Citizens Finance Advisory Committee

Financial Forecast Update

Presented to District 34 Board of Education
January 17, 2023

Agenda

- *Introduction*
  - *C.F.A.C Members*
  - *C.F.A.C Charge*
- *Base Forecast*
- *Analysis*
- *Recommendations*

C.F.A.C. Members

Jim Baumstark, BOE Representative
Elaine Berens, GPA President
Amy Kahhat, Community Member
Alex Kamilewicz, Community Member
Richard Kreutzfeldt, Community Member
Marvin Lutz, Community Member
Nan Ross-Meridith, GEA President
Betsy Nelson, Community Member
Selene Stewart, Principal
Dane Delli, Superintendent
Rita Esho, Coordinator for Business Services
Eric Miller, Assistant Superintendent for Business Services

C.F.A.C. Charge

Primary Charge:

Based on key inputs and assumptions, the committee will present a five-year financial forecast to the Superintendent.

Caveat:

Forecast may be impacted by Board action/intervention and/or unforeseen circumstances. This is a projection, not a prediction.

Scope:

Five year financial forecast covers operating funds only, not capital, debt service or the health life safety funds. Some capital spending occurs in the operating funds.

Base Forecast – Key Themes

- *The Board is contemplating a $43.5M operating fund balance contribution (incorporated in the projections). Such a contribution will drop the operating fund balance below the 30% (of annual operating expenses) minimum previously recommended by CFAC and Board policy, during the 5-year forecast period*

- *At the end of the five-year period, the District is projected to have a "structural operating deficit" (which will complicate board efforts to improve the fund balance)*

- *CFAC recommends that the Board begin to investigate potential mitigations*

Summary of Key Ongoing Assumptions

1. *Property tax increases by CPI (LY23- 5%, LY24-3%, LY25-2%, LY26-2%, LY27-2%) as forecasted, in addition to new property. Previously forecasted at (LY22- 5%, LY23- 3%, LY24- 2%, LY25- 2%, LY26- 2%)*

2. *All salary increases tied to CPI, but are partly offset by about 4-6 retirements each year (which reduce staff costs by about 1% per year)*

3. *Benefit increases up to 6.25% per year*

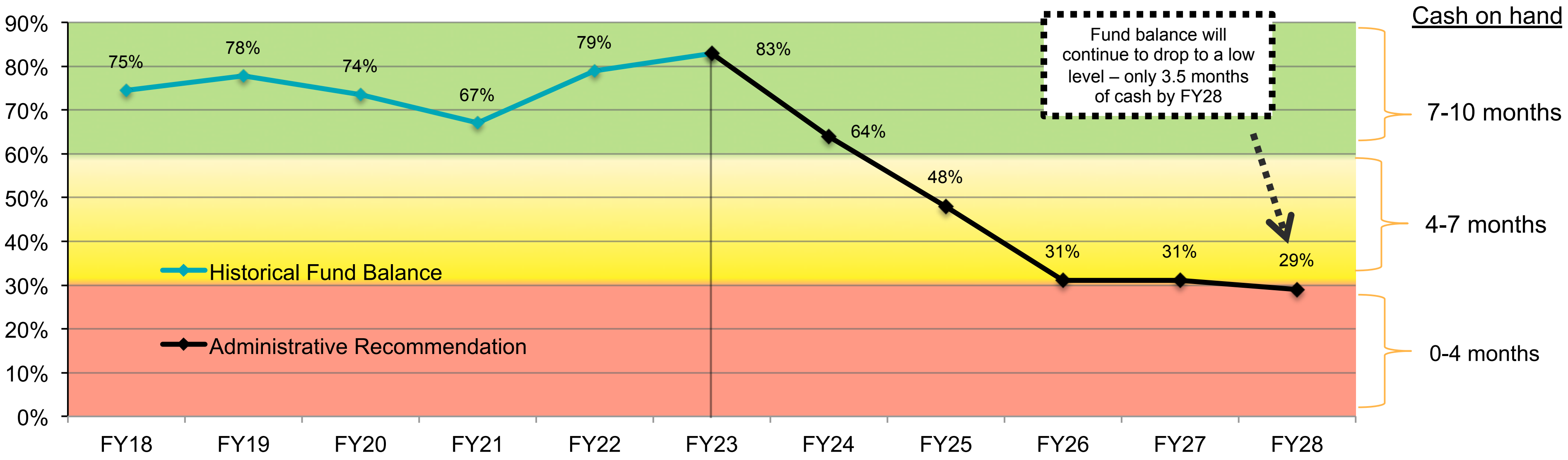
4. *Fees (student, food service, interest, transportation, rentals) of $2.6M increase by $200K in FY24-FY28*

5. *$3M in building maintenance expense starting in FY24 through FY28.*

6. *Updated staffing projections based updated student enrollment projections*

7. *98% fill rate on all budgeted positions ($750K reduction)*

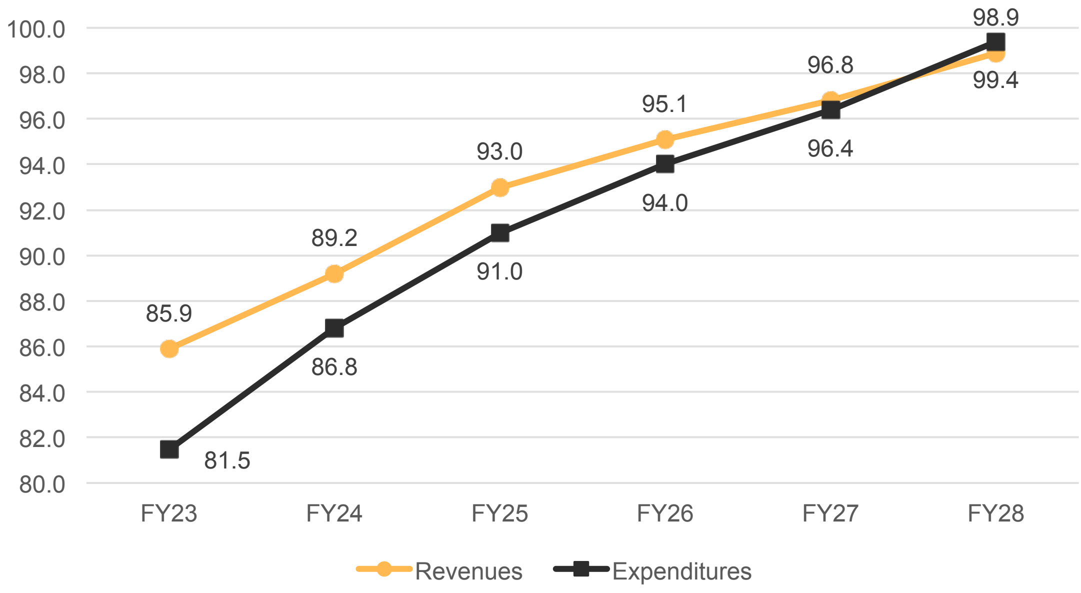
Fund Balance % of Expenditures



	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
OP Surplus/Deficit	($1.8M)	$11.8M	$4.4M	$2.4M	$2.0M	$1.1M	$360K	($466K)
Capital Contribution – Admin Rec (12 Dec '22)				($14.5M)	($13.5M)	($15.5M)		
Net Change	($1.8M)	$11.8M	$4.4M	($12.1M)	($11.5M)	($14.4M)	$360K	($466K)
Ending Fund Balance	$51.1M	$62.8M	$67.3M	$55.2M	$43.7M	$29.3M	$29.7M	$29.2M
% of OP Expenditures	67%	79%	83%	64%	48%	31%	31%	29%

FY23 – FY28 Structural Deficits

Projection: Expenditures Grow Faster Than Revenues, Leading to a Deficit



<u>Annual Growth Rates (FY26 – FY28)</u>

<u>Revenues (% of total):</u>	<u>Expenditures (% of total):</u>
Local: 2 – 2.5%	Salaries: 2.1 - 3.1%
State: 0%	Benefits: 5.1 – 5.8%
Federal: 0%	Other: 2.4%
Total: 1.8 - 2.2%	**Total: 2.6-3.3%**

Gap = .8% to 1.1% per year

Variables

- *New $3M annual funding for ongoing building maintenance or replacement*
- *CPPRT (Corporate Personal Property Replacement Tax) - came in over budget by $1.2M in FY22 (doubled)*
- *Future actual student enrollment / related staffing*
- *Future residential developments*
- *Open Union agreements (total compensation)*
- *Consumer Price Index (CPI-U)*

Potential Mitigations

(this is a non-exhaustive list)

Revenue:

- *Explore revenue enhancement opportunities*
  - *Investigate operating rate referendum to reset revenues*
  - *Consider lobbying Springfield for relief on the CPI cap on property taxes*
- *Consider annual CPI increases for miscellaneous revenues/fees (note: CPI of 5% = $125K in add'l revenue)*

Expense:

- *Investigate ways to link growth rates for major expenses (e.g. staffing costs) to revenue growth rates*
- *Investigate ways to reduce ongoing operational expenses*
- *Investigate feasibility of reducing capital contributions (e.g. reduced construction scope, leverage additional debt)*

Recommendation

- *Whereas an operating fund balance below 30% is undesirable & untenable, CFAC recommends:*
  - *The Board develops a plan that avoids a scenario where the operating fund balance drops below 30%, and ideally below 50%*
  - *If this is not possible, the Board should develop a plan that recovers the operating fund balance to an acceptable level within a reasonable amount of time, for example: above 50% by 2033 and above 60% (i.e. the "green zone") by 2038*
- *Note: A number of negative scenarios exist when the operating fund balance is at or around 30% or less. For instance, in a scenario where the operating fund balance is less than 33% and property taxes are delayed, the district will likely use Tax Anticipation Warrants to cover payroll.*

Discussion

Questions?

-This presentation completes CFAC's 5-Year financial forecast charge for 2022-2023