

Operating Funds Referendum Decision Framework



DRAFT –FOR DISCUSSION PURPOSES ONLY

Rev. 18 February 2016



WHY ARE WE CONSIDERING AN OPERATING FUNDS REFERENDUM?

Recent History

- ◆ In 2011, the District sought its first operating funds referendum in 20 years
 - The district had successfully extended resources to the maximum extent possible before unacceptable program cuts would have been required
 - All of our employees, including bargaining group partners, shared the sacrifice by freezing salaries
 - Timing was less than ideal following recession, but referendum passed with 54% of the 11,172 votes cast
 - Financial and enrollment projections were used to “size” the referendum to bridge us to around 2018 when the 1999 capital referendum (“middle school”) bonds will be fully paid
 - 2011 referendum was a “stopgap” – **the board projected that a new referendum would be required in the 2017-2019 time frame**



WHY ARE WE CONSIDERING AN OPERATING FUNDS REFERENDUM? (continued)

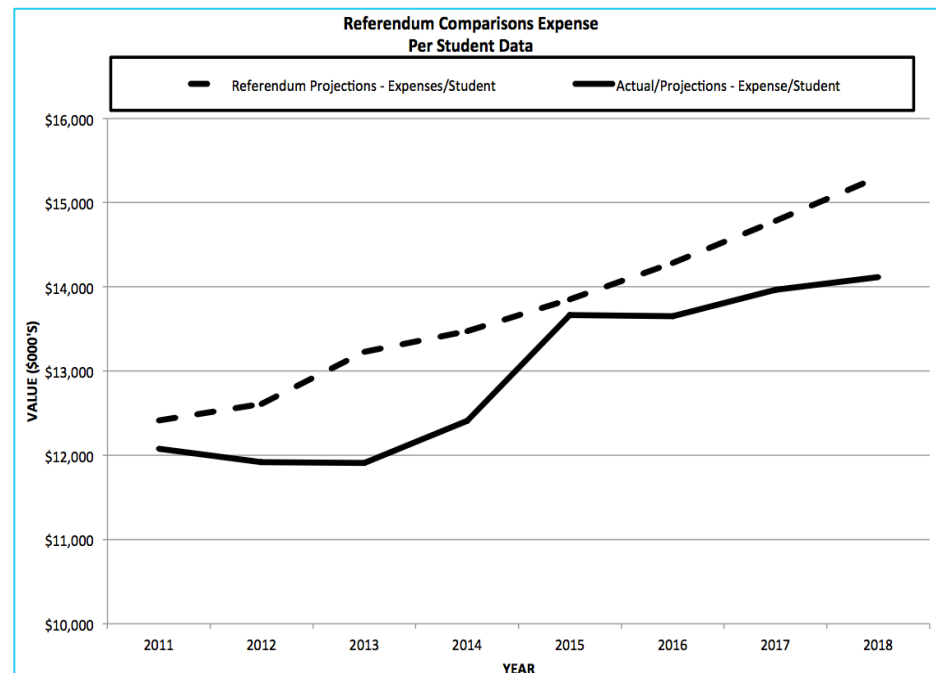
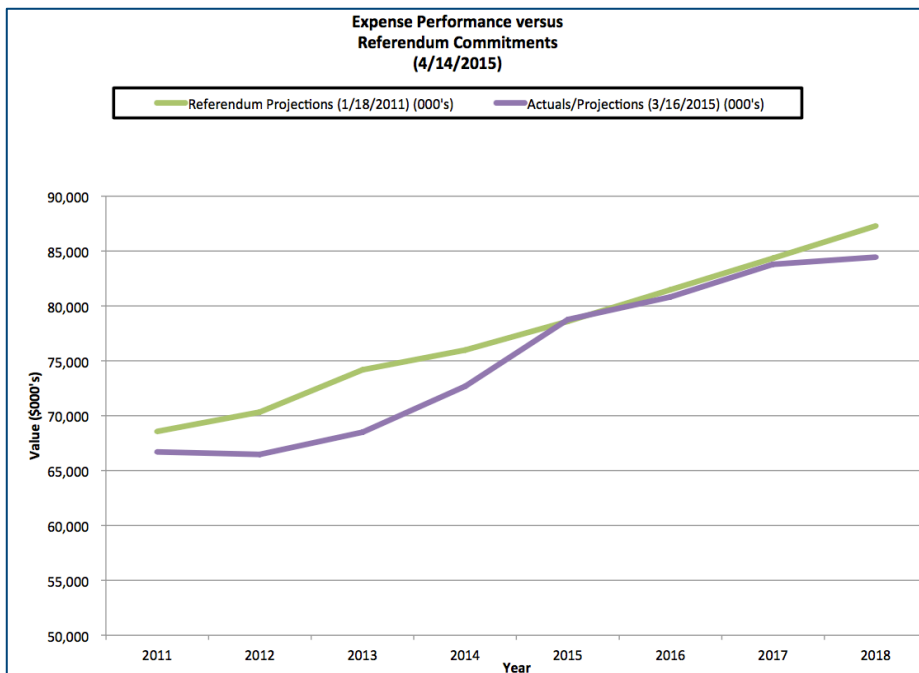
Recent History (continued)

◆ 2011 – Present

- Exceptional cost management by administration resulted in five consecutive years of expenses finishing FY below long-term projection targets on both a total and per-student basis (see subsequent slide)
- 2014-15 contract negotiations with our OPTA partners succeeded in lowering the growth trajectory of our largest expenditure (certified staff salaries)
- At the same time that the administration was coming in below budget expense projections, enrollment increased by 225 above the 2011 referendum projections and several mission-critical teaching & learning initiatives were implemented (i.e. middle school IB, 1:1 technology, Early Childhood Collaboration)
- In April 2015 Forecast5 presented updated forecasts to FORC; in November 2015 FORC affirmed the 2011 plan to begin discussing the need for a referendum in the 2017-2019 time frame.



DISTRICT PERFORMANCE IN MANAGING EXPENSES VS. 2011 REFERENDUM PROMISES



On both a total cost and per-student basis, D97 consistently maintained expenditures below budget and referendum commitments despite an increase of over 300 students above the enrollment projections through 2018*

*2011 enrollment was approximately 5,500 students; current projected enrollment for 2018 is 6,000 students



WHY ARE WE CONSIDERING AN OPERATING FUNDS REFERENDUM? (continued)

Current Situation

- ◆ The process of evaluating, sizing, planning, and preparing for a referendum takes about 15 months (see subsequent timeline slide)
- ◆ Forecast5 projections indicate that without an increase in revenue, decrease in costs (programs, staff), or both, the District will fall below ISBE guidelines and D97 fund balance policy** requirements in FY 2016-17. **D97 has already exceeded policy boundary conditions now** (see subsequent slides).
- ◆ Therefore, the referendum go/no-go decision must be evaluated and made now



UNDERSTANDING D97'S FISCAL POLICY 4:12

- ◆ D97's fiscal policy, combined with the administration's expert financial management, reflect "best practice" for school district stewardship of taxpayer funds according to the Illinois State Board of Education
 - Includes fund balance maintenance, uses of debt, budget adherence, and reporting and controls
 - D97 has received the highest rating (unqualified) from outside auditors RSM McGladrey & Pullen for the past five years
 - **D97's fiscal policy and financial management have helped the district become just one of ten districts (out of 850 statewide) to earn IASB's "Recognition" status for sound governance**

- ◆ Policy 4:12 was developed over several years in collaboration with FORC* and establishes several "boundary conditions" that act as toll gates necessitating certain actions, including assessing referendum options

FAQ

* ***Q: What is FORC?***

A: The Financial Oversight and Review Committee is a standing board committee comprised of outside citizen advisors with expertise in both public and private financial management. FORC acts as an independent, second set of "eyes and ears" on the districts finances, revenues, budgets, fiscal policies, and decision-making.

UNDERSTANDING D97'S FISCAL POLICY 4:12 (continued)



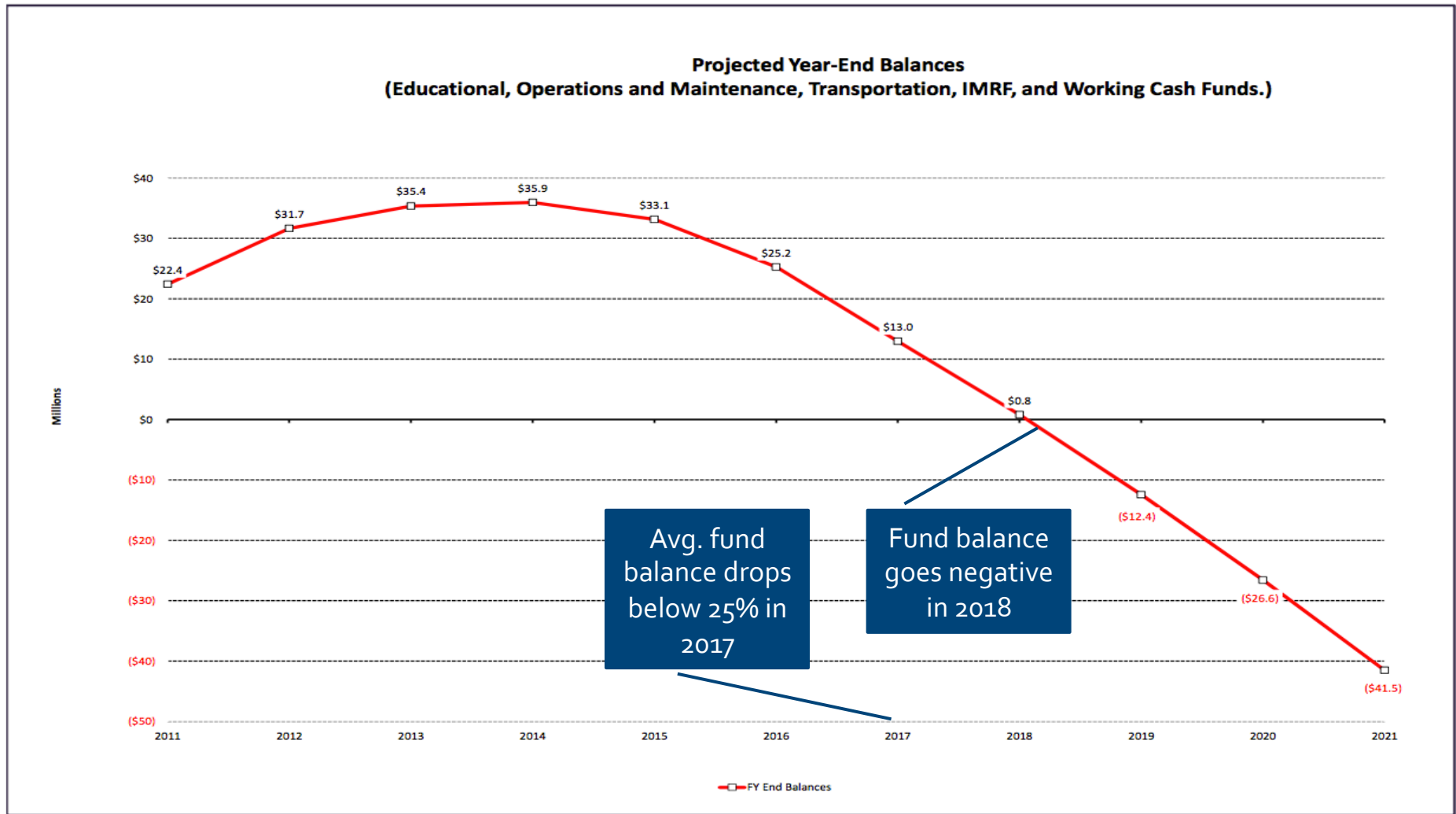
D97 Fiscal Policy Warning Indicator

SELECTED BOUNDARY CONDITIONS	STATUS
<input type="checkbox"/> Projected monthly fund balances go negative over next two years	<input type="checkbox"/> YES – fund balances go negative in 2018
<input type="checkbox"/> Average fund balance drops below 25% of operating expenses within 3 years	<input type="checkbox"/> YES – fund balance drops below 25% of operating expenses in 2017
<input type="checkbox"/> The district is continuously reducing debt capacity by issuing debt to fund operating expenses	<input type="checkbox"/> No – the district is not using DSEB or other debt instruments to fund operations
<input type="checkbox"/> The district cannot maintain at least Moody's Aa2 or equivalent credit rating	<input type="checkbox"/> No – the district's credit rating is Aa2

◆ Per policy 4:12, "when one or more of the financial boundary conditions...of this policy are being violated the Board and Administration shall take appropriate actions. Actions... may include, but are not limited to (in no specific order):

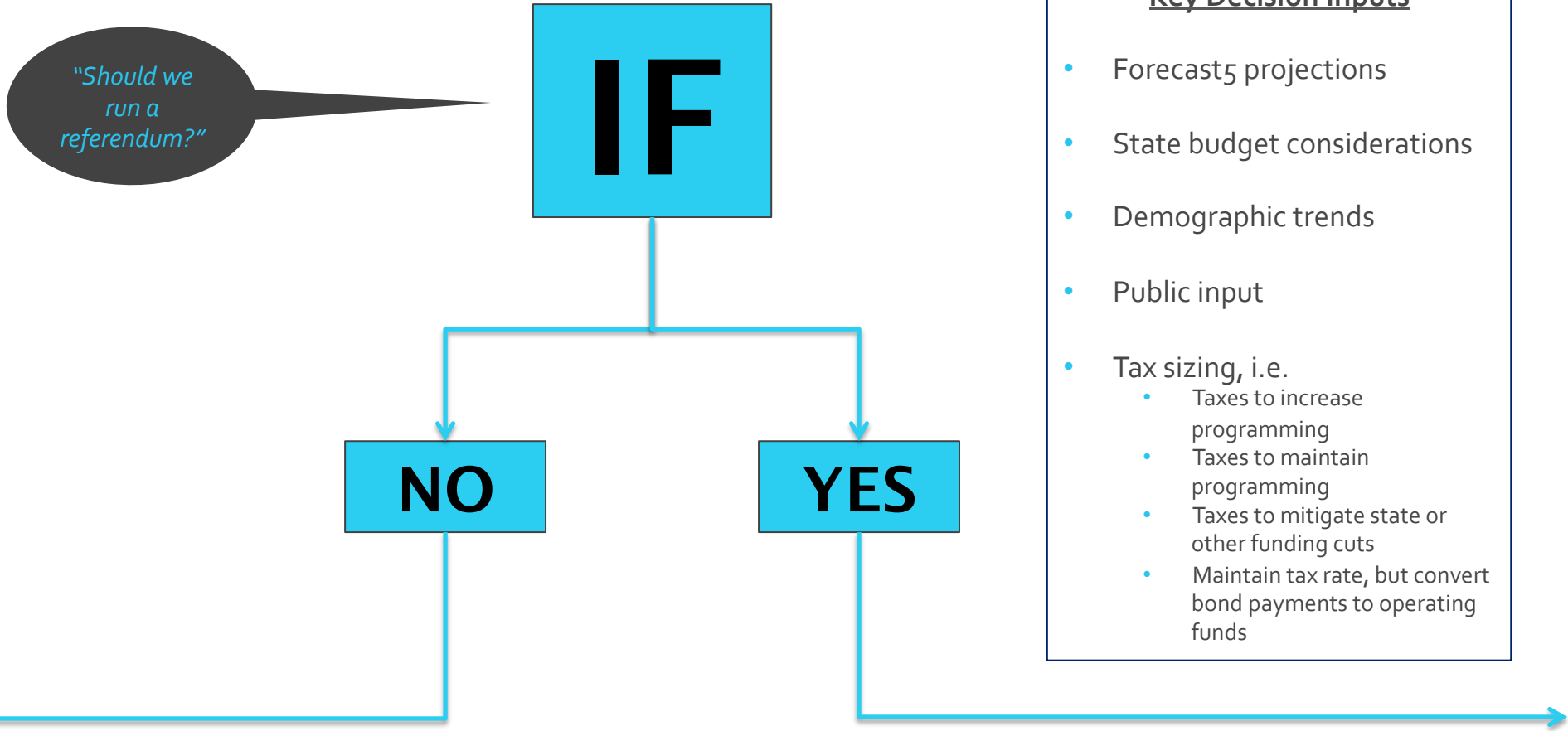
- A curtailment in hiring;
- A curtailment in implementation of new programs or in the initiation of the next phase of an existing program
- Enacting an expenditure budget for the next fiscal year...
- Personnel reductions...
- Reduced salary and benefits increases and/or salary freezes...
- **Recommendation of a referendum to address the financial situation..."**

FORECAST₅ FUND BALANCE PROJECTIONS - CURRENT



Source: Forecast₅ Analytics, Feb. 2016

REFERENDUM DECISION FRAMEWORK: STARTS WITH "IF"



IMPLICATIONS & DECISIONS REQUIRED IF “NO”



Key Decision Inputs

- Current board policy requires 25% fund balance three years out
- Current board policy prohibits use of debt for operating funds

NO

"No, we should not run a referendum"

The board directs the superintendent to bring forward a budget for 2016-17 that is compliant with existing board policy

or

The board is willing to change assumptions, i.e. revenue, such that the projections meet board policy

or

The board adopts a new finance policy and revisits the "if" question afterwards

Administration provides board with cuts in programs, staff, dollars**

FAQ

**** Q: Can we cut staff in order to reduce costs?**
 A: Yes, but would the severity of cuts warrant a referendum to gauge community support?

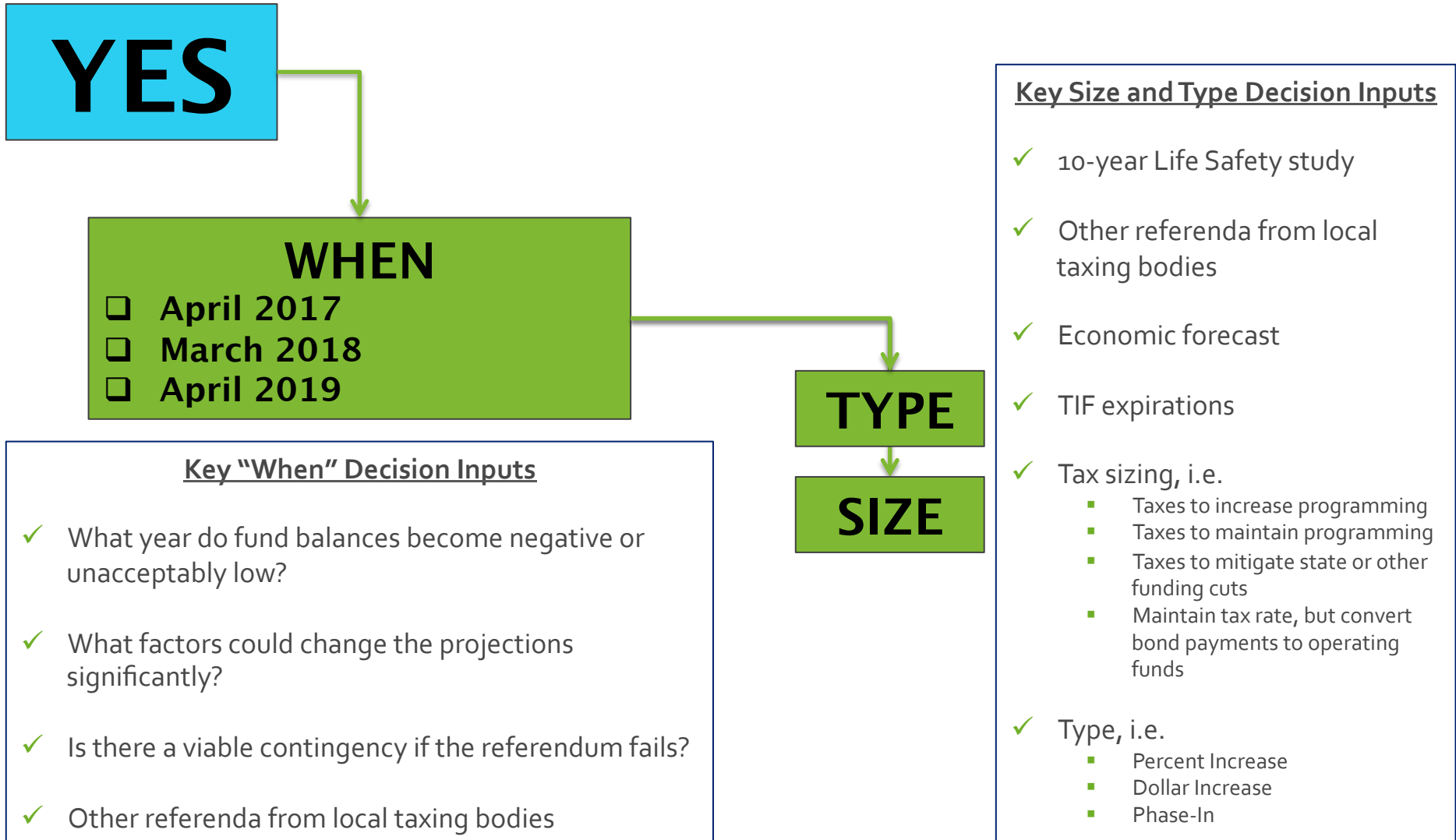
Q: Why don't we just borrow money to pay operating costs?
 A: D97 policy prohibits use of debt for operating funds and would dig a deeper hole.

Q: Can we cut non-staff costs to reduce costs?
 A: Yes, but how does the magnitude of savings compare to the projected deficit?



IF "YES," NEXT QUESTION IS "WHEN"

("size" and "type" questions can wait)



TIMELINES RECAP



REFERENDUM YES/NO DECISION TIMELINES

- ❖ **23 Feb. 2016:** Forecast5 projections presented and first board discussion of potential need for referendum
- ❖ **29 Feb. 2016:** FORC meeting and review of projections and referendum options
- ❖ **15 Mar. 2016:** Adoption of non-binding resolution of intent (or not) to run referendum, and if yes, when

REFERENDUM SIZE & TYPE DECISION TIMELINES

(in reverse chronological order)

- ❖ _____ Election date
- ❖ _____ Last date to file to get on ballot
- ❖ _____ Board meeting 1 (one board meeting out from last date to file to get on ballot) – final approval of wording, type(s), size(s)
- ❖ _____ Board meeting 2 – adoption of an intent to approve referendum type(s) and size(s)
- ❖ _____ Board meeting 3 – final board discussion and consensus on type(s) and size(s)
- ❖ _____ Board meeting 4 – final presentation of Forecast5 projections, changes in laws, and other relevant information
- ❖ _____ Q1 (one calendar quarter out from last date to file to get on ballot) – double check assumptions
- ❖ _____ Q2 – narrow types and range of sizes to smaller set of options
- ❖ _____ Q3 – understand types and sizes options and establish “white lines,” re-evaluation criteria
- ❖ _1Q 2016_ Q4 – create timeline and process for sizing and type decision (including committees and work teams); populate timelines

THANK YOU!

For follow up questions and
Information, please contact us.



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Appendix





D97: AN ASPIRATIONAL DISTRICT... WITH RESULTS

