

May 28, 2011

To: District 97 Board of Directors

From: Financial Oversight and Review Committee for District 97

Subject: Quarterly Meeting Report and Comments

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The Financial Oversight Committee met on May 17<sup>th</sup> at the District 97 offices. The primary focus of our meeting was to review the assumptions that underpin the current 5 year financial projection for the District and to discuss how the District might best manage finances in the environment where our low point fund balance 5 years out is well above the minimum levels we have focused on managing for several years.

Based on our discussion of the current key assumptions that underpin the PMA forecast, the FORC feels the following areas present the most risk.

- The District's projections for student population show a leveling of the current growth trend. The new demographic study and recent census information should shed some light on this issue but at a high level it would be difficult to expect sustained growth or even net growth in student population in Oak Park over a period of years given the nature of our community. Since our GSA adjusts as a function of student population we need to remain aware of this issue and be prepared to adjust staff accordingly year to year if declines in student population materialize.
- The FORC has concern over revenue due from the State, in particular categorical grants that account around \$6M per year. We feel these grants could easily be reduced as a measure to address State level financial problems. This could impact both what is currently owed to the District which has not been paid and what we are forecasting in future years.
- The FORC has concerns that changes in the GSA formula or pension obligations for local districts may result from efforts at a State level to manage the deficit and push additional responsibility for education funding down. The FORC is concerned this could hit District 97 particularly hard. However, we would expect that changes of this magnitude in the basic calculation for GSA or the funding levels would likely be phased in over a period of time.

Our review also suggests that actual performance on expense and revenue items relative to individual assumptions at a line item level appears to be highly variable from year to year although overall we seem to be able to achieve our targets. The FORC also feels that while good budget and financial management is a very important discipline, it has generally been specific events historically that have influenced our cash position most significantly. For the moment we feel comfortable with the District's core assumptions given the strong projected balances, however, it should be noted that the level of uncertainty around these specific key assumptions (student population trends and State payments in

particular) is quite high and the District needs to keep this in mind as it manages its finances over the next year.

In response to the Board's proposal for an audit of the PMA forecast history versus actual, the FORC feels that this exercise would not add significant value at any detailed level given the variability of actual performance at a line item level. What may be informative is a high level review of projected cash balances in major categories from 2006 against 2011 along with a brief summary of the areas of major difference. This would highlight the types of events which have created major dislocations in the forecast overtime.

The second major topic of discussion at the May 17<sup>th</sup> meeting was the type of metrics and oversight the FORC might suggest to support the District manage its cash balances to successfully reach 2018 without the need for any additional requests to the tax payers. After discussion the FORC has the following recommendations.

- The Board and District management should identify targets for year to year maximum expense growth, minimum revenue growth, maximum deficit, and minimum fund balances which will allow us to maintain manageable cash reserves and avoid having to run the next referendum prior to 2018.
- Considering the uncertainty is primarily around continued state funding levels. A minimum fund balance of between 25-50% in 2018 would be set as a target in line with State guidelines. A target at the higher end of range being preferred in this environment.
- Because the District may have specific contractual obligations or wish to make capital or program investments in the short-term that require it to overspend its target from year-to-year, the District should track the gap between the fund balance target line and the current spending level. Managing this gap may require the District to make necessary adjustments in expenses as key assumptions or actual costs become better understood. The further the District deviates from the target the more serious and urgent actions need to be.
- As the District may also be considering new investments or major program changes which ultimately will improve both the delivery of education as well as our overall productivity. The FORC feels strongly that such investment should have measurable results. The FORC would be ready to support the Board to ensure metrics are in place and key initiatives are periodically reviewed.

Despite having adequate fund balances at this time it is important that the District set appropriate year-to-year targets and manage spending effectively and not allow spending to expand at a rate that would consume fund balances before 2018.

The FORC's next meeting will be at the end of August.

FORC