

State of Illinois Operating Expenditure per Pupil (OEPP) Cost Calculation for Lake Forest High School District 115

Executive Summary

In a report issued by the Illinois State Board of Education in May of 2010, Lake Forest High School District 115 was listed as having the highest 2009 Operating Expenditure per Pupil of any district in the State. Total expenses were reported as \$38,515,390 and Average Daily Attendance was reported at 1,619.01 students. This yields a per pupil expense of \$23,789.47.

There are two corrections that need to be made to the figures cited above before any comparison to other districts is made. First, an error occurred when the district's independent auditors electronically transmitted district data to the State, which resulted in the District's total operating expenses being overstated by \$2,145,000. Second, the formula utilized to calculate the Operating Expense per Pupil currently captures Shared Service expenses, but does not recognize offsetting revenue of \$721,277.

Adjusting for those two items lowers total operating expenses to \$35,649,113. Dividing that number by the 1,619.01 results in a per pupil cost of \$22,019.08 that, while still the highest, is much closer to our peer districts.

The District's Operating Expense per Pupil has risen significantly in recent years. Aside from the transmission error and the non-recognition of Shared Service revenue, the factors that have contributed to the increase include:

- Debt costs from the 2006 referendum
- Costs associated with adding space at East Campus and reopening space at West Campus
- Staffing increases to restore positions that were cut in the early part of the decade

Additionally, a district's Average Daily Attendance has a significant impact on the calculation of cost per student. District 115's Average Daily Attendance is generally half that of its benchmark districts. When fixed costs are spread over a smaller base of students, the result is a higher cost per student. There is no "economy of scale". Consequently, as long as the District 115 operates facilities comparable in size and scope to its benchmark districts, carries significant interest debt, but maintains an Average Daily Attendance that is half that of most of its comparison districts, its Operating Expense per Pupil will continue to be at or near the top due to the inherent nature of the formula.

The full analysis is available by contacting Allen Albus at aalbus@lfschools.net or calling 1-847-604-7404.

Introduction

Every school district in Illinois is obligated to engage independent auditors to complete and file an Annual Financial Report (AFR) with the State Board of Education. The format of the AFR is prescribed by the State, and contains a calculation of a district's Operating Expense per Pupil (OEPP). The OEPP is a formula that yields the per student gross operating cost of a school district excepting summer school, adult education, bond principal retired, and capital expenditures. (A copy of the calculation sheet is included at the back of this report.) In May of 2010 the State Board of Education released a report listing the 2009 OEPP for every school district in the State. Lake Forest High School District 115 was listed as having the highest Operating Expense per Pupil for the 2009 school year.

The purpose of this report is to examine the history of the District's OEPP, how it compares to its benchmark districts, and factors that impact the cost calculation.

History

Below is a five-year comparison of the OEPP from districts that District 115 historically benchmarks. In 2004-05 District 115 had the fifth lowest OEPP of the six districts listed, and over the next several years it has become the district with the highest OEPP.

Operating Expense per Pupil Historical Data

SCHOOL	2004-05	2005-06	2006-07	2007-08	2008-09
Stevenson 125	13,645.40	13,307.77	13,706.06	14,497.95	15,171.11
New Trier 203	16,025.88	16,855.41	17,541.65	18,246.49	19,414.84
Glenbrook 225	16,975.08	17,315.88	17,987.91	18,684.07	19,704.47
Highland Park/Deerfield 113	18,001.18	17,920.86	18,359.80	19,910.70	21,565.85
Libertyville 128	15,519.27	15,752.68	16,060.70	16,564.74	18,616.52
Lake Forest 115	15,365.14	16,225.16	18,006.05	20,866.89	22,019.08*

* As mentioned in the Executive Summary, and as detailed in this report, there are two corrections that need to be made to the State figures before making any comparisons with other districts. This is the corrected OEPP figure.

FACTORS AFFECTING DISTRICT 115'S OEPP IN RECENT YEARS

Debt

Notwithstanding the 2008-09 figures, a significant increase in the district's OEPP correlates to the passage of the 2006 referendum and the issuance of \$53.4 million of debt to improve facilities in the district. The OEPP formula "credits" the bond principal that is retired from the operating expense, but includes the interest cost of any outstanding bonds in the cost calculation. The table below shows the changes in the Bond & Interest, or Debt Service, costs of District 115 and its benchmark districts over the past several years.

Per Pupil Debt Cost of Lake Forest D115 and Benchmark Districts					
	2005	2006	2007	2008	2009
Lake Forest 115	\$377.16	\$328.87	\$1,023.54	\$1,734.52	\$1,685.65
Vernon Hills 128	\$976.84	\$683.49	\$635.80	\$578.40	\$626.38
Highland Park Deerfield 113	\$1,019.97	\$946.27	\$971.93	\$974.97	\$900.66
New Trier 203	\$147.27	\$688.39	\$91.01	\$147.18	\$153.24
Glenbrook 225	\$384.95	\$382.17	\$524.54	\$832.72	\$910.31
Stevenson 125	\$273.33	\$417.53	\$494.66	N/A	\$571.65

District 115 has the lowest 9 month Average Daily Attendance (ADA) among the districts listed. Therefore, the same amount of debt will impact District 115's OEPP much more than any other district. The table below shows Lake Forest District 115's 2009 net debt expenses of \$2,729,083 divided by the OEPP ADA of its benchmark districts. As shown, the impact on District 115's calculation is approximately double what it would be on any other district.

Impact of \$2.7M Debt Cost on Benchmark Districts' OEPP		
	OEPP ADA	Per Pupil Debt
Lake Forest 115	1,619.01	\$ 1,685.65
Vernon Hills 128	3,121.00	\$ 874.43
Highland Park Deerfield 113	3,401.48	\$ 802.32
New Trier 203	3,924.36	\$ 695.42
Glenbrook 225		\$ 634.64

Glenbrook 225	4,300.20	\$ 634.64

To further illustrate the impact that debt has on the OEPP, the table below shows the 2009 OEPP of Lake Forest and benchmark districts less debt expenses. As shown, absent the debt associated with the 2006 referendum, Lake Forest would not be the highest among its benchmark districts.

OEPP Less Debt Expense	
2009	
Highland Park Deerfield 113	\$ 20,665.19
Lake Forest 115	\$ 20,333.43
New Trier 203	\$ 19,261.60
Glenbrook 225	\$ 18,794.16
Vernon Hills 128	\$ 17,990.14
Stevenson 125	\$ 14,599.46

* Corrected for data error and Shared Services

Space Utilization

With the completion of construction in the fall of 2008, more than 100,000 sq ft was added to the East Campus. Additionally, by the spring of 2009, more than 50,000 sq ft of West Campus was reopened for administrative, athletic, and preschool use. As with the debt, the associated utility, custodial, and security costs are greater on a per student basis than they would be in any benchmark district due to District 115's low ADA. Assuming an increased cost for the aforementioned items to be \$400,000 annually, the OEPP impact of the added or reopened space is \$247.06 ($\$400,000 / 1,619.01 = \247.06).

Staffing & Attendance Calculations

In the years preceding 2006-07 numerous positions were eliminated. Programs were restored in 2006-07 and 2007-08 by adding 16.58 positions. However, as shown below, while overall enrollment has been static, ADA has decreased by more than by 46 students between 2005 and 2009. As a result the impact of the additional positions on the 2009 OEPP is estimated to be approximately \$700 ($\$70K * 16.57 \text{ positions} / 1,619.01 = \716.42).

	2005	2006	2007	2008	2009
Lake Forest 115 9 Month ADA	1,665.38	1,661.22	1,692.45	1,641.27	1,619.01
% Change		-0.25%	1.88%	-3.02%	-1.36%
Enrollment	1,749	1,738	1,767	1,762	1,749

(It should be noted that the State report issued in May of 2010 is for the 2008-09 school year and that staffing reductions implemented for 2009-10 and 2010-11 are not yet reflected)

Data Transmission Error

In reviewing the State figures used to calculate the 2009 OEPP, it was discovered that there is a discrepancy between the numbers that independent auditors electronically submitted to the State, and the figures that were presented to the school district. The discrepancy amounts to \$2,145,000 in Total Deductions. Further research concluded that the electronic submission failed to “credit” \$2,145,000 of Bond Principal Retired. As a result, the District 115 2009 OEPP is inflated by \$1,324.88 per pupil ($\$2,145,000 / 1,619.01$ [9 month ADA] = \$1,324.88). As of the writing of this report, a revised electronic submission has been submitted to the State by the district’s auditing firm.

Shared Services

Lake Forest High School District 115 and Lake Forest Elementary District 67 have a unique partnership for the sharing of administrative personnel. The program is referred to as Shared Services, and it improves articulation between districts while reducing administrative costs. The State calculation does not credit the offsetting revenue received from Shared Services with District 67 in the calculation of OEPP. Shared Services started in 2004-05 with the sharing of a common Superintendent, but began significantly growing in the 2006-07 school year. In 2008-09 offsetting revenue amounted to \$721,277. If that revenue were credited in the formula, the 2008-09 OEPP would have been reduced by \$445.50 per student ($\$721,277 / 1,619.01$ [9 month ADA] = \$445.50). Earlier this year a change was made in the accounting of this revenue as the 2010-2011 budget was developed to more accurately reflect the net cost of Shared Services.

Summary

District 115’s 2009 OEPP as initially reported by the State Board of Education is inflated by \$1,324.88 due to a data transmission error. Additionally, it is further inflated by \$445.50 as the formula does not recognize the offsetting revenue received for Shared Service expenses. While still higher, adjusting for these items makes the district’s OEPP much closer to that of its peers.

District 115 operates facilities comparable in size and scope to those of its benchmark districts, and is currently carrying significant interest debt due to the 2006 referendum. At the same time its ADA is half that of most of its benchmark districts. As long as those conditions are present, its OEPP calculation will continue to be at or near the top due to the inherent nature of the formula.