

**To:** Dr. Mike Riggle  
Board of Education

**From:** Dr. R.J. Gravel  
Ms. Vicki Tarver

**Date:** Monday, December 4, 2017

**Re:** Updated 5-Year Financial Projection

**Background**

Last year, the Business Services team partnered with Forecast5 Analytics to create a new financial forecast for the school district. The financial forecast tool, 5Cast, provides a robust toolset enabling the team to develop 'what-if' scenarios for use in predicting the impact of different local, state, and federal conditions. As part of Forecast5's commitment to projection integrity, 5Cast references several data sources to develop a projection, including:

- Audited, historical budget performance and fund balances from the Annual Financial Report;
- Current year budget as stated on the ISBE Budget Form
- Current and future year tax extension as stated on the Cook County Levy Report
- General ledger data including budgeted and actual account activity
- Calculated revenue and salary/benefit expenditures based on District-defined values entered into 5Cast's calculators
- Revenue and expenditures projections based on one-time or sustained changes in District-defined values

Attached to this memo are two financial projections based on audited financial data from the fiscal year ended June 30, 2017, and the current fiscal year's budget. The projections include two 'what-if' scenarios:

- Projection 1 incorporates the expenditure and revenue assumptions that are included on the second page of this memo;
- Projection 2 incorporates the expenditure and revenue assumptions that are included on the second page of this memo, as well as 2-year property tax freeze (levy years 2019 and 2020).

Our intention at the Finance Committee meeting is to review the two projections, discuss the District's fund balance structure, and budgeting practices for the future.

**Revenue Assumptions**

<b>Assumption</b>	<b>FY2019 Model</b>
Property Tax Revenue	52% of LY2018 48% of LY2017 97.5% Collection Rate  CPI of 2.1% for LY2017 CPI of 2.0% for LY2018+  \$35M New Property for LY2017+ \$450M New Property for LY2022 (Note: The Glen TIF)
Make-Whole Payments	Remain Flat; Uses Revenue Levels for FY2018
CPPRT	Remain Flat; Uses Revenue Levels for FY2018
Interest Income	Remain Flat; Uses Revenue Levels for FY2018
Student Fees	Remain Flat; Uses Revenue Levels for FY2018
General State Aid / Evidence-Based Funding	ISBE Defined Base Funding Minimum for FY2017
State and Federal Categorical Grants	Remain Flat; Uses Revenue Levels for FY2018 (FY2019+ Eliminates Wind-Fall Backlog Payments)

**Expenditure Assumptions**

<b>Assumption</b>	<b>FY2019 Model</b>
Staffing Projections	Maintain Current Ratios
Salaries and FICA / Medicare (Aggregate Increase w/ Lane and Step)	3.5% for Certified for FY2019+ 2.0% for Administration for FY2019+ 3.0% for Clerical for FY2019+ 3.0% for Extra Duty for FY2019+ 10% for Certified Substitutes for FY2019+
Employer IMRF	10%
Health Benefits	7% for Medical / Dental for FY2018+ 3% for Life / LTD for FY2018+
Retirement Contributions (New Announcements)	\$200,000 for FY2019, 2022 \$100,000 for FY2020, 2021, 2023
Lane Changes	\$100,000
Non-Personnel Expenditures	2.1% for FY2019 2.0% for FY2020+ Purchased Services; Supplies & Materials Capital / Non-Capital Outlay; Other Objects
Capital Projects	\$1,000,000 (Funded by Make-Whole)
TRS Cost Shift	0% for FY2018+
Debt Service	Debt Book Values

### Overview of Fund Balance

Fund balance is defined as the difference between assets and liabilities in an individual governmental fund. All Illinois school districts utilize an accounting system that is comprised of the following funds:

10	Educational Fund
20	Operations and Maintenance Fund
30	Debt Service Fund
40	Transportation Fund
50	Municipal Retirement, Social Security Fund
60	Capital Projects Fund
70	Working Cash Fund
80*	Tort Immunity and Judgments Fund
90	Fire Prevention and Safety Fund

\* Fund not utilized by Glenbrook High School District 225; activities assigned to Education and Operations and Maintenance funds.

The fund balance of an individual fund is increased when revenues exceed expenditures, based on activity within the fund. In similar fashion, the fund balance of an individual fund is decreased when expenditures exceed revenues. It is important to note that the fund balance of an individual fund changes almost daily, as revenues are received, and as expenditures are disbursed.

For financial planning purposes, the District consistently utilizes fund balance data from a single point in time: June 30th. The fund balance data is taken from the Annual Financial Report, after the prior fiscal year's audit has been completed. This ensures that financial projections are prepared in a consistent manner, and comparable year to year.

Board Policy 4010 identifies the requirements for the annual budget, and provides guidance regarding the District's operating fund balance (education, operations and maintenance, transportation, IMRF / Social Security, working cash funds). Section B states, "unassigned reserves in the operating funds shall be maintained at a level equal to not less than 33% of the next year's projected operating budget". The 33% fund balance level is noted on the two 'what if' scenarios attached by a blue line labeled 33% BOE Policy.

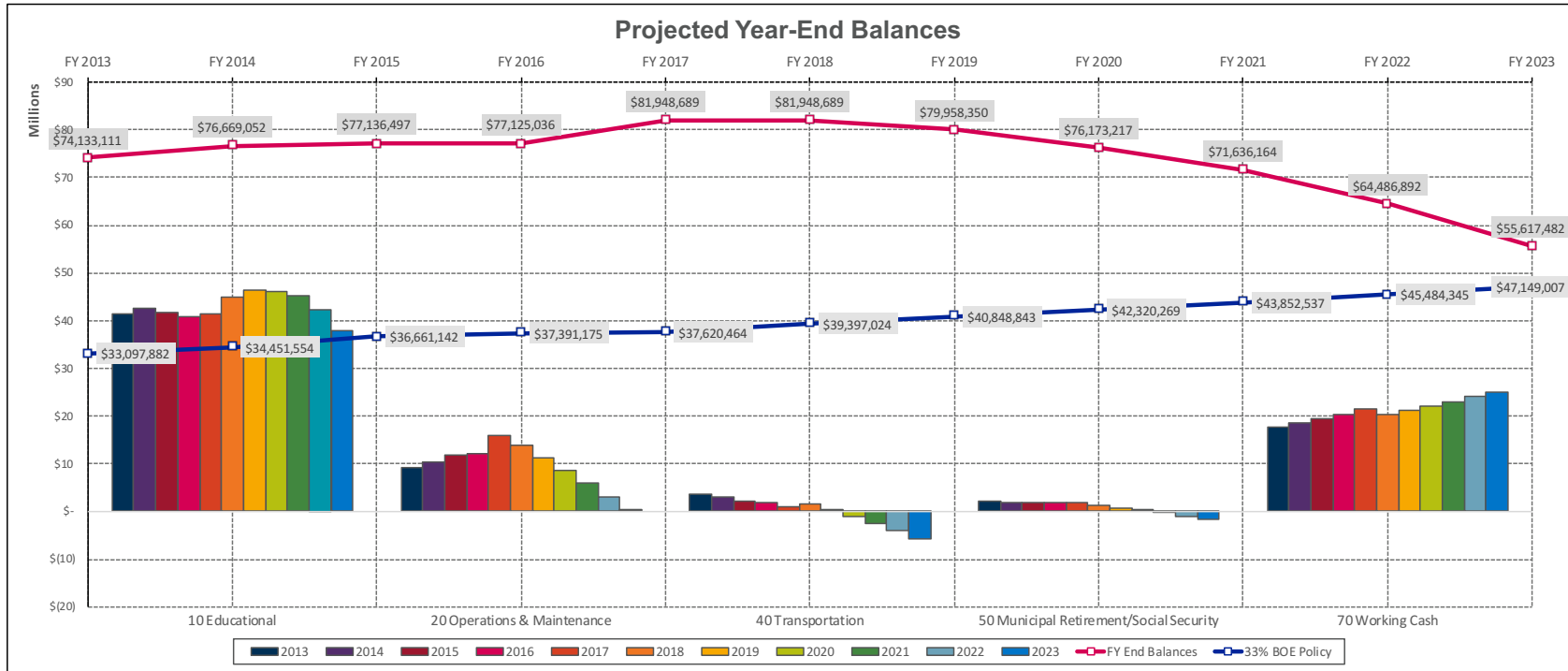
In addition to the 33% reference by Board Policy, it is important to note the following:

- The Illinois State Board of Education gives only those districts with three months (25%) fund balance to expenditures its highest Financial Profile sub score.
- Financial advisors consistently advise Illinois public school districts that a fund balance of 50%, and consistent financial planning, typically results in the highest credit ratings from firms such as Moody's Investors Services and S&P Global.
- Due to the volatile nature of revenue streams (e.g. property taxes, state and federal grants), the District relies upon fund balance to process expenditures on a timely basis.
- As a result of the 2016 and 2017 debt restructuring, and limited life safety bond issuance, the District has extremely limited bonding authority within the Debt Service Extension Base (DSEB) until tax year 2027 (less than \$20,000 per year). The inability to issue new bonds using the DSEB, places a greater emphasis on the importance of maintaining a strong fund balance for unforeseen financial issues (e.g. loss of state funding; property tax freeze).

# Projection 1 - Baseline Model

Educational | O & M | Transportation | IMRF / SS | Working Cash

Northfield Twp HSD 225 | December 11, 2017 • Finance Committee



## Projection 2 - Property Tax Freeze Levy Year 2019 and 2020

Educational | O & M | Transportation | IMRF / SS | Working Cash

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