Net Worth is still a reasonable metric to assess general stewardship. In its simplest form, Net Worth is the sum of Fixed Assets (orange) plus Cash Balances (black) less Debt (blue).

Net Worth (maroon) is relatively stable as declining debt generally offsets the effects of slowly declining fund balances and depreciating fixed assets.

Current Base Case



The state of Illinois of course has its own financial report card for school districts. The five parameters it measures result in a rating from 0 to 4. Park Ridge - Niles ratings have climbed into the top "Recognition" category after the recent referendum and are expected to remain in or around that level in the future.

SENSITIVITIES

Basis

It is virtually certain that whatever evolves, it ***will not*** be exactly as modeled in any of these cases. Sensitivities were run to all of the variables presented in the variables/planning section. While all can of course change, and all will then have some subsequent effect, only a few of them are critical from a ***strategic*** viewpoint.

The two major strategic factors in the Park Ridge Niles future include the ability to sustain the recent reduction in its ongoing expenses and a subsequent ability to be able to apply those funds to future capital project work. Once that strategic trade-off has been better defined, the ongoing underlying factors include the evolution of the current struggling economy, with its effect on revenues and the recent referendum increases, the control of future salary and benefit escalations on the other side of the ledger, and the ability to implement potential educational enhancements.

Other factors such as fluctuations in state/federal aid can be (and have been) accurately modeled, but are generally of smaller import and can either be accommodated in ongoing operations or are generally masked by the larger issues. One particularly useful approximation is that a budget difference of +/- $1 million equates to about 5 "days-cash-on-hand".

Useful Rules of Thumb

There are a variety of approximate relationships that can be used for "what-if?" discussions of sensitivities. All are dependent to a degree on where and in which case they are applied and upon the timing, because of varying EAVs, tax rates, enrollment and other factors. All can be verified in detail within the model if they are under active consideration. Nonetheless, they are useful for "back of the envelope" or in scoping discussions. Some useful approximate rules of thumb are:

	is roughly equivalent to
• each 1% change in CPI	5 cent tax rate
• each 1% salary & benefit escalation	2 cent tax rate
• each 1% spread between EAV/CPI	2 cent tax rate
• each 10% change in level of state/federal funding	3 cent tax rate
• each $700k (~1%) in ongoing expenses or revenue	4 cent tax rate
• each class size increment of +/-1	5 cent tax rate
• each two additional staff members	1 cent tax rate
• each $10 million in new construction EAV	3 cent tax rate

Or, when considering tax rates, referenda, or tax cap consequences,

each 5 cent tax rate increment is roughly equivalent to:

- $1M annual revenues
- 2-3% salaries/benefits
- Class size increment of +/- 1
- Additional 10 staff members

SUMMARY and CONCLUSIONS

Overall Summary

Previous studies by StratPlan have evaluated the Park Ridge - Niles long range financial outlook. A particular focus was if the recent operating referendum would in fact stabilize District 64's finances as envisioned through about 2017, in light of the dramatic turn of events in the local, national, and worldwide economies. Several alternate scenarios investigated that same question and the effects on the quality of education and ongoing plans should either a faster or slower economic recovery evolve.

With now another year of economic doldrums, and another year of actual financial data and budgets, StratPlan has revisited the Park Ridge - Niles long-range outlook.

Concerns about a faltering economy and local tax base, in the face of potential salary and benefit escalations, continue to be the underlying primary focus (as they are currently in most districts). Variations in previous studies investigating the effects of healthy versus anemic recoveries are still fairly applicable. Those increments can still be directionally superimposed on this base case update, and overall the district has adequate flexibility to ensure a successful future.

Two new emerging developments, however, now have the potential to change that landscape and expand the scope of strategic planning.

Discussions are being held on the merits and size of an extended capital improvement program. Recognizing those discussions are still at a very early development stage, current estimates used in this StratPlan development are for $2.8 million/yr during this study window. That would obviously be a significant drain on the expense side of the ledger. Existing fund balances could fund some portion of a capital plan, but eventually either a referendum or limited tax bonds may be required if the scope is extensive.

On the other hand, actual performance in recent years and the current fiscal year budget both suggest the district has been able to lower its underlying expense profile in the range of $2-3 million. If that is in fact true, and more importantly if it has been institutionalized, that can provide significant flexibility to address a wide-range of issues – including an expanded capital program.

Conclusions and Recommendations

The suggested strategic course of action seems to be:

For routine operations:

- Continue to watch the economy and the tax base evolve over the next year or two
- Consider ongoing S&B escalations based on those underlying trends

For capital projects:

- Evaluate the degree of sustainability of recent expense improvements
- Determine how much of those savings are available to apply to capital projects
- Begin a capital program based on those two factors

For a long term focus:

- Recognize the potential alignment of a variety of issues coming to a head around the unofficial 2017 focal point
- Begin to consider strategic options resulting from a combination of debt retirement, working cash depletion in some scenarios, a possible node in overall fund balance trends, and an expiring referendum commitment.

The overall conclusions for Park Ridge - Niles remains consistent. The District 64 is ***basically stable*** - certainly in the near term, and likely until the unofficial 2017 date. Variations past that point are very dependent on the evolution of the economy and the tax base, on the compounding effects of short range operating activities and expenditures, and on major capital decisions.

Over that horizon, StratPlan can continue to be used to investigate variations on those themes, to evaluate the implications of periodic contract negotiations, to incorporate the effects of imbedded expense savings and resulting capital programs, to address unforeseen situations, and/or to consider any new initiatives that may arise.

Financial Projections

Board of Education
Committee of the Whole
February 13, 2012

Financial Projections Are:

- *Both an art & a science*
- *An essential element of planning*
  - *They can anticipate future financial performance*
    - ***No one can predict the future***

Agenda

- Background Information
- Current Base Case
- Strategic Staffing Case
- Stagnation Case w/Technology Coaches
- Rapid Recovery Case w/Technology Coaches
- Conclusion
- Board Discussion

3

BACKGROUND

4

Background

- StratPlan
  - Financial forecasting model designed & developed by Lawrence Heidemann in the mid 90's;
    - Independent analysis;
    - Provides an *analytical focus* rather than just presenting numbers;
    - Highlights strategic issues, problems and opportunities;
    - Allows for a strategic view of the District's financial future;
    - Allows for optimization of a long term strategy.

5

Background

- Why Financial Projections?
  - Public scrutiny of financial position
  - Current economic conditions demand
    - Schools analyze future spending plans under various assumptions so they can…
      - ***Fiscal Sustainability***
      - Determine if spending patterns need to change to support the long-term financial strength of the district

6

Background

Model is flexible enough to run multiple sensitivity analyses
Each case projects the impact on the ending (aggregate) fund balances

- Why StratPlan?
  - Different view of financial information
    - Current Base Case
      - Status quo
    - Strategic Staffing Case
      - All other cases are plus or minus
      - Includes funding for additional technology coaches
        - (Pending Board approval)
    - Stagnation Case w/Technology Coaches
      - CPI-U decreased by 1.0%
    - Rapid Recovery Case w/Technology Coaches
      - CPI-U is increased by 1.0%

7

Background

- **Information used in the StratPlan model can be found online at:**
  - Illinois State Board of Education
    - Annual Financial Reports
    - General State Aid
    - Housing & Enrollment
    - Financial Profile
  - Cook County
    - Assessed Value
    - Tax Information
  - District 64
    - Budgets
    - Audits
    - Annual Statement of Publication

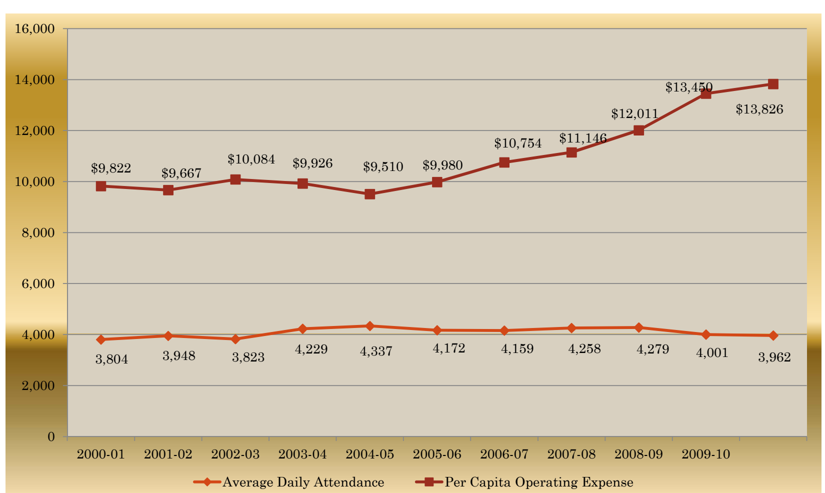
8

Background

- ***Successful 2007 Referendum***
  - ***Board of Education said…***
    - Absent any dire economic developments
    - Will not approach voters again before 2017
    - Maintain fund balance
      - 33%
      - ***120 days of cash on hand***

9

Operating Expense Per Student



10

History of CPI-U

December XXXX CPI-U Used in PTELL Formula	Levy Year	CPI-U
1990		6.1%
1991		3.1%
2003		1.9%
2004		3.3%
2005		3.4%
2006	2007	2.5%
2007	2008	4.1%
2008	2009	0.1%
2009	2010	2.7%
2010	2011	1.5%
2011	2012	3.0%

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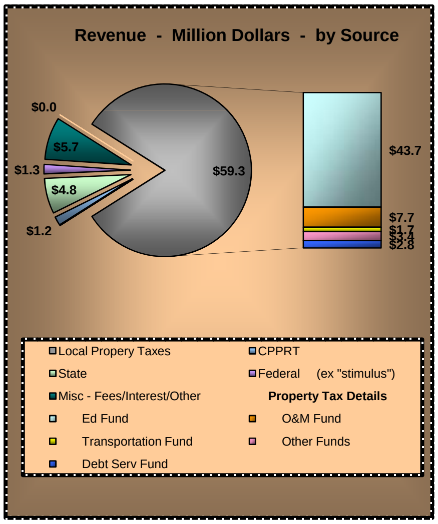
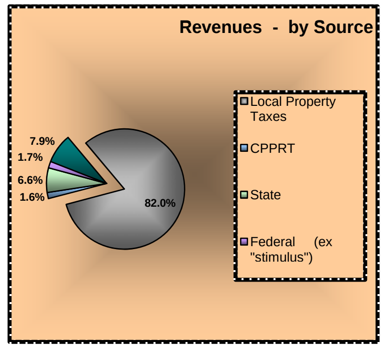
Sensitivities

- One million in added expense
  - 8 less days cash on hand in year 2012-13
- Rule of Thumb
  - One percent in CPI is roughly equivalent to:
    - 5¢ in tax rate
- Each 5¢ of tax rate is roughly equivalent to:
  - One million in annual revenues
  - 2 – 3% in salary & benefit costs
  - Class size increment of + or – one
  - Additional 10 staff members

12

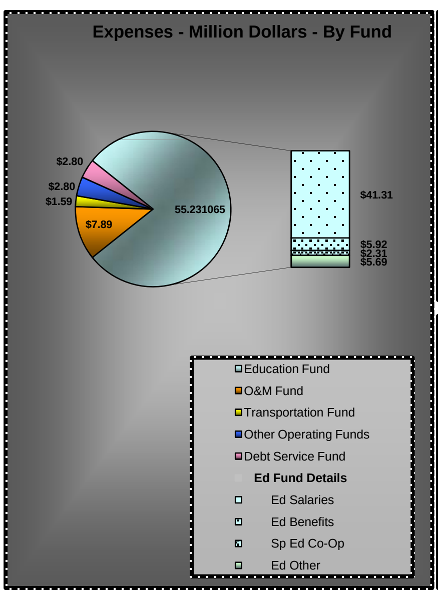
2011-12 Revenue Budget

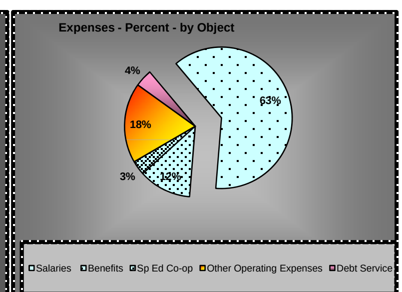


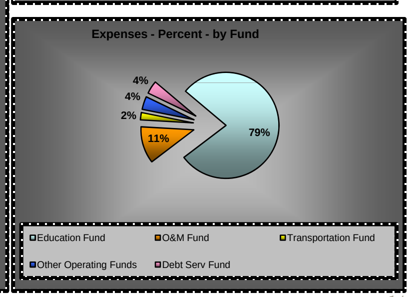


13

2011-12 Expenditure Budget







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CURRENT BASE CASE

What does the current base case reflect?

- Current conditions – Status Quo

Revenue Assumptions

- CPI
  - 2008 Levy – 4.1%
  - 2009 Levy – 0.1%
  - 2010 Levy – 2.7%
  - 2011 Levy – 1.5%
  - 2012 Levy – 3.0%

  - 2013 Levy – 2.0%
  - 2014 Levy – 2.5%
  - 2015 Levy – 2.0%
  - 2016 Levy – 2.5%

- EAV
  - 2009 – increase 0.73%
  - 2010 – decrease 5.64%

Triennial Assessment Pattern

- 2011 – **increase** 1%
- 2012 – decrease 3%
- 2013 – increase 10%

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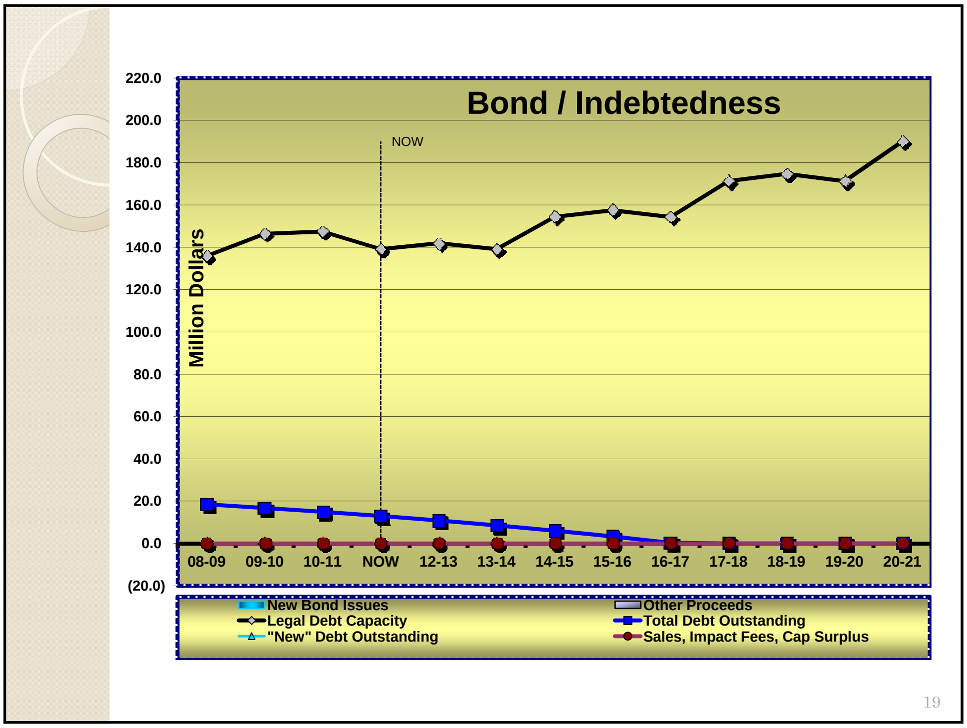
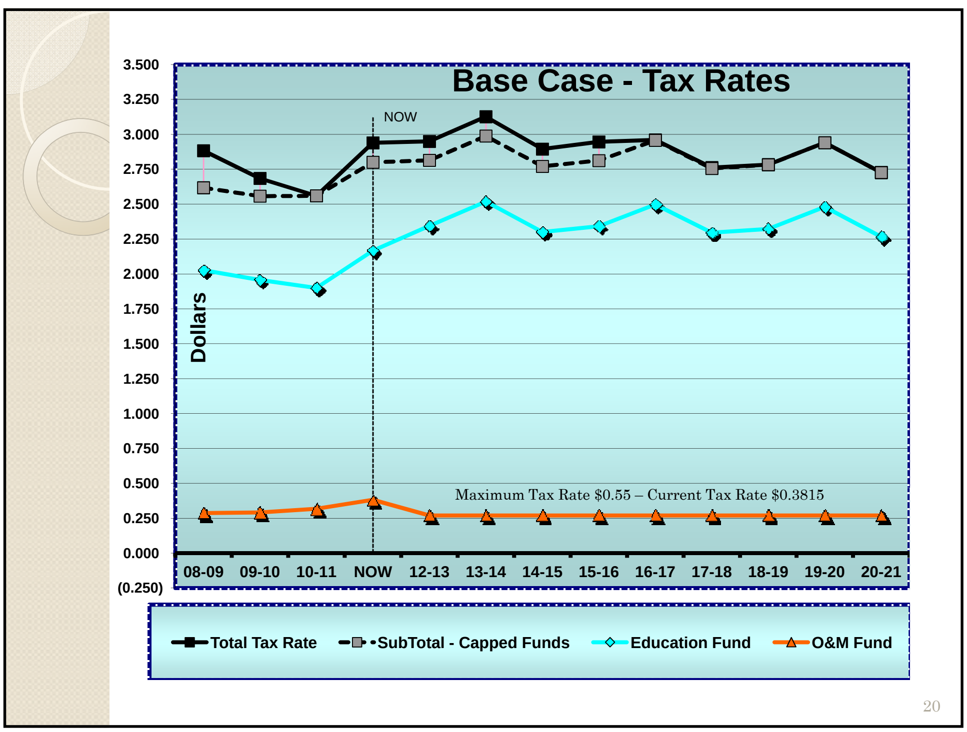
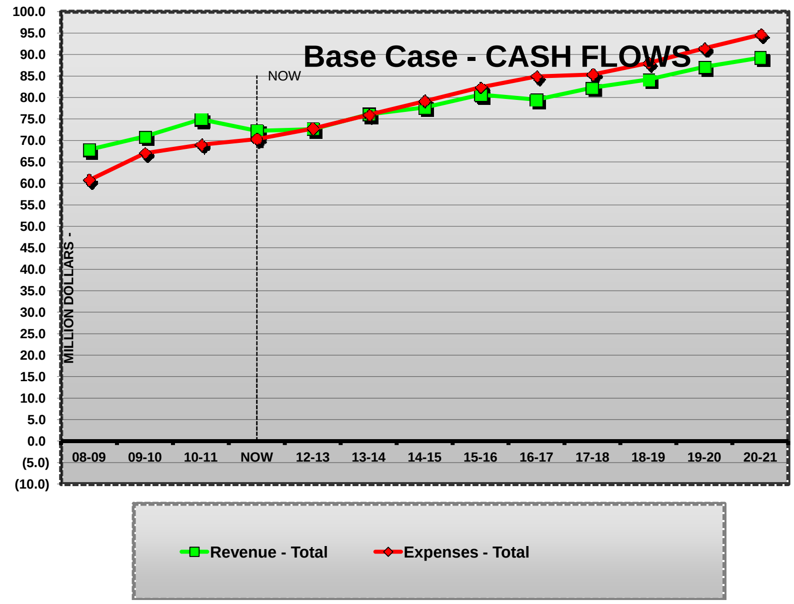
Expenditure Assumptions

- Staffing reflects Kasarda “Series B” projection
  - K – 8 average class size of 24
- Salaries reflect current contractual agreements
- Benefits average 5.0%
  - *Retirement incentives*
- All other expenses are increased by CPI
- Special Education Tuition average 5.0%
- Capital Projects - $2.8 million per year

18

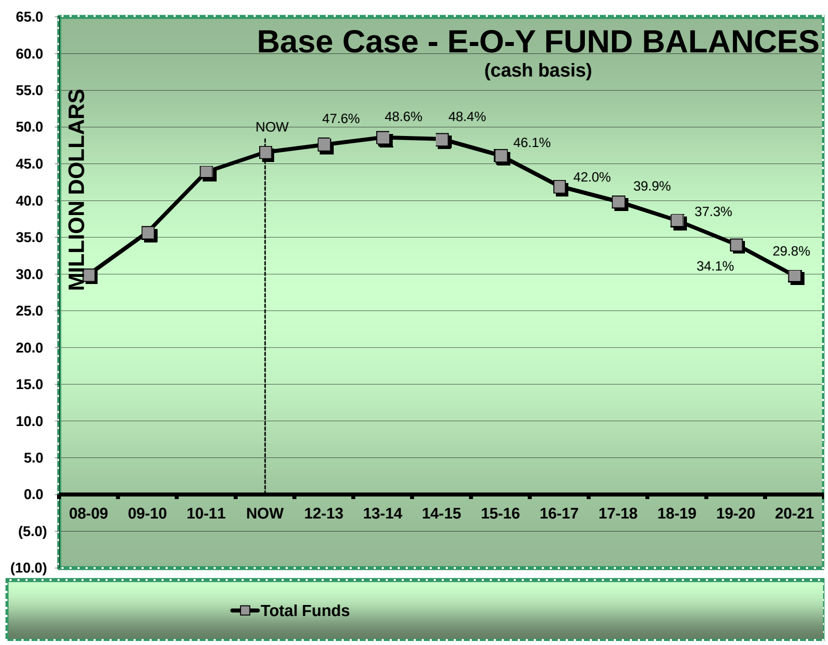

Bond / Indebtedness
Million Dollars
220.0
200.0
180.0
160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
(20.0)
NOW
08-09 09-10 10-11 NOW 12-13 13-14 14-15 15-16 16-17 17-18 18-19 19-20 20-21
New Bond Issues
Other Proceeds
Legal Debt Capacity
Total Debt Outstanding
"New" Debt Outstanding
Sales, Impact Fees, Cap Surplus
19


Base Case - Tax Rates
Dollars
3.500
3.250
3.000
2.750
2.500
2.250
2.000
1.750
1.500
1.250
1.000
0.750
0.500
0.250
0.000
(0.250)
NOW
Maximum Tax Rate $0.55 – Current Tax Rate $0.3815
08-09 09-10 10-11 NOW 12-13 13-14 14-15 15-16 16-17 17-18 18-19 19-20 20-21
Total Tax Rate
SubTotal - Capped Funds
Education Fund
O&M Fund
20



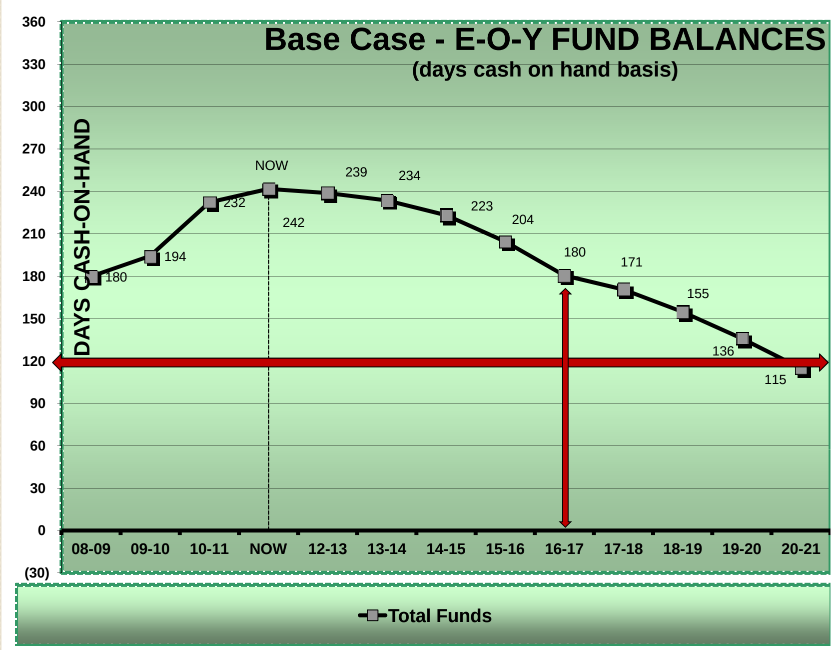
Base Case - CASH FLOWS
NOW
MILLION DOLLARS -
100.0
95.0
90.0
85.0
80.0
75.0
70.0
65.0
60.0
55.0
50.0
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
08-09
09-10
10-11
NOW
12-13
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
Revenue - Total
Expenses - Total

21



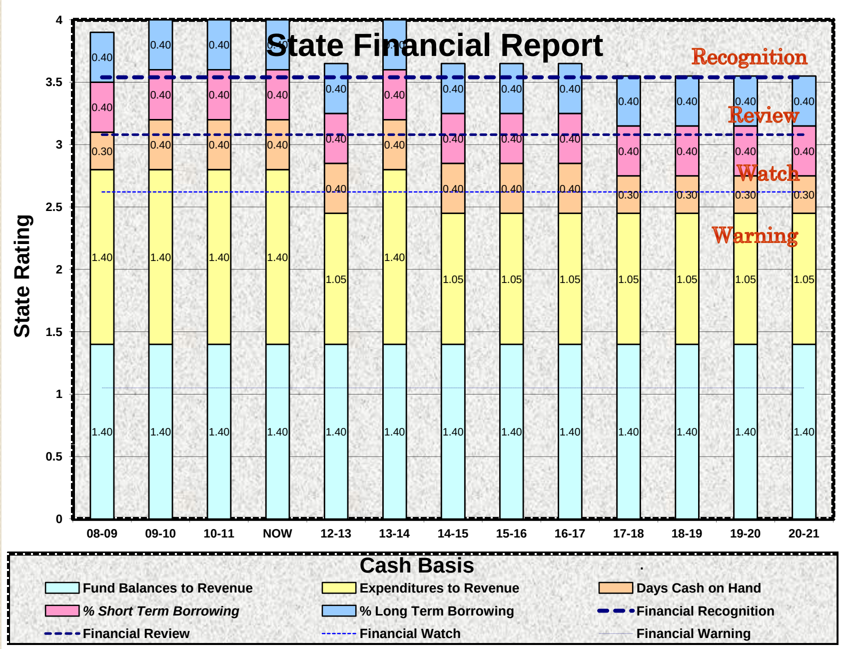
Base Case - E-O-Y FUND BALANCES
(cash basis)
MILLION DOLLARS
NOW
47.6%
48.6%
48.4%
46.1%
42.0%
39.9%
37.3%
34.1%
29.8%
65.0
60.0
55.0
50.0
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
08-09
09-10
10-11
NOW
12-13
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
Total Funds

22



Base Case - E-O-Y FUND BALANCES
(days cash on hand basis)
DAYS CASH-ON-HAND
360
330
300
270
240
210
180
150
120
90
60
30
0
(30)
NOW
180
194
232
242
239
234
223
204
180
171
155
136
115
08-09
09-10
10-11
NOW
12-13
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
Total Funds

23



State Financial Report
State Rating
Recognition
Review
Watch
Warning
08-09
09-10
10-11
NOW
12-13
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
Cash Basis
Fund Balances to Revenue
Expenditures to Revenue
Days Cash on Hand
% Short Term Borrowing
% Long Term Borrowing
Financial Recognition
Financial Review
Financial Watch
Financial Warning

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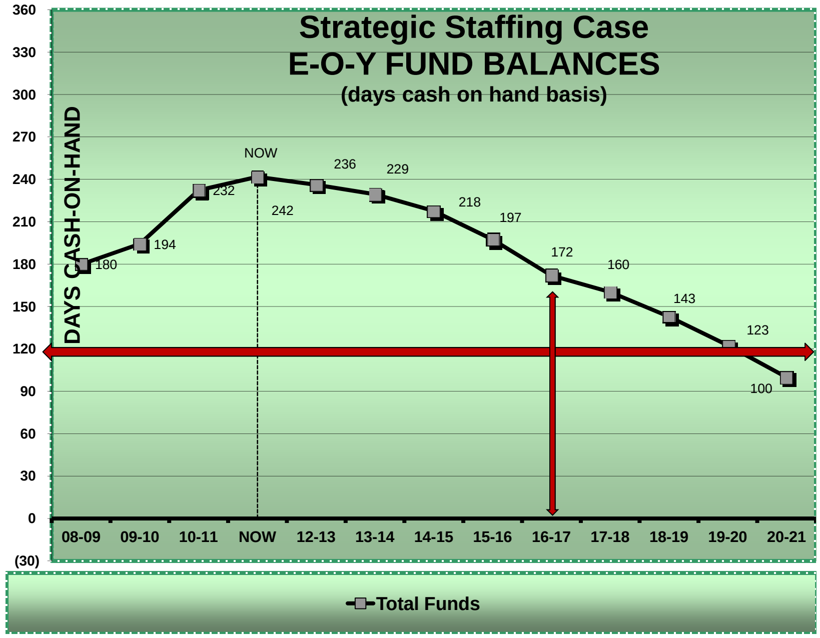
STRATEGIC PLAN STAFFING CASE

What Does The Strategic Staffing Case Reflect?

- Includes funding (salary & benefits) for four (4) additional technology coaches.
  - Salary – average $65,000 per position
  - Benefits – plus 20% for each position



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STAGNATION CASE

(INCLUDES ADDITIONAL TECHNOLOGY COACHES)

28

Revenue Assumptions

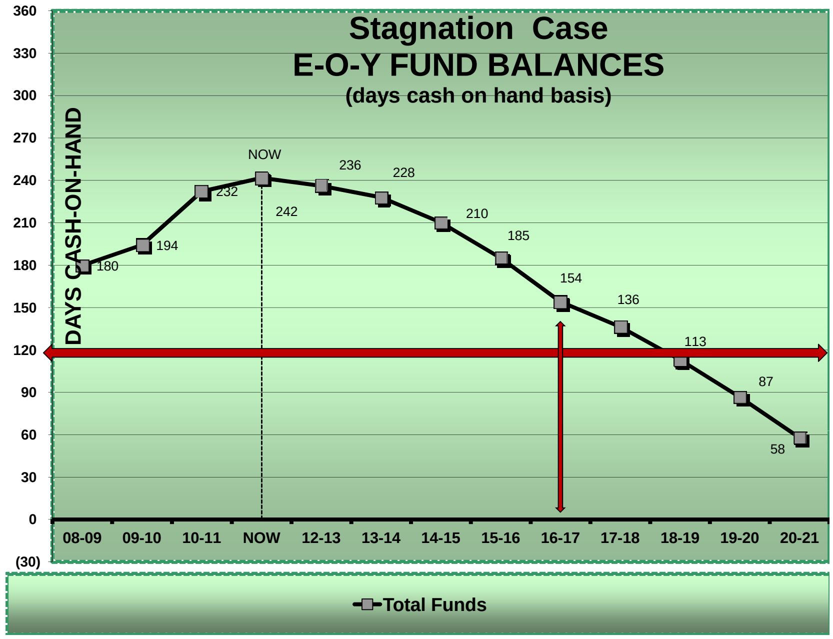
- CPI
  - 2008 Levy – 4.1%
  - 2009 Levy – 0.1%
  - 2010 Levy – 2.7%
  - 2011 Levy – 1.5%
  - 2012 Levy – 3.0%

  - 2013 Levy – 1.0%
  - 2014 Levy – 1.5%
    - Pattern continues
- EAV
  - 2009 – increase 0.73%
  - 2010 – decrease 5.64%

Triennial Assessment Pattern

  - 2011 – **increase** 1%
  - 2012 – decrease 3%
  - 2013 – increase 10%

Stagnation Case
Maintains Technology Coaches



31

RAPID RECOVERY CASE

(INCLUDES ADDITIONAL TECHNOLOGY COACHES)

32

Revenue Assumptions

- CPI
  - 2008 Levy – 4.1%
  - 2009 Levy – 0.1%
  - 2010 Levy – 2.7%
  - 2011 Levy – 1.5%
  - 2012 Levy – 3.0%
  - 2013 Levy – 3.0%
  - 2014 Levy – 3.5%
    - *Pattern continues*
- EAV
  - 2009 – increase 0.73%
  - 2010 – decrease 5.64%

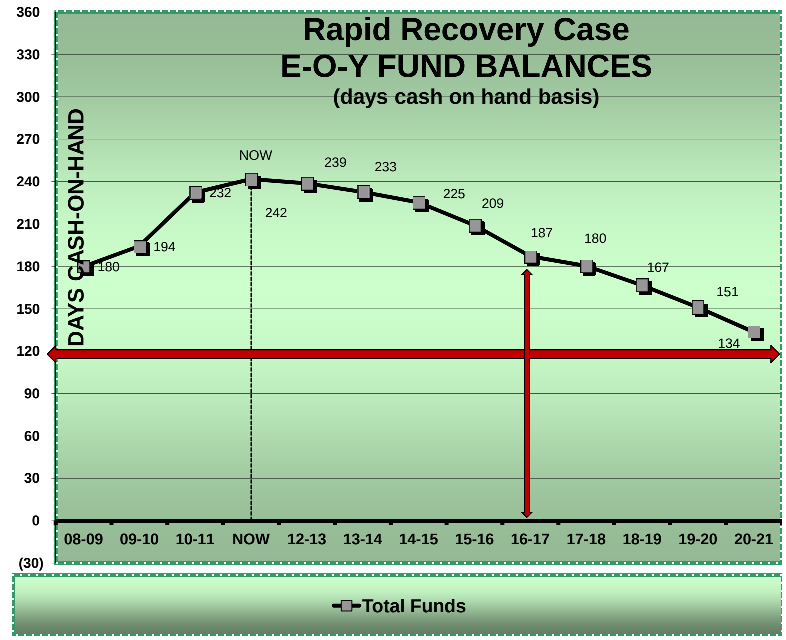
Triennial Assessment Pattern

  - 2011 – **increase** 1%
  - 2012 – decrease 3%
  - 2013 – increase 10%

33

Rapid Recovery Case
Maintains Technology Coaches

34



35

CONCLUSION

36

The actual results will most likely be some combination of all four cases

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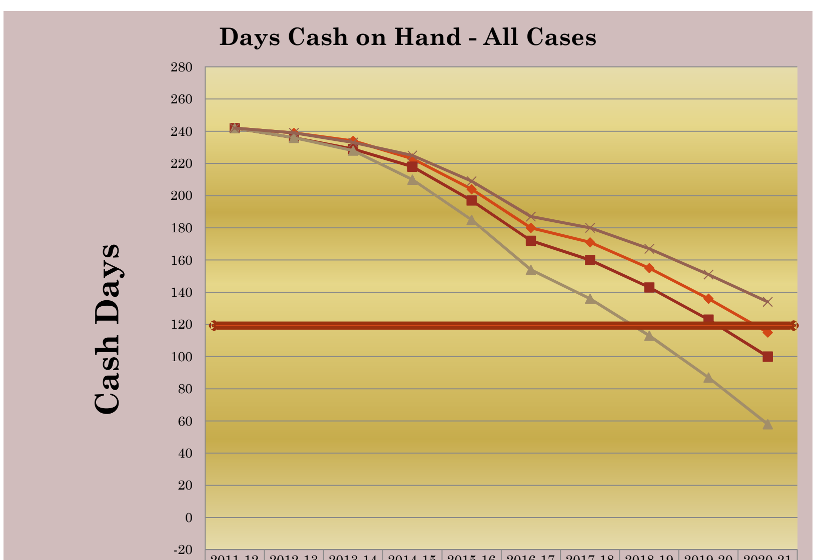

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Current Base Case	242	239	234	223	204	180	171	155	136	115
Strategic Staffing Case	242	236	229	218	197	172	160	143	123	100
Stagnation Case	242	236	228	210	185	154	136	113	87	58
Rapid Recovery Case	242	239	233	225	209	187	180	167	151	134

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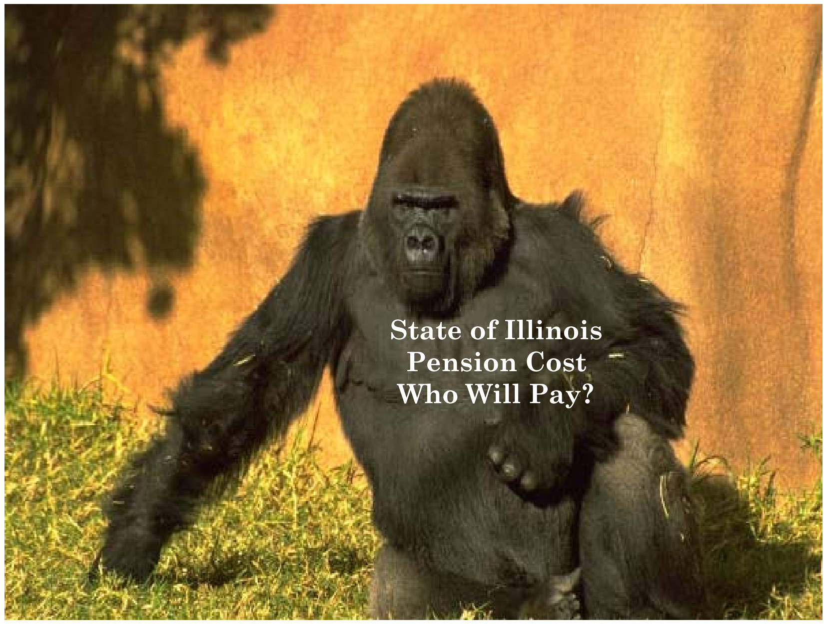
District 64 has positioned itself with solid fund balances, positive cash flows with considerable flexibility to maintain a bright future.

Financial projections need to be updated as economic conditions change



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BOARD DISCUSSION

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To: Board of Education
Philip Bender, Superintendent

From: Rebecca Allard, Business Manager

Date: February 13, 2012

Subject: Cost of Borrowing to Fund Capital Projects

There are two forms of borrowing the Board may consider to fund capital improvement projects. The type of borrowing where repayment is from the operating funds is called *Debt Certificates* and the type of borrowing where repayment is from the Debt Service Fund *(outside the tax cap formula)* is the *Debt Service Extension Base.*

The borrowing examples below now represent the total costs of all five projects authorized by the Board on December 19 and the request to extend debt for 20 years.

Debt Certificates count against the district debt limit and require the Board to approve a resolution authorizing the issuance of debt. This type of borrowing is not subject to a public hearing or petition period. Examples of the cost of borrowing under this method are:

Type of Borrowing	**Amount of Borrowing**	**Repayment Years**	**Interest Rate**	**Interest Cost**	**Repayment Fund**	**Average Annual Repayment**
Debt Certificates	$14,000,000	20	3.274%	$5,067,248	Operations & Maintenance	$960,000

Debt Service Extension Base (DSEB) is the amount of annual principal and interest a school district can use to repay non-referendum general obligation bonds. This type of borrowing is subject to a public hearing and petition period. Examples of the cost of borrowing under this method are:

Type of Borrowing	**Amount of Borrowing**	**Repayment Years**	**Interest Rate**	**Interest Cost**	**Repayment Fund**	**Average Annual Repayment**	**Tax Rate**
Debt Extension	$14,000,000	20	3.271%	$5,247,246	Debt Service	$970,000	$0.04 Impact on $400,000 Market Value $50.31

Capital Projects Funding

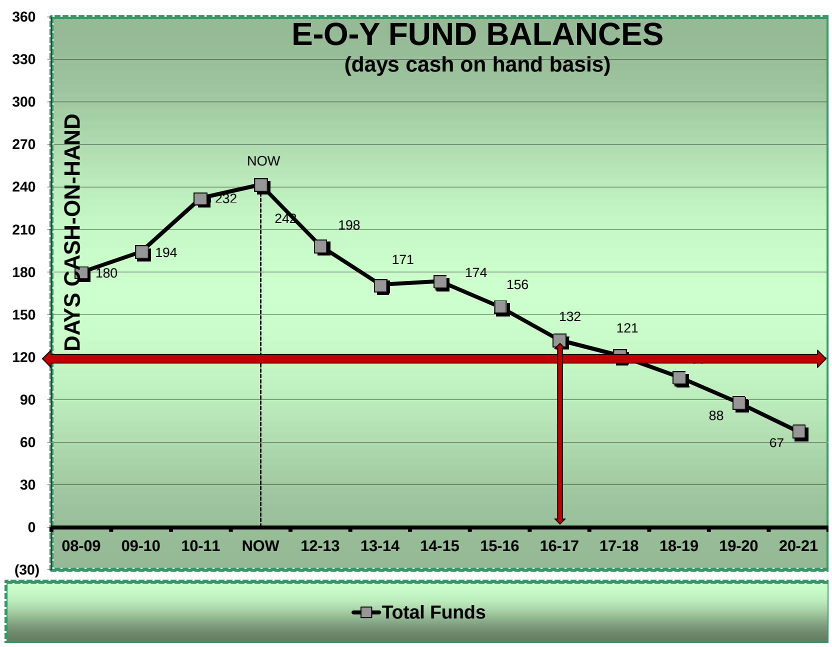
Board of Education
Committee of the Whole
February 13, 2012

Capital Projects Funding Options

1. Self-funding
2. Debt Certificates
3. Debt Service Extension Base

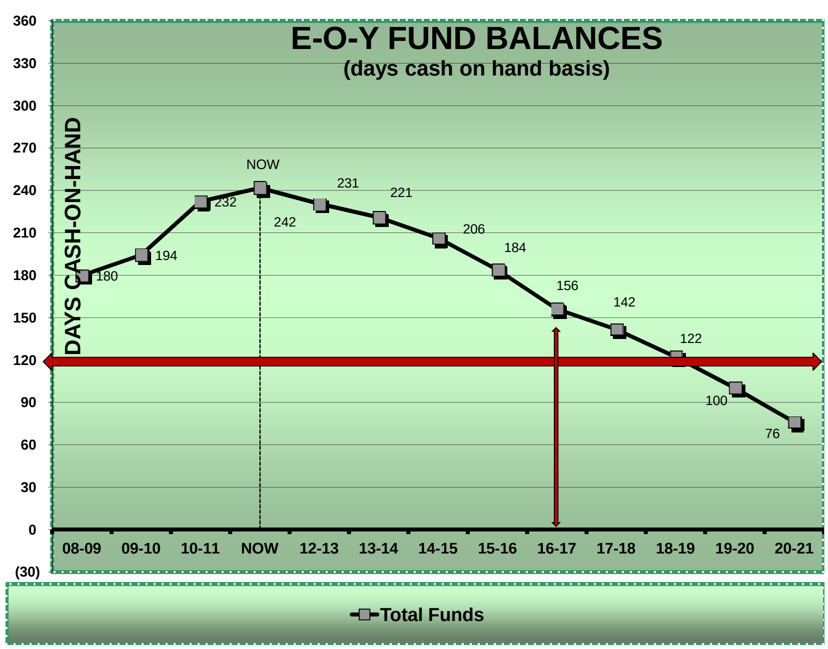
Self-funding

- Draw down on fund balances
  - Education Fund
  - Working Cash Fund



Debt Certificates

- Count against the Debt Limit
  - (6.9% of the value of the taxable property)
- May be issued for capital projects
- Require the Board of Education to approve an authorizing resolution
- Not subject to public hearing or petition period
- Repayment from O & M Fund
  - Permanent transfers from Ed Fund or Working Cash Fund



Debt Service Extension Base (DSEB)

- Is the amount of principal and interest that a school district can use to repay non-referendum general obligation bonds on an annual basis.
- Authorized in 1995 as an amendment to the Property Tax Extension Limitation Law (PTELL).
- 1994 levy year (base year) the District levied $1,759,745 for debt service on non-referendum bonds.
- Law amended in 2009 to allow this amount to annually increase by CPI.

DSEB

- All debt issued under DSEB is subject to a petition period (Backdoor Referendum).
  - Board Action:
    - Requires a resolution authorizing the sale of bonds.
  - Resident Reaction:
    - 30 days to challenge such action by acquiring 10% of registered voters to sign petition.
    - Forces Board to ask for funding through a referendum question.

Cost of Borrowing

20 Year Debt Certificates

- Within the "tax capped funds"
- $14,000,000
- Interest Rate – 3.274%
- Interest Cost – $5,067,248
- Average Annual Payment – $960,000
- Repayment is from Operations & Maintenance Fund
  - Requires a permanent transfer from Education Fund or Working Cash Fund

20 Year Debt Extension Base (DSEB)

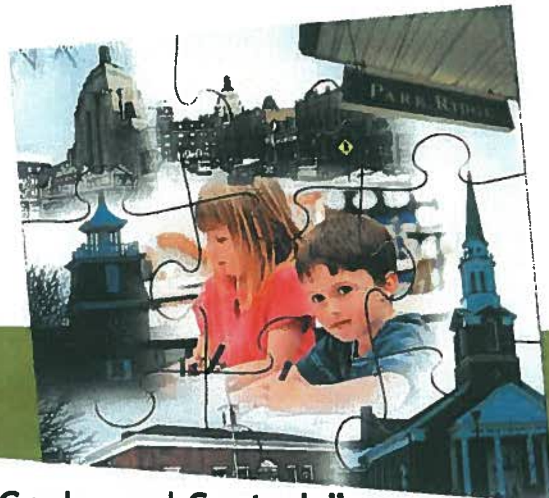
- Outside the "tax capped funds"
- $14,000,000
- Interest Rate – 3.271%
- Interest Cost – $5,247,246
- Average Annual Payment – $970,000
- Repayment through the tax levy process
  - Estimated rate adjustment $0.04
  - Impact on $400,000 market value + $50.31

Board Discussion

To:	Board of Education Philip Bender, Superintendent
From:	Keri VanSant - Fanning Howey George Kacan - Fanning Howey
Date:	February 13, 2012
Subject:	Roles, Goals and Controls Part 2

The Roles, Goals, and Controls Workshop is a values-based approach to educational planning. It is a proven process that begins with defining the roles of all parties involved (Community members, the Design Team, the District, the Board, etc).

In Part 1 of this workshop, the Board developed a set of criteria, reflecting District goals with student, staff and community values in mind. Going forward, these goals will be used to assist the Board in the decision-making process and to ensure that all decisions are made with the District's vision in mind. Part 2 of this workshop will further define the roles and goals of all parties involved through the design and construction phases of both current and future projects, maintaining the final decision-making authority at the Board level.



"Roles, Goals, and Controls"

Managing Expectations - Design and Construction Phase (Part 2)

Board of Education Workshop
Park Ridge-Niles Community Consolidated School District 64

creating places to learn
February 13, 2012

http://www.d64.org/subsite/dist/page/facility-master-plan-31108

Park Ridge-Niles Community Consolidated School District 64

Summary of Part 1 - Board Facility Goals

Why have Board Facility Goals and Criteria?

- Usually not addressed or discovered until a major decision needs to be made or has been made
  - By then it is too late to implement rational and agreed upon parameters
  - Emotions and politics can cloud the issue, and the best decision for students is not reached
  - Micromanagement of results
  - The Law of Unintended Results is activated

2 FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Summary of Part 1 - District Facility Goals

District Facility Goals

- Students come first in all decisions!
- The Project Budget will not be exceeded.
- The process will involve the community and staff members.
- Finishes and building systems will be evaluated based on lifecycle costing.
- Design schools to support the District's educational philosophy and curriculum, aligning with the District's Strategic Plan.
- Develop a realistic schedule and adhere to it. Complete the Facility Master Plan by June 2013.

3

FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Summary of Part 1 - District Facility Goals

District Facility Goals

- Provide facility equity among all facilities.
- Designs will be sensitive to their setting and reflect the community's architectural style.
- Designs will be energy-efficient and work to maximize natural lighting.
- Site utilization will be carefully evaluated and developed; "Green Space" will be maximized, as much as possible.
- Any new construction will meet LEED Silver criteria.

FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Summary of Part 1 - District Facility Goals

District Facility Goals

- New building improvements will have Energy Star ratings.
- Designs will reflect the community's desire for a non-institutional look.
- Designs will have functional efficiency.

FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

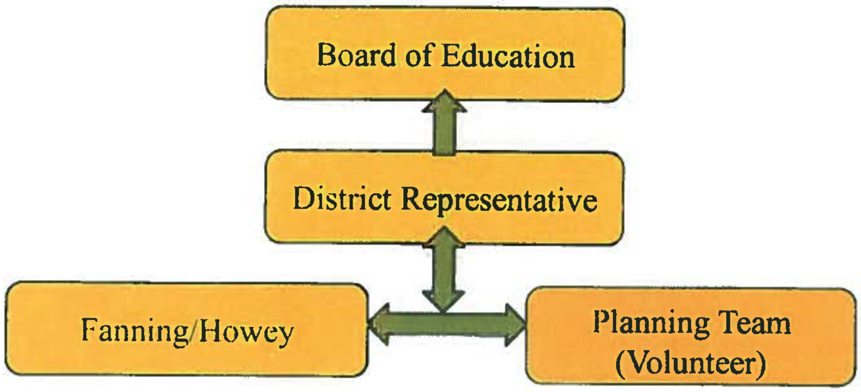
Summary of Part 1 - Designated Contact Points

Input Process

- Designate contact points for project communications:
  - Scott Mackall – Park Ridge-Niles CCSD 64
  - Keri VanSant – Fanning/Howey
- Provide for input and review from each stakeholder group
- Develop and review potential solutions
- Board approves final solution

FANNING HOWEY

Summary of Part 1 - Designated Contact Points



Organizational Chart

Three Levels of Input

1. Board of Education
   - Provides approvals based on recommendations
2. Administrative Review Team (District Representative)
   - Reviews input given by Building-level Design Team against Board goals and criteria
   - Gives recommendation to Board of Education for approval
   - Review team includes Superintendent, Facility Director, Architect, and 2 Board of Education members
3. Building-level Design Team (Planning Team – Volunteer)
   - Comprised of approximately 10-15 people to provide input
   - Team includes Principals and key staff
   - Meet with Architect bi-weekly through development of Schematic Design
   - Adhere to goals and criteria set by Board of Education

Park Ridge-Niles Community Consolidated School District 64

Carpenter Elementary School Mechanical Upgrades
SCHEDULE

- *Design* — *January 2012 - March 2012*
- *Bidding* — *March 2012 - April 2012*
- *Construction* — *June 2012 - August 2012*
- *Occupancy* — *August 2012*

Carpenter Elementary School Site Improvements
SCHEDULE

- *Design* — *August 2011 - March 2012*
- *Bidding* — *April 2012 - May 2012*
- *Construction* — *June 2012 - August 2012*
- *Occupancy* — *August 2012*

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FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Franklin Elementary School Mechanical Upgrades
PRELIMINARY SCHEDULE

- *Design* — *March 2012 - June 2012*
- *Bidding* — *TBD*
- *Construction* — *June 2013 - August 2013*
- *Occupancy* — *August 2013*

Lincoln Middle School Boiler Replacements
PRELIMINARY SCHEDULE

- *Design* — *March 2012 - June 2012*
- *Bidding* — *TBD*
- *Construction* — *June 2013 - August 2013*
- *Occupancy* — *August 2013*

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FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Approval Process Schedule

- Board of Education approval required at end of each design phase
- Architect of Record (AOR) will provide cost estimates at end of Schematic Design (SD), Design Development (DD), and Construction Documents (CD) phases
- AOR will provide detailed constructability review of each phase
- AOR to make presentations at Board of Education meetings

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FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Community Activities

- Celebrate ground-breaking
- Tours during construction
- Dedication and Open House
- Communications with news media

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FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Design Process Seven Design/Construction Phases

1. Program of Requirements
2. Schematic Design Phase
3. Design Development Phase
4. Construction Document Phase
5. Bidding Phase
6. Construction Phase
7. Post-construction Phase

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FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Design Process Phases

1. ***Program of Requirements***
   - Evaluate project requirements
   - Must stay within budget
   - Two/three months in duration
   - Define outcome of facility improvements

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FANNING HOWEY

Design Process Phases

2. ***Schematic Design***
   - Adjacencies established
   - Schematic plan developed
   - Basic descriptive sketches
   - Engineering systems established
   - Cost estimate compared to budget
   - Project phasing evaluation started
   - Three/four months in duration

Park Ridge-Niles Community Consolidated School District 64

Design Process Phases

3. ***Design Development***
   - Define development of schematic plan
   - Refine / complete schematic design
   - Material/equipment selections
   - Utility connections defined
   - Engineering systems fully developed
   - Specifications outlined
   - Project phasing evaluations refined
   - Four / five months in duration

Park Ridge-Niles Community Consolidated School District 64

Design Process Phases

4. *Construction Documents*
   - Detailing of all systems
   - Specifications finalized
   - Bidding Documents finalized
   - Redi-check of documents completed
   - Three/four months in duration

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FANNING HOWEY

Park Ridge-Niles Community Consolidated School District 64

Design Process Phases

5. *Bid and Award*
   - Coordinated by Architect
   - Clarifications issued by Addendum
   - Pre-bid meeting held at site
   - Recommendation from AE to Board
   - Award of Contracts
   - Two months

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Design Process Phases

*6. **Construction Administration***

- Managed by AE
- Not on site full-time
- AE on site weekly for one day
- AE chairs weekly progress meetings
- Request for Information (RFI's) from Contractors to Architect
- Proposal Requests issued for changes will be initiated by AE
- Change Orders will require signatures by all parties
- Monthly Board update by Architect

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Design Process Phases

*7. **Post Construction***

- Owner training
- Completion of Operation & Maintenance Manuals
- Completion of Project Record Documents
- Completion of final punch list
- Obtain all warranty information
- Eleven month warranty review by AE

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Significant Changes During Construction

- Identify issue
- Review of Project Scope
- Discuss issue
- Programming needs guide decisions
- Prefer consensus where possible
- Conflict resolution by Board of Education

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Change Orders -
Why are there Change Orders?

- Code interpretations by Local Inspector
- Unforeseen conditions on site
- Owner requested changes
- Design modifications that reduce or increase costs
- Errors / Omissions from documents

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Change Orders -

Action on Change Orders

- Proposal Request issued to obtain costs
- Receive proposal from Contractor
- Cost evaluated by Architect
- Recommendation made to Board of Education
- Superintendent or Facility Director's authority to sign Change Orders up to $12,500. If possible, the Superintendent will consult individual board members concerning any change order that arises, prior to any authorization.
- Superintendent will notify Board of Education immediately after execution of all change orders
- All parties, including Contractor must sign each Change Order for full execution

Celebration / Ribbon Cutting / Post Occupancy Surveys

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QA

http://www.d64.org/subsite/dist/page/facility-master-plan-31108

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