



ALSIP, HAZELGREEN AND OAK LAWN ELEMENTARY SCHOOL DISTRICT 126

Financial Analysis

September 13, 2018

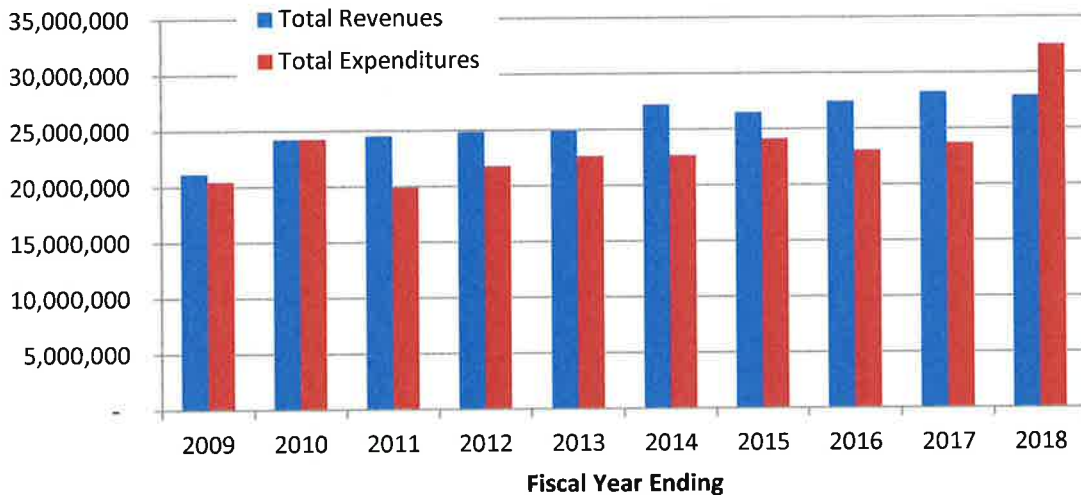
An Analysis of the District's Historical Financial Operations
and Projected Future Financial Condition

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Historical Financial Review

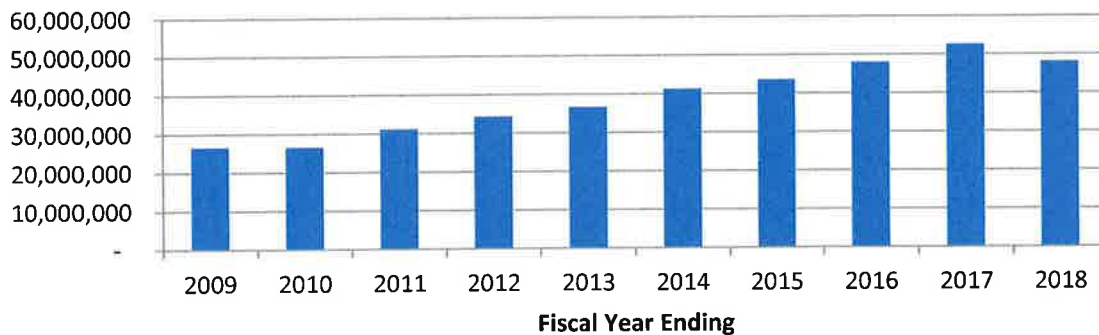
In developing a long-term financial plan for a school district, it is critical to first review the historical trends in the revenues and expenditures of the district. The Historical Financial Review incorporates all funds in the district excluding the debt service fund. The following chart reflects revenues and expenditures for Alsip, Hazelgreen and Oak Lawn Elementary School District 126 over the past ten years:



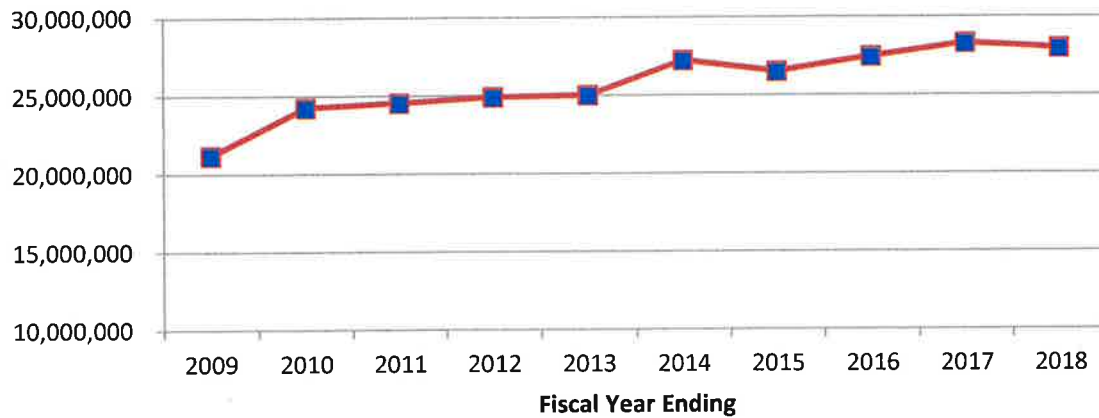
In March of 2006 the community voted to approve a tax rate increase for the district which resulted in significant surpluses from FY07 through FY18 (with the exception of FY10 and FY18 due to construction costs).

The following graph reflects fund balances over the past ten years. Note that the March 2006 voter approved tax rate increase became effective with taxes collected in FY07.

Fund Balances - All Funds

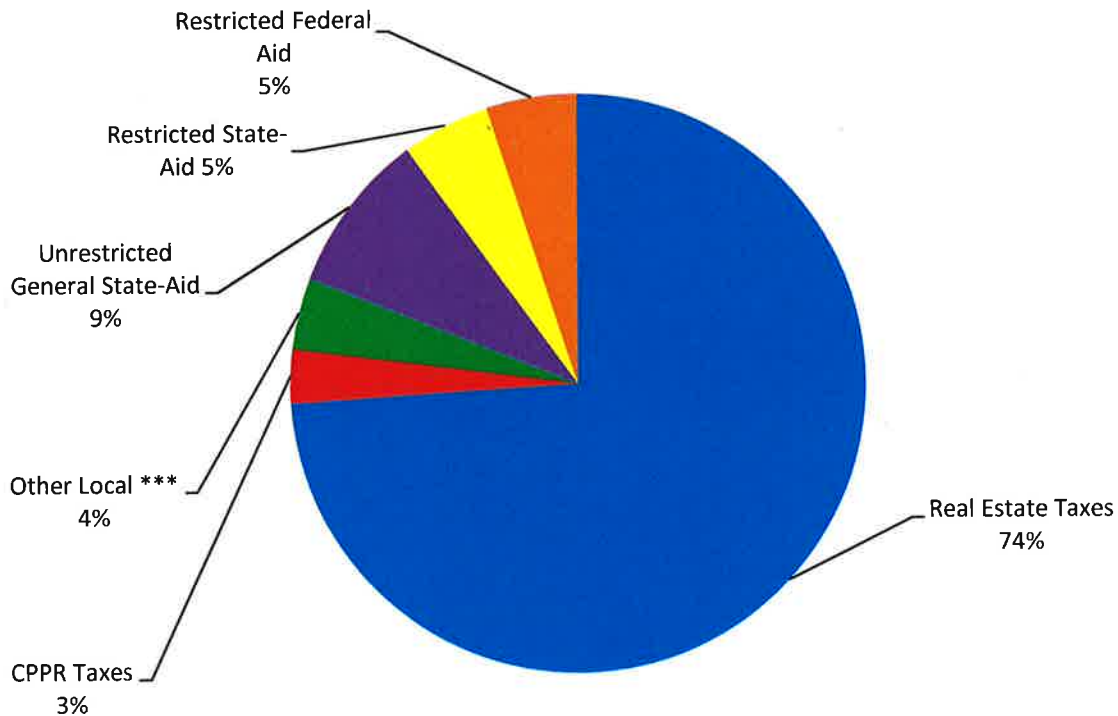


Revenue History



Since FY09, total revenues have increased at an average annual rate of 5%.

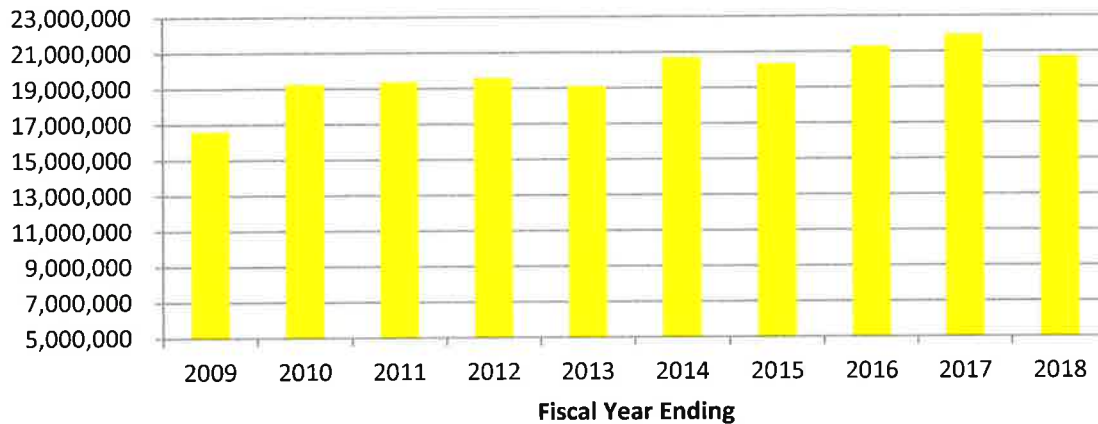
For the fiscal year ending June 30, 2018, total revenues received by Alsip, Hazelgreen and Oak Lawn Elementary School District 126 can be broken down as follows:



*** Other Local Revenues include student fees, lunch fees, and other miscellaneous revenues

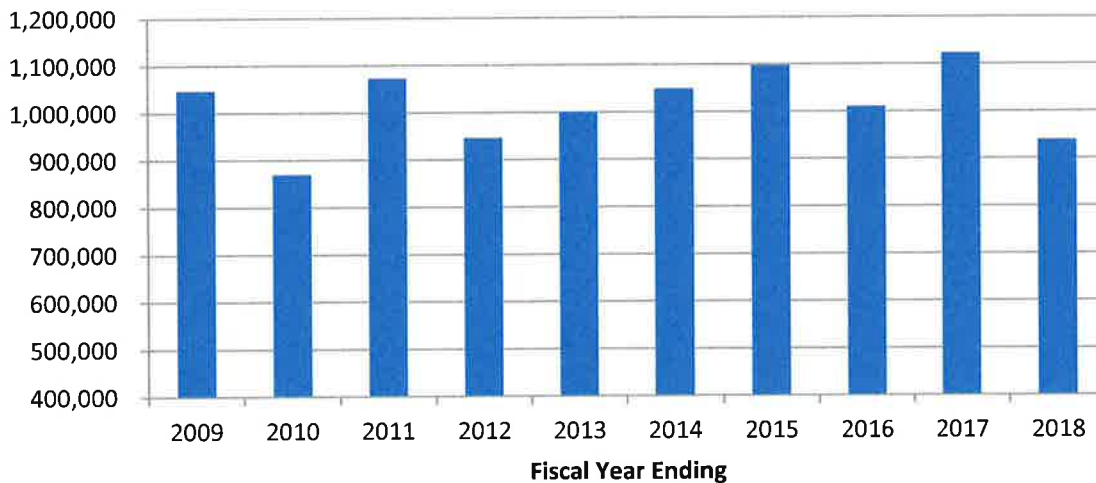
In order to analyze revenue patterns during this time period, it is necessary to examine the primary sources of revenue in the district: Real estate taxes amount to 74% of the district's total revenues. Corporate personal property replacement taxes amount to 3% of the district's total revenues, and general State-aid amount to 9% of the district's total revenues. The following graphs illustrate the growth patterns of these revenue sources over the past ten years:

Real Estate Tax Revenues



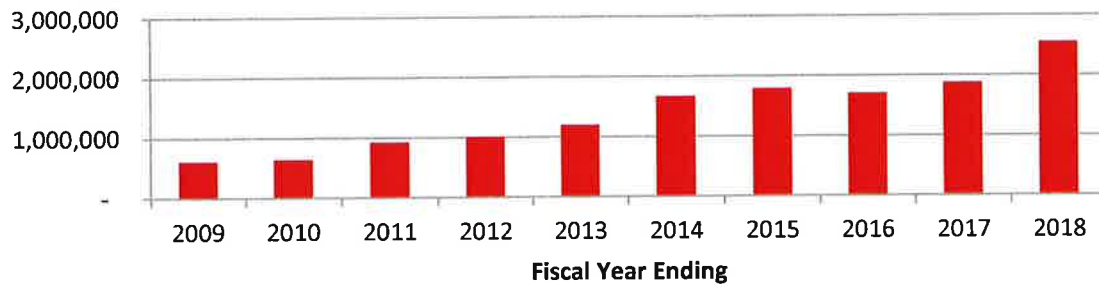
Real estate taxes increased at an average rate of 3.55% over the past ten years. In March of 2006 the voters approved a tax rate increase that was effective for taxes collected in 2007.

Corporate Personal Property Replacement Taxes



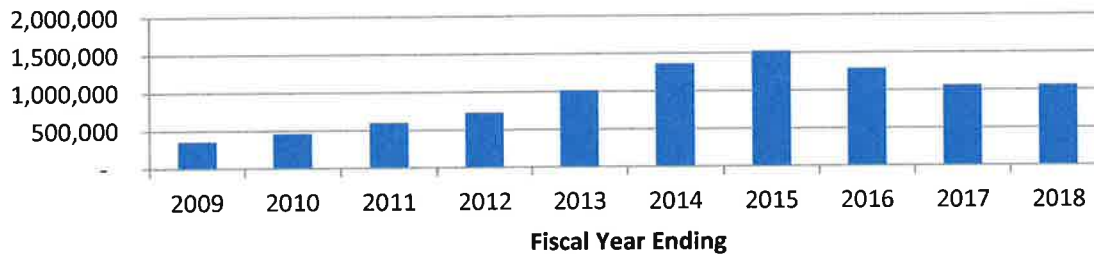
The district has realized a decrease in corporate personal property replacement at an average rate of 1.57% annually over the past ten years. The decrease is due to an overall allocation decrease by the State of Illinois. Corporate personal property replacement taxes are distributed based on the district percentage of personal property taxes of the total for the State of Illinois at the time the personal property tax was eliminated in the 1970's.

Unrestricted State Revenues (General State-Aid)



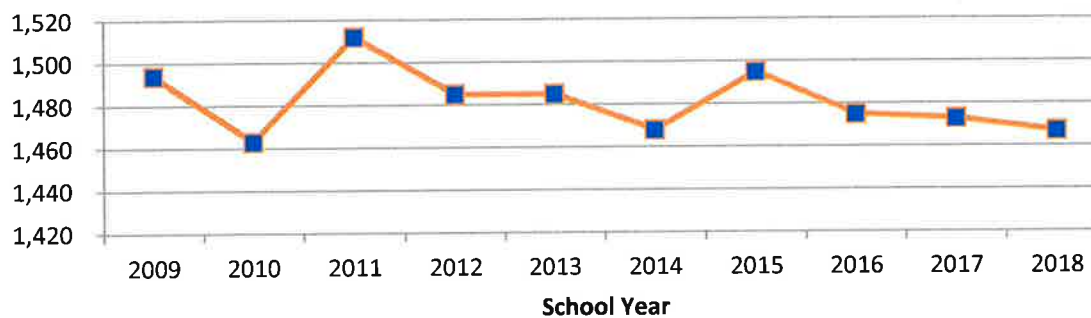
The district has realized an average increase in general State-aid revenues of 16.94% per year annually over the past ten years. As noted in the graph below, the increase in general State-aid is in large part due to the increase in the poverty grant calculations over the past ten years.

Poverty Grant Calculations



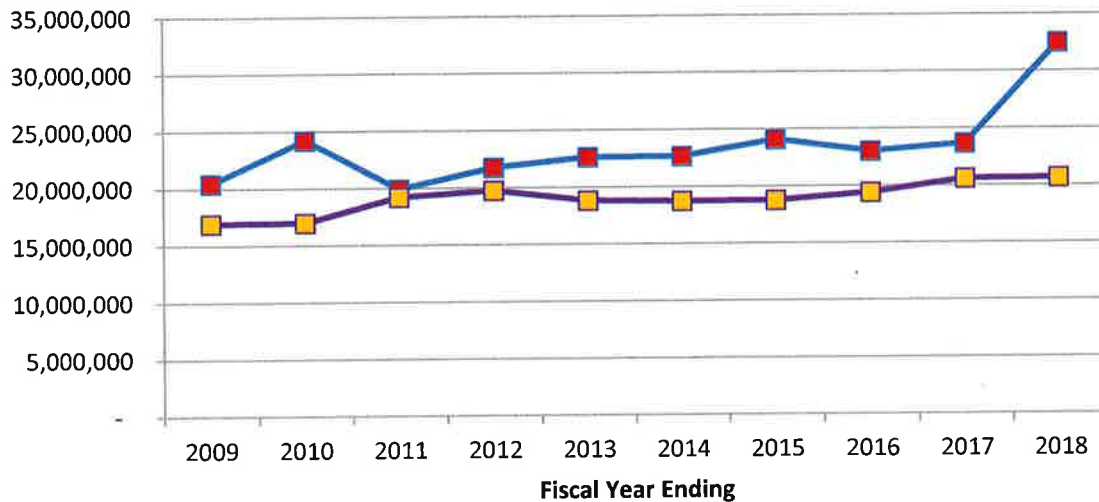
Another variable that has a significant impact on general State-aid revenues is the district's average daily attendance. The following chart reflects the average daily attendance figure of the district used in calculating general State-aid revenues:

Average Daily Attendance



As illustrated in the graph, the average daily attendance in the district has been consistent over the past ten years.

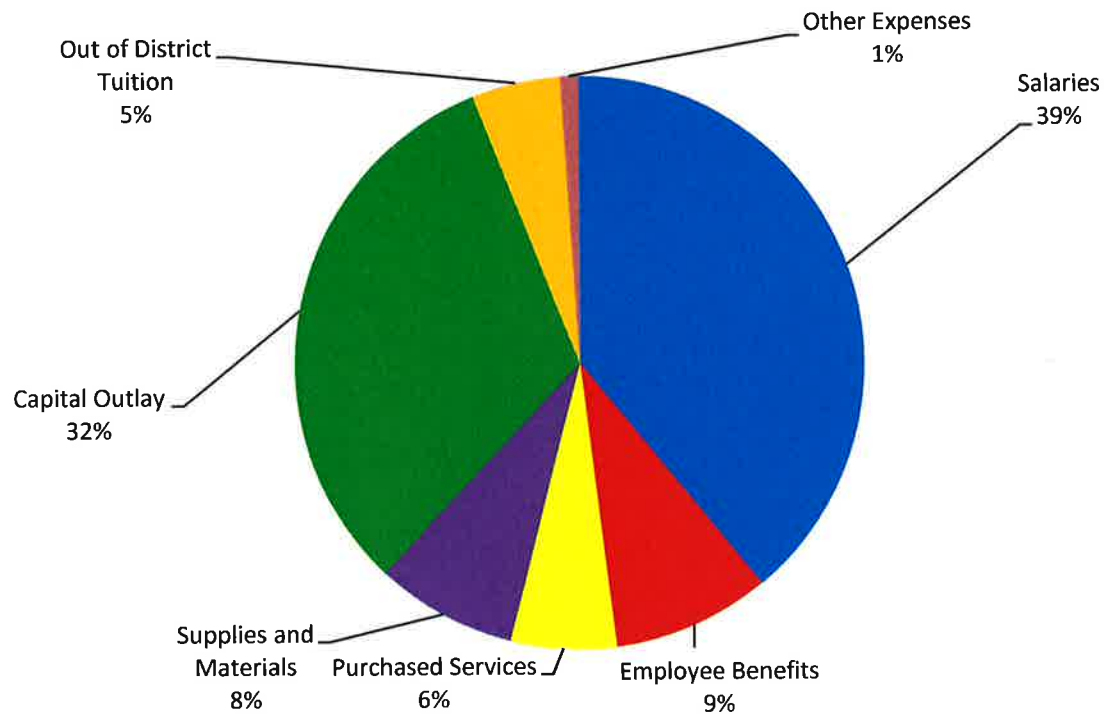
Expenditure History



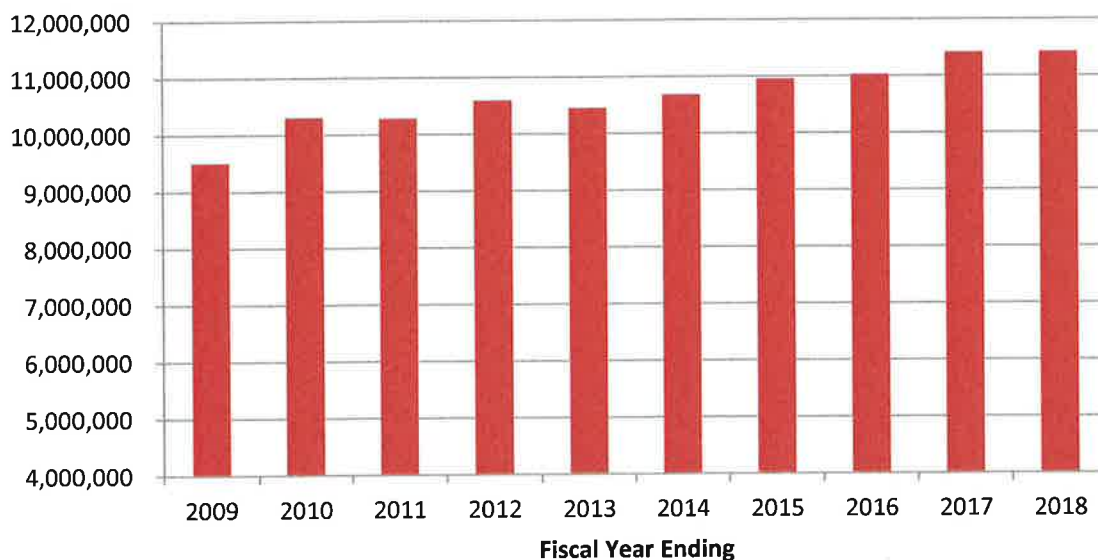
Total expenditure growth was relatively flat from FY11 through FY17. In FY09 through FY18 the district incurred expenses related to major capital improvements. The blue line above represents total expenditures and the purple line represents expenditures without capital expenses included. The district's expenditures can be broken down into six different categories:

1. **Salaries** – Amounts paid to permanent, temporary or substitute employees of the district.
2. **Employee Benefits** – Fringe benefits paid on behalf of the employees but not directly to the employees. These include medical insurance, payments to the Illinois municipal retirement fund (IMRF), early retirement programs, tuition reimbursements, and Board paid teachers retirement system (TRS) payments.
3. **Purchased Services** – Amounts paid for services rendered by personnel who are not on the payroll of the district. These include transportation services, property/casualty insurance, legal services, audit services, information technology services, contractual services related to the enhancement of the teaching process, telephone services, and bandwidth services.
4. **Supplies and Materials** – Amounts paid for material items that are consumed, worn out, or have deteriorated from use. These primarily include textbooks, library books, software, utilities, and building supplies.
5. **Capital Outlay** – Expenditures for the acquisition of fixed assets or additions to fixed assets. Fixed assets include purchases of land, buildings, and equipment such as furniture or servers.
6. **Special Education Tuition** – Expenditures to reimburse outside agencies such as Eisenhower Special Education Cooperative for services rendered to students residing in the district.

The following is a breakdown of the expenditures of the district by expenditure type for the fiscal year ending June 30, 2018, debt payments:

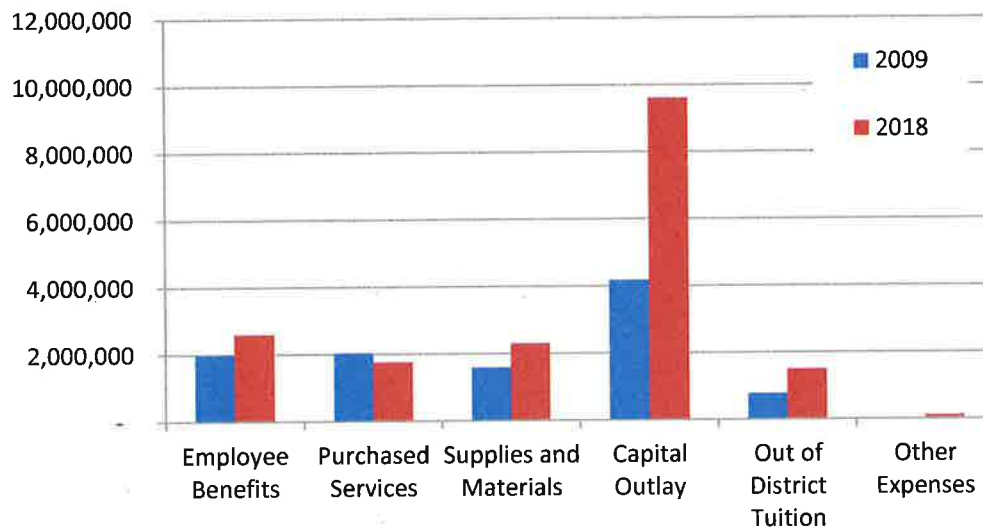


Salary Expenditures



Since FY09, total salary expenses increased at an average annual rate of 2.58%. This increase is due primarily to contractual salary increases.

Non-Salary Expenditures

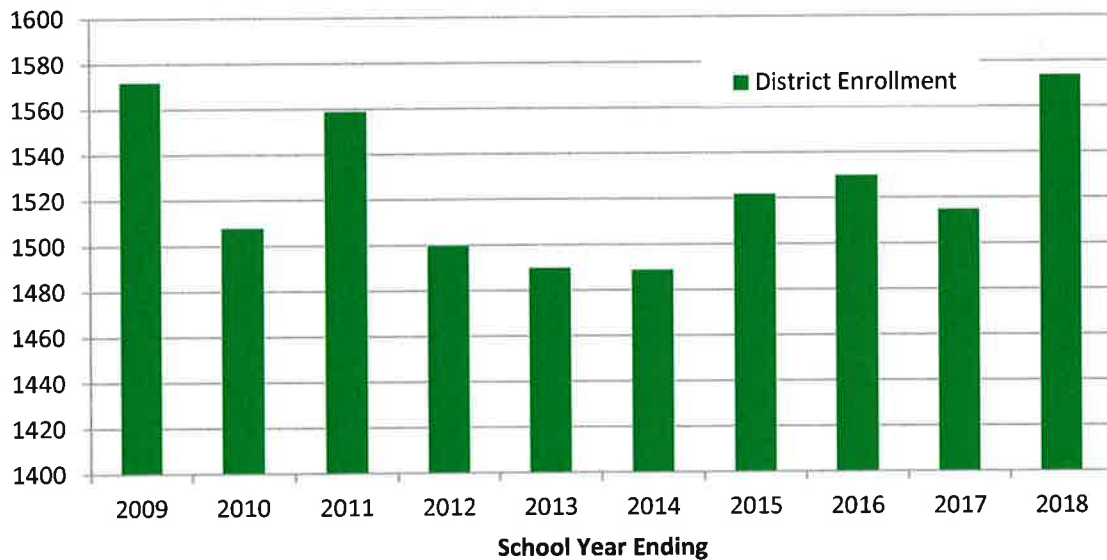
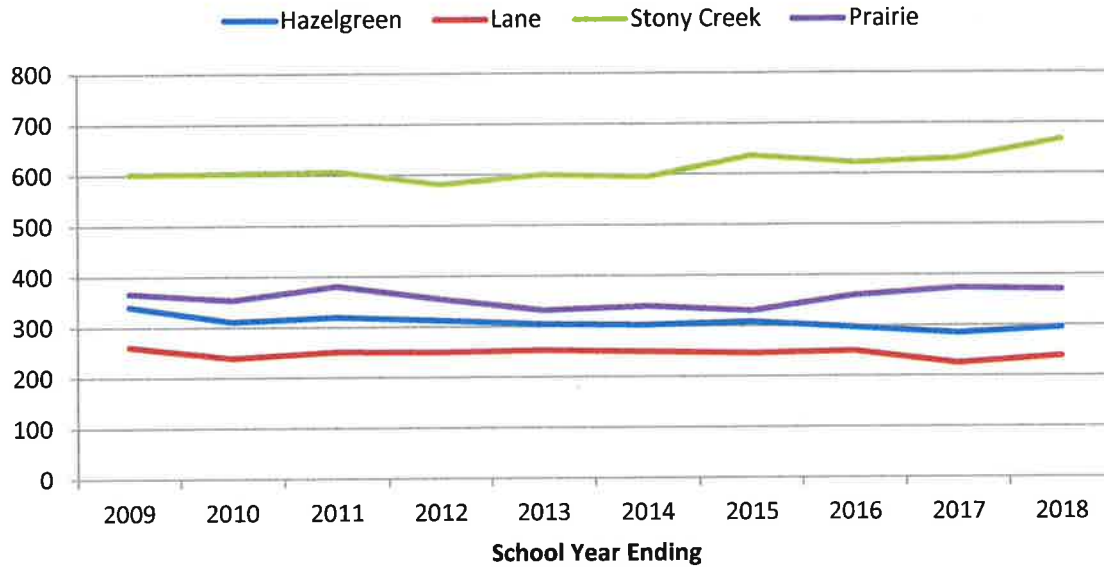


Financial Condition on June 30, 2018

For the purpose of projecting the anticipated fund balances, we will reference the June 2018 ending fund balances. As of June 30, 2018, projected fund balances are as follows:

Education Fund	\$28,988,656
Operations & Maintenance Fund	\$8,206,070
Debt Service Fund	\$34,293
Transportation Fund	\$2,966,671
Illinois Municipal Retirement Fund	\$853,701
Social Security Fund	\$575,707
Working Cash Fund	\$5,873,784
Tort Fund	\$121,508
Fire Prevention & Safety Fund	\$283,415
Total Fund Balance	\$47,903,805

Enrollment History



As shown in the two charts above, the district enrollment has declined by about 90 students over the past ten years.

Issues Facing the District

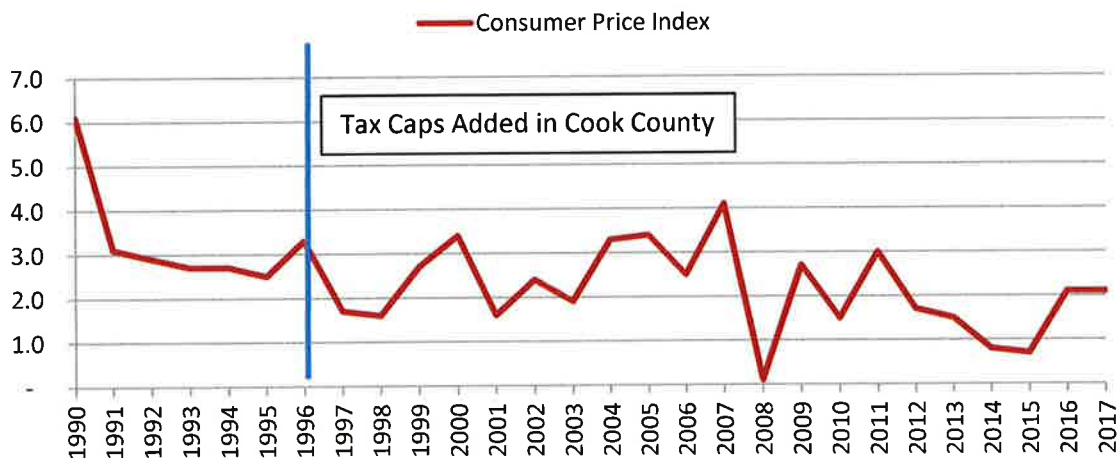
With the goal of providing an excellent education to children and ensuring the financial condition of the district remains healthy, it is imperative to examine major issues that may have a significant impact on the district's financial condition as well as the education provided and consider these issues when making financial projections.

Current Economic Crisis

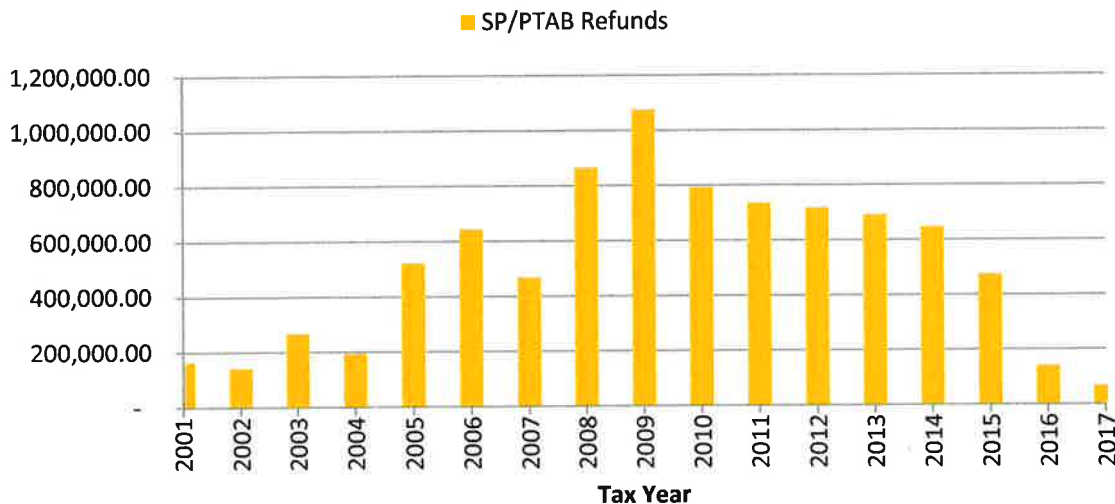
The economic climate is slowly recovering from the downturn just a few years ago. The district must be cognizant of the strong likelihood that this economic contraction will have a growing impact on the schools, and it must take action to prepare for that possibility. The impact of this economic crisis on Alsip, Hazelgreen and Oak Lawn Elementary School District 126 may be seen in three primary areas: (1) Low rates of inflation and its impact on tax revenue growth, (2) Increased property tax valuation appeals and the impact on property tax collections, and (3) The State financial crisis and its impact on State funding.

Low Inflation Levels

While low inflation levels will help keep the growth in certain expenditure types low, the district is capped in its growth of real estate tax revenues by the rate of inflation as defined by the consumer price index. For the levy that will be approved by the district in October 2018, tax revenue growth will be capped at the 2017 consumer price index of 2.1%. Many experts are projecting that inflation levels will be low or non-existent for several years given the anticipated slow growth in the economy and the high levels of unemployment. With real estate tax revenues making up approximately 74% of the district total revenues, an extended period of low inflation could be devastating to the district. There has also been talk by state legislators of a property tax freeze for several years.



Increased Property Tax Valuation Appeals



Property tax valuation appeals occur when a taxpayer objects to the value of their property as assigned by the Cook County Assessor's Office. Objections must first be filed with the County, and after a ruling with the County can be taken to the State Property Tax Appeals Board (PTAB). It can take several years before a conclusion is reached, and when there is a reduction to the initial valuation the taxes on the difference in valuation are lost to the taxing body. The State of Illinois currently has open appeals back to tax year 2009, so the district is still exposed to potential refunds dating back to tax year 2009. Refunds are awarded out of current year collections, reducing current collections available to fund district programs.

State of Illinois' Financial Crisis

Only 14% of the district's revenues come from State sources, but this amounts to over \$3.5 million dollars. In FY09 and FY10 the State was forced to rely on \$1 billion in Federal stimulus money in order to cover mandatory State-aid payments. In FY11, the State no longer received those funds which created a funding gap evidenced by a delay of State payments. The delay was reduced when the State received additional funding from the increased property tax rate. The State recently passed school funding reform, with new money going to schools that the State considers most in need. District 126 does not fall into that category, however part of the reform was that all Illinois School Districts will receive at least the level of funding that they were receiving prior to funding reform. Several of the models that were being considered had District 126 losing a substantial amount of state funding.

Shift of Pension Costs

Over the past several years Illinois political leaders have discussed shifting the cost of State pension programs to local school districts. The estimated annual pension cost is approximately 9% of qualified salaries each year. The discussions revolving around a pension cost shift have mostly included a phase in for local districts. A shift of the estimated cost has been included in the projection section of this report beginning with FY19.

Available Debt Limitations

The district's debt service extension base is fully available due to the district's early payoff of outstanding bonds during FY18. Long-term debt should be utilized for long term capital needs. Using borrowing to support operating expenses is one of the primary causes of financial troubles in Illinois schools.

Projected Financial Condition

The following six-year projection was derived by incorporating trends in the district's expenditures and revenues with assumptions made on several critical issues that will determine the district's future financial condition.

Please note that all projections are based on assumptions and should be considered as such when making decisions. Actual figures may be different; it is critical that the district revise its projections as new information becomes available.

Major Assumptions Used in Making Projections

Revenue Assumptions

- 1) It is projected that the rate of inflation, which drives tax revenue growth, will be 2.0%.
- 2) Replacement taxes will decline by 5% per year over the next five years.
- 3) It is projected that the district will receive 95% of its General State-Aid payments in FY19, but will receive 100% in future years.
- 4) Restricted State revenues will remain consistent with FY18 amounts.
- 5) Federal and State grant revenues will remain consistent with current amounts.

Expenditure Assumptions

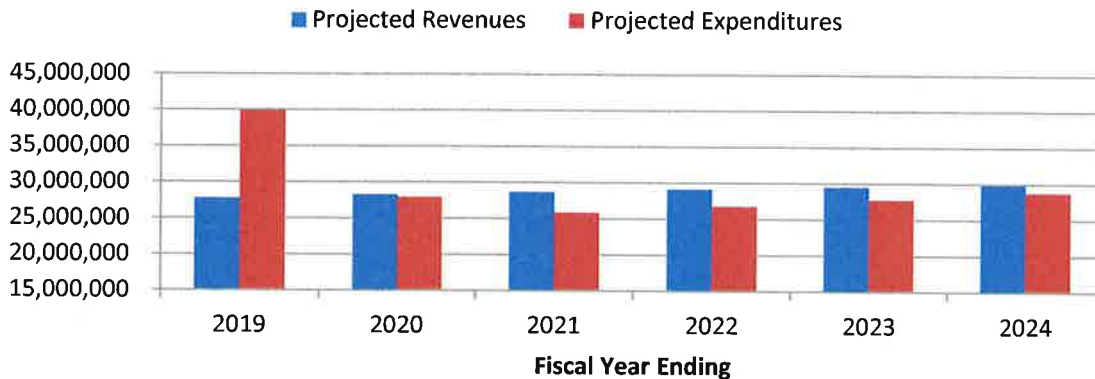
- 1) Salary expenditures in FY19 reflect actual salaries, and are projected to grow at 4% annually.
- 2) Employee benefits are projected to increase at an average annual rate of 5%.
- 3) Expenses related to purchased services are projected to increase at 2% annually with the exception of transportation services which are expected to increase by 16%.
- 4) Expenses related to supplies and materials are higher in FY19 because of planned classroom furniture replacement and the need to furnish the areas of new construction. Beyond FY19 the cost is projected to drop to \$2,500,000 and then projected to increase 2% annually.

- 5) The district is projected to spend \$17,616,000 on capital improvements in FY19, and then \$1,000,000 annually in years following.
- 6) The State of Illinois will start to shift pension costs to local districts in FY19; these amounts have been shown separately on the schedule.
- 7) Out of district special education tuition costs are projected to increase 5% annually.
- 8) The major capital projects included in FY19 are the Hazelgreen and Lane renovations, the Stony Creek renovations, and the Lane Early Childhood Center.

Projections FY19 through FY24

Projected Revenues vs. Expenses

The following graph reflects that total revenues are projected to exceed total expenses in each year upon the completion of capital projects in FY19.

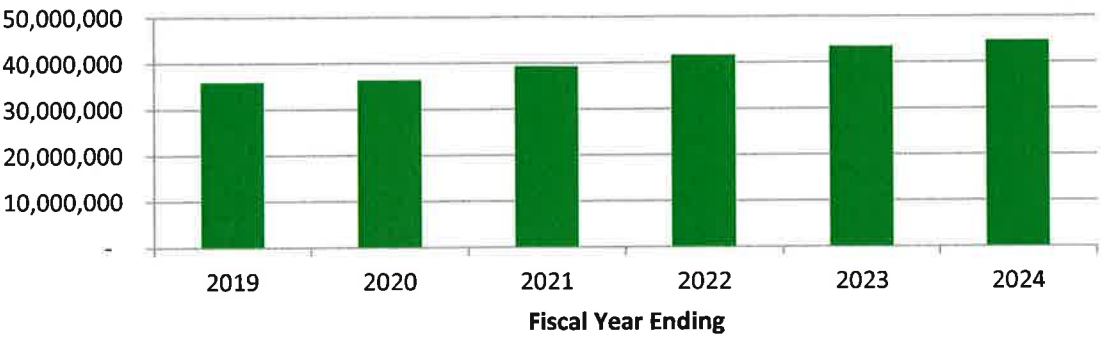


The revenue and expenditure projections would result in the following annual surplus/deficits projected for the district. The "projected surplus/deficit" column indicates the difference between the revenues received by the district for a given fiscal year compared to the expenditures incurred for the same fiscal year. The "cumulative impact" column indicates the cumulative total of these annual surplus/deficits.

<u>Fiscal Year Ending</u>	<u>Projected Surplus/(Deficit)</u>	<u>Cumulative Impact</u>
June 30, 2019	(12,123,221)	36,052,041
June 30, 2020	408,717	36,460,758
June 30, 2021	2,912,671	39,373,429
June 30, 2022	2,390,720	41,764,149
June 30, 2023	1,841,398	43,605,546
June 30, 2024	1,263,183	44,868,730

Projected Fund Balances

The following graph illustrates that total fund balances (excluding bond and interest fund) are projected to increase from \$36,052,041 on June 30, 2019 to \$44,868,730 on June 30, 2024.



Alsip, Hazelgreen and Oak Lawn Elementary School District 126

Financial Summary (Excluding Bond Fund)

Fiscal Years Ending June 30, 2009 through June 30, 2018

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Beginning Fund Balance	25,934,659	26,664,344	26,683,299	31,307,153	34,411,828	36,776,515	41,323,666	43,713,403	48,116,462	52,713,459
Revenues:										
Real Estate Taxes	16,659,198	19,319,519	19,438,243	19,654,929	19,189,689	20,781,322	20,420,577	21,375,205	21,998,514	20,795,590
Replacement Tax	1,048,121	870,275	1,073,575	946,864	1,002,168	1,050,280	1,098,931	1,011,627	1,123,730	940,274
Other Local Revenues	910,555	676,527	466,651	625,988	657,985	757,365	714,806	848,162	963,104	1,149,800
General State-Aid	610,806	640,781	924,065	1,010,177	1,197,856	1,666,899	1,793,992	1,706,200	1,877,120	2,549,838
Restricted State Grants	1,065,977	1,220,796	1,501,231	1,436,118	1,676,689	1,971,738	1,219,418	1,416,957	1,133,958	1,289,473
Restricted Federal Grants	891,565	1,541,492	1,144,111	1,233,870	1,292,823	1,013,422	1,280,702	1,117,558	1,219,103	1,260,091
Total Revenues	21,186,222	24,269,390	24,547,876	24,907,946	25,017,210	27,241,026	26,528,426	27,475,709	28,315,529	27,975,066
Expenses:										
Salaries	9,507,266	10,307,445	10,283,381	10,593,358	10,452,537	10,686,697	10,957,793	11,028,616	11,416,006	11,417,339
Employee Benefits	2,008,543	2,223,538	2,631,103	2,437,643	2,609,340	2,496,550	2,505,526	2,579,937	2,774,580	2,604,512
Purchased Services	2,052,746	1,756,368	1,934,416	2,359,973	1,963,283	1,633,943	1,541,581	1,489,151	1,695,130	1,761,232
Supplies & Materials	1,599,558	1,292,583	1,967,027	2,191,886	1,407,379	1,528,066	1,614,428	2,101,514	2,521,293	2,311,990
Capital Outlay	998,190	288,971	250,968	517,127	665,701	903,546	744,954	708,891	975,589	955,762
Out of District Tuition	784,527	1,019,676	1,174,453	1,570,605	1,520,297	1,424,677	1,353,091	1,363,975	1,145,763	1,503,347
Other Expenses	11,075	106,919	264,028	108,868	210,802	93,618	71,509	150,359	71,280	104,426
Total Expenses	16,961,905	16,995,500	18,505,376	19,779,460	18,829,339	18,767,097	18,788,882	19,422,443	20,599,641	20,658,608
Revenues vs. Expenses	4,224,317	7,273,890	6,042,500	5,128,486	6,187,871	8,473,929	7,739,544	8,053,266	7,715,888	7,316,458
Transfers (To)/From Bond Fund	(294,632)	-	-	-	-	-	-	-	-	(3,200,000)
Major Capital Projects	3,200,000	7,254,935	1,418,646	2,023,811	3,823,184	3,926,778	5,349,807	3,650,207	1,618,891	8,654,655
IMRF Unfunded Liability Payment	-	-	-	-	-	-	-	-	1,500,000	-
Ending Fund Balance	26,664,344	26,683,299	31,307,153	34,411,828	36,776,515	41,323,666	43,713,403	48,116,462	52,713,459	48,175,262

Alsip, Hazelgreen and Oak Lawn Elementary School District 126

Financial Projections (Excluding Bond Fund)

Fiscal Years Ending June 30, 2019 through June 30, 2024

	FY19	FY20	FY21	FY22	FY23	FY24
Beginning Fund Balance	48,175,262	36,052,041	36,460,758	39,373,429	41,764,149	43,605,546
Revenues:						
Real Estate Taxes	21,779,003	22,214,583	22,658,875	23,112,052	23,574,293	24,045,779
Replacement Tax	775,000	736,250	699,438	664,466	631,242	599,680
Other Local Revenues	699,500	699,500	699,500	699,500	699,500	699,500
General State-Aid	2,400,000	2,549,838	2,549,838	2,549,838	2,549,838	2,549,838
Restricted State Grants	903,500	903,500	903,500	903,500	903,500	903,500
Restricted Federal Grants	1,223,976	1,223,976	1,223,976	1,223,976	1,223,976	1,223,976
Total Revenues	27,780,979	28,327,647	28,735,126	29,153,332	29,582,350	30,022,273
Expenses:						
Salaries	12,326,380	12,819,435	13,332,213	13,865,501	14,420,121	14,996,926
Employee Benefits	2,958,320	3,106,236	3,261,548	3,424,625	3,595,856	3,775,649
Purchased Services	2,375,500	2,423,010	2,471,470	2,520,900	2,571,318	2,622,744
Supplies & Materials	2,747,500	2,500,000	2,550,000	2,601,000	2,653,020	2,706,080
Capital Outlay	1,616,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Out of District Tuition	1,730,000	1,816,500	1,907,325	2,002,691	2,102,826	2,207,967
Other Expenses	150,500	100,000	100,000	100,000	100,000	100,000
Total Expenses	23,904,200	23,765,181	24,622,556	25,514,717	26,443,141	27,409,367
Revenues vs. Expenses	3,876,779	4,562,466	4,112,571	3,638,615	3,139,209	2,612,907
Extraordinary expenses:						
Major Capital Projects	16,000,000	3,000,000	-	-	-	-
Bond Fund Transfer	-	-	-	-	-	-
Pension Cost Shifted from State	-	1,153,749	1,199,899	1,247,895	1,297,811	1,349,723
Total Extraordinary Expenses	16,000,000	4,153,749	1,199,899	1,247,895	1,297,811	1,349,723
Ending Fund Balance	36,052,041	36,460,758	39,373,429	41,764,149	43,605,546	44,868,730