



Financial Tools for the Negotiation Table

OASBO Annual Workshop

Matt Bunting, Ryan Ghizzoni & Jared Bunting

April 27, 2017



Key Elements of Negotiations

- **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

- Before you get to the negotiation table there are several key items you should have already established:
 - To what degree do you, your Superintendent, and the Board understand and believe in their forecast? Is this a realistic forecast? Compared to this, the calculation of proposal cost is almost insignificant. Does your forecast show the true trend of the district's finances and is reasonably close to the expected?



The Before (continued)

- Is there an understanding of the use of their forecast? Is it used for decisions by the board and administrative team today or is it largely ignored as a compliance document? If the later, then in reality, the use of the forecast in negotiations could only be positional (a crutch).



The Before (continued)

- What is the understanding of others, especially the negotiating team, with the credibility of the forecast and the understanding of its indicators (trend direction).
- Does everyone know the sustainability consequences of the proposals? How much will it worsen? Where will the money come from?



The Before (continued)

- How much do Step increases alone cost? Most of your team and Board are not fully aware of just how much salaries will increase even with no base increase.
- Does your team understand the math of compounding raises? Since no one ever gives back their previous raise, each year builds upon the prior. $1+1+1=6$ is the correct math. The \$1 raise in year 1 is each year, \$3, the \$1 raise in year 2 is for 2 years, \$2 plus the \$1 in year 3.



The Before (continued)

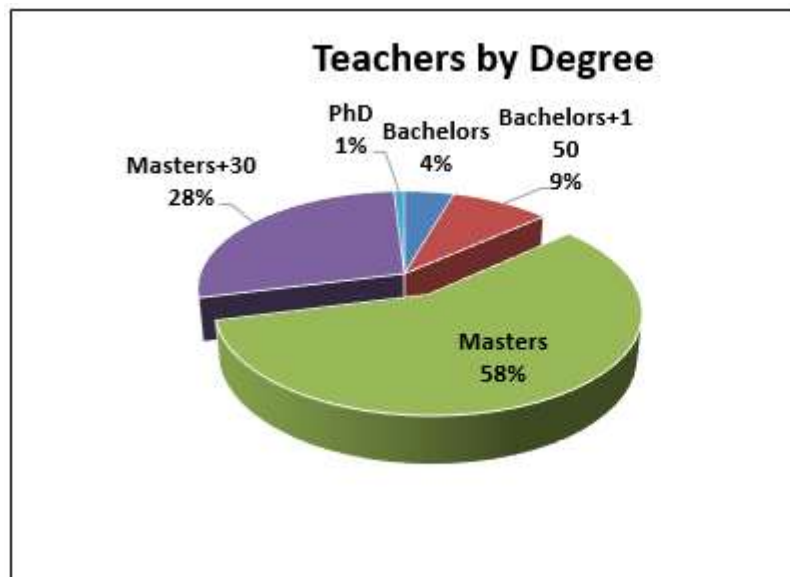
- Is your data ready? Do you know your staff? Do you know them by step, degree, and from what fund are they paid?

First Name	Last Name	Degree	Step	FTE	Schedule	Funding	Annual Salary
CAROLE	BUCHER	4	22	1.0	1	1	\$ 72,754
ROBERT	BURKE	4	19	1.0	1	1	\$ 70,908
RUTH	BURROW	4	20	1.0	1	3	\$ 72,754
MARILYN	CAMPITELLI	2	5	0.5	1	2	\$ 23,451
WHITNEY	CARLSON	3	2	1.0	1	4	\$ 46,164
ALINE	CARTER	3	14	1.0	1	1	\$ 66,476
ANDREA	CHALFANT	4	22	1.0	1	1	\$ 72,754

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)

- Knowing the makeup of your staff by degree/column helps understand the impact of various changes.



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



The Before (continued)

- Finally, and very important, does your team have a plan in place for what expectations and goals are during 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 best tool to take to the negotiations table is always your knowledge of your district.
- Followed closely by technology with the ability to use that knowledge is a fast, efficient, and accurate way. Generally, that means software...
- While we are partial to PFR software, you need to have something that can do some very specific things:



During (continued)

- A realistic Forecast should include some estimate for negotiated increases. That is unless you are really going to try to negotiate no step increases and no base increases.
- Knowing and judging your proposals versus those Forecast estimates goes a long way to sustainability.



During (continued)

- It should start with knowing how much steps alone will cost.

	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.
- As with salary increases, each year builds 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 $[(\text{Year 2} \times 2) + \text{Year 3}]$, not $(\text{Year 2} + \text{Year 3})$. 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 know have at your fingertips, what 2% costs, etc...



During (continued)

- It's important to remember a couple other things:
 - Don't forget to calculate the cost for the Board share of retirement and Medicare.
 - Remember that not all staff are paid from the Forecast. What costs impact the Forecast and what costs impact other funds (i.e. Grants). Can your grants support your proposal or will some of that cost need to be reflected coming back to the Forecast?

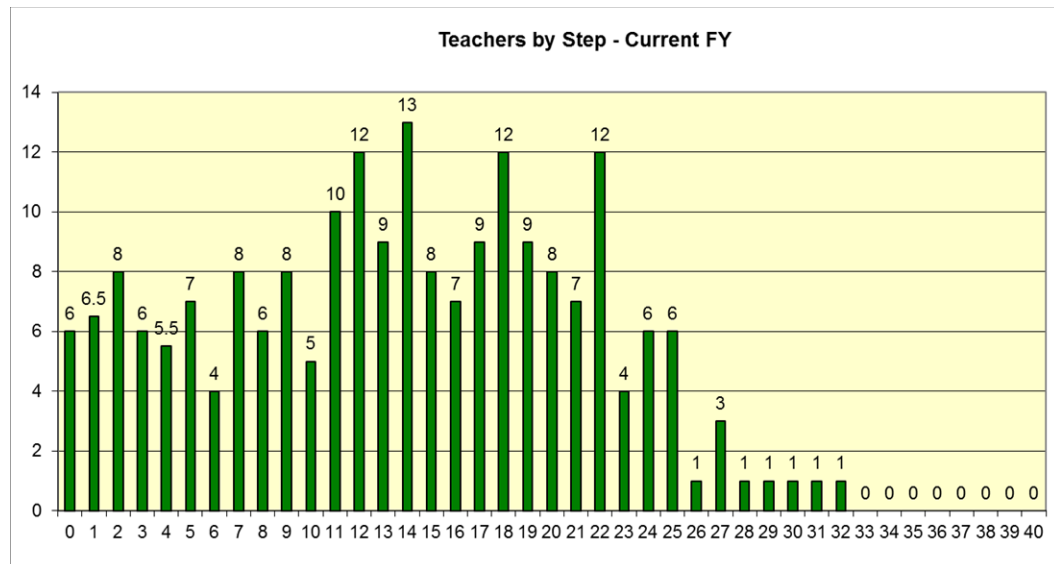
(Note: This section only works if you are using the Detail Funding Method above (cell J9))

SALARY TOTAL BY FUND	Year 1 (Current)	Year 2	Year 3	Year 4	Year 5
General (Forecast)	\$ 12,050,308	\$ 12,371,011	\$ 12,678,377	\$ 12,984,848	\$ 13,271,665
Pre-School Grant	\$ 19,204	\$ 20,142	\$ 21,097	\$ 22,069	\$ 23,059
Title I	\$ 577,232	\$ 590,459	\$ 605,782	\$ 623,259	\$ 637,186
Title IIA	\$ 150,863	\$ 155,728	\$ 160,675	\$ 167,420	\$ 172,555
IDEA	\$ 419,536	\$ 433,053	\$ 444,918	\$ 455,078	\$ 465,399

During (continued)

- Graphs can be very effective. If your team thinks that there will be retirement savings that you can 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?





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)

- Do you have more than one salary schedule and can you accurately model them both?
- Do you want to model a 2nd (or 3rd) salary schedule and can you accurately model it?

SALARY SCHEDULE 1						
Step Increment	0.0400	0.0450	0.0500	0.0500	0.0500	-
Col. Increment	-	0.0450	0.1050	0.0700	0.0500	-
	Historic Yr	Year 1	Year 2	Year 3	Year 4	Year 5
Base Salary	\$ 36,207.00	\$ 36,931.00	\$ 38,224.00	\$ 39,180.00	\$ 39,768.00	\$ 40,762.00
INDEX						
STEP	Bachelors	Bachelors+15 0	Masters	Masters+30	PhD	
0	1.0000	1.0450	1.1500	1.2200	1.2700	1.2700
1	1.0400	1.0900	1.2000	1.2700	1.3200	1.2700
2	1.0800	1.1350	1.2500	1.3200	1.3700	1.2700
3	1.1200	1.1800	1.3000	1.3700	1.4200	1.2700

The impact on overall cost can be significant to the district. Modeled correctly and with a “hold harmless” feature to ensure no one is reduced in salary can actually also be a benefit to staff.

Note the difference in the increment between steps. By reducing the increment and adding step where none existed, staff receives a smaller step increase but eliminates “dry” steps.

SALARY SCHEDULE 2						
Step Increment	0.0190	0.0220	0.0243	0.0243	0.0243	-
Col. Increment	-	0.0450	0.1050	0.0700	0.0500	-
	Historic Yr	Year 1	Year 2	Year 3	Year 4	Year 5
Base Salary	\$ 36,207.00	\$ 36,931.00	\$ 38,224.00	\$ 39,180.00	\$ 39,768.00	\$ 40,762.00
INDEX						
STEP	Bachelors	Bachelors+15 0	Masters	Masters+30	PhD	
0	1.0000	1.0450	1.1500	1.2200	1.2700	1.2700
1	1.0190	1.0670	1.1743	1.2443	1.2943	1.2700
2	1.0380	1.0890	1.1986	1.2686	1.3186	1.2700
3	1.0570	1.1110	1.2228	1.2928	1.3428	1.2700



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.



During (continued)

Increased 1st yr by 1% and Decrease 3rd yr by 1%	Year 1 (Current)	Year 2	Year 3	Year 4
% INCREASE ON THE BASE	2.00%	3.50%	2.50%	1.50%
\$ AMOUNT INCREASE ON THE BASE	\$ -	\$ -	\$ -	\$ -
Regardless of % or \$ Method used - Base Amount Changed by:	\$ 724.00	\$ 1,293.00	\$ 956.00	\$ 588.00
TOTAL SALARY INCREASE/(DECREASE)		619,403	501,477	380,354
PORTION OF ABOVE DUE TO STEP INCREASES		194,432	176,509	170,897
BOARD SHARE OF STRS INCREASE/(DECREASE)		86,716	70,207	53,250
BOARD SHARE OF MEDICARE INCREASE/(DECREASE)		8,981	7,271	5,515
TOTAL PAYROLL & RELATED COSTS INCREASE/(DECREASE)		715,101	578,955	439,118
Accumulative Increases		715,101	1,294,056	1,733,174

Each Proposal can be saved, titled, and include the key information needed to evaluate and compare to another proposal.

OTHER FINANCIAL ITEMS:		AEA Proposed 3% each year	Year 1 (Current)	Year 2	Year 3	Year 4
Changes to Insurance Plan						
b		% INCREASE ON THE BASE	2.00%	3.00%	3.00%	3.00%
c		\$ AMOUNT INCREASE ON THE BASE	\$ -	\$ -	\$ -	\$ -
d		Regardless of % or \$ Method used - Base Amount Changed by:	\$ 724.00	\$ 1,108.00	\$ 1,141.00	\$ 1,175.00
TOTAL COST						
		TOTAL SALARY INCREASE/(DECREASE)		558,772	562,108	578,281
		PORTION OF ABOVE DUE TO STEP INCREASES		194,432	176,509	170,897
		BOARD SHARE OF STRS INCREASE/(DECREASE)		78,228	78,695	80,959
		BOARD SHARE OF MEDICARE INCREASE/(DECREASE)		8,102	8,151	8,385
		TOTAL PAYROLL & RELATED COSTS INCREASE/(DECREASE)		645,103	648,953	667,626
		Accumulative Increases		645,103	1,294,056	1,961,682
TOTAL SALARY & RELATED PAYROLL COSTS PLUS OTHER ITEMS ACCUMULATED INCREASES				645,103	648,953	667,626
ANNUAL 1 YEAR IMPACT ON FORECAST TOTAL DOLLARS SPENT THROUGH END OF YEAR				62,722	68,352	74,033
BALANCE FOR CERTIFICATION OF CONTRACTS				\$ 6,796,190	\$ 4,919,765	\$ 2,129,885
Negotiated Changes Generate this Amount +/-	4/18/2017 14:08			6,733,468	4,725,968	1,730,982
				Contract Can be certified	Contract Can be certified	Contract Can be certified

Each proposal is date and time stamped to make sure you retain the sequence and easily refer to one or another.



The Before (continued)

- Near the end, they may (if not always) want to know: “What does this mean to me?”
- Can you quickly and accurately provide, by person, what this potential new contract “means to me”?

First Name	Last Name	Degree	Step	FTE	Year 1 (Current)	Year 2	Year 3	Year 4
CAROLE	BUCHER	Masters+30	22	1	\$ 72,754	\$ 75,301	\$ 77,185	\$ 80,331
ROBERT	BURKE	Masters+30	19	1	\$ 70,908	\$ 75,301	\$ 77,185	\$ 78,343
RUTH	BURROW	Masters+30	20	1	\$ 72,754	\$ 75,301	\$ 77,185	\$ 78,343
MARILYN	CAMPITELLI	Bachelors+150	5	0.5	\$ 23,451	\$ 25,132	\$ 26,642	\$ 27,937
WHITNEY	CARLSON	Masters	2	1	\$ 46,164	\$ 49,691	\$ 52,893	\$ 55,675
ALINE	CARTER	Masters	14	1	\$ 66,476	\$ 70,714	\$ 72,483	\$ 73,571
ANDREA	CHALFANT	Masters+30	22	1	\$ 72,754	\$ 75,301	\$ 77,185	\$ 80,331



After

- So, you have successfully settled negotiations and have a new contract. Now What?
- You will need to provide your new salary schedule. Your software should allow you to quickly print all salary schedules, index and amounts.
- You should have plenty of up-to-date, accurate data that can be shared with the Board. Don't forget they typically like the graphs...



After (continued)

- Update your Five-Year Forecast.
 - You have accurate step increases that should be modeled.
 - You have new base increases that should be modeled.
 - You have new information that can help you refine your future year estimates for personnel costs.
 - You almost certainly have new salary and benefit costs, a new line 6.01, and line 12.010.
- How did these change your Forecast?
- How did it change your sustainability and trend?



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



PFR Contact Information

Matt Bunting

Consultant

Public Finance Resources, Inc.

PO Box 1822

Columbus, OH 43216

matt@PFRCFO.com

Phone: 614-732-5948

Debra Hoelzle

Chief Operating Officer

Public Finance Resources, Inc.

PO Box 1822

Columbus, OH 43216

debra@PFRCFO.com

Phone: 614-732-5948



www.PFRCFO.com