FINANCE-LEGISLATION COMMITTEE MEETING

Maine South High School
Frost Administration Center Board Room
1131 South Dee Road, Park Ridge
Friday, December 7, 2012
1:30p.m. - 3:00p.m.

AMENDED AGENDA

1. Call to Order
2. Introductions
3. Approval of Minutes
4. New Business
5. Program: Veto Session Update and Spring Session Review
   - HB 6258: new pension reform proposal
   - Veto Session action
   - ISBE funding for Fiscal Year 2014
   - Potential Spring Session issues
6. Adjourn

Next Meetings
- **Monday, December 10, 2012, 1:00-3:00pm – School Finance Series.** Program: Mandated Categoricals. Special Guests: Dr. Judy Hackett (NSSEO) and Dr. Tim Thomas (NSSED). Note: lunch will be provided at this meeting.
- **Friday, January 18, 2013, 1:30-3:00pm – Joint ED-RED and Northwest Suburban School Business Officials Meeting.** Program: Pension Reform - What happened, what didn’t, and what it means for local districts. Special Guest: Andrew Malahowski (Franczek Radelet). Location: District #214 Forest View Administration Center, 2121 W. Goebbert Road in Arlington Heights
- **Monday, January 28, 2013, 6:00-9:00pm – 42nd Annual ED-RED Legislative Dinner at the Chicago Marriott O’Hare Hotel.** RSVP Required.

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MINUTES
ED-RED Finance-Legislation Committee
Friday, November 9, 2012
1:30 p.m. – 3:00 p.m.

The meeting was called to order at 1:33 p.m. by ED-RED Executive Director Erika Lindley.

Those in attendance were Loretta Gustello (89-C), Jim Fritts (NEIU), Mark Chao* (69-C), Phyllis Bower (72-C), Darrell Moon (74-C), Becky Allard* (64-C), Deb Parenti (214-C), Jim Psozokim (62-C), Jim Schiffer (103-C), Mary Kalou (207-C), Jim Gates (97-C), Beth Millard (68-C), Janet Keaszkowski (63-C), Stacey Mallek (25-C), Karen Roloff (30-C), Nelson Gray (62-C), Daniel Schuler (21-C), Eric Miller (69-C), Patty Puetz (26-C), Lyndi Shuster (26-C), Jackie Lutz (34-C), Alison Gordan (73.5-C), Kate Donegan* (73.5-C), Doc Kotecki (ESG), Yasmine Dada (128-L), Mohsm Dada (112-L), Mark Metz (202-C), Nancy Wagner (59-C), Carol Rahim (72-C), Mary Anne Brown (72-C), Sann Knipple (57-C), Simeon Stumme (73.5-C), Ed Condon (90-C), Roberta Diehl (58-C), Beth Concannon (212-C), Michelle Waters-Walsh (57-C), Anne Sills (ELTF), Julie Anastos (38-C), David Bein (63-C), Erika Lindley (ED-RED), Anne Hoffman (ED-RED)
*Denotes ED-RED Exec Board Member

Approval of Minutes: A motion was entertained, seconded, and passed unanimously to approve the minutes from the Finance-Legislation Committee meeting held Friday, May 4, 2012.

Legislative Update:
Constitutional Amendment
The amendment required 60% “yes” votes from people voting on the measure or 50% “yes” votes of the total number of votes cast. 56% of those casting a vote on the measure supported it but of the 5 million people voting, only 2.1 million voted “yes” so the amendment failed on both counts.

Statehouse Dem/GOP tallies
Democrats picked up 12 Statehouse seats, 5 of which are likely in ED-RED membership area (pending the match up of the new legislative district boundaries and school district boundaries). Due to redistricting, more legislative districts include parts of Chicago and suburbia vs. just “city districts.” Erika noted that this will create a new dynamic in the Spring Session, especially around school funding issues.

Supremacy
In the 98th General Assembly, the Democrats will hold a supermajority in the Senate and House. A supermajority can override a gubernatorial veto without GOP votes and approve bonding program without GOP votes.

98th General Assembly
Issues that the 98th GA may consider include extending the current income tax rates, approving a constitutional amendment allowing the state to move to a graduated income tax system, approving a bonding program to pay past due bills, and changes to PERA/SB 7 reform initiatives. There are over three dozen new legislators in the 98th GA. There will be several new committee chairs and committees.

Members present requested Erika consider the following issues during veto session; bonding reform for the state to include riders targeted for K-12 education, the burdensome recording requirements associated with the performance evaluation reform act (PEAC) and whether SB 7 and PEAC are a push from state government for school district consolidation.

Program: Classrooms First Commission final report - Consolidation, Reorganization, and District Efficiency
Special guest: Dr. Lynne Haefele, Senior Policy Director for Education, Office of Lt. Governor Sheila Simon
Lynne reviewed Public Act 97-0503 (Spring 2011) which created the School District Realignment & Consolidation Commission charged with reducing the money spent on duplication of efforts, improving the education of students by having fewer obstacles between qualified teachers and their students, lowering the property tax burden, potential cost savings to the state through district reorganization, and providing resources for school districts on reorganization. The commission was chaired by Lt. Governor Sheila Simon and renamed the “Classrooms First Commission.” For over ten months, the Commission focused on two main goals: improving educational...
opportunities and efficient use of educational resources. The commission developed a three stage process to examine research and collect public input (Sept.-Dec. 2011), working groups develop draft recommendations (Jan.-Mar. 2012), and gather additional public input on the draft recommendations and submit a final report and recommendations (submitted July 1, 2012).

Stage one research findings concluded that research does not provide a means to unequivocally determine optimal district or school size – too many variables, up-front costs are prohibitive in any mass consolidation scenario, consolidation does not always save money and there is no one-size-fits-all efficiency mechanism, and realignments should be considered case-by-case. The working groups researched within district efficiency, realignment, educational shared services, and operational shared services and developed a set of recommendations on policy changes, best practices for promoting district efficiency and shared services, and new realignment incentives.

The commission’s recommendations were categorized in three categories: realignment, shared services and within district efficiency. Realignment recommendations include identifying districts for voluntary reorganization or shared services and reducing barriers to voluntary reorganization. Shared services recommendations were broken down into two groups, operations and education. Operation recommendations include using financial profiles to trigger shared service reviews, using a web-based resource management service to analyze costs, comparing savings strategies, creating a resource repository for shared service agreements and effective practices, instituting a revolving loan fund for shared service start-ups and exempting shared services from outsourcing restrictions. Education recommendations include accelerating learning options/support individualized learning environments, aligning curriculum and services across P-20 sectors (including dual credit, counseling, and interventions), supporting P-20 learning pathways to careers, and enhancing the P-20 learning technology infrastructure. Within district efficiency recommendations include making budgets predictable by using a two-year state budget cycle, working with the legislature to allow flexibility from unfunded mandates, creating statewide economies of scale with on-line professional development training, and creating statewide a database for personnel background checks.

Possible legislative initiatives for the upcoming spring legislative session include:

- Allow non-contiguous district reorganizations
- Under 750 enrollment – dissolve w/o referendum
- Delay effective date of reorganization pending construction funding
- Reorganization incentives commission
- Reorganization school construction pilot program
- Resource Management Service – ISBE
- Revolving loan for shared service start-ups

Members suggested that when considering GSA distribution, the state must consider regional costs and the amount of money required to educate students (average regional salaries, etc.). A member inquired whether there was a known cost to the state for the Affordable Care Act. Neither Lynne nor Erika are aware of anticipated state cost at this time but would check and report back. Members discussed the new reporting of shared services on the Annual Financial Report and the use of the information, which is available through Regional Offices of Education/Intermediate Service Centers. Members inquired whether local control was raised at the public hearings and Lynne reported it was a common theme communicated by stakeholders and considered throughout the commission’s work.

The meeting adjourned at 2:55 p.m.

Respectfully submitted by Anne Hoffman.
HB 6258 – State Pension Reform – Cash Balance Plan

The General Assembly is considering a proposal to create a new retirement plan – a Cash Balance Plan (CBP) – for new TRS employees. CBPs resemble defined benefit plans because the state bears the investment risk and employees have a guaranteed benefit.

Eligibility: CBPs will be required for all Tier 3 employees (hired after July 1, 2013). Tier 2 employees (hired between January 1, 2011 and June 30, 2013) will have the option of maintaining their current pension program or moving to a CBP. For Tier 2 employees, TRS would transfer the amount that they would receive if they withdrew their contributions into their CBP.

Contribution rate: Under the plan, all new employees and Tier 2 employees electing the CBP would contribute 9.4% of their salary. Employers would contribute 6.2%. Districts may negotiate an additional employer contribution.

Investments: TRS would continue managing plan investments for TRS employees.

How it works: Each employee will hold a Cash Balance Account. The account value is equal to the sum of annual contributions made by the employee and employer (9.4%/6.2%) and annual interest credits. During an educator’s career, their account accrues interest based on a formula created in law (vs. actual rate of returns). The bill includes a guaranteed interest rate range of 4-10% meaning that accounts will grow by at least 4% each year. When investments perform strongly, employees can share in the additional gains, but the accounts will never grow by more than 10% a year (when investment returns exceed the 4% floor, the system “banks” a portion of the return to help buffer periods of weaker returns). The actual contributions made by the employee and employer are invested elsewhere and may earn different rates of interest than the guaranteed interest which is credited to each employee’s account.

Upon retirement, the employee becomes eligible to collect a monthly annuity based on the annuitized balance in their account. Employees also have the option of rolling up to 40% of the value of their CBP into an outside account (e.g. an IRA).

CBPs in other states: Nebraska moved public employees to a Cash Balance Plan in 2003. In 2012, Kansas and Louisiana created cash balance plans for new public employees.

Status: The Cash Balance Plan concept has appeared in several legislative proposals during the 97th General Assembly. This information relates to the contents of HB 6258 which was filed on December 5, 2012. The bill has not been considered in committee.
Factors Causing the Growth in Unfunded Liability

STATE FUNDED RETIREMENT SYSTEMS
Change in Unfunded Liabilities
FY 1996 - FY 2010

$ Billions

TOTAL INCREASE FROM
STATE FUNDED
SYSTEMS
24.710
10.683
5.797
1.530
0.664
-5
0
5
10
15
20
25
30

INVESTMENT RETURNS
SALARY INCREASES
CHANGES IN ASSUMPTIONS
EMPLOYER CONTRIBUTIONS
OTHER FACTORS