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Financial Tools for the Negotiation Table

OSBA Capital Conference

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November 14, 2017

3 Key Elements of Negotiations

Every negotiation has 3 key elements:

- **Before:**
 - There are significant things that need to be nailed down **before** getting to the Table.
- **During:**
 - What are the key things needed while at the Table?
 - These include both knowing *and* being able to model.
- **After:**
 - So you have completed negotiations, what now?

The Before

- This is the most important stage for Board involvement.
- Before you get to the negotiation table there are several key items you should have already established.
- The Five-Year Forecast should be the basis for financial planning, of which, Salaries and Benefits are overwhelmingly the biggest cost to every school district and **ALWAYS** a subject of negotiations.

The Before (continued)

- Do you, as Board Members, understand the purpose and use of the forecast?
 - Many misunderstand it's purpose. Probably the most simple explanation is that it not intended to predict the future to the penny five years from now. That is an impossible task because there are so many moving parts: enrollment, property valuations, a two year-at-a time state budget, etc...
 - What it should be, is a realistic projection of the facts known today, used to project where a district will be without change. The fact is, if you are spending more than you take in, you should hope for changes.

The Before (continued)

- To what degree do the Treasurer, Superintendent, and the Board **understand** and **believe** in their forecast? Is it a realistic forecast? Compared to this, the calculation of negotiation proposals is almost insignificant.
- Do you believe the Forecast shows the real trend of the district's finances?

The Before (continued)

- Is the Forecast used for decisions by the Board and Administrative Team or is it largely ignored as treated only as a compliance document?
- If the later, then in reality, the use of the forecast in negotiations is probably only as a “crutch”.
- Have annual steps and base increases been projected in the Forecast? If so, know what they cost. If not, how do you know their impact your bottom line?

The Before (continued)

Now, assuming everyone is onboard with the Forecast, what else is important before negotiations begin?

- While the following list hits some of the key items to be prepared for negotiations, every district is different. Each has a relationship with labor groups developed over a long period of time. Sometimes good and sometimes not so good. Each contract has at least a few unique items, various salary schedules, insurance benefits and other “challenges”. In short, your team has to know the contract and the people bargaining across the table.

The Before (continued)

- How much do Step increases alone cost? Most of your team and Board may not be fully aware of just how much salaries will increase even with no base increase.

TEACHER SALARY SCHEDULE						
Step	BA	BA +150	MA	MA +30	PhD	AVG
0	0.00%	0.00%	0.00%	0.00%	0.00%	
1	4.00%	4.31%	4.35%	4.10%	3.94%	4.14%
2	3.85%	4.13%	4.17%	3.94%	3.79%	3.97%
3	3.70%	3.96%	4.00%	3.79%	3.65%	3.82%
4	3.57%	3.81%	3.85%	3.65%	3.52%	3.68%

The Before (continued)

- Does your team understand the math of compounding raises?
- Since no one ever gives back the raise they got last year, each year builds upon the prior.
- How does a 3-year contract with a \$1 raise each year really work?
 - The \$1 raise in year 1 is really \$1 each year = \$3,
 - plus the \$1 raise in year 2 is for 2 years = \$2
 - plus the \$1 in year 3.

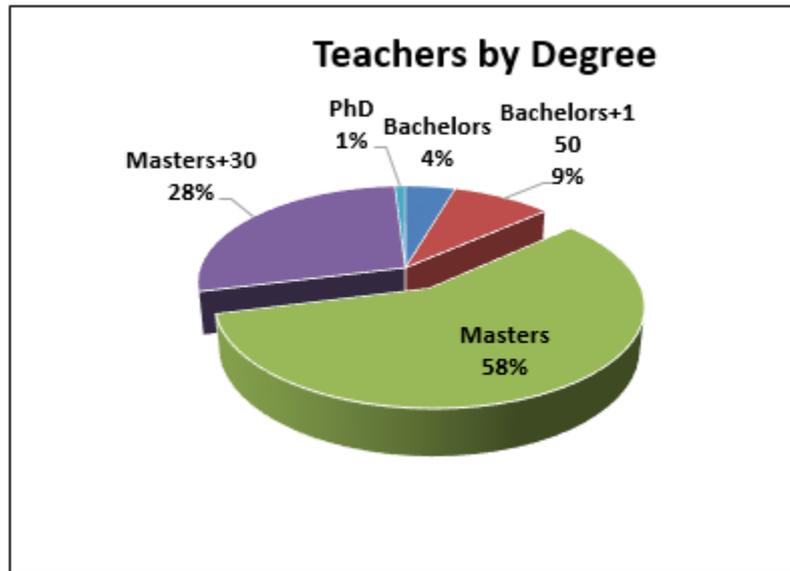
So $1+1+1=6$ is the correct math.

The Before (continued)

- Know what you can spend each year, and create a “Pot of Money”.
- Commit to this amount. If you allow it to grow while negotiation, no one will believe your commitment nor your amount again.
- Be open to re-arranging the parts as long as your “Pot” is not exceeded. i.e., a bigger pay raise is possible if there are insurance reductions.
- Understand what issues are financial. This sounds obvious but increasing the severance by a day or two, changing the supplemental schedule, and adding to the tuition reimbursement amount ARE financial.

The Before (continued)

- Knowing the makeup of your staff, by degree/column, helps understand the impact of various changes. It also lets you calculate potential cost impacts of proposals.

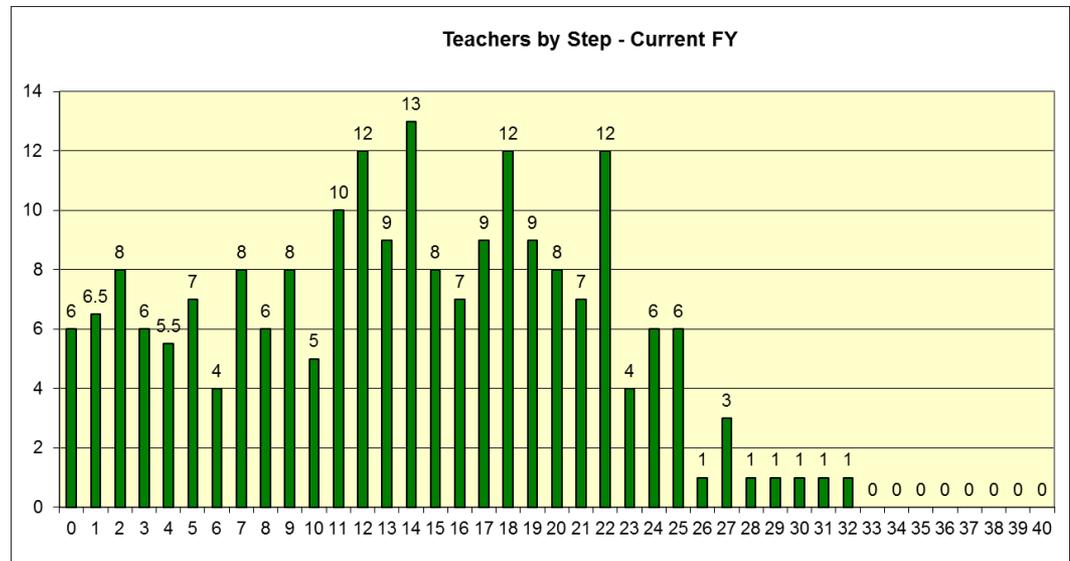


Degree	Teachers
Bachelors	9.50
Bachelors+150	19.00
Masters	121.50
Masters+30	59.00
PhD	2.00
	-
	-

The Before (continued)

- Knowing where your staff falls on a years of experience basis also is a key point. If your team thinks that there will be retirement savings that you can be used to add to a raise, how realistic is that assumption?

With this graph, and knowing the changes to STRS eligibility, how many retirements do you think this district will see over the next 10 years?



The Before (continued)

Is your data ready? Do you know your staff?
 Knowing by degree and step is a given but
 do you know from what fund are they paid?

First Name	Last Name	Degree	Step	FTE	Schedule	Funding	Annual Salary
STEVEN		4	22	1.0	1	1	\$ 73,467
ELIZABETH		4	19	1.0	1	1	\$ 71,603
JANICE		4	20	1.0	1	1	\$ 73,467
MELANIE		2	5	0.5	1	1	\$ 23,681
BRAD		3	2	1.0	1	1	\$ 46,616
FREDRICK		3	14	1.0	1	1	\$ 67,127
COLLEEN		4	22	1.0	1	1	\$ 73,467
CAROL		4	22	1.0	1	3	\$ 73,467

Having your data ready provides the ground work for accurate modeling with the plus of creating informative graphs, cost by Fund, FTE's, etc...

The Before (continued)

- Finally, and very important, does your team have a plan in place for what Board expectations and goals are for negotiations?
- While there are certainly more items needed to prepare for negotiations, this list contains key elements to prepare for a successful negotiation.

During

- The Board's role during negotiations varies. Not only from district to district, but from one negotiations to another, and even during negotiations.
- The most important role for the Board is to be involved in the planning and goal setting. Next is to support those assigned to negotiate for the Board.
- There may/will be times during negotiations where a show of support by the Board, either by Board Members at the table or as a whole, could be critical to it's success.

During (continued)

- The best tool you have going into negotiations is always your knowledge of your district.
- Number one is closely followed by technology. The ability to use that knowledge in a fast, efficient, and accurate way. Generally, that means software...
- Whatever software you use needs to do some very specific things:

During (continued)

- It should start with knowing the cost of annual step increases that are based on your schedule and your staff

	Year 1 (Current)	Year 2	Year 3	Year 4	Year 5
Step Increases ONLY		194,432	176,509	170,897	147,725
Accumulated Increase		194,432	565,372	1,107,210	1,796,772
Annual Step Increase %		1.65%	1.47%	1.40%	1.20%

- As in nearly all district's, the annual step increment % changes year-over-year. Most salary schedules have both a maximum number of steps and blocks of years where no step is given.
- Steps, as with salary increases, build each year upon the prior one, compounding the cost. In this example, Year 3 costs \$176,509 but that is on top of the prior year's \$194,432 so the math is [(Year 2 x 2) + Year 3], not (Year 2 + Year 3). That's a \$215,251 difference.

During (continued)

- The next step is to know what a 1% base raise will cost. This provides an idea of the magnitude for other % proposals.

CURRENT PROPOSED INCREASED AMOUNT	Year 2	Year 3	Year 4	Year 5
% INCREASE ON THE BASE	1.00%	1.00%	1.00%	1.00%
\$ AMOUNT INCREASE ON THE BASE	\$ -	\$ -	\$ -	\$ -
Regardless of % or \$ Method used - Base Amount Changed by:	\$ 369.00	\$ 373.00	\$ 377.00	\$ 381.00
TOTAL SALARY & RELATED PAYROLL COSTS PLUS OTHER I	370,252	354,854	353,820	331,131
ACCUMULATED INCREASES	370,252	1,095,357	2,174,283	3,584,340

- By knowing what a 1% base increase would cost, in this example, an average of about \$352,000, you now have at your fingertips, what 2% costs, etc...

During (continued)

- The ability to quickly and accurately model different proposals is a key element to negotiations. Your software should be able to do that on the fly accurately.
- Even moving a higher % increase from the first year to the 3rd year or vice-versa has impact.
- However, seeing that cost, even year-over-year, is only useful if you can compare those results against what you were modeling in your Forecast.

During (continued)

- Your software should be able to model proposals on the fly with these comparisons:

ORIGINAL FORECAST INCREASE AMOUNT	Year 2	Year 3	Year 4	Year 5
% INCREASE ON THE BASE	2.50%	2.50%	2.50%	2.50%
TOTAL PAYROLL & RELATED COSTS	582,381	580,601	593,593	583,631
CURRENT PROPOSED INCREASED AMOUNT	Year 2	Year 3	Year 4	Year 5
% INCREASE ON THE BASE	3.50%	2.50%	1.50%	2.50%
TOTAL PAYROLL & RELATED COSTS INCREASE/(DECREASE)	724,055	586,569	445,163	583,622
ANNUAL 1 YEAR IMPACT ON FORECAST	141,675	5,968	(148,430)	(9)
TOTAL DOLLARS SPENT THROUGH END OF YEAR	141,675	289,317	288,529	287,732
BALANCE FOR CERTIFICATION OF CONTRACTS	\$ 6,796,190	\$ 4,919,765	\$ 2,129,885	\$ (1,663,200)
Negotiated Changes Generate this Amount +/-(-)	6,654,516	4,630,448	1,841,356	(1,950,932)
	Contract Can be Certified	Contract Can be Certified	Contract Can be Certified	Contract CANNOT be Certified

With the Forecast numbers locked in (top) the Current Proposal is changed in real time. This allows you to compare the impact to the Forecast. In this example, it's still a 7.5% total raise over three years BUT, year 1 has been increased and Year 3 decreased. The result is \$288,529 higher than the original Forecast.



During (continued)

ORIGINAL FORECAST INCREASE AMOUNT	Year 2	Year 3	Year 4	Year 5
% INCREASE ON THE BASE	2.50%	2.50%	2.50%	2.50%
TOTAL PAYROLL & RELATED COSTS	582,381	580,601	593,593	583,631
CURRENT PROPOSED INCREASED AMOUNT	Year 2	Year 3	Year 4	Year 5
% INCREASE ON THE BASE	3.00%	3.00%	3.00%	1.00%
TOTAL PAYROLL & RELATED COSTS INCREASE/(DECREASE)	653,218	657,406	676,430	351,158
ANNUAL 1 YEAR IMPACT ON FORECAST	70,837	76,805	82,837	(232,473)
TOTAL DOLLARS SPENT THROUGH END OF YEAR	70,837	218,480	448,959	446,966
BALANCE FOR CERTIFICATION OF CONTRACTS	\$ 6,796,190	\$ 4,919,765	\$ 2,129,885	\$ (1,663,200)
Negotiated Changes Generate this Amount +/-	6,725,353	4,701,285	1,680,926	(2,110,166)
	Contract Can be Certified	Contract Can be Certified	Contract Can be Certified	Contract CANNOT be Certified

Likewise, a .5% higher proposal each year, results in a \$448,959 more expensive settlement. This software will also tell you if you can legally sign a contract based on your Forecast line 12.010. In this case you could sign a 3-year contract, but where does that leave you in Year 5??

During (continued)

- Your software should be able to freeze or record varying proposals.
- Each one should include key information, include which side proposed it and when it was proposed.
- You should be able to review and/or compare previous proposals.
- This process may allow you to craft a proposal that leads to settling a contract.

Conclusions

1. Work before negotiations has to include an assessment of your team's understanding and belief in the Forecast.
2. Your team needs to understand the impact of steps, a 1% base increase, and their impact to the Forecast.
3. Develop a plan and expectations.
4. Ensure your data (staff, step, degree, salary schedule...) are accurate and ready to model.
5. Have a tool at the table (software, spreadsheet, ...) that you trust for accuracy and allows you to quickly and easily model the impact of any proposal.

Conclusions

6. Consistently compare each proposal to your Forecast and judge the impact.
7. Don't forget the impact of Retirement and Medicare.
8. Keep track of each proposal's key elements.
9. Update your Forecast when finished.
10. Report accurate financial changes and impact to your Board.

Contact PFR for a demo of our negotiation software

Services

- Five Year Forecast Software → *More than a compliance document*
 - Cash flow monitoring
 - Modeling scenarios (financial & enrollment)
 - Graphics and dashboards
 - Planning tool
- Negotiation Software → *Software for both Certified and Classified Staff*
 - Accurately model nearly any proposal scenario
 - Multiple Salary Schedules
 - Projections by Fund
 - Reporting of Salary Schedules, Salary by Staff, and Graphs
- Enrollment and Staff → *Reconcile Enrollment to State Funding and Staffing Analysis with existing District Reports*
 - Use existing District report data to reconcile your data to current ODE funding.
 - Use existing District reports data to analyze staff
- Consulting → *Maximize your effectiveness*
 - Financial consulting and cash flow monitoring
 - Forecast review and analysis, “what if” planning
 - Presentations to key stakeholders
 - Special Projects
- Data Interpretation → *Data driven decision making*
 - Multi-year data sets to identify trends
 - Benchmark analysis reports to see how you compare
 - Graphics that are easy to read, understand and explain
 - Data driven decision making



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