



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

## **Financial Analysis**

**September 10, 2020**

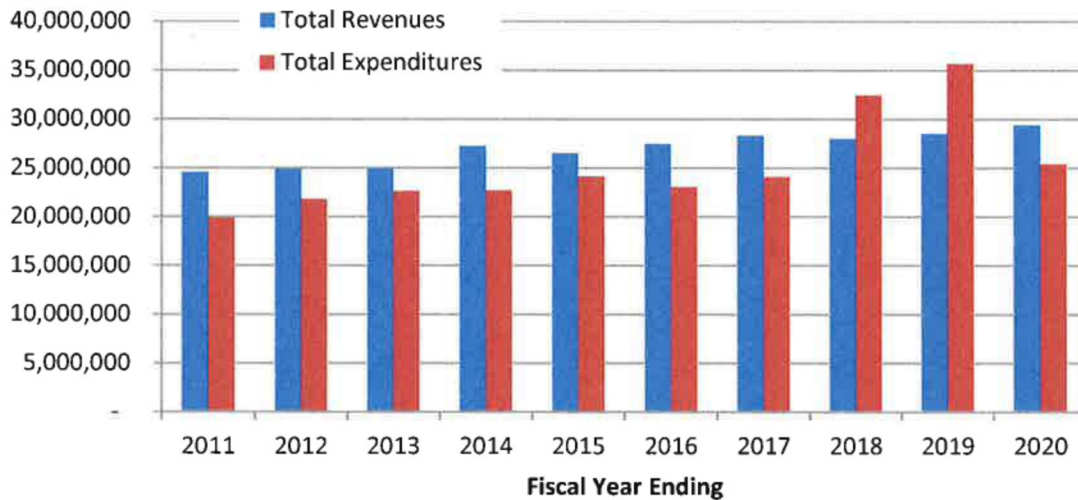
An Analysis of the District's Historical Financial Operations  
And Projected Future Financial Condition

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## Historical Financial Review

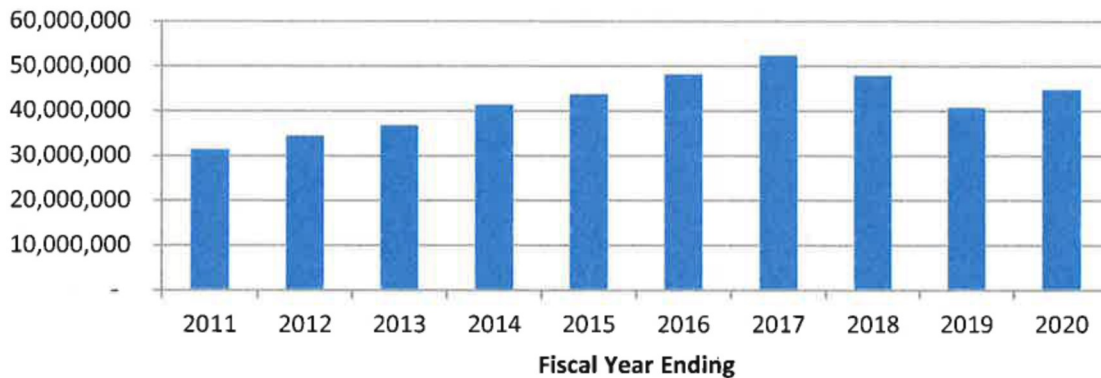
In developing a long-term financial plan for a school district, it is critical to first review the historical trends in the revenues and expenditures of the district. The Historical Financial Review incorporates all funds in the district excluding the debt service fund. The following chart reflects revenues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



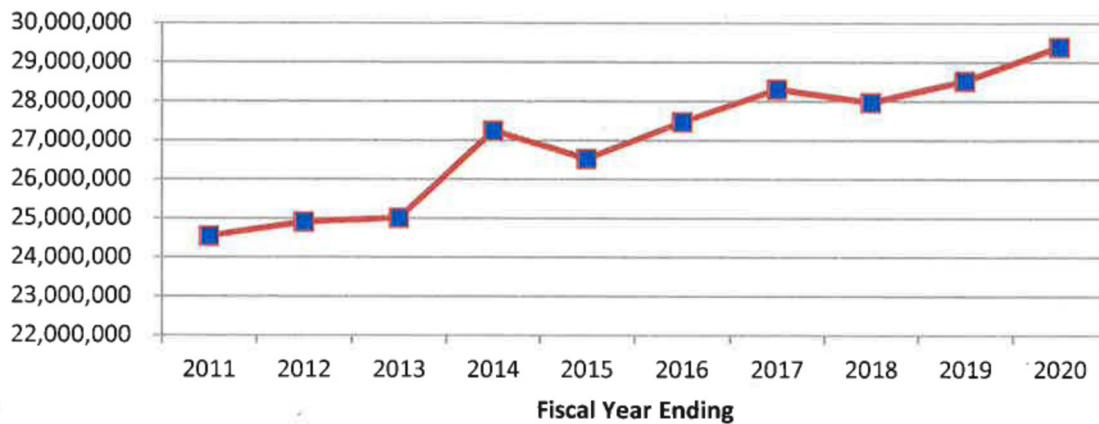
In March of 2006 the community voted to approve a tax rate increase for the district which resulted in significant surpluses from FY07 through FY20 (with the exception of FY18 and FY19 due to construction costs).

The following graph reflects fund balances over the past ten years.

## Fund Balances - All Funds (Excluding Bond Fund)

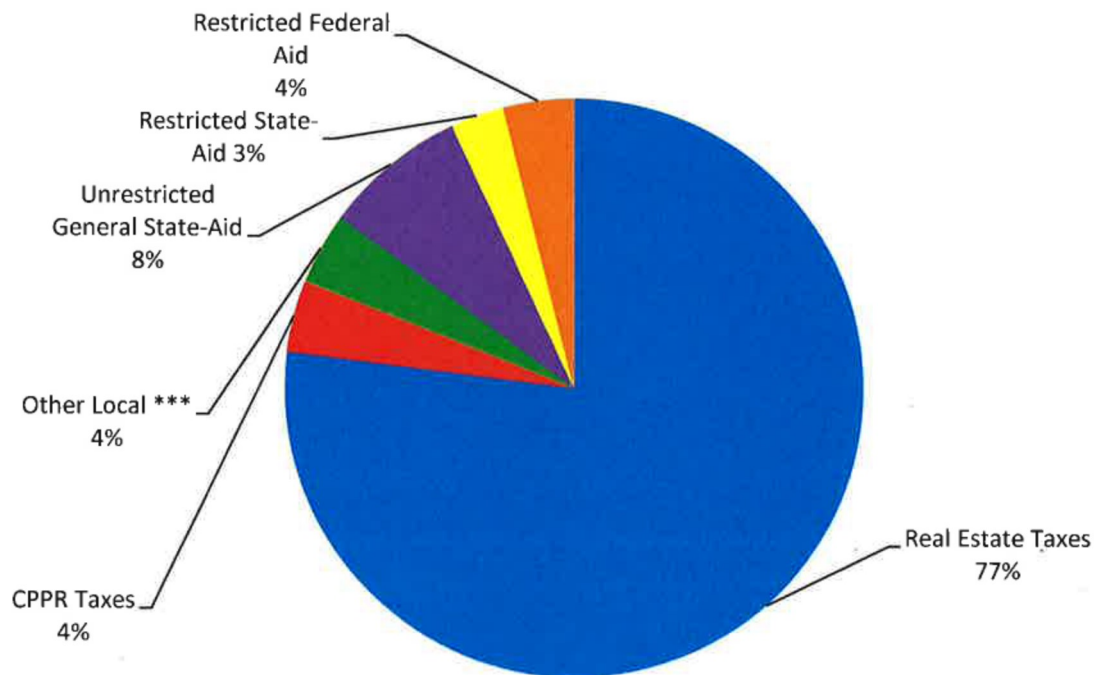


## Revenue History



Since FY11, total revenues have increased at an average annual rate of 2%.

For the fiscal year ending June 30, 2020, total revenues received by Alsip, Hazelgreen and Oak Lawn Elementary School District 126 can be broken down as follows:

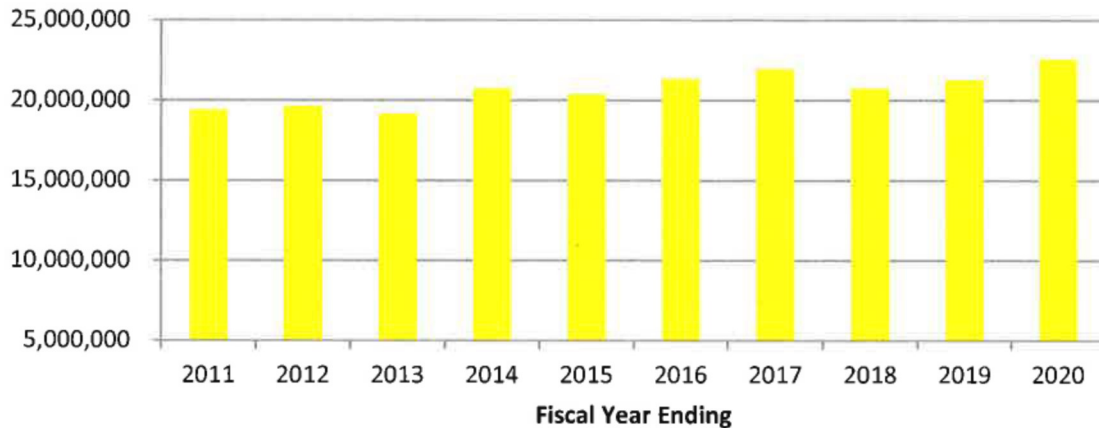


\*\*\* Other Local Revenues include interest income, student fees, lunch fees, and other miscellaneous revenues



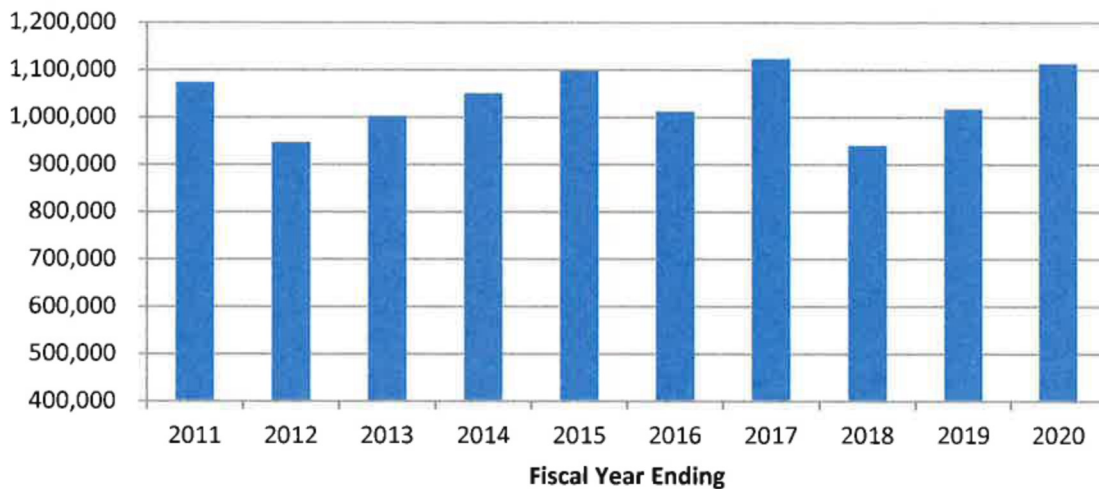
In order to analyze revenue patterns during this time period, it is necessary to examine the primary sources of revenue in the district: Real estate taxes amount to 77% of the district's total revenues. Corporate personal property replacement taxes amount to 4% of the district's total revenues, and general State-aid amount to 8% 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



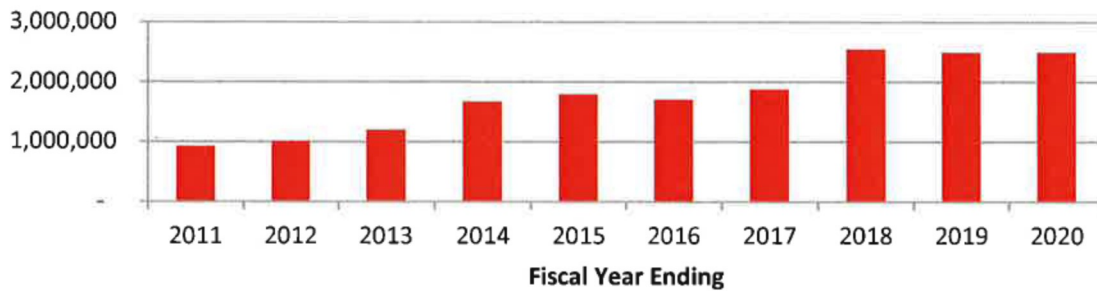
Real estate taxes increased at an average rate of 1.66% over the past ten years.

### Corporate Personal Property Replacement Taxes



The district has realized an increase in corporate personal property replacement at an average rate of 3.13% 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.

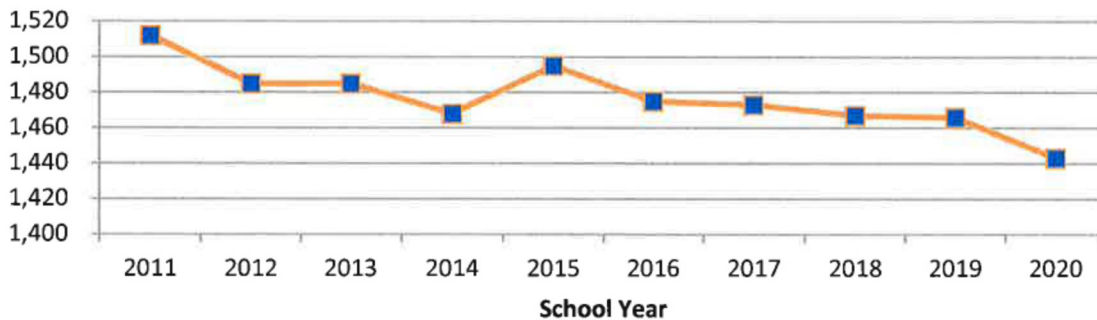
## Evidence-Based Funding Revenues (General State-Aid)



The district has realized an average increase in general State-aid (evidence-based funding) revenues of 15.77% per year annually over the past ten years.

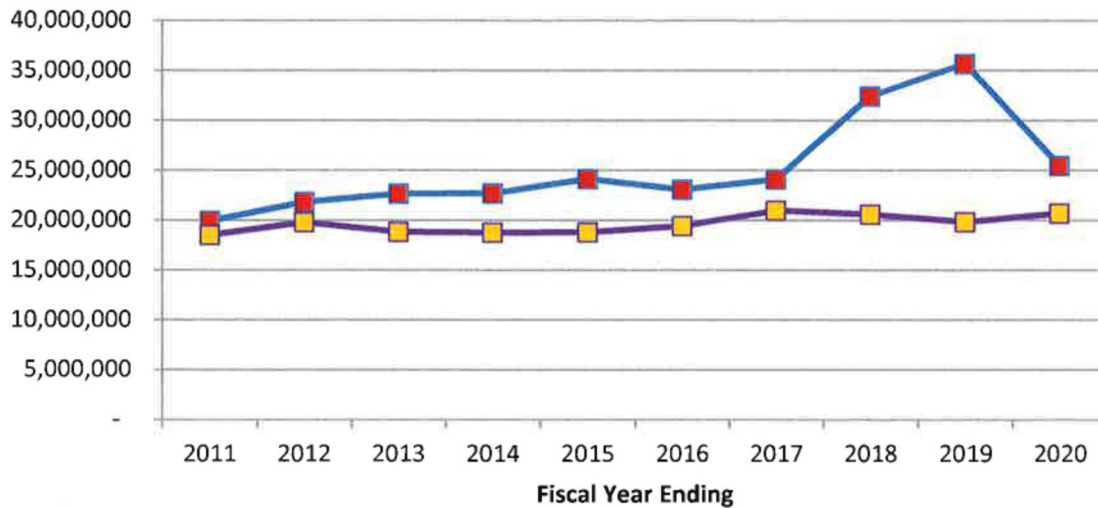
Another variable that has a significant impact on general State-aid (evidence-based funding) revenues is the district's average daily attendance. The following chart reflects the average daily attendance figure of the district used in calculating general State-aid revenues:

### Average Daily Attendance



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

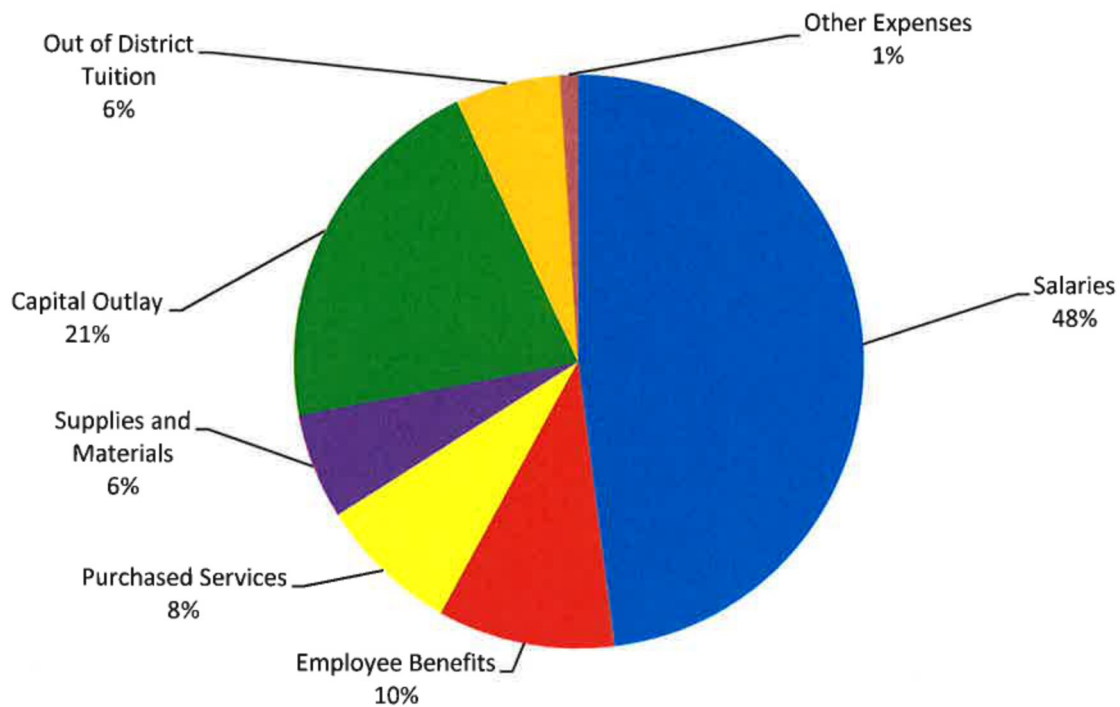
## Expenditure History



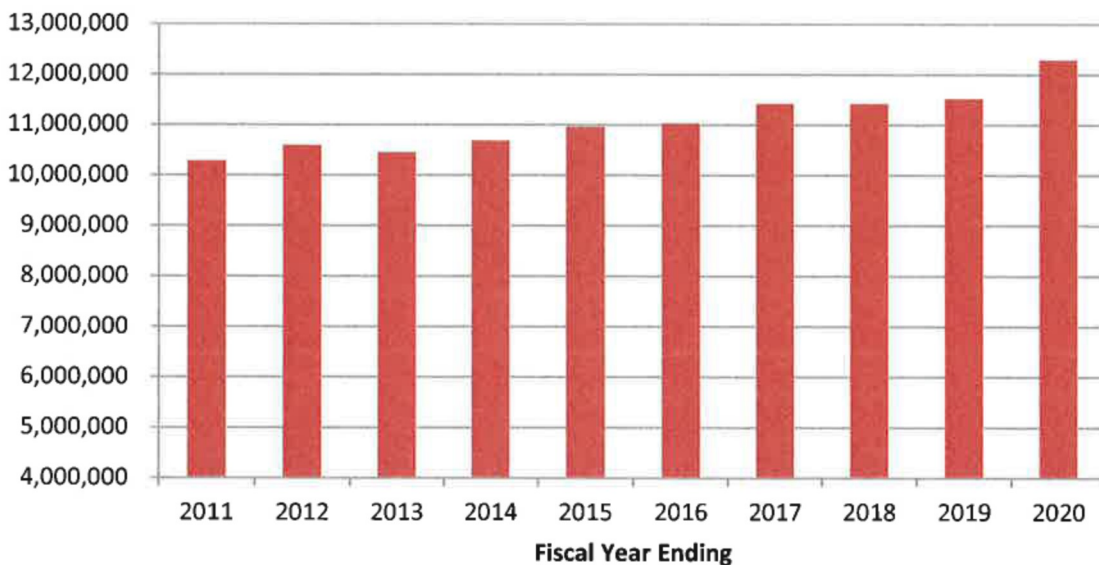
Total expenditure growth (with the exception of capital improvements) was relatively flat from FY11 through FY20. In FY11 through FY20 the district incurred expenses related to major capital improvements. The blue line above represents total expenditures and the purple line represents expenditures without 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, 2020, debt payments:

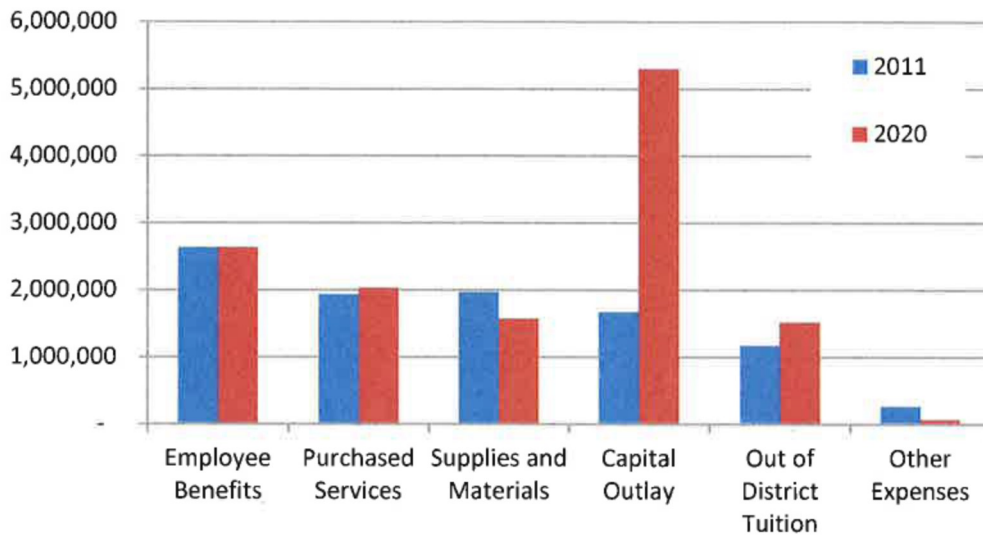


### Salary Expenditures



Since FY11, total salary expenses increased at an average annual rate of 1.89%. This increase is due primarily to contractual salary increases.

## Non-Salary Expenditures



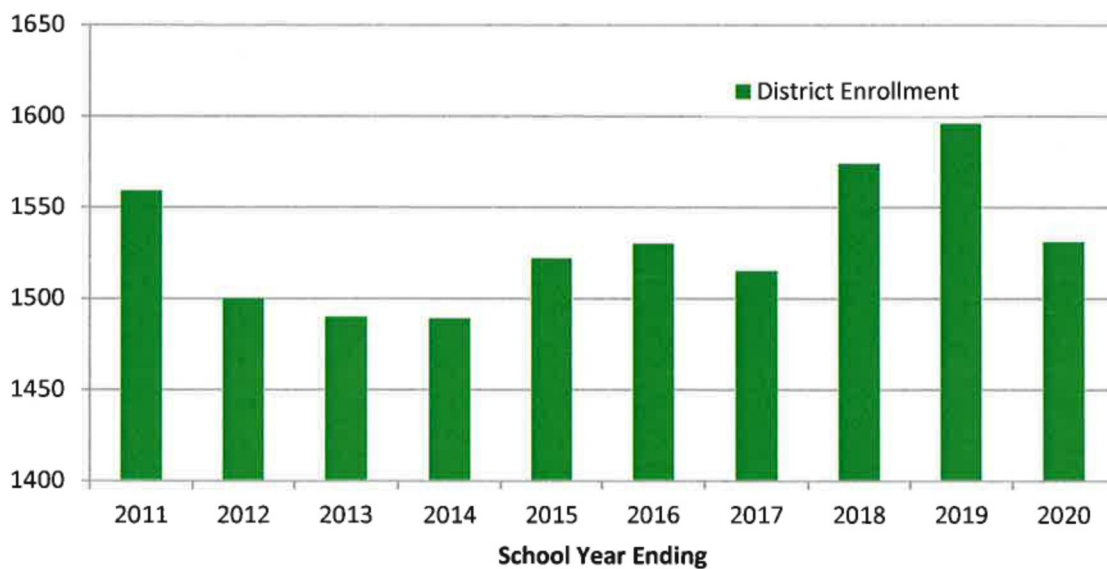
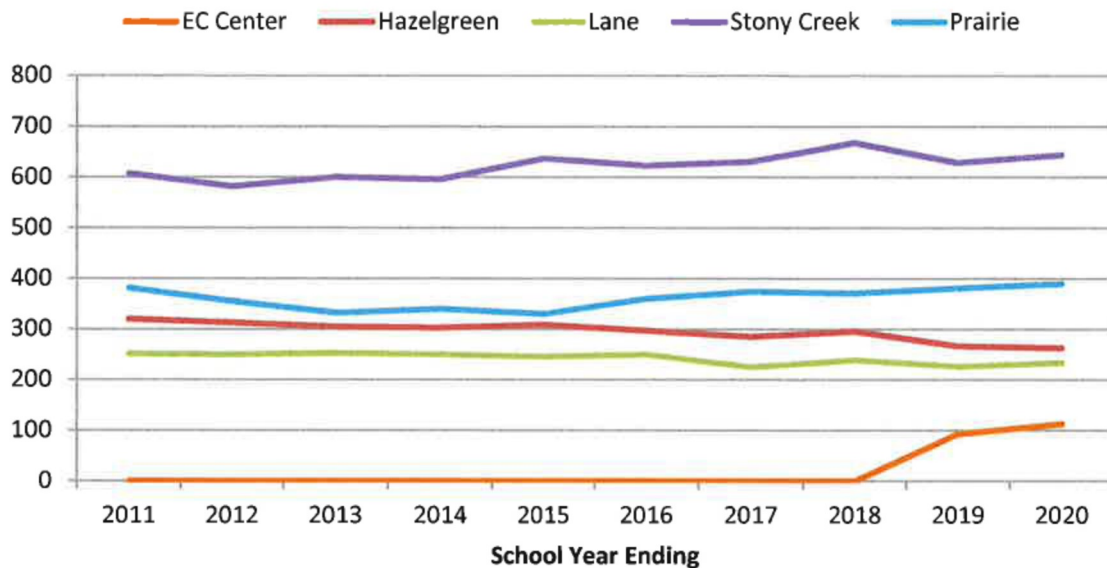
## Financial Condition on June 30, 2020

For the purpose of projecting the anticipated fund balances, we will reference the June 2020 ending fund balances. As of June 30, 2020, projected fund balances are as follows:

Education Fund	\$29,724,425
Operations & Maintenance Fund	\$5,317,617
Debt Service Fund	\$9,653
Transportation Fund	\$649,652
Illinois Municipal Retirement Fund	\$910,788
Social Security Fund	\$1,357
Working Cash Fund	\$6,654,639
Tort Fund	\$1,122,765
Fire Prevention & Safety Fund	\$299,616
<b>Total Fund Balance</b>	<b>\$44,690,512</b>



## Enrollment History



As shown in the two charts above, the district enrollment has decreased by 29 students over the past ten years.



## Issues Facing the District

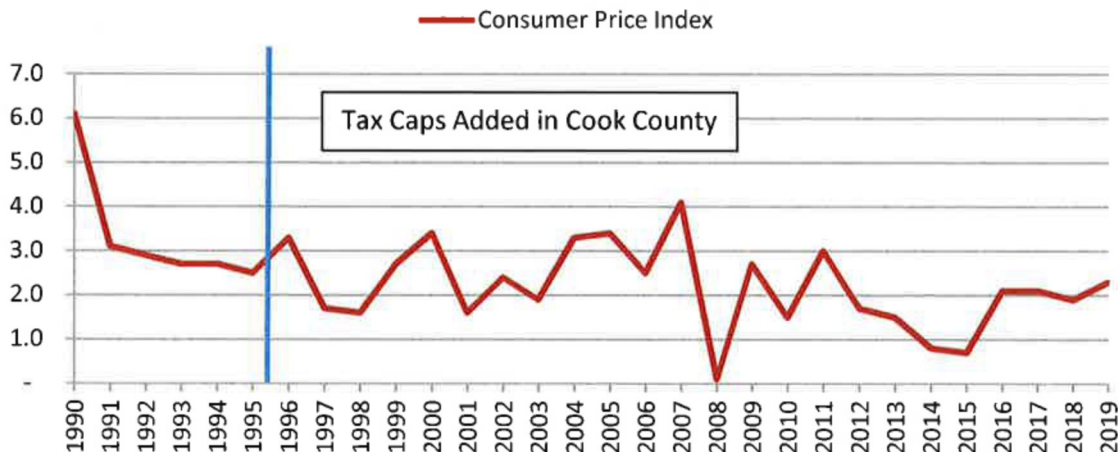
With the goal of providing an excellent education to children and ensuring the financial condition of the district remains healthy, it is imperative to examine major issues that may have a significant impact on the district's financial condition as well as the education provided and consider these issues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

### Current Economic Crisis

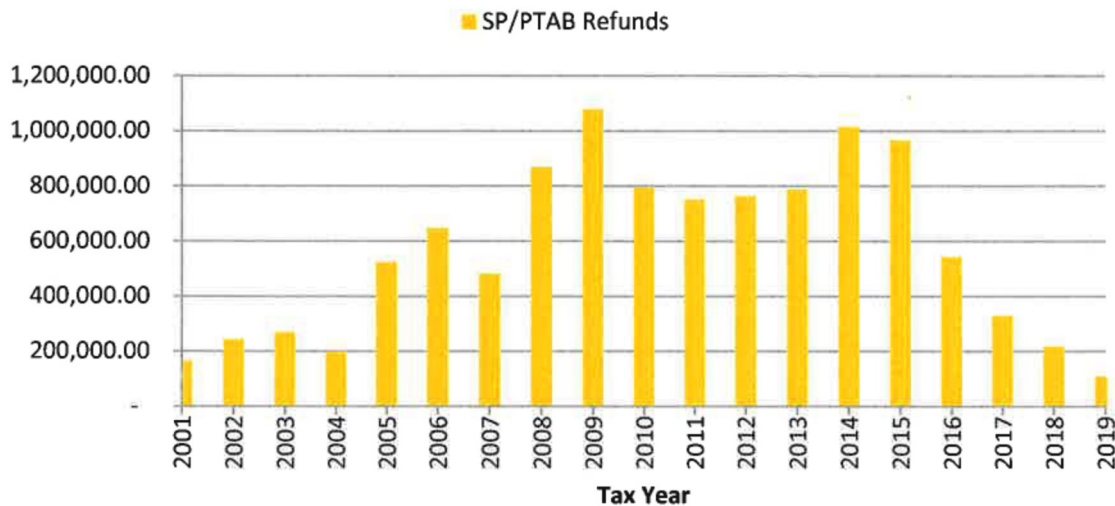
The economic climate is quickly detreating in the State of Illinois. The State's plan to keep education funding level for FY21 relies on the voters passing the progressive income tax in November 2020 and also relies on federal assistance to the State. The district must be cognizant of the strong likelihood 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 2020, tax revenue growth will be capped at the 2019 consumer price index of 2.3%. 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 77% 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 11% 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.

The State is asking voters to approve a graduated income tax and is also asking for federal assistance due to lost revenue from the COVID-19 shutdown. If these don't occur it's likely that the state will have to reduce funding to schools. Money removed from the Evidence Based Funding formula will be money lost forever to District 126. Even if new money comes into the formula in a future year(s) the current allocation calls for the money to be allocated to districts most in need, and District 126 does not fall into that category.

## **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 FY22.

## **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 70% of its General State-Aid payments in FY21 and it will remain consistent through FY26.
- 4) Restricted State revenues will drop due to the backlog of bills to be paid by the State of Illinois.
- 5) Federal grant revenues will remain consistent with current amounts.

### **Expenditure Assumptions**

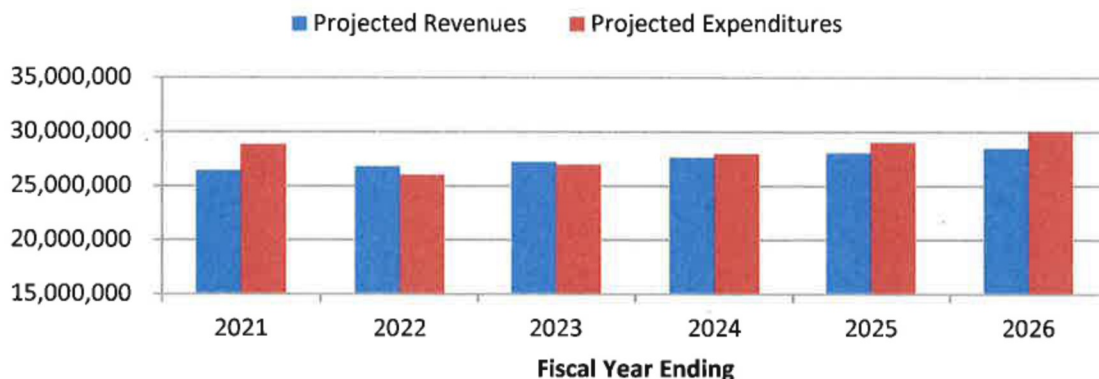
- 1) Salary expenditures in FY21 reflect actual salaries, and are projected to grow at 4% annually.
- 2) Employee benefits are projected to increase at an average annual rate of 5%.
- 3) Expenses related to purchased services are projected to increase at 2%.
- 4) Expenses related to supplies and materials are higher for FY21 due to technology expenses as well as projected COVID-19 expenses. FY22 through FY26 are projected to increase at 2%.

- 5) The district is projected to spend \$2,918,000 on capital improvements in FY21, and then \$1,000,000 annually in years following.
- 6) The State of Illinois will start to shift pension costs to local districts in FY22; 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 FY21 are the completion of the Stony Creek renovation and completion of the Early Childhood Center construction. It is also expected that the Hazelgreen West parking improvements will be completed in FY21.

## Projections FY21 through FY26

### 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 FY21.



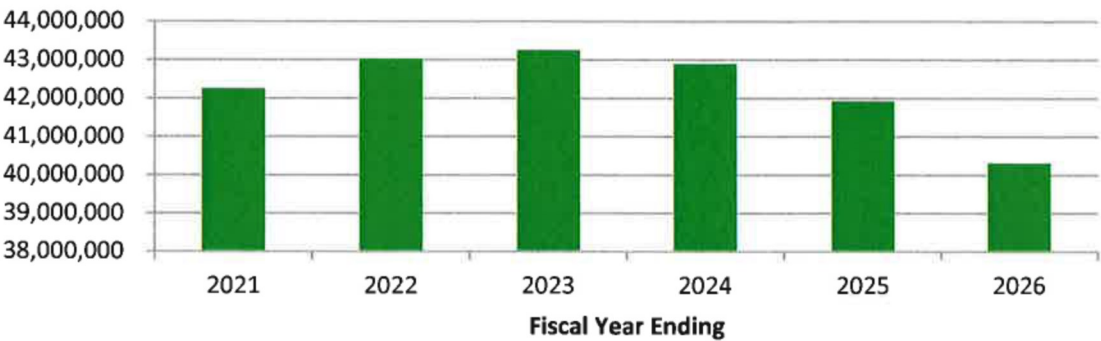
The revenue and expenditure projections would result in the following annual surplus/deficits projected for the district. The "projected surplus/deficit" column indicates the difference between the revenues received by the district for a given fiscal year compared to the expenditures incurred for the 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, 2021	(2,436,092)	42,244,767
June 30, 2022	782,911	43,027,678
June 30, 2023	227,074	43,254,752
June 30, 2024	(357,097)	42,897,655
June 30, 2025	(971,180)	41,926,476
June 30, 2026	(1,616,818)	40,309,657



**Projected Fund Balances**

The following graph illustrates that total fund balances (excluding bond and interest fund) are projected to decrease from \$44,680,859 on June 30, 2020 to \$40,309,657 on June 30, 2026.



# **Alsip, Hazelgreen and Oak Lawn Elementary School District 126**

## **Financial Summary (Excluding Bond Fund)**

Fiscal Years Ending June 30, 2011 through June 30, 2020

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
<b>Beginning Fund Balance</b>	<b>26,683,299</b>	<b>31,307,153</b>	<b>34,411,828</b>	<b>36,776,515</b>	<b>41,323,666</b>	<b>43,713,403</b>	<b>48,116,462</b>	<b>52,341,843</b>	<b>47,869,514</b>	<b>40,716,409</b>
<b>Revenues:</b>										
Real Estate Taxes	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	22,582,759
Replacement Tax	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	1,113,462
Other Local Revenues	466,651	625,988	657,985	757,365	714,806	848,162	963,104	1,149,800	1,634,987	1,274,759
General State-Aid	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	2,493,937
Restricted State Grants	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	758,354
Restricted Federal Grants	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	1,178,300
<b>Total Revenues</b>	<b>24,547,876</b>	<b>24,907,946</b>	<b>25,017,210</b>	<b>27,241,026</b>	<b>26,528,426</b>	<b>27,475,709</b>	<b>28,315,529</b>	<b>27,975,066</b>	<b>28,524,141</b>	<b>29,401,571</b>
<b>Expenses:</b>										
Salaries	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	12,288,925
Employee Benefits	2,631,103	2,437,643	2,609,340	2,496,550	2,505,526	2,579,937	3,146,196	2,538,644	2,444,161	2,640,030
Purchased Services	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	2,036,770
Supplies & Materials	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	1,576,452
Capital Outlay	250,968	517,127	665,701	903,546	744,954	708,891	975,589	955,762	710,099	557,777
Out of District Tuition	1,174,453	1,570,805	1,520,297	1,424,677	1,353,091	1,363,975	1,145,763	1,503,347	1,417,759	1,524,747
Other Expenses	264,028	108,868	210,802	93,618	71,509	150,359	71,280	104,426	85,219	71,396
<b>Total Expenses</b>	<b>18,505,376</b>	<b>19,779,460</b>	<b>18,829,339</b>	<b>18,767,097</b>	<b>18,768,882</b>	<b>19,422,443</b>	<b>20,971,257</b>	<b>20,592,740</b>	<b>19,825,346</b>	<b>20,696,097</b>
<b>Revenues vs. Expenses</b>	<b>6,042,500</b>	<b>5,128,486</b>	<b>6,187,871</b>	<b>8,473,929</b>	<b>7,739,544</b>	<b>8,053,266</b>	<b>7,344,272</b>	<b>7,382,326</b>	<b>8,698,795</b>	<b>8,705,474</b>
Transfers (To)/From Bond Fund	-	-	-	-	-	-	-	(3,200,000)	-	-
Major Capital Projects	1,418,646	2,023,811	3,823,184	3,926,778	5,349,807	3,650,207	1,618,891	8,654,655	15,851,900	4,741,024
IMRF Unfunded Liability Payment	-	-	-	-	-	-	1,500,000	-	-	-
<b>Ending Fund Balance</b>	<b>31,307,153</b>	<b>34,411,828</b>	<b>36,776,515</b>	<b>41,323,666</b>	<b>43,713,403</b>	<b>48,116,462</b>	<b>52,341,843</b>	<b>47,869,514</b>	<b>40,716,409</b>	<b>44,680,859</b>



# Alsip, Hazelgreen and Oak Lawn Elementary School District 126

## Financial Projections (Excluding Bond Fund)

Fiscal Years Ending June 30, 2021 through June 30, 2026

	FY21	FY22	FY23	FY24	FY25	FY26
<b>Beginning Fund Balance</b>	<b>44,680,859</b>	<b>42,244,767</b>	<b>43,027,678</b>	<b>43,254,752</b>	<b>42,897,655</b>	<b>41,926,476</b>
Revenues:						
Real Estate Taxes	21,663,686	22,096,960	22,538,899	22,989,677	23,449,470	23,918,460
Replacement Tax	825,000	783,750	744,563	707,334	671,968	638,369
Other Local Revenues	549,500	549,500	549,500	549,500	549,500	549,500
General State-Aid	1,745,756	1,745,756	1,745,756	1,745,756	1,745,756	1,745,756
Restricted State Grants	187,005	187,005	187,005	187,005	187,005	187,005
Restricted Federal Grants	1,437,413	1,437,413	1,437,413	1,437,413	1,437,413	1,437,413
<b>Total Revenues</b>	<b>26,408,360</b>	<b>26,800,384</b>	<b>27,203,135</b>	<b>27,616,685</b>	<b>28,041,112</b>	<b>28,476,503</b>
Expenses:						
Salaries	13,464,756	14,003,346	14,563,480	15,146,019	15,751,860	16,381,934
Employee Benefits	2,895,761	3,040,549	3,192,577	3,352,205	3,519,816	3,695,806
Purchased Services	2,823,810	2,880,286	2,937,892	2,996,650	3,056,583	3,117,714
Supplies & Materials	4,579,307	1,607,981	1,640,141	1,672,943	1,706,402	1,740,530
Capital Outlay	1,068,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Out of District Tuition	2,023,818	2,125,009	2,231,259	2,342,822	2,459,963	2,582,962
Other Expenses	139,000	100,000	100,000	100,000	100,000	100,000
<b>Total Expenses</b>	<b>26,994,452</b>	<b>24,757,171</b>	<b>25,665,349</b>	<b>26,610,640</b>	<b>27,594,624</b>	<b>28,618,947</b>
<b>Revenues vs. Expenses</b>	<b>(586,092)</b>	<b>2,043,212</b>	<b>1,537,787</b>	<b>1,006,045</b>	<b>446,488</b>	<b>(142,444)</b>
Extraordinary expenses:						
Major Capital Projects	1,850,000	-	-	-	-	-
Pension Cost Shifted from State	-	1,260,301	1,310,713	1,363,142	1,417,667	1,474,374
<b>Total Extraordinary Expenses</b>	<b>1,850,000</b>	<b>1,260,301</b>	<b>1,310,713</b>	<b>1,363,142</b>	<b>1,417,667</b>	<b>1,474,374</b>
<b>Ending Fund Balance</b>	<b>42,244,767</b>	<b>43,027,678</b>	<b>43,254,752</b>	<b>42,897,655</b>	<b>41,926,476</b>	<b>40,309,657</b>