

Oak Park and River Forest High School
201 N. Scoville
Oak Park, IL 60302

**Finance Advisory Committee
Minutes
July 15, 2013**

A Finance Advisory Committee meeting was held on Monday, July 15, 2013, in the Board Room. Mr. Weissglass opened the meeting at 7:05 p.m. A roll call included the following members: Tod Altenburg, Thomas F. Cofsky, Judy Greffin, Dr. Tina Halliman, Dr. Steven T. Isoye, Karen Latham, Christopher Meister, Dr. Jackie Moore, David Pope, Robert Spatz, Louis Vitullo, Penny Wallingford, and Jeff Weissglass. Also attending was: Gail Kalmerton.

Visitors: John Phelan, president of the OPRFHS Board of Education; Sharon Patchak-Layman, OPRFHS Board of Education member; OPRFHS faculty member John Condne, student Ross Constable; Karin Sullivan, OPRFHS Community Relations and Communications Director; Kevin Peppard, Patrick Furlong, Stephen Jackson, community members; Wes Venetcher of the *Chicago Tribune*; and Terry Dean of the *Wednesday Journal*.

Welcome

Mr. Weissglass welcomed the committee members and those in the audience. Mr. Weissglass asked the Committee members speak into their microphones as the meeting was being recorded.

Formation and Purpose

Mr. Phelan thanked Mr. Weissglass and the distinguished members of the District 200 Finance Advisory Committee for this willingness to serve and for their anticipated hard work in the coming months in support of the District and the communities. He made the following statement:

“My name is John Phelan and I am the President of the District 200 Board of Education. I have been asked to say a few words tonight about the formation and purpose of this committee.

“What is the problem we are convening to solve? It involves our tax burden and the resulting level of our fund balance. I was elected to the Board in 2011 and throughout my campaign and in my years on the Board, I have been asked repeatedly about the District’s fund balance. I have studied our budgets and have read numerous articles and editorials in local and Chicagoland newspapers about the amount of our reserves. I have heard directly from taxpayers in often less than flattering terms that our District has too much money. Other citizens have pulled me aside at functions to tell me their view that education is the number one priority of our communities and that we should keep every dime of the fund balance. Who is correct? One task of this committee is to help the Board answer the question that seems to be on so many minds: Does the District have too much money?

“I want to be clear at the outset, however, that this committee is not charged with laying blame on anyone for our fund balance or determining how we got to this point, except as necessary to find a path forward that strikes the best balance for our communities. Holding people accountable is not the

point here. There have already been too many unrestrained allegations against intelligent, well-meaning public servants. The point is not to find a scapegoat, but to find a path forward.

“What, some might ask, is the problem with our fund balance? Is it wrong for a school district to have too much money? Why is that a problem to be solved rather than good fortune to be celebrated? “There are several compelling answers to that question and they all start with the acknowledgement that District 200 does not exist in a vacuum. Our taxing rate has a natural impact on our citizens and our fellow governing bodies. For example, our community is renowned for being racially and economically diverse and many of us wish to keep it that way. How can our communities remain economically diverse if taxes are so high that only the wealthy can afford to live here? Another answer is that a high tax burden affects the advancement of our villages for example in our ability to attract developers or pay for public works projects. Most importantly, though, I am concerned that if we don’t address this important question we are headed for a hard landing in the long term.

“Because we live in Illinois we operate under the tax cap laws also known as “PTELL.” PTELL limits levies to no more than the prior year’s levy amount plus the lower of 5% or CPI. Under PTELL referendums do not adequately fund schools long-term because school expenses primarily salaries and benefits grow faster than the CPI. Legislators therefore anticipated a system that requires periodic referendums. A referendum is followed by a period of surplus years followed as expenses eventually overtake revenues by deficit spending until the money runs out and the district seeks another referendum. So our District’s funds are like a stone skipping on the water skipping at a referendum rising during a period of surplus years reaching its apex where expenses exceed revenues and then falling in a period of deficit spending years until it skips again with the next referendum.

“The problem with the current District 200 fund balance is that the stone has skipped too high. Whether it was because of a legislative quirk called the “phase in” or the confluence of a referendum with the real estate bubble or some third explanation our fund balance is on a trajectory that is extraordinarily high. This is evident by the length of our particular referendum cycle and the size of our fund balance. We have one of the largest per pupil fund balances in the state and the next referendum originally anticipated in 2018 when the phase in was adopted is now scheduled to occur no sooner than 2023 and then it would be a referendum at a time when the District enjoyed a 9 month reserve. I can’t imagine a community passing a referendum for a district with a 9 month reserve so the actual referendum on our current course is likely to occur much later than that.

“The big problem with this scenario is due to the fact that deficits grow each year after the apex of the skip. Therefore, the longer a District has from its apex until a referendum, the larger the referendum a district needs to pass in order to avoid cutting teachers and programs. At our current pace the referendum we will need although we will not need one for a long time is likely to be unusually large. My fear if we don’t do anything is that the stone will skip so high that when it next hits the water it won’t skip but will plunge. In other words, the referendum we need to maintain our quality of education will not pass. The effect on our communities would then be dramatic.

“The question of whether the District has too much money though is the easy question for this committee. The harder question is how much is too much. While I have heard a variety of opinions on whether the District taxes too much or has too much money, I have not heard in all this time anyone articulate a fully-considered analysis of what our fund balance should be. In other words,

how much is too much? I have grappled with that question myself but there is no research out there on the maximum school fund balance in Illinois. We are asking you a group of very smart and talented members of our school and community to consider that question.

“You need to consider that question in the context of the third and most complex question you are asked to consider: Once we decide where the fund balance should be how do we get it there in a way that brings the district in for a smooth landing. Some will say just don’t increase the levy but without further analysis that is tantamount to performing surgery with a hatchet. Do we know what the consequence will be if we limit our taxing capacity under PTELL by not taking a levy authorized by law? When will the referendum then occur? How much will we likely need to request? Those questions need to be answered before we can consider this a solution. Also, are there other solutions to consider? Some may be tied to school initiatives that need to be considered, such as capital improvements. For example, should we use this one generation’s money to build a pool likely to last for many generations? Would that be fair, or should we instead finance such a project so multiple generations contribute to it? If we don’t lower our fund balance, can we hope to pass a bond referendum to finance such a project? Also, how do we plan for this soft landing in light of expenditures already on the horizon such as increasing enrollment or shifting of State pension obligations? Are there creative solutions that are supported by law? Are there legislative efforts that should be part of our solution? Senator Harmon has passed bills through the Illinois Senate designed to allow districts like ours to forego levies in a given year without damaging our overall taxing capacity, but they have not been let out of committee in the House. Would a coherent and well-articulated strategy help his efforts?

“These are indeed complex questions. We have assembled this committee to represent several areas of expertise so the problem can be considered from every angle. It includes Board of Education members, administrators, a faculty leader and community members. While we have outstanding financial experts both generally and specific to Illinois school finance, we also have great minds to assess the facts from legal, legislative, local government, and referendum planner perspectives. You have been chosen not to be the representative of the community, but to provide expertise in analyzing this issue.

“I have just one further request, or maybe it is a word of advice. As you begin your study tonight, I ask that you keep an open mind as the facts are presented. All of us concerned citizens likely read the paper and some of us serve other governing bodies, or consider such matters on a professional basis. Some of you likely came here with pre-existing thoughts on a solution to this problem. I would ask you to put that on the shelf for a few weeks or months, so you don’t look at the topics to be presented only for the purpose of confirming what you already thought was a good idea. I ask this also of the media and of our constituents watching these proceedings. If this committee merely debates political positions and then brings forth a recommendation on an 8-7 vote to leave the fund balance alone or to stop raising the levy, it will have failed to conduct the analysis for which it was created. Listen, ponder, and bring your professional skills and unique lens to the discussion. If you can come up with a solution on which all or most of you agree, even if it is a solution that no one likes but everyone can live with and agrees is a balanced path forward, you will have performed a great service to the communities that we all care about deeply. Thank you for your time and good luck!”

Introductions

Committee members introduced themselves and spoke about their backgrounds.

Mr. Weissglass, OPRFHS Board of Education Vice President, has experience in legal and finance training and expertise, as well as 15 years of in fundraising, studying budgets, and facilitation.

Dr. Moore is an OPRFHS Board of Education member, its secretary, and chair of its Policy Evaluation and Goals Committee. Dr. Moore has children who graduated from OPRFHS and two incoming freshmen.

Mr. Pope, as the president of the Village of Oak Park for 8 years and a Village trustee for 2 years, is familiar with municipal financial issues and relationships with schools. His previous experience included 1) a management consulting and being a principal of corporate strategy for Price Waterhouse, academics with a focus on finance and management. His two children are 6 and 10 years old. He was eager to provide support to this effort.

Mr. Cofsky, a new OPRFHS Board of Education member, participated in the District's most recent Finance Advisory Committee, and he greatly appreciated all of the community members who were volunteering their time to give guidance and insight, with an open mind, to address the changes earlier articulated by Mr. Phelan. Mr. Cofsky felt having this committee open to the public was an opportunity to gain the community's trust and have an open discussion.

Mr. Altenburg, OPRFHS's new Chief Financial Officer as of July 1, worked in the Lombard School District for six years. His 21 years of education experience includes that of being a teacher, principal, chief financial officer, and assistant superintendent. He was very excited to be here and looked forward to working with them.

Mr. Spatz graduated from OPRFHS in 1981. His work experience includes 28 years with the University of Chicago business school working with financial data. He became involved with District 97 on a mid-level committee and began to work with school finances with Ms. Greffin and Mr. Traczyk on the 2005 Finance Advisory Committee. He was elected to the Oak Park Elementary School's Board of Education in 2007. He is now the president of that Board of Education. He has served on District 97's Finance and Review Committee.

Ms. Greffin served on District 97's Finance Committee which had similar goals to this committee. Her background includes 22 years at Allstate Insurance Company and running an investment group. She started as a municipal bond analyst where she determined if the company should lend money to school districts, mostly in Ohio, but in other states as well. She understood school finance and looked forward to working with the group.

Dr. Halliman, Assistant Superintendent for Pupil Support Services at OPRFHS, is in charge of Special Education and Health Services. Her job responsibilities include managing many of the funds in the school. She has 15 years of experience in this area. Her previous experience includes being a social worker.

Mr. Vitullo had informed Mr. Weissglass that he was moving from River Forest August 7. He practiced law from 1969 and retired in 2011. While practicing, he headed the governmental and finance practice at Wildman Harrold. He also serves on the River Forest Task Force on Economic Development.

Ms. Wallingford's experience includes a career in banking and public services. She was the Director of Development Services for the Village of Oak Park, understands TIFs, and has consulted on problem loans, funding of charter schools, and was asked to analyze the Chicago Public School's financial position. She is also finishing MPA. She has also worked with different public service organizations, plan commissions, OPRFHS's Citizens' Council, and a transition committee for middle schools. She has three daughters; two are graduates, and one a junior at OPRFHS.

Ms. Latham started as banker and has been treasurers of both public and private companies. She has an MBA from Northwestern University and is a CPA. She has two daughters and her spouse is an OPRFHS graduate and a District 90 Board of Education member. She has served on other civic and educational boards for 30 years.

Mr. Meister, parent of four children, one of which will be a sophomore at OPRFHS next year, is also the Executive Director of Illinois Finance Authority which issues conduit tax-exempt bonds on behalf of nonprofit hospitals and non-profit higher educate. By statute, it has the ability to issue double tax exemption from both federal and state taxes. It is self-funded funded by a non-profit board and is subject to OMA and FOIA. Governor Quinn asked him to co-chair the Finance Committee on the Elgin-O'Hare West Bypass Advisory Council and serviced with Don Cronin and Bob Schillerstrom. Previously, he lobbied with the Illinois Department of Commerce & Economic Opportunity. He had also been in private practice with the firm of Holland and Knight.

Dr. Isoye is the Superintendent of the OPRFHS, chose education as his vocation. He believed that this committee's recommendation will help to guide the Board of Education as to what the District can look like. It will be hard and good work.

Mr. Weissglass introduced Ms. Kalmerton as the Clerk of the Board of Education and Dr. Isoye's assistant. He noted that Sheila Hardin, faculty member and FSEC Chair, and Peter Traczyk, a District 97 Board of Education member, were not present.

Open Meetings Act Primer

Dr. Isoye noted that this was a committee of the Board of Education and as such was subject to the Open Meetings Act (OMA). He distributed a copy of Frequently Asked Questions regarding the OMA. All committee members are required to take the OMA training. Information will be sent as to how to take the online training. Dr. Isoye highlighted the following information:

- 1) The Committee's membership is 15 people. Thus, 8 members (a majority of the committee) must be present at the meeting. If not, the meeting will be canceled.
- 2) The majority of the quorum is 5. No more than five or more people can meet together to discuss the business of the committee.
- 3) All emails are subject to FOIA. Information will be provided to the committee via email. Do not respond "Reply All" as it could be a violation of the OMA.

- 4) Agendas will be posted 48 hours in advance. Minutes will be taken and once presented will require committee approval.
- 5) The OMA could be violated if members of this committee attended any outside presentations on school finance, if all of the committee members were invited.

Book Discussion (Chapter 1-5)

Mr. Altenburg highlighted points in chapters 1-5 in the book “Taking the Mystery Out of Illinois School Finance, 5th Edition, written by Thomas A. Kersten, Roosevelt University.

Chapter 1 – revenues vs. expenditures.

Chapter 2 – Historical Basis for Public School Funding

- U.S. Constitution (power reserved for State to fund education)
- Federal Initiatives
- Federal Vocational Education Act
- ESEA of 1965, includes Title I (Disadvantage and Low Income Families)
- Public Law 94-142 of 1975 (guaranteed that a child, based on disability, would have access to a free and appropriate education).

Chapter 3 – Sources of Revenue

- Property Taxes (81.8%)
- General State Aid (1.7%)
- Poverty Grant (0.2%)
- Categorical State Aid (3.3%) (Special Education Reimbursement, Transportation, etc.)
- Corporate Personal Property Replacement Taxes (CPPRT) (1.7%)
- Interest Income (0.4% of the entire budget)
- Local Fees (8.4%)*
- Federal Aid (2.3%)
- Local Fees (8.4%)
 - Summer school tuition (\$384,000)
 - Food Service Sales (\$2.1 million)
 - Admissions for Athletics, Activities (\$132,000)
 - Registration Fees, Drivers Ed. Fees (\$355,000)
 - Textbook Rentals (871,000)
 - Book Store Sales (\$169,00)
 - TIF Dollars (\$2.4 million)
 Total \$6.5 million.

Chapter 3 (page 9) - Sources of Revenue

- Local 92.4%
- State 5.0
- Federal: 2.6%

Chapter 3 (pages. 9-10)

- Property Taxes
 - Largest source of revenue for OPRFHS.
- Tax Base

- Total value of taxable property within district boundaries
- Determined by adding together all taxable property, i.e., land, residential and commercial

Chapter 3 (p.10) - Tax Exempt Properties

- Governmental units
- Municipal and state offices
- Legally designated not-for-profits, i.e. some hospitals, universities, places of worship, etc.

Chapter 3 (p.10) - Calculations for Taxable Property

- 1/3 of property's market value, also known as actual selling price
- If a home has a market value of \$600K it should be assessed for tax purposes at 1/3 or \$200,000
- The 1/3 or \$200,000 in this case is known as the assessed valuation.

Chapter 3 (p. 10) - Calculations in Cook County

- In most counties, all
- Cook County uses a tiered system
- In other words, beginning with the 2009 taxes received in 2010, Cook County residential property was assessed at 10% and commercial property at 25%

Chapter 3 (p. 12) - EAV (Equalized Assessed Valuation)

- When the property tax calculation is made, assessed values are converted to EAV
- This is the revised assessed value of the home after the state-multiplier has been applied to adjust for under-assessment

Chapter 3 (p. 12) - Multiplier (State Equalization Factor)

- Factor assigned to a county to bring the average county-wide property assessment level to the required 1/3
- When property is correctly assessed, the state assigns a multiplier of 1.0
- When property is under-assessed, the state assigns a higher multiplier which is applied equally to all property in the county
- In tax year 2011, the state assigned a multiplier of 2.9706 for Cook County because properties were under assessed

Chapter 3 (p.13) - Further exemptions:

- Specific tax exemptions designed to reduce property taxes for specific groups:
 - Homestead (for owners of primary residences)
 - Senior Homestead (exemption for seniors)
 - Disabled Veterans
 - Senior Citizen Assessment Freeze (for low income seniors)

Chapter 3 (p. 15) Example Tax Bill

- 2009 Market Value = \$572,830
- 2009 Assessed Value = \$57,283
- (10% of market value)
- 2009 Equalization Factor = 3.3701 (This applies to all properties that are under-assessed throughout the county.
- 2009 EAV = \$193,049
- (\$57,283 x 3.3701)
- 2009 Tax Rate = 5.063

- 2009 Total Tax before exemptions = \$9,774.09
- Homeowner's Exemption = \$1,012.60
- 2009 Total Tax After Exemptions = \$8,761.47 (\$9,774.07 - \$1,012.60)
- First installment = \$4,984.72
- Second installment = \$3,776.75.

Chapter 4 (pp.30-31) - Expenditures

- Budget Funds
 - Education
 - Operations and Maintenance Fund
 - Transportation
 - IMRF/Social Security
 - Debt Service
 - Capital Projects
 - Fire Prevention and Safety (architect comes in every 10 years and makes a plan to bring the building up to Code)
 - Working Cash (the school is able to borrow money from this fund)
 - Tort Immunity and Judgment

Chapter 4 (p.32) - Expenditures by Object

- Salaries (56.3%)
- Employee benefits (12.7%)
- Purchased Services (7.8%)
- Supplies & Materials (5.4%)
- Capital Outlay (8.4%)
- Other Objects (9.4%)

Chapter 4 (p. 34) - Budget Requirements. The Board of Education must adopt the budget by September 30. Prior to the adoption, the budget must be put on display and a public hearing held.

- Annual Financial Report (posted on the District's website and sent to the ISBE)
- Annual School District Audit
- Deficit Reduction Plan (necessary only if a district were deficit spending over a long period of time)
- Administrative Cost Cap (This is not to exceed 5% of the previous year's expenditures)

Chapter 4 (p.35) - School District Financial Profile issued by the ISBE

- Fund balance to revenue ratio ($4 \times 0.35 = 1.40$)
- Expenditures to revenue ratio ($4 \times 0.35 = 1.40$)
- Days cash on hand ($4 \times 0.10 = 0.40$)
- % of short-term borrowing remaining ($4 \times 0.10 = 0.40$)
- % of long-term borrowing remaining ($4 \times 0.10 = 0.40$)
- Total Profile Score = 4.00

Chapter 4 (p.35) - School Profile Designation

- Recognition
- Review
- Early warning
- Watch

The Total profile score of 4.0 puts OPRFHS at the recognition status. Mr. Altenburg noted that the recognition range was 3.54 to 4.0. The review range is 3.08 to 3.54. Mr. Altenburg noted that this was similar to a GPA. One could be down trending but still get the recognition level.

Chapter 5 (pp.40-41)

- Tax Cap Law PTELL (Property Tax Extension Limitation, adopted in collar counties in 1991 and Cook County in 1994 to slow the growth of property tax revenues of a taxing body under “normal conditions”, school districts could receive up to 5% or the cost of living (CPI), whichever is less.

Chapter 5 (p.41) - What isn't a normal condition?

- New growth, construction the first year it comes on the tax rolls is exempt from the tax cap formula. New construction was a big part of anticipated revenue streams for school districts in DuPage, Will, and Kane.
- Voter approved referenda:
 - operating rate
 - issuing bond/debt to build a new facility, make large improvements, renovations.

Chapter 5 (p.42) -Tax Extension with new no growth (i.e., How much money the District will receive?)

- 2011 (previous year Taxation) \$20,000,000
- 2012 current year CPI is 3% \$20,000,000 X 1.03
- Current Year Max. Collectable taxes \$20,600,000

Chapter 5 (p.42) - Tax Extension with \$200,000 of new growth (i.e. How much money the district will receive?)

- 2011 (PY) Tax Extension \$20,000,000
- 2012 (CY) CPI (3.0%) x 1.03
- CY Max. Collectable Taxes \$20,600,000
- Hotel Property Tax Revenue + \$200,000
- CY New Extension Base \$20,800,000

Chapter 5 (p.42) - Misunderstandings about tax cap law (PTELL)

- The tax cap does not cap a property owner's tax bill, only the amount of money a taxing body can receive.
- There is a direct relationship between EAV and tax rate. In this economy, if the EAV is down, tax rate goes up. If goes down the EAV is equal, the tax rate is equal. If the EAV is up the tax rate goes down.

The Committee was advised that chapters 6 through 10 would be discussed at the August 5 meeting.

Comments/Questions/Requests from Committee members

- 1) What is included in the 7.8% for purchased services, i.e., legal fees, consultants, hiring for professional development, food service, bus service, special education outsourcing.
- 2) What is the loss and cost factor noted on page 42?
- 3) Note: The average CPI was over 6% when tax caps were passed in 1991 and 1994. That is the reason for a 5% cap.
- 4) How much is left on the District's tax rate?
- 5) What is new construction history?

- 6) Allow community members to keep abreast of the discussion by including the name of the book/primer the committee is reading on the website.
- 7) Consider adopting committee goals by motion.

Committee members were asked to forward other questions and/or suggestions for future speakers to Mr. Weissglass and Dr. Isoye and copy Ms. Kalmerton. Responses to the questions can be incorporated in future presentations.

A quick access page for this committee will be included on the District's website. When information is sent out regarding the OMA, people will be asked to respond as to their preference as to how information should be distributed to them, i.e., hard copy or electronically.

Future Meeting Dates/Topics

Mr. Weissglass referred to the suggested meeting dates and topics. Discussion ensued. Does this schedule track with the Board of Education's calendar for its tax levy schedule? Will this information schedule allow enough working sessions to determine recommendations? Could smaller groups be formed to work on individual items and then report to the entire committee? Dr. Isoye reported that the District would post the levy in November and the Board of Education would vote at the regular Board of Education meeting. There was acknowledgement that this schedule would be tight and that the use of smaller working groups could be beneficial.

Information requests:

- 1) What is an optimal fund balance?
- 2) What does the bond house recommend as a fund balance?
- 3) What would the bonding community want as a fund balance if District 200 were to go out for bonding?
- 4) What are the legal parameters/requirements needed to get that information?
- 5) What are comparative examples with target fund balances, using upper and lower boundaries?
- 6) What are the total tax bill projections of other taxing bodies in context with others? The Oak Park Council of Governments is collecting forward financial projections.
- 7) What latitude does the school have in getting a higher return on its investments?
- 8) What are the assumptions of financial implications for all taxing bodies on unknown development—what is the pipeline of development to inform projections on the revenue side.
- 9) When will the TIFs roll off? What will be that impact?
- 10) Forward projection model
- 11) Strategic Plan
- 12) Rating agency write-ups, typically done annually completed on outstanding debt if it is publicly traded. OPRFHS has an AAA rating.
- 13) 20 years of August fund balance history in order to see the longer trend in the topline chart.
- 14) What the fund balance is to be used for, why the shortfalls, and why the change. Income in Cook County comes in August versus October, so the target on fund balances needs to be clear.

Mr. Weissglass appreciate all experience and talent that the members provided and their suggestions will be considered by Dr. Isoye, Mr. Cofsky and he. Information will be distributed as quickly as possible. Dr. Isoye reminded the committee that as requests for information come forward the school will first look at current documents, rather than creating additional documents, as the school still must do its daily business. A suggestion was made that the help of outside people might be valuable to gather information that does not currently exist.

Visitor Comments

Kevin Peppard, resident of 715 Thomas, Oak Park, provided 12 subjects for the committee to address in its discussion and he provided an outline of that discussion and resources. He also provided committee with a set of graphics regarding referendums, noting that he would be willing to demonstrate and share the software that generated the graphs. He offered to be a resource person to help this group get started quickly.

Adjournment

At 9:02 p.m. on Monday, July 15, 2013, Ms. Greffin moved to adjourn; seconded by Mr. Meister. A voice vote resulted in all ayes. Motion carried.