



**ALSIP, HAZELGREEN AND OAK LAWN
ELEMENTARY SCHOOL DISTRICT 126**

Financial Analysis

September 12, 2019

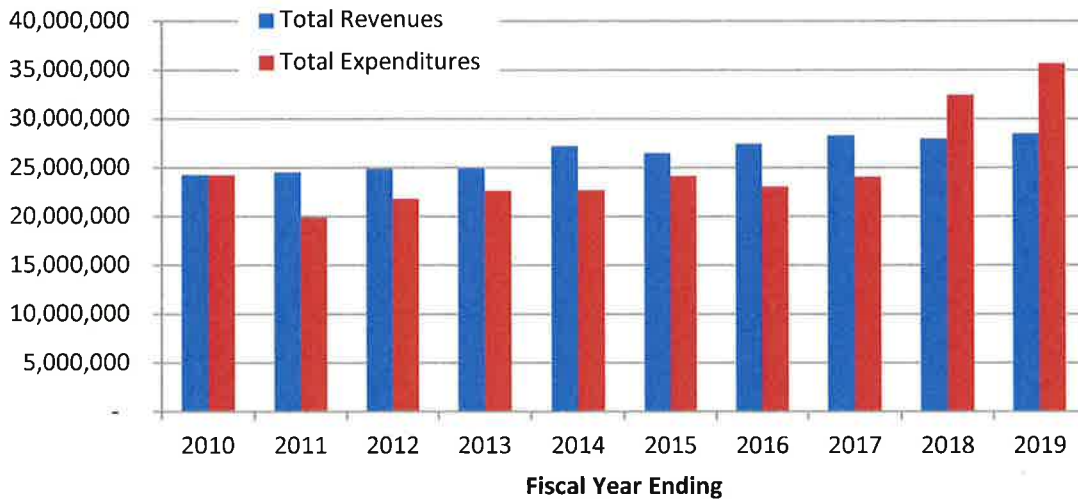
An Analysis of the District's Historical Financial Operations
and Projected Future Financial Condition

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Historical Financial Review

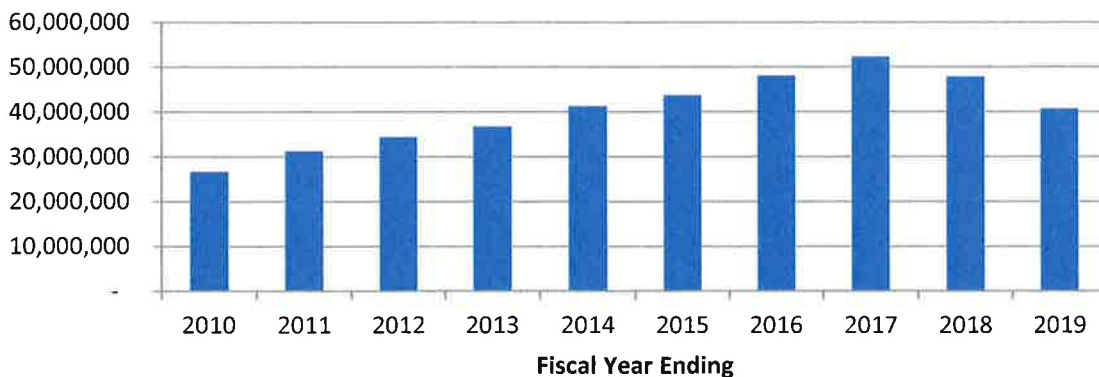
In developing a long-term financial plan for a school district, it is critical to first review the historical trends in the revenues and expenditures of the district. The Historical Financial Review incorporates all funds in the district excluding the debt service fund. The following chart reflects revenues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



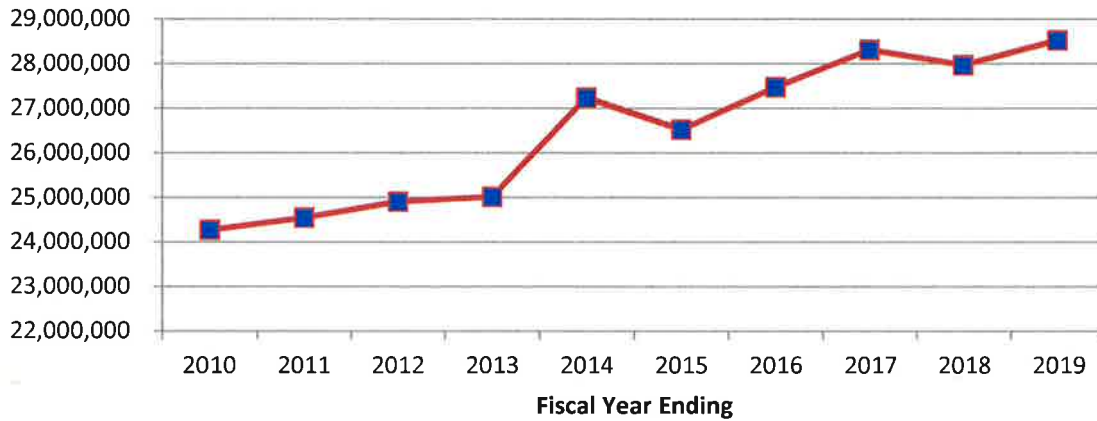
In March of 2006 the community voted to approve a tax rate increase for the district which resulted in significant surpluses from FY07 through FY19 (with the exception of FY18 and FY19 due to construction costs).

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 (Excluding Bond Fund)

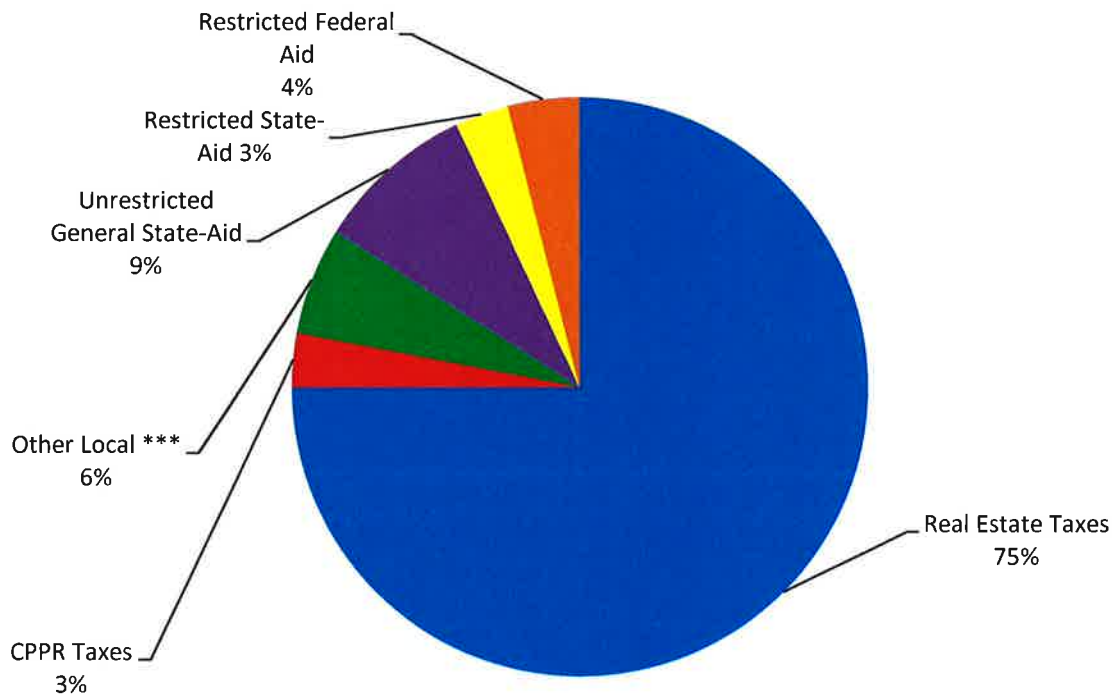


Revenue History



Since FY10, total revenues have increased at an average annual rate of 3%.

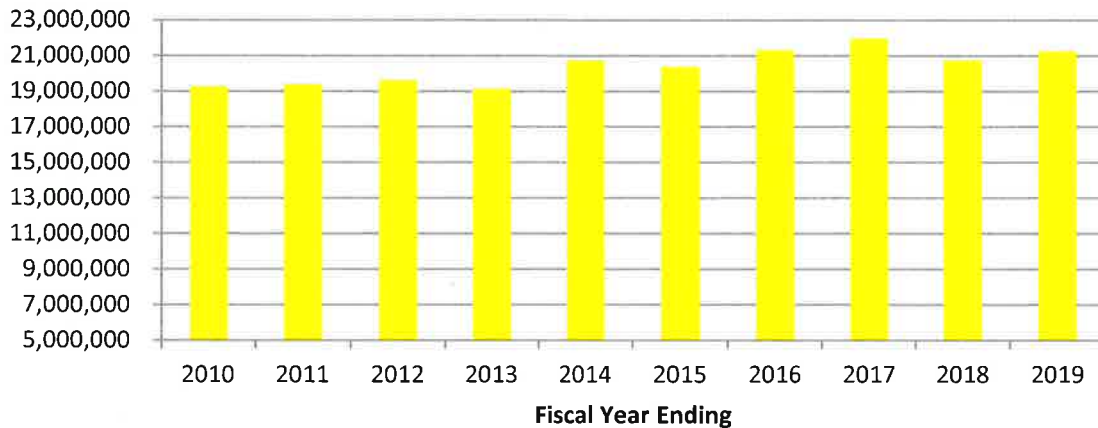
For the fiscal year ending June 30, 2019, total revenues received by Alsip, Hazelgreen and Oak Lawn Elementary School District 126 can be broken down as follows:



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

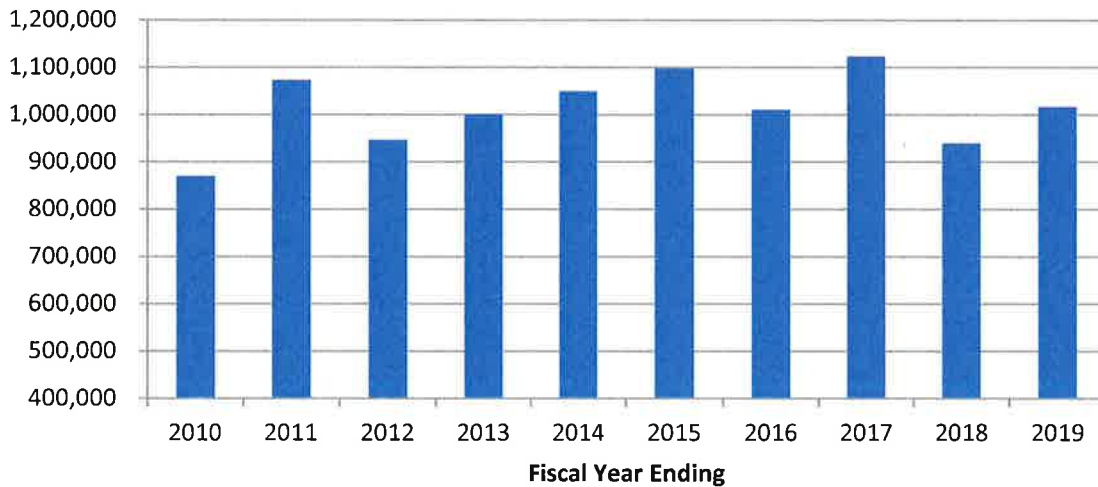
In order to analyze revenue patterns during this time period, it is necessary to examine the primary sources of revenue in the district: Real estate taxes amount to 75% of the district's total revenues. Corporate personal property replacement taxes amount to 3% of the district's total revenues, and general 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



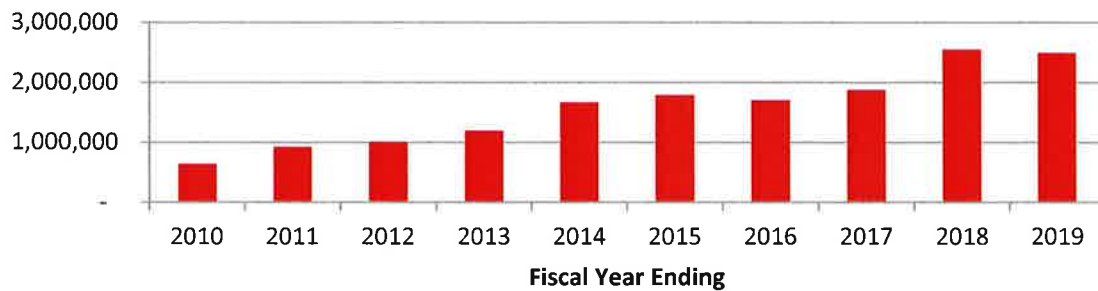
Real estate taxes increased at an average rate of 2.64% over the past ten years.

Corporate Personal Property Replacement Taxes



The district has realized an increase in corporate personal property replacement at an average rate of 0.49% annually over the past ten years. 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.

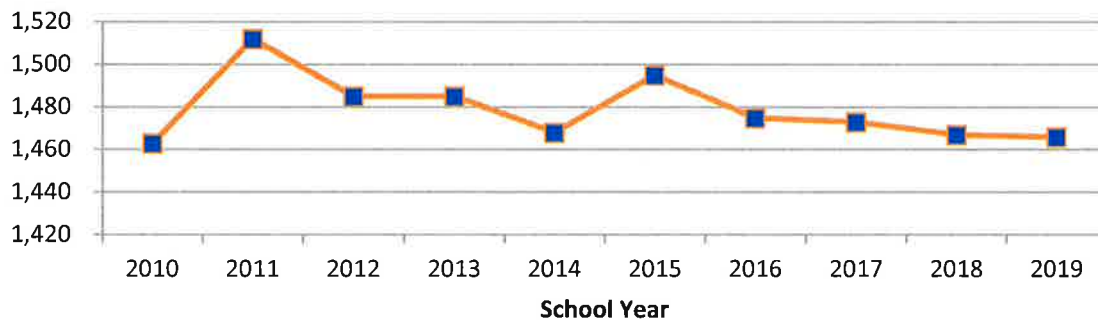
Evidence-Based Funding Revenues (General State-Aid)



The district has realized an average increase in general State-aid (evidence-based funding) revenues of 16.25% per year annually over the past ten years.

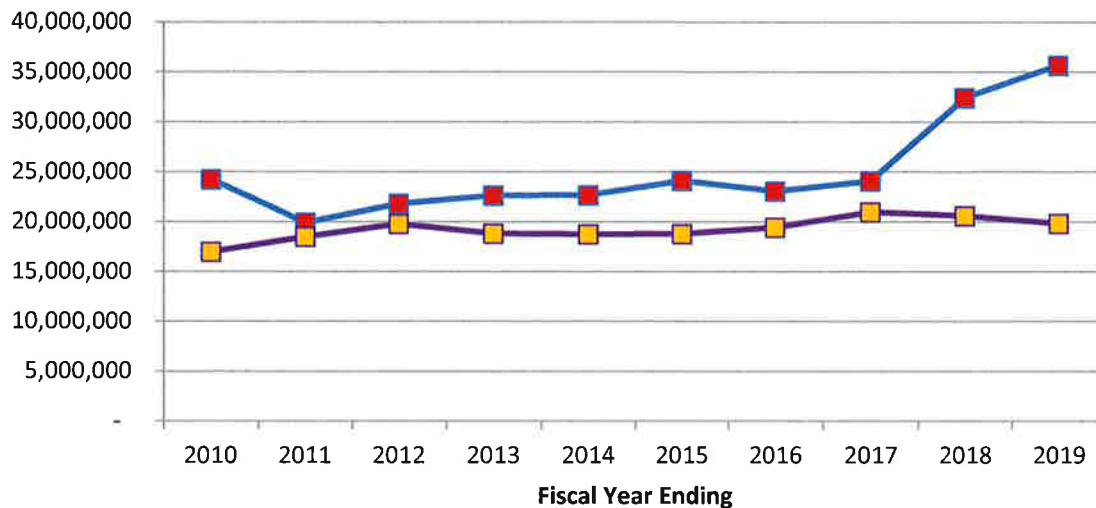
Another variable that has a significant impact on general State-aid (evidence-based funding) revenues is the district's average daily attendance. The following chart reflects the average daily attendance figure of the district used in calculating general State-aid revenues:

Average Daily Attendance



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

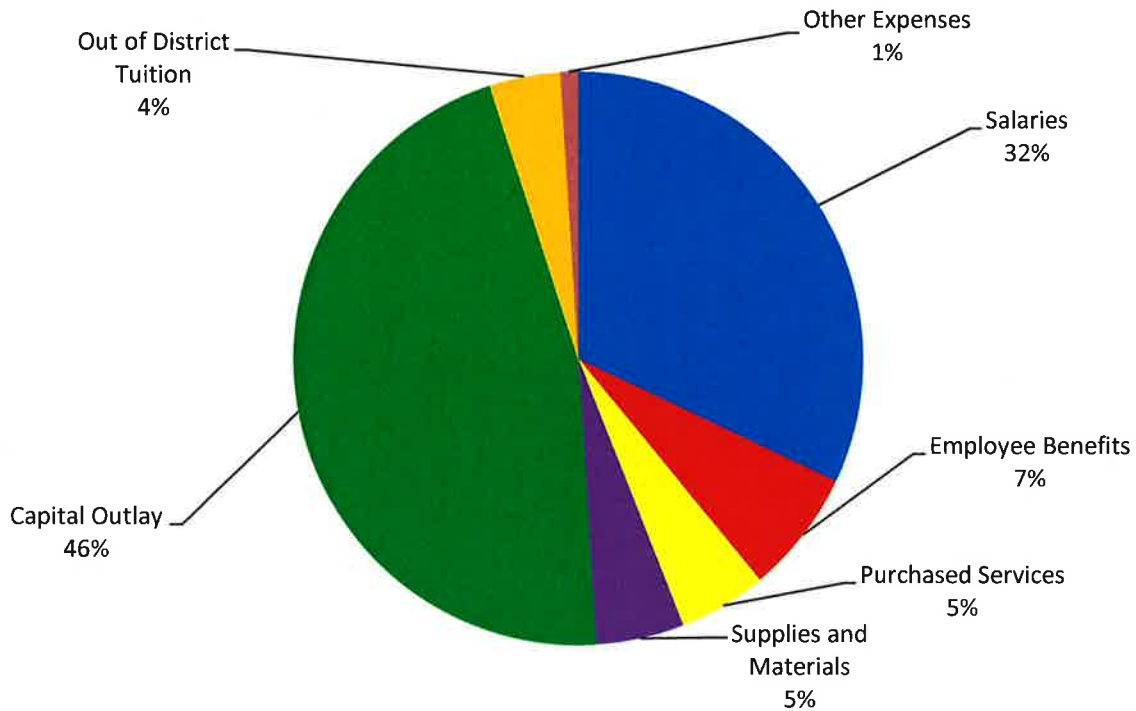
Expenditure History



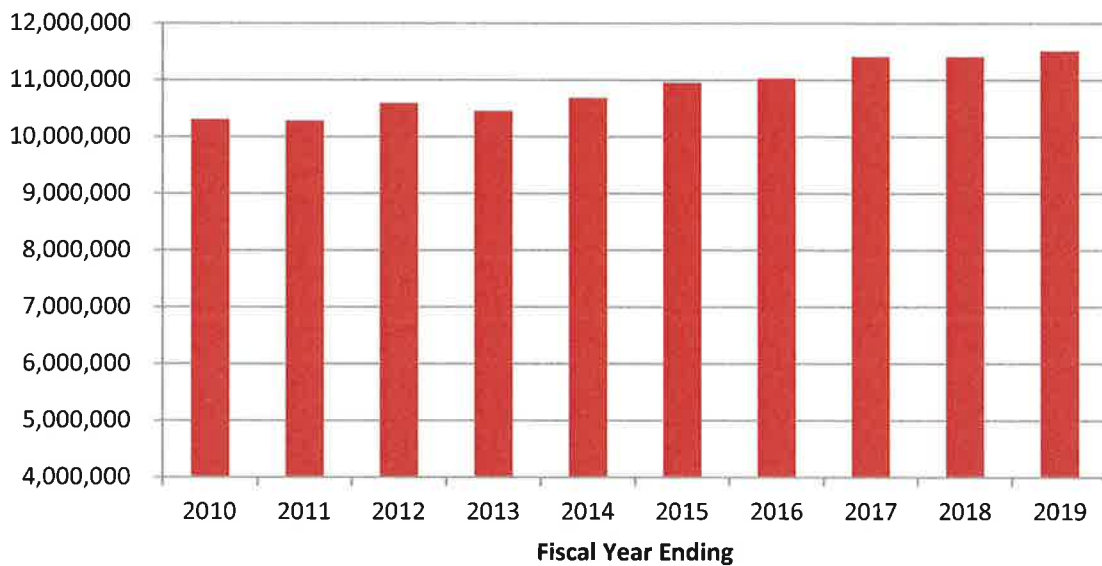
Total expenditure growth was relatively flat from FY11 through FY17. In FY10 through FY19 the district incurred expenses related to major capital improvements. The blue line above represents total expenditures and the purple line represents expenditures without capital expenses included. The district's 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, 2019, debt payments:

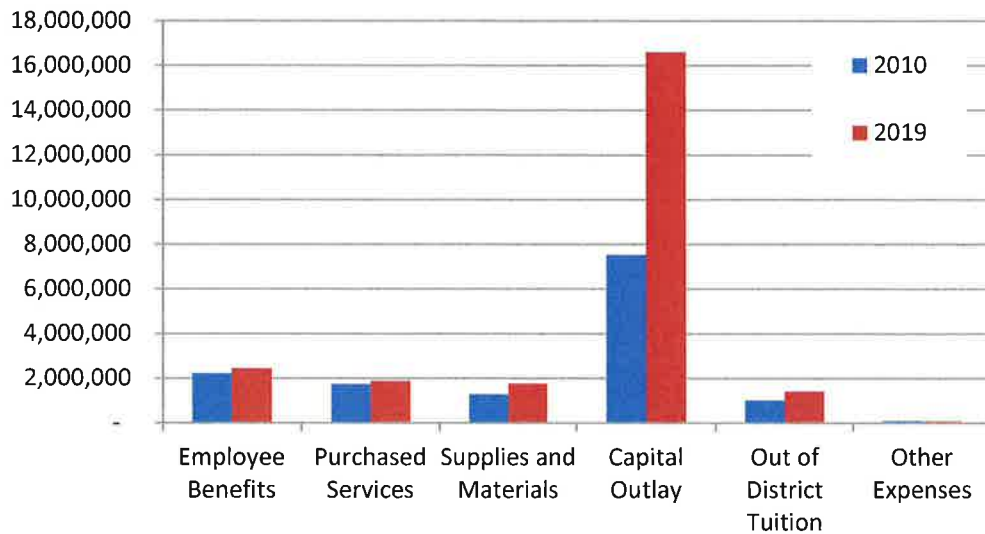


Salary Expenditures



Since FY09, total salary expenses increased at an average annual rate of 1.97%. This increase is due primarily to contractual salary increases.

Non-Salary Expenditures

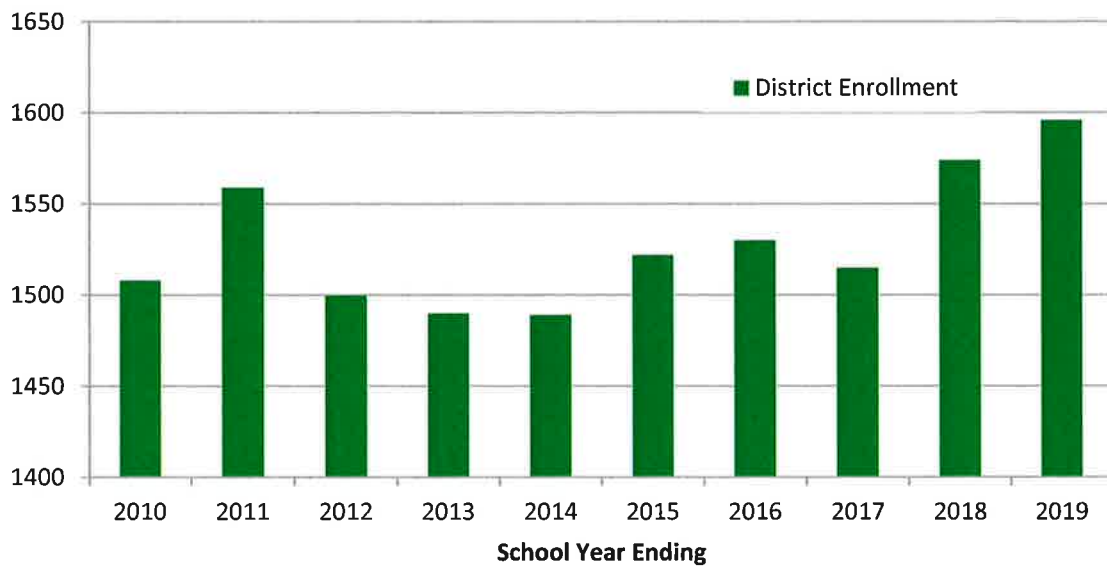
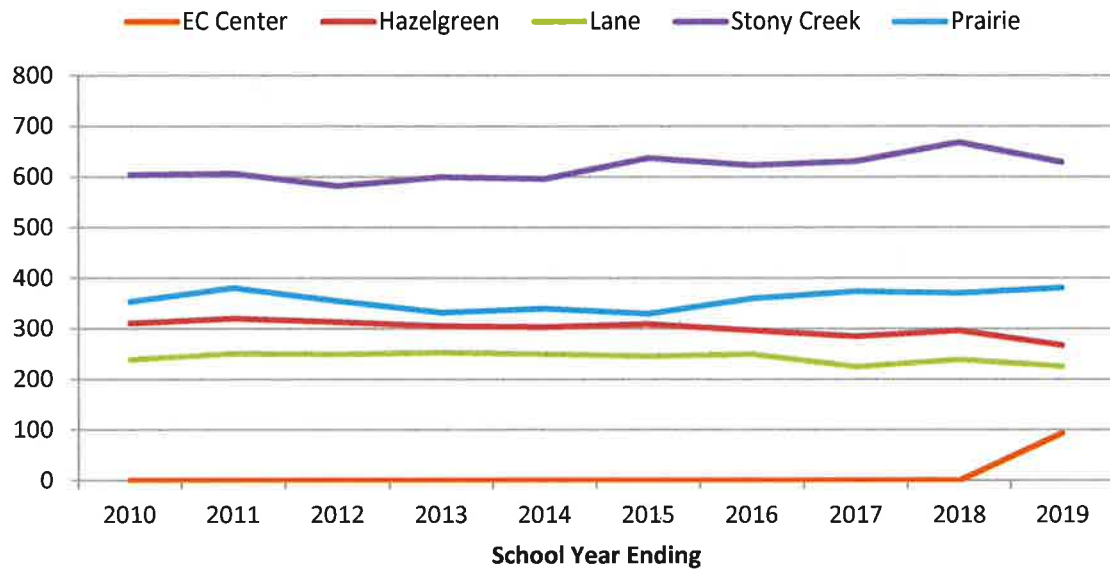


Financial Condition on June 30, 2019

For the purpose of projecting the anticipated fund balances, we will reference the June 2019 ending fund balances.
As of June 30, 2019, projected fund balances are as follows:

Education Fund	\$25,461,177
Operations & Maintenance Fund	\$5,671,810
Debt Service Fund	\$21,583
Transportation Fund	\$1,256,724
Illinois Municipal Retirement Fund	\$905,417
Social Security Fund	\$331,554
Working Cash Fund	\$6,254,660
Tort Fund	\$543,396
Fire Prevention & Safety Fund	\$291,482
Total Fund Balance	\$40,737,803

Enrollment History



As shown in the two charts above, the district enrollment has increased by about 80 students over the past ten years.

Issues Facing the District

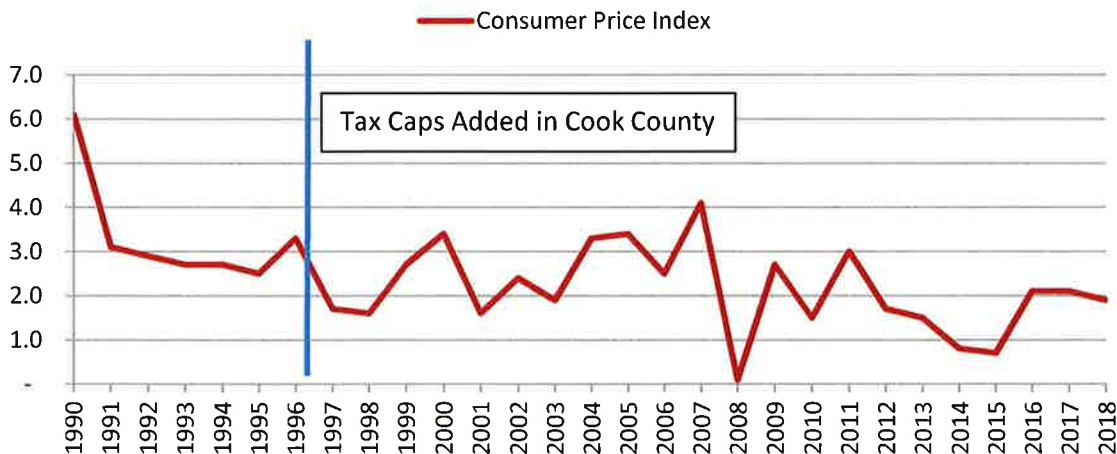
With the goal of providing an excellent education to children and ensuring the financial condition of the district remains healthy, it is imperative to examine major issues that may have a significant impact on the district's financial condition as well as the education provided and consider these issues 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 2019, tax revenue growth will be capped at the 2018 consumer price index of 1.9%. 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 75% 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 12% of the district's revenues come from State sources, but this amounts to over \$3.3 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.

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 FY21.

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 100% of its General State-Aid payments in FY20 – FY25.
- 4) Restricted State revenues will remain consistent with FY19 amounts.
- 5) Federal and State grant revenues will remain consistent with current amounts.

Expenditure Assumptions

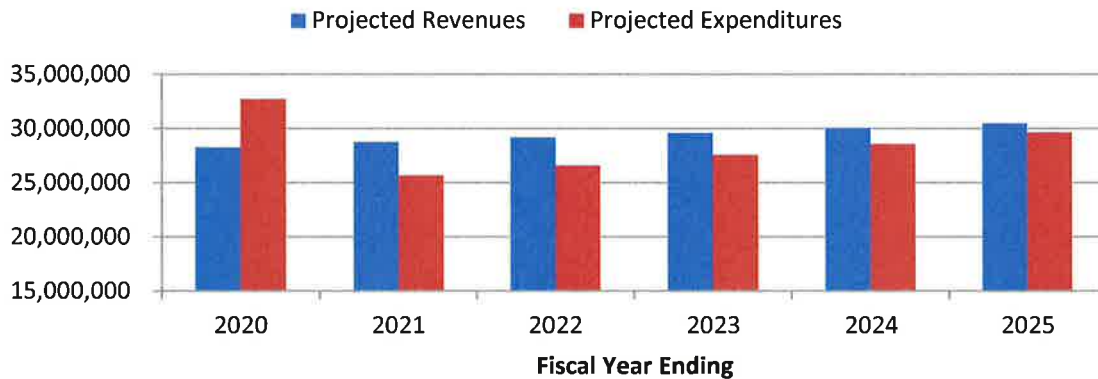
- 1) Salary expenditures in FY20 reflect actual salaries, and are projected to grow at 4% annually.
- 2) Employee benefits are projected to increase at an average annual rate of 5%.
- 3) Expenses related to purchased services are projected to increase at 2%.
- 4) Expenses related to supplies and materials are higher in FY20 because of planned classroom furniture replacement and the need to furnish the areas of new construction. Beyond FY20 the cost is projected to drop to \$2,300,000 and then projected to increase 2% annually.
- 5) The district is projected to spend \$9,368,000 on capital improvements in FY20, and then \$1,000,000 annually in years following.

- 6) The State of Illinois will start to shift pension costs to local districts in FY21; 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 FY20 are the completion of the Stony Creek renovation, completion of the Early Childhood Center construction, completion of the Hazelgreen gym improvements, completion of the district lighting upgrades, and completion of the Hazelgreen parking improvements.

Projections FY20 through FY25

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 FY20.

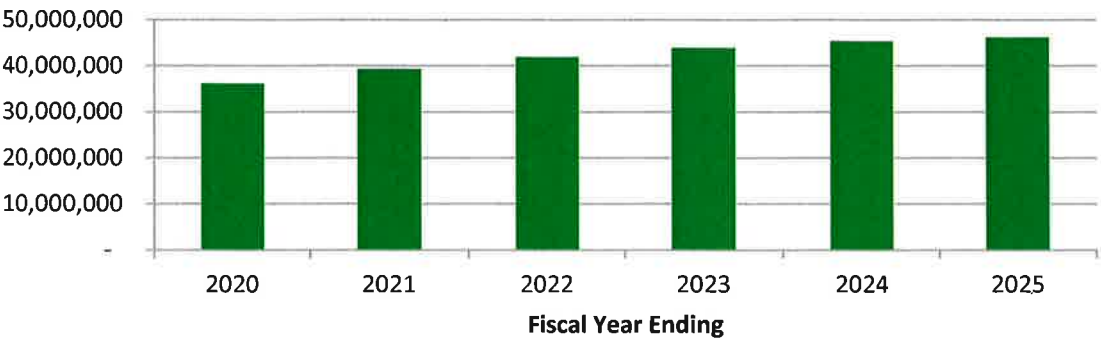


The revenue and expenditure projections would result in the following annual surplus/deficits projected for the district. The "projected surplus/deficit" column indicates the difference between the revenues received by the district for a given fiscal year compared to the expenditures incurred for the 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, 2020	(4,434,253)	36,281,967
June 30, 2021	3,109,512	39,391,479
June 30, 2022	2,588,219	41,979,698
June 30, 2023	2,040,183	44,019,881
June 30, 2024	1,463,879	45,483,760
June 30, 2025	857,720	46,341,480

Projected Fund Balances

The following graph illustrates that total fund balances (excluding bond and interest fund) are projected to increase from \$36,584,441 on June 30, 2020 to \$46,643,954 on June 30, 2025.



Alsip, Hazelgreen and Oak Lawn Elementary School District 126 **Financial Summary (Excluding Bond Fund)**

Fiscal Years Ending June 30, 2010 through June 30, 2019

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Beginning 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	52,341,843	47,869,514
Revenues:										
Real Estate Taxes	19,319,519	19,438,243	19,654,929	19,189,689	20,781,322	20,420,577	21,375,205	21,998,514	20,785,590	21,300,612
Replacement Tax	870,275	1,073,575	946,864	1,002,168	1,050,280	1,098,931	1,011,627	1,123,730	940,274	1,017,204
Other Local Revenues	676,527	466,651	625,988	657,985	757,365	714,806	848,162	963,104	1,149,800	1,634,987
General State-Aid	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	2,491,911
Restricted State Grants	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	852,438
Restricted Federal Grants	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	1,226,989
Total Revenues	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	28,524,141
Expenses:										
Salaries	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	11,517,465
Employee Benefits	2,223,538	2,631,103	2,437,643	2,609,340	2,496,550	2,505,526	2,579,937	3,146,196	2,538,644	2,444,350
Purchased Services	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	1,881,542
Supplies & Materials	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	1,769,101
Capital Outlay	288,971	250,968	517,127	665,701	903,546	744,954	708,891	975,589	955,762	710,099
Out of District Tuition	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	1,417,759
Other Expenses	106,919	264,028	108,868	210,802	93,618	71,509	150,359	71,280	104,426	85,219
Total Expenses	16,995,500	18,505,376	19,779,460	18,829,339	18,767,097	18,788,882	19,422,443	20,971,257	20,592,740	19,825,535
Revenues vs. Expenses	7,273,890	6,042,500	5,128,486	6,187,871	8,473,929	7,739,544	8,053,266	7,344,272	7,382,326	8,698,606
Transfers (To)/From Bond Fund	-	-	-	-	-	-	-	-	(3,200,000)	-
Major Capital Projects	7,254,935	1,418,646	2,023,811	3,823,184	3,926,778	5,349,807	3,650,207	1,618,691	8,654,655	15,851,900
IMRF Unfunded Liability Payment	-	-	-	-	-	-	-	1,500,000	-	-
Ending Fund Balance	26,683,299	31,307,153	34,411,828	36,776,515	41,323,666	43,713,403	48,116,462	52,341,843	47,869,514	40,716,220

Alsip, Hazelgreen and Oak Lawn Elementary School District 126

Financial Projections (Excluding Bond Fund)

Fiscal Years Ending June 30, 2020 through June 30, 2025

	FY20	FY21	FY22	FY23	FY24	FY25
Beginning Fund Balance	40,716,220	36,281,967	39,391,479	41,979,698	44,019,881	45,483,760
Revenues:						
Real Estate Taxes	22,263,967	22,709,246	23,163,431	23,626,700	24,099,234	24,581,219
Replacement Tax	875,000	831,250	789,688	750,203	712,693	677,058
Other Local Revenues	793,500	793,500	793,500	793,500	793,500	793,500
General State-Aid	2,400,000	2,491,911	2,491,911	2,491,911	2,491,911	2,491,911
Restricted State Grants	831,479	831,479	831,479	831,479	831,479	831,479
Restricted Federal Grants	1,127,638	1,127,638	1,127,638	1,127,638	1,127,638	1,127,638
Total Revenues	28,291,584	28,785,024	29,197,647	29,621,431	30,056,455	30,502,805
Expenses:						
Salaries	12,764,995	13,275,595	13,806,619	14,358,883	14,933,239	15,530,568
Employee Benefits	3,176,929	3,335,775	3,502,564	3,677,692	3,861,577	4,054,656
Purchased Services	2,652,163	2,705,206	2,759,310	2,814,497	2,870,787	2,928,202
Supplies & Materials	2,929,624	2,300,000	2,346,000	2,392,920	2,440,778	2,489,594
Capital Outlay	1,718,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Out of District Tuition	1,680,126	1,764,132	1,852,339	1,944,956	2,042,204	2,144,314
Other Expenses	154,000	100,000	100,000	100,000	100,000	100,000
Total Expenses	25,075,837	24,480,709	25,366,832	26,288,948	27,248,584	28,247,334
Revenues vs. Expenses	3,215,747	4,304,316	3,830,815	3,332,483	2,807,871	2,255,471
Extraordinary expenses:						
Major Capital Projects	7,650,000	-	-	-	-	-
Pension Cost Shifted from State	-	1,194,804	1,242,596	1,292,300	1,343,991	1,397,751
Total Extraordinary Expenses	7,650,000	1,194,804	1,242,596	1,292,300	1,343,991	1,397,751
Ending Fund Balance	36,281,967	39,391,479	41,979,698	44,019,881	45,483,760	46,341,480