A Finance Committee meeting was held on September 2, 2014. Mr. Cofsky called the meeting to order at 5:01 p.m. in the Board Room. Committee members present were Thomas F. Cofsky, Dr. Ralph H. Lee, and Jeff Weissglass. Also present were Dr. Steven T. Isoye, Superintendent; Tod Altenburg, Chief School Business Officer; and Gail Kalmerton, Executive Assistant/Clerk of the Board.

Visitors included Kevin Peppard, community member, and Terry Dean of the Wednesday Journal.

**Visitor Comments**

Mr. Peppard, resident of 715 Thomas, Oak Park, offered to be a resource to the committee noting that he assisted with the 2002 referendum. He continued that he had conversations with past Board of Education members some of whom assumed a district could live within the CPI, but he had been the first to say that a district cannot do so because of exogenous factors. He preferred the term “slippage factor” rather than “marginal deficit.” He added that Mr. John Rigas, a former OPRFHS Board of Education member and president, developed the first school model. Researchers study school districts all across the United States at the federal level and it is typical for districts to be 1 to 2 points over CPI.

**Fund Balance Policy/Marginal Deficit Policy**

Mr. Cofsky recapped subjects that already discussed.

1) Budget variance review. The process of the amended budget and variance would be documented.

2) Communication of long-term capital expenditures and incremental resources, i.e., large pieces that impact spending. A one-page picture of these elements was developed.

3) A 5-year projection model will be discussed at the September Finance Committee meeting.

Mr. Cofsky framed the discussion for this meeting from the key elements of the Finance Advisory Committee recommendations.

1) Establishing limits on and monitoring marginal deficit, defined as change in expenses minus change in revenue, as to guidelines as to what is included

2) What could be used as clear triggers and early warning signals that the fund balance was signaling a need for a referendum, i.e., minimum and maximum fund balances, etc.

3) What expenses are operating and non-operating?

The definition of a marginal deficit was taken from 1.E. of the FAC’s draft recommendations: “Establish limits and monitor marginal deficits, defined as change in expenses minus change in revenue, with guidelines as to what is included.” This definition does not limit the scope of what is being discussed. The operational fund category includes the following funds: Education, O&M, Transportation, IMRF, Social Security, Working Cash, and Tort. It does not include Capital Projects, Life Safety, and Debt Service Funds because of their limited scope as to how they can be used and their smaller size.

Discussion ensued about annual construction costs in the process of managing the budget, because of their large impact on the budget. Mr. Weissglass too felt that CPI plus 1% was the best case scenario. A district can manage overall maintenance by deferring it, i.e., making decisions to spend less on “ordinary upkeep,” etc. However, he did not believe that was the intent of the Board of Education. Dr. Lee believed because Board of Education members have no experience in purchasing large pieces of equipment such as a fan or chiller at a cost of $500,000, the expense is not questioned. The industry standard for building upkeep is $4
Mr. Cofsky noted that the Board of Education had a policy on fund balance but not one on marginal deficit. He felt strongly that a marginal deficit policy was needed based on the work of the FAC. The decision-making process is tainted when a district has a high fund balance. Actions will differ depending upon whether the fund balance is high or low, thus having a policy would be important.

Dr. Lee noted that if CPI was not an appropriate measure, then CPI plus 1 was no better. He wanted information on what percentage of EAV goes toward secondary education expenses? Oak Park and River Forest residents are willing to spend more of their tax dollars on education than the average community, but how much more is a question to be discussed. How much can taxpayers afford to spend on education given their values, recognizing that some people in this community would not spend any money on education?

To what extent is the District willing to use its present model as to what the community can afford? What the high school does through its actions can bring in higher income residents and squeeze out lower income residents. That too needs to be examined and, thus, he favored looking at two policies.

Mr. Weissglass wanted the fund balance policy to address the issue of having too high of a fund balance without explicit board action, i.e., 75%, etc. The Board of Education took action on not going below 25%, based on the FAC’s recommendation. He believed that the marginal deficit should be defined and monitored and the Board of Education should be setting targets but not imbed them into policy, as boards need more discretion. Some districts include this in their administrative procedures.

Discussion ensued about whether the Board of Education’s adoption of the FAC’s recommendation to bring the fund balance down to under 100% within four years was official policy, as it was not in the policy manual. Did it bind this board and future boards? It was noted that the Board of Education expressed a willingness to adhere to the recommendation, an endorsement. Adoption of policies require first and second readings and the recommendation did not go through that process. A fund balance policy could include wording about an upper threshold of “x” percent and the fund balance would not be allowed to exceed that percent without Board of Education action. District 97’s policy on a fund balance was discussed. It included five points of best practices and the standards and measures and boundary conditions as well as next 6 steps or actions. The development of District 97’s fund balance policy was triggered by District 200’s fund balance. Dr. Lee noted that OPRFHS had used constraint in spending down its fund balance and it had not sought ways to spend it. Mr. Weissglass remarked that after phase in of the 2002 referendum, the District continued to take the maximum tax increases and that cost savings were not the bulk of how the fund balance was built. Cost savings and taking the maximum tax increases were both triggers. A policy could prohibit asking for the maximum tax increases. Having significant money and not spending it is relevant to the marginal deficit. Mr. Weissglass wanted to recommend to the Board of Education that it authorize the administration to develop a policy with a low and high fund balance and then the words could be determined, using Districts 97 and other policies developed by other boards.

Discussion ensued about next steps relative to the Board of Education agreements that the full Board of Education must approve this additional work on amending the current fund balance policy to include minimum and maximum values. This could be brought to the Board of Education at its regular September meeting and then Mr. Altenburg could bring a first draft of it to the October Finance Committee. The Board of Education could send any policy back to the PEG Committee, as there is no urgency. Thus, the recommendation is to bring this to the full board for approval for the administration to begin to work on modifying the policy at its September meeting.

Marginal Deficit
The question is whether there is a need for a standalone or modification of an existing policy that would provide requirements/guidelines on the marginal deficit. Mr. Weissglass noted that while it should be the practice of the District to have a definition of a marginal deficit and to monitor it carefully with Finance Committee involvement, he was unsure if it should be board policy? What would be the opinion of the auditors as to a financial practice statement? Mr. Cofsky noted that what drives much of the work of this committee is the Board of Education’s policy that says Board of Education action must occur on expenditures/contracts exceeding $25,000. He believed this was a low threshold. The marginal deficit is a totally different dollar magnitude. Mr. Weissglass suggested either drafting a distinct policy on the marginal deficit or amending the fund balance policy and having the committee determine if it should be adopted. Mr. Cofsky felt the 5-year projection model should be considered in the policy as well, because it needs to be considered over a longer horizon. Mr. Weissglass noted that CPI Plus 1 would have to be reflected in the writing. Discussions have occurred about ordinary capital expenditures and enrollment increases. He asked if 1) additional costs associated with enrollment increases under current conditions should be covered out of the fund balance, and 2) should a formula be incorporated relative to enrollment expectations?

Key questions to be answered for a guidelines for a policy included:

1) What is being defined as being included and excluding (revenues and expenses)?
2) How much can the District afford, based on EAV? What percentage can the community afford for high school education?
3) What research has occurred? What outside recommendations have been made, i.e., the cost per student federal database and its trend, etc.?
4) What indices should be considered? What percentage of EAV or tax bill is a question of whether another measure should be used to constrain the budget? Is CPI the right metric to use? Mr. Weissglass was more familiar with CPI plus a referendum every 8 to 10 years than he was with the percentage of the EAV. He considered those interesting measures and suggested that they be part of the reporting, using them as part of the decision-making and budgeting process. However, he was not sure how not to use CPI plus an adjuster. Mr. Cofsky noted that another index, Employment Cost Index (ECI), might be more relevant, as salary and benefits represent 80% of the high school’s budget. Exceptional circumstances of revenue need to be considered, as is the case this year. Last year the tax levy was $10 million below what the high school was permitted to levy. In comparison, next year the high school will be allowed to increase its tax levy by $10 million plus.
5) What does the marginal deficit look like today? Key decisions can be viewed from a marginal deficit perspective, meaning that whatever the decision is, it will be X amount in marginal deficit. Where does the 5-year model fit into the marginal deficit and/or fund balance policy? Where is it utilized?
6) What other term should be used in place of marginal deficit.

Mr. Weissglass believed the policy would clearly be a budget management guide for the Board of Education and for the administration as to how to make budget decisions, setting priorities and resource allocations. The Committee recommended asking for Board of Education permission to have the administration answer the questions to help frame up policy or procedure aimed at the marginal deficit at the September meeting. Mr. Weissglass volunteered to work with Mr. Altenburg to research the answers to these questions.

New Business
Dr. Lee introduced the discussion of charging expenditures to future boards for future projects, i.e., repurposing the swimming pools after a new pool is built, etc. This is a cost for future boards, because it is not included in the cost for building the new pool. History showed that a determination was made that the demolition and rebuilding of the pools was impractical and too expensive. The expense for repurposing that
space was not included in any new pool calculations. He asked if the District should have a policy on allocating costs to a project. Mr. Cofsky stated most accounting is regulated but how the Board of Education plans is an option. It is a bigger picture of facilities planning as well.

Mr. Weissglass wanted to focus on the levy. He noted that a levy decision would be made in the context of an unusual year. When the FAC made the recommendation, it knew things would change and knowledge gained. He asked:
1) How and when will this conversation occur?
2) Is the input from any FAC participants desired? Or, should the Board of Education manage it?
3) Should the same charts and trajectories used for FAC be used? Should two models be compared: 1) assume that the District bounces the levy back up to the 2012 level, and 2) the 2013 levy minus “X” amount?

Mr. Cofsky stated that it was critical to know where the District left off from the last levy recommendation and to know what had changed. The human resources perspective is a question. It was the consensus of the Committee members to schedule a special Finance Committee meeting in October. Community input would be useful and they were supportive of getting feedback/knowledge. A meeting will be scheduled after the 5-year plan has been updated.

Mr. Weissglass also wanted to discuss the Madison Street TIF. Even though the expectation of the surplus was budgeted, FAC had not included it in its 5-year projections. OPRFHS did not receive these funds last year. Because the revenue from the Madison Street TIF is included in the FY 2015 tentative budget on display, Mr. Weissglass wondered whether it could be removed after the hearing at the September meeting, if no communication had been received from the Village saying that it would make the distribution. Per previous conversations in the Committee meetings, the distribution will not be included in the Final Budget. Receipt of these funds was only due to an agreement between District 97 and the Village and OPRFHS has no control over it.

Mr. Cofsky wanted to talk also about Special Education as the $1.2 incremental outside tuition is part of a larger picture. Consultants are working on a review, including financial information. This will have an effect on the levy discussion.

Adjournment
At 7:04 p.m., Dr. Lee moved to adjourn the Finance Committee; seconded by Mr. Weissglass. A voice vote resulted in all ayes. Motion carried.

Submitted by
Gail Kalmerton
Clerk of the Board