GENEVA COMMUNITY UNIT SCHOOL DISTRICT NUMBER 304
227 NORTH FOURTH STREET, GENEVA, KANE COUNTY, ILLINOIS
FINANCE COMMITTEE MINUTES

The Board of Education Finance Committee met at 5:30 p.m. on Monday, November 11, 2013, at Williamsburg Elementary School, 1812 Williamsburg Avenue, Geneva, Illinois.

1. CALL TO ORDER

The meeting was called to order at 5:34 p.m. by Chairman Wilson.

Committee members present: Dave Lamb, Kelly Nowak, Bill Wilson, Tom Anderson.

Administrators present: Donna Oberg, Assistant Superintendent Business Services; Dr. Kent Mutchler, Superintendent.

Others present: Byron Bromer, Daniel Garrett, Tom Maloney, R. Phillips, Chris Bourdage, Ron Stevenson, Dick Graff, Leslie Juby, Mary Stith, Mark Grosso

2. PUBLIC COMMENT

Comments included:
I want to make the Committee aware that I will be presenting my debt plan for the District at tonight's regular Board meeting.

3. APPROVAL OF MINUTES

3.1 October 15, 2013
A Committee member noted an error on Page 3, Paragraph 2, Line 4, the amount should be $1 million, not $4 million.

Motion by Lamb, second by Nowak, to approve the minutes, as corrected. Ayes, three (3). Nays, none (0). Motion carried.

4. DISCUSSION/CONSIDERATION

4.1 Levy Review
The Assistant Superintendent Business Services reviewed 2013 levy data, assumptions, levy options, and calculations for determining a tax bill for a home with an EAV of $315,000.

Option 1: Levy the full CPI-U of 1.7% for a total levy of $80,525,384; a limiting rate of $5.19; a debt service rate of $1.50; total tax rate of $6.43; increase of 5.35%. For a home with an EAV of $315,000, taxes would increase about $343.

Option 2: Levy 1% of the CPI-U for a total levy of $79,876,000; a limiting rate of $5.15; a debt service rate of $1.50; total tax rate of $6.39; increase of 4.76%. Taxes on a $315,000 home would increase about $305.

Option 3: Levy 0% of the CPI-U for a total Levy of $79,241,000; a limiting rate of $5.10; a debt service rate of $1.50; total tax rate of $6.34; increase of 3.93%. Taxes on a $315,000 home would increase by about $252.

The debt service rate amount is prior to the abatement decided for last year.

Comments: The 2013 tax bill fair market value of $315,000 was based the 2012 rate. The Geneva Township Assessor commented recently that the EAV was down approximately 4.5% for this year. (When I looked, the EAV was down about 2.4%) Is it blended? (Yes) For 2014, I used 4.5% because for a Geneva Township homeowner, and Blackberry Township is at 2, so we'll get a blended rate. If the property value in 2012 was $315,000, that is what your taxes are based on for 2013. The 2014 value would be down 4.5% and you use the formula to calculate the taxes. I don't think most people care that much about tax levy rates. I think they want to know what they are paying in actual dollars. So based on the formula, in 2014, the tax payment on the $315,000 home has an increase of about $39.00 or an increase of about 0.62%. I think that is the true way of looking at this. Not that the value of your home didn't change. (Correct if you are looking at a $315,000 home from last year.) A levy of 1% for the same home would have a reduction in their tax bill by $0.23.

The assumptions used actual budget projections that were provided to PMA. Based on assumptions that included contract amounts for all of employee agreements, an increase of 8% in benefits, an increase of 2% for capital outlay (5-Year O&M and Technology plans), expenses and revenue (local, state, & federal), and the proposed levy options, a comparison of revenue to expenditures was developed for each option.

Option #1 - 1.7% CPI projects an increase of $3.5 million more in the Education Fund than our projected need, with about a $2.2 million transfer from the Education Fund to the Special Education Fund because we are at the maximum rate of $4 in the Education Fund and can't levy higher than that rate. O&M is about $2.7 million under projected revenue and would need to be pulled from fund balance. Same with Transportation, which is about $4 million under projected revenue. While $230,000 would need to be pulled from the fund balance for Municipal Retirement, we are purposely levying less in the Municipal Retirement/Social Security Fund because we have a balance and we shouldn't carry a high balance in those funds; in those funds we are only to levy for what we need. Over all, with a 1.7% CPI, we are projecting $3.4 million more expenditures than revenues.

She stressed that she was using the estimated numbers received from the Assessors. The numbers could be different when we get the actual numbers next March.

Option #2 – 1% CPI projects an increase of $2.8 million in Education, and the other funds remain much the same. While we go down slightly in the Education Fund, the Special Education Funds takes a portion of it. Over all, with a 1% CPI, we are projecting almost $4.1 million more expenditures than revenues.

Questions: Since we have an excess in the Education Fund, can we reallocate that to Special Education? (No, because we can't go over the $4 rate in the Education Fund. We could levy more in the Special Education Fund but that would not be a true 1% levy.) Could we lower the levy in the Education Fund and increase it in the Special Education Fund? (Yes, we could do that, but remember that the surplus includes Special Education.)

Option #3 – 0% CPI projects an increase of about $2.2 million in the Education Fund. Other funds remain about the same. Over all, with a 0% CPI, we project about $4.7 million more expenditures than revenues.

The Debt Service for all options is about $350,000 more than what we anticipated we will require for payments but it's important to remember that the County Clerk always levies more for the Debt Service payment than we will need in order to make up for any unpaid taxes and to ensure we have enough to make the debt service payments. Debt Service rate for all options is $1.24.

Questions: Is the over amount in each of these related to the Transportation expenditures? (Yes, due to the bus buy-back program. If we normalized or leveled that it would be about $2 million less.)

For O&M, we need to continue to maintain our facilities and address health/life-safety issues, but there may be some projects we could reduce to lower the budget.

Questions: The Special Education levy wasn't included last year was it? (No, the last time we levied for Special Education was 2007 or 2008.) In the 0% Option, was the 3.9145 the levy last year for Education? (I'd have to look at my folder for the actual rate for Education. I think it was $3.83 but I'd need to verify that figure.) With 0% and the increase in Special Ed that wasn't there last year, so I thought the 1.7% was the total which included Special Education. (All of the options include the Special Education levy. We can only go to $4 in the Education Fund. After that we would need to go to referendum to increase it. But we can shift that dollar amount to Special Education because we aren't levying in it already. The 1.7% really comes down to our 5.19 limiting rate.) Last year's limiting rate was 4.92% (I believe that is correct, but I don't have the actual number in front of me. You have to use the formula to calculate your tax bill. When the EAV goes down, it changes your limiting rate.)

The Assistant Superintendent reviewed a five-year levy comparison. The total capped levy amounts were 2008 - $57,309,604; 2009 - $57,938,770; 2010 - $59,960,272; 2011 - $61,278,876; and 2012 - $63,316,345. She prepared the five-year comparison to show how the funds had increased and that majority of the increases were in the Education Fund due to salary/benefit increases. The O&M Fund is starting to go down. IMRF Fund is levied to match FICA/Medicare/IMRF rates. Bond payments went from $11,600,246 in to 2008 up to $15,149,997 in 2012. In 2008, the Transportation Fund was $2.2 million and $1.9 million in 2012 but we aren't getting the same level of reimbursement from the state.

As requested by the Committee, an 18-month ending balance/cash flow was provided and reviewed. In October, the Bond/Interest Fund had a balance of $13,694,450 but in December the balance was $1.9 million. Tax receipts are received in May, June, July, August, September and October; with the largest of the payments in June and September -- $30 million plus in June and $30 million plus in September. These dollar amounts are constantly fluctuating. The Bond/Interest Fund went down in December because we paid our bond debt payments which are due January 1st. April is our lowest cash-flow point and without the early tax payments in May and June, we wouldn't be able to make our approximately $7 million per month payments for payroll and accounts payable. The District has to pay its bills all year long. The Board passed a resolution to abate $4.5 million and those dollars are committed for those payments. While the ending June balance makes it appear we have a lot of money, we really don't. When you take out all of the committed dollars, we only have about $3 million. The District's cash flow is like an individual getting paid once a month; you have a large deposit on the first of the month but by the end of the month, after you've paid all of your bills, you don't have the same high balance.

Question: What is Working Cash? As it was explained to me, it was a commitment we made through referendum that we would keep these funds for cash-flow purposes. (Correct. Prior to Working Cash, come May, the District didn't have the funds to make our payroll and would have to take out Tax Anticipation Warrants, which is like a loan, and we would have to pay interest on the loan. By going to a Working Cash Fund, if we run short, we can make interfund loans from Working Cash to Education, O&M, or Transportation to cover the shortfall until we receive our tax funds. But the interfund loans must always be repaid by June 30th of that school year. If you don't receive early tax payments, we'd show a negative balance that was borrowed from the Working Cash Fund.) Ultimately, we can use those funds but they are not a "touchable" balance and Bond/Interest is a flow-through. (Correct, Bond/Interest is a restricted fund and can't be touched, Municipal Retirement is a restricted fund, and so it Tort/Immunity.) What about Transportation. (We can move money from the Transportation Fund but we don't have much in the fund to move, the balance goes up and down.) I've looked at the figures and we want to target about 30% of our Operating Funds to maintain our financial standing. So, while there are some reserves we can use, there are less than what I originally thought was available; there is not $60 million. (Correct, there are some reserves, and we can target that for debt reduction. One of the options in Elizabeth Hennessy's presentation was to set aside dollars to pay off debt but to do it conservatively.) For presentation purposes, perhaps we need to remove those dollars that are restricted in order to see the true cash-flow dollar amount that could be used. (Yes, we could do that, but anyone can manipulate figures and make them be what they want them to be. That is why I use the annual financial report and the budget document that is readily available to anyone, so everyone is looking at the same numbers.) I did that from January 2012 through this year for each month but I also thought we could take dollars from the Transportation Fund but the auditor's annual financial report has a statement that those funds are limited to transportation purposes. When I look for excess balances that could be used to pay down debt principal, I look at Education, O&M, Tort, and Working Cash. (It's only in the last few years that the State has allowed the interfund transfers.)

The Committee Chair asked each Committee member to comment on the levy and their preference for an option to take as a recommendation to the full Board at tonight's regular meeting.

Comments included: Am concerned about the status of all-day kindergarten for our District and the possible implications of state legislation for pension reform. (The full-day kindergarten task force is just getting started. Additionally, there are no amounts yet relegated for pension reform or all-day kindergarten.) I want to ensure that we levy enough to meet our financial needs. Having looked at all the budgets, it presents a healthy view; our revenues on average have come in a little higher, and our expenditures have been less than budgeted. But PMA forecasts that we will be drawing on our fund balances; so we need to be careful. We are levying for the 2014-2015 year, and there are some unknowns. Overall, I feel that the Board and the district have does a good job of controlling costs. While I think our costs may be at a 1.7% levy, I think we could live with a 1% levy option. I tried to look at rates that have been set in Kane County for the other districts. From 2003, on average, Geneva's rate has always been either right at or just above the average levy that was set. I've looked at the budgeting process and the abatements that have been made with surplus funds to keep the tax level and I feel the 1.7% levy, in my opinion, is the most responsible of the three choices. The maximum amount that we are allowed to levy next year is 1.7%. Teacher contracts will go up to 2.65%, so we are immediately upside down in cash in vs. cash out. All-day kindergarten is only one program we would like to add/improve to ensure that we continue to provide the same level of educational programs for our students, and these may increase our costs. Last year, the Board cut our levy in half. I agree that pension reform could impact future budgets. I feel that we've done a good job of budgeting, monitoring our expenses, and levying less than we could last year, so I could support a 1% levy. While it is not half of the full amount we could levy, I think it is a prudent recommendation. I just want to ensure that we can cover our expenses with a 1% levy. (The difference between 1.7% and 1% is $650,000. We need to keep in mind that after two years in a row of reducing the levy amount, I'm not sure we can continue to do that in future years.)

The Chairman opened the floor to comments/questions from the public and asked that the comments be limited to three-minutes or less.

Comments included:
I feel that the comment made, "if your EAV has dropped by 4% that you will actually pay less in taxes," is flawed. As assessment was explained to me, you start with last year's revenue that the school district got, multiply that by whatever tax levy you're given, either 1% or 1.7%, and add in the new construction and the debt service. Even if the Board goes with a 0% levy, it will always get more money than last year because our debt service is going up and new construction is going up a little bit. Revenue will always increase. Think of the entire EAV as a pie and the individual homeowner is a certain percentage of the pie. If my home is worth 2% of the total EAV, and everyone's home value goes down 4%, you still will have to make up the 4% somehow. So, my piece of the pie is still 2% and my taxes would be 2% of the higher number that you are collecting. Tax rates are smoke screens because I don't know how you get to the tax rate. Individuals have to pay more money than the year before and the piece of the pie is the simplest way to figure that. My 2% is still my 2% and instead of 2% of $65 million last year, it's 2% of $68 million, even if my EAV was reduced. (It would, but both of the numbers include abatement for 2012.) Those abatement numbers from 2012 were set aside to pay toward the debt this year. (But if you do the exact math, the 1.7% CPI increase has an abatement amount in the figures. The numbers are based on the exact calculations of the limiting rate.) But the abatement doesn't play into the amount of taxes you pay this year because we've already paid that year in taxes. (If we levy 1%, based on these figures, and if your EAV went down 4.5%, it would go down 23 cents.) No, it would not. (Yes, we have an abatement amount built in. If you take it out, you would go up 4.06%. We abated last year and will abate again this year based on the 2012 excess and that is figured in. My point is if we didn't have any abatement built in, your tax bill would go up 4.06%.) My taxes won't decrease, that is simple math. You're still getting more money than you got last year.

I'd like to try to simplify this even more. A CPI of 0%, according to the Assistant Superintendent Business Services' numbers from last month's meeting, increases a taxpayer's bill by 3.8%. The bottom line is even if you adopt a 0% levy, it is still a 3.8% increase. CPI of 1.7% is a 5.2% increase. A 5% increase in your taxes is greater than the 2% for teachers' increases. (What has been taken out of context is that you are talking about the amount the rate is going to increase, but bottom line is that when talking about the levy, you have to talk levy only. The levy increases the amount of money that comes into the schools coffers by a maximum amount of 1.7%. The teachers' salary by contract are going up by the amount of the contract, 2-point something. If you take the teachers' salary and multiply it by 1.7%, that is the amount we would have to set by CPI. But the salaries aren't set by CPI. What's happened here tonight is that people are talking apples to oranges. The levy is just a percentage increase in the amount of money that the school district can bring in. We have people talking levy and people talking rates and they are two, totally different things. The rate is impacted by the EAV and because the EAV has dropped, the rates are going up. So, if you are going to quote me, I said that the amount of income that we are looking to increase could be 1.7% and that and the 5.13 that you just quoted are two totally different things.) The numbers I'm quoting are the $5 a tax bill goes up for the homeowner per Ms. Oberg's numbers. The number of dollars that my tax bill goes up is 5.5% or 5.3%. (How much of that is due to long-term debt?) My point is that dollars of property tax increase is 5%, which does equal the levy of 1.2% and I mentioned nothing about the rate. (What we are trying to explain is that what you are confused with is that the percentage amounts listed on the side is the increase is the rate. It is not the increase in the dollars for levy.) But even at a 0% levy increase, your taxes are by a dollar amount, correct? (Yes, they will go up by a dollar amount because the EAV went down. But the percentages you are referencing on the page are the tax rate increases.) I would suggest that if we are going to do the increases, we do them in dollars vs. dollars, because I agree that rates and levies are confusing.

5. FUTURE AGENDA ITEMS

December 9: Transportation Study
January 13: Audit Presentation/Discussion; Bond Abatement

The Committee Chair reviewed the topics that would be discussed at the December and January meetings and encouraged Committee members to let him know if they had other topics they would like added to the agenda.

6. ITEMS FOR RECOMMENDATION TO FULL BOARD

6.1 2013 Levy
Of the three options considered, it was the consensus of the Committee to recommend a 1% Levy Resolution to the full Board.

7. INFORMATION

7.1 Legislative Update
The Assistant Superintendent Business Services reported that the District has not yet received the first quarter payment from the State and that the Transportation reimbursement proration is at 79%.

8. ADJOURNMENT

At 6:37 p.m., motion by Lamb, second by Nowak, and with unanimous consent, the meeting was adjourned.

APPROVED ______________________________ ___________________________ CHAIRPERSON
(Date) (William R. Wilson)

RECORDING
SECRETARY ______________________________
(Dr. Kent Mutchler)