



ALSIP, HAZELGREEN AND OAK LAWN ELEMENTARY SCHOOL DISTRICT 126

Financial Analysis

September 1, 2016

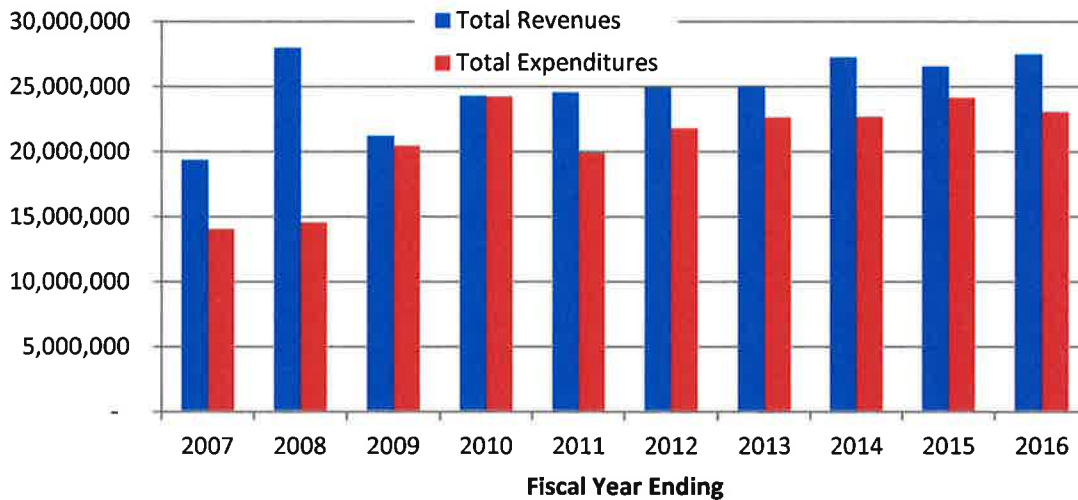
An Analysis of the District's Historical Financial Operations
and Projected Future Financial Condition

Table of Contents

I.	Historical Financial Review	1
a.	Revenue History	2
i.	Real Estate Tax Revenues	3
ii.	Corporate Personal Property Replacement Taxes	3
iii.	Unrestricted State Revenues	4
b.	Expenditure History	5
i.	Salary Expenditure	6
ii.	Non-Salaried Expenditures	7
II.	Financial Condition on June 30, 2016	7
III.	Enrollment History	8
IV.	Issues Facing the District	9
a.	Current Economic Crisis	9
i.	Low Inflation Levels	9
ii.	Increased Property Tax Valuation Appeals	10
iii.	State's Financial Crisis	10
iv.	Shift of Pension Costs	10
b.	Available Debt Limitations	11
V.	Projected Financial Condition	11
a.	Major Assumptions Used in Making Projections	12
i.	Revenue Assumptions	12
ii.	Expenditure Assumptions	12
b.	Projections FY17 through FY22	13
i.	Projected Revenues vs. Expenses	13
ii.	Projected Fund Balances	14
VI.	Historical Financial Summary	15
VII.	Financial Projections	16

Historical Financial Review

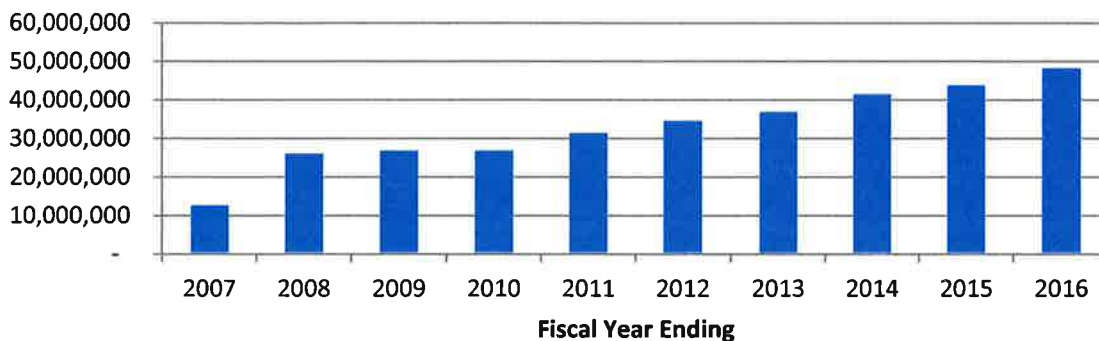
In developing a long-term financial plan for a school district, it is critical to first review the historical trends in the revenues and expenditures of the district. The Historical Financial Review incorporates all funds in the district excluding the debt service fund. The following chart reflects revenues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



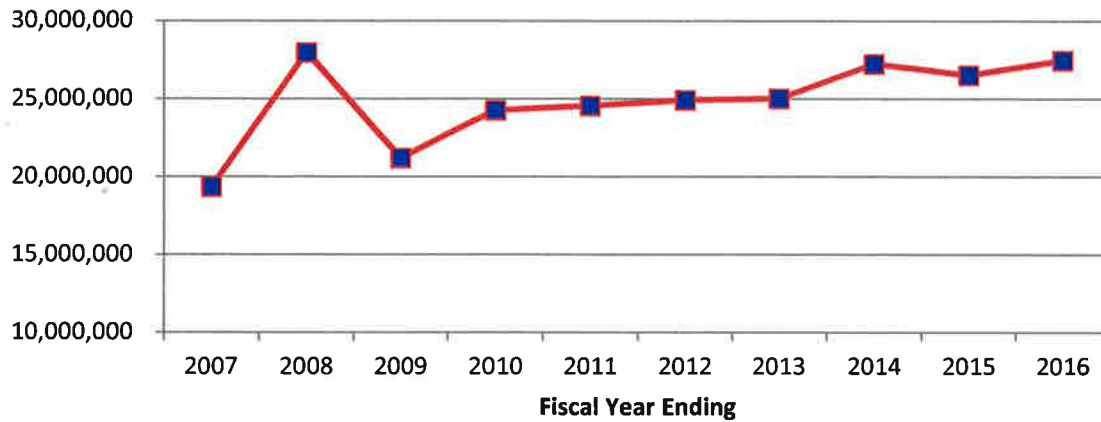
In March of 2006 the community voted to approve a tax rate increase for the district which resulted in significant surpluses from FY07 through FY16 (with the exception of FY10 due to construction costs).

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

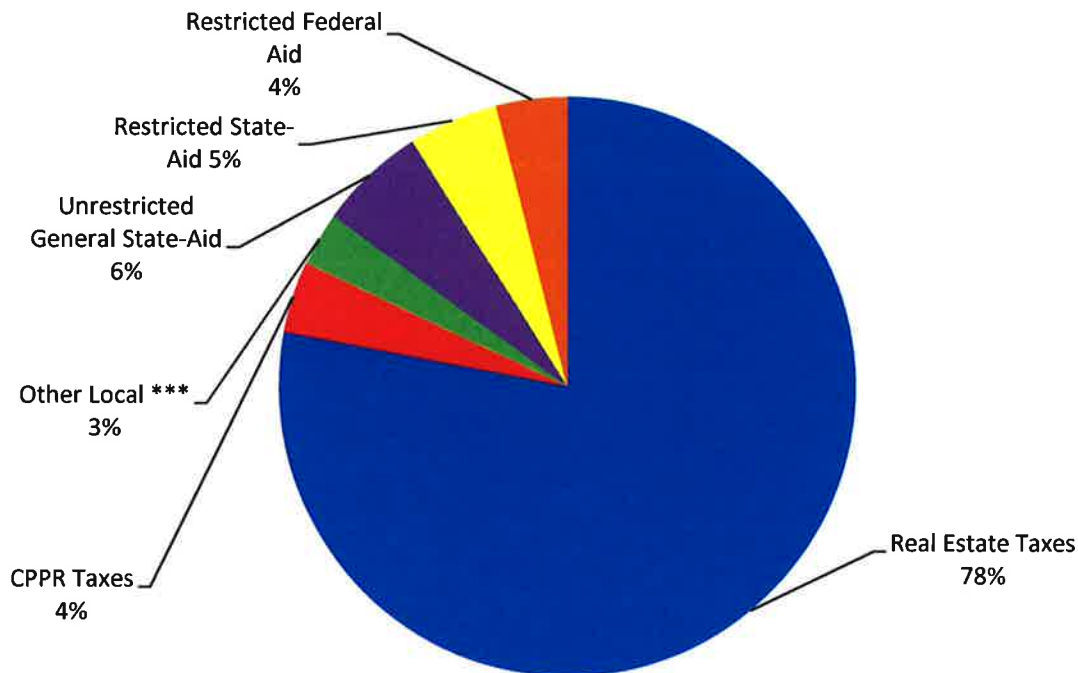


Revenue History



Since FY07, total revenues have increased at an average annual rate of 8%.

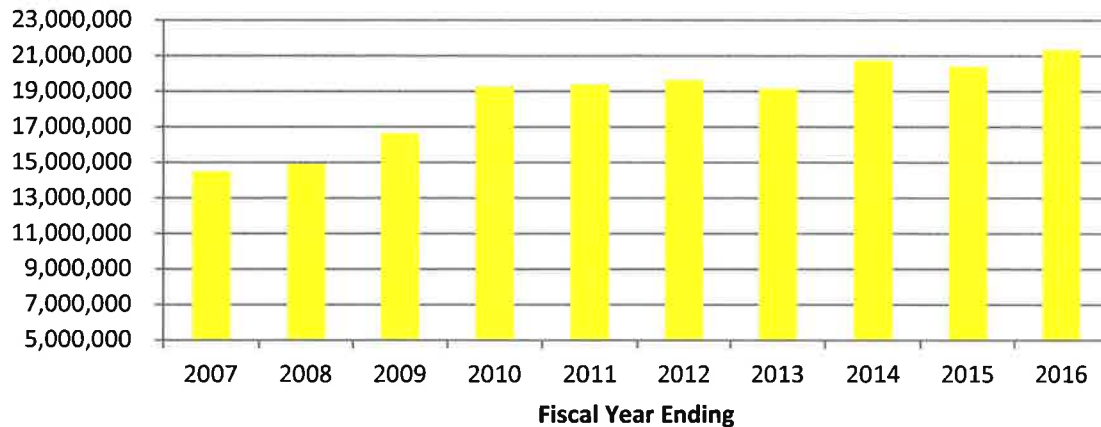
For the fiscal year ending June 30, 2016, total revenues received by Alsip, Hazelgreen and Oak Lawn Elementary School District 126 can be broken down as follows:



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

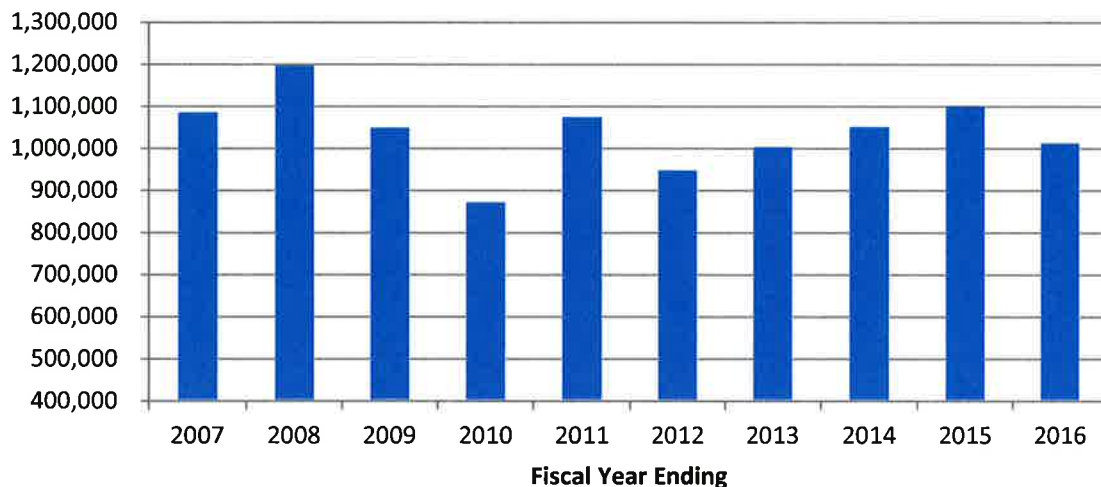
In order to analyze revenue patterns during this time period, it is necessary to examine the primary sources of revenue in the district: Real estate taxes amount to 77% of the district's total revenues. Corporate personal property replacement taxes amount to 4% of the district's total revenues, and general State-aid amount to 7% 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



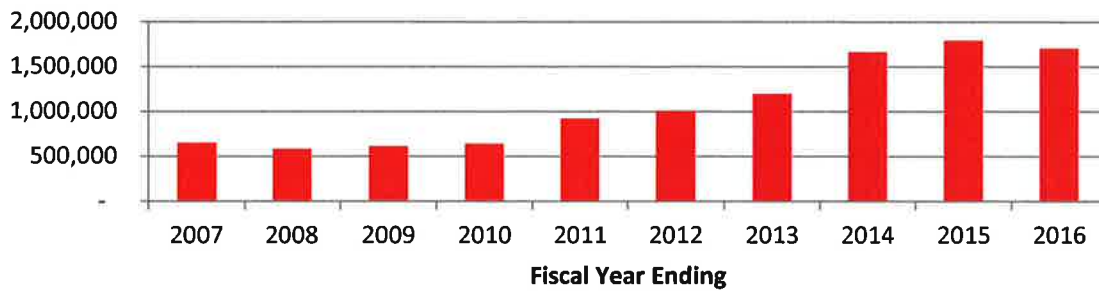
Real estate taxes increased at an average rate of 8% over the past ten years. In March of 2006 the voters approved a tax rate increase that was effective for taxes collected in 2007.

Corporate Personal Property Replacement Taxes



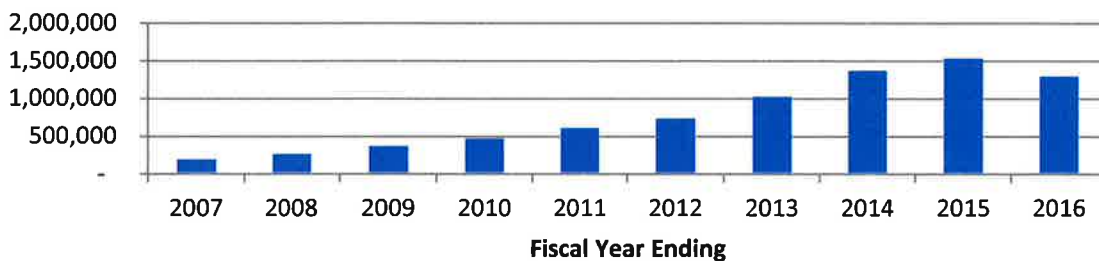
The district has realized an increase in corporate personal property replacement at an average rate of 1% annually over the past ten years. The increase is due to an overall allocation increase by the State of Illinois. Corporate personal property replacement taxes are distributed based on the district 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)



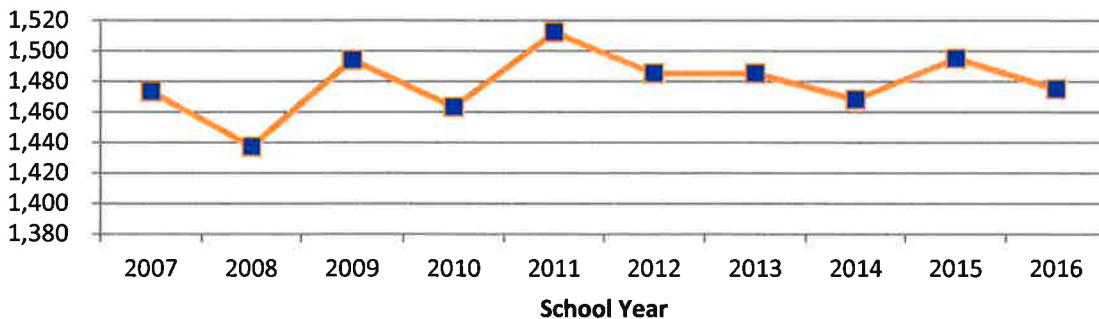
The district has realized an average increase in general State-aid revenues of 13% per year annually over the past ten years. As noted in the graph below, the increase in general State-aid is in large part due to the increase in the poverty grant calculations over the past ten years.

Poverty Grant Calculations



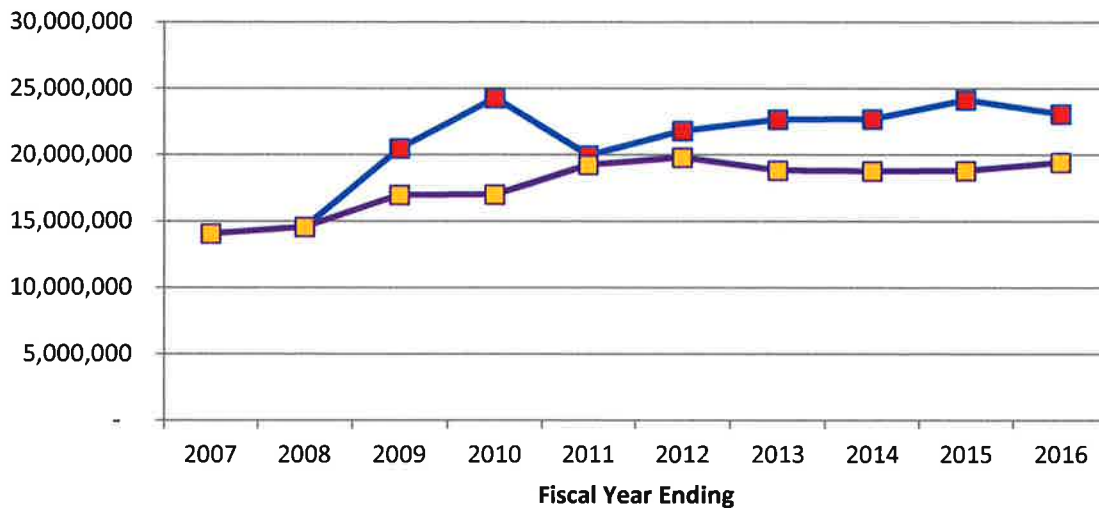
Another variable that has a significant impact on general State-aid revenues is the district's average daily attendance. The following chart reflects the average daily attendance figure of the district used in calculating general State-aid revenues:

Average Daily Attendance



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

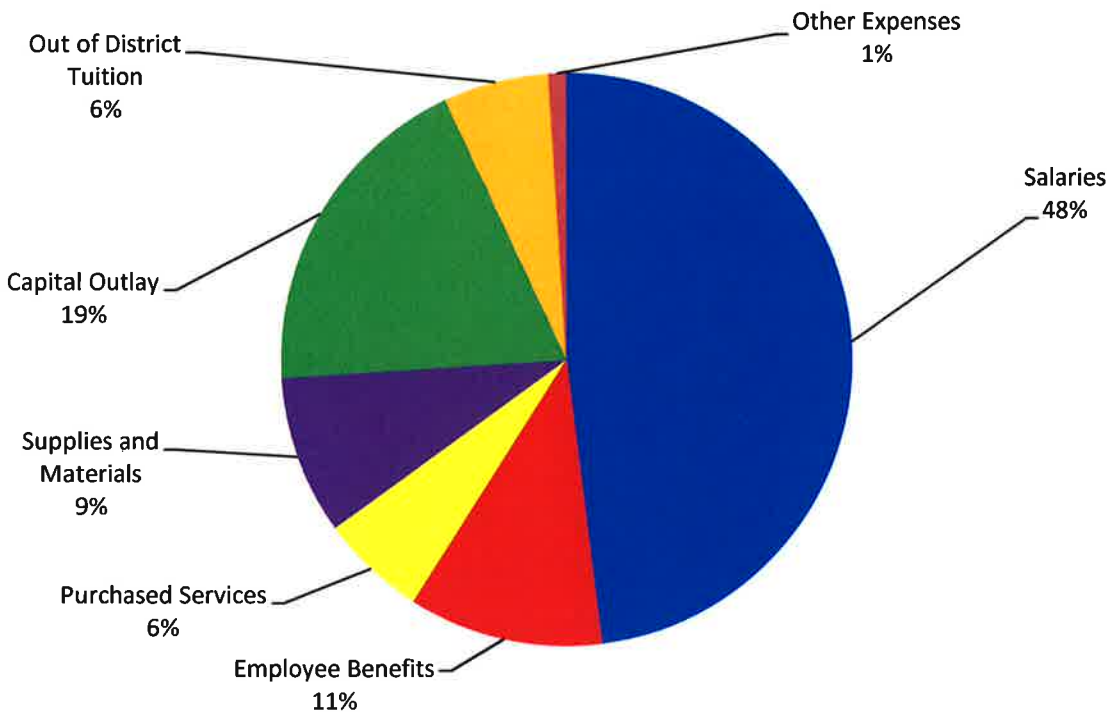
Expenditure History



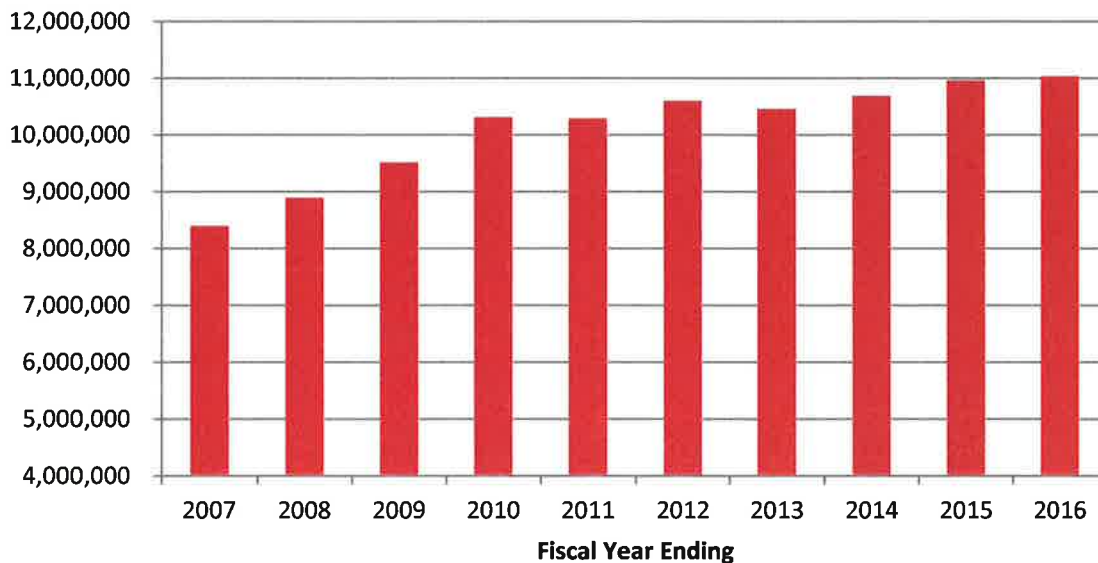
Total expenditure growth was relatively flat from FY11 through FY16. In FY09 through FY16 the district incurred expenses related to major capital improvements. The blue line above represents total expenditures and the purple line represents expenditures without capital expenses included. The district's 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, 2015, debt payments:

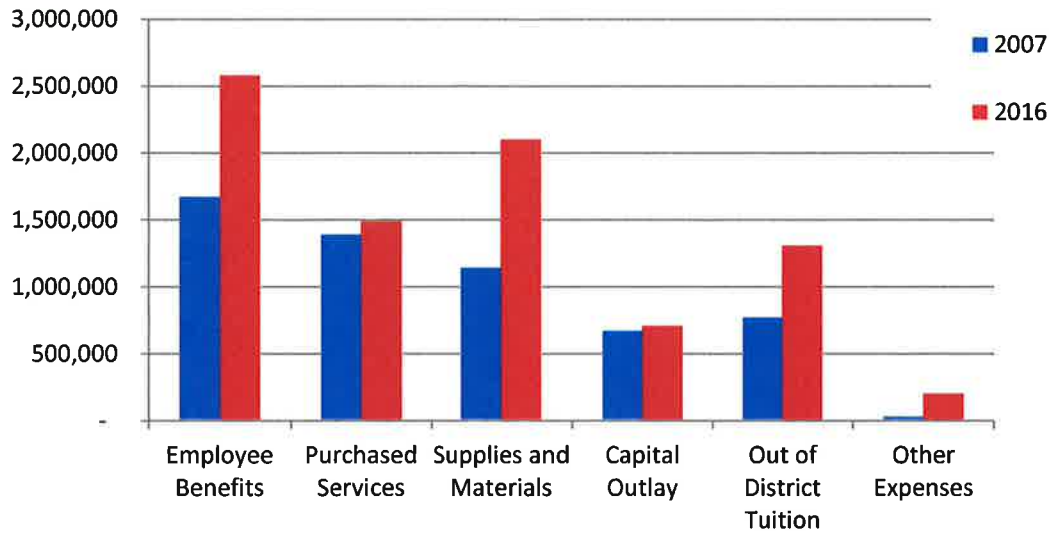


Salary Expenditures



Since FY10, total salary expenses increased at an average annual rate of 2.2%. This increase is due primarily to contractual salary increases.

Non-Salary Expenditures

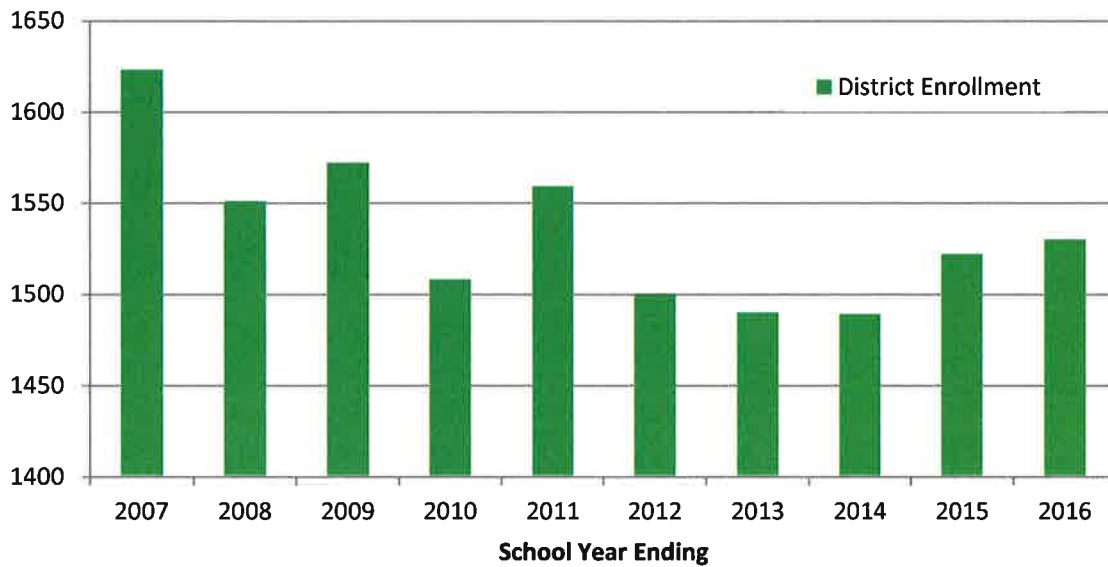
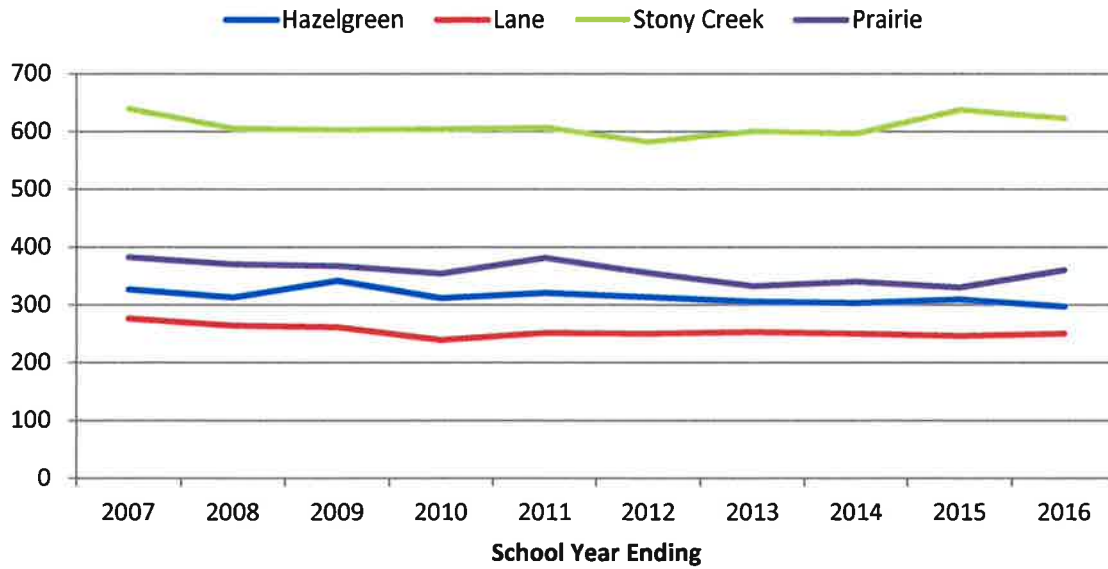


Financial Condition on June 30, 2016

For the purpose of projecting the anticipated fund balances, we will reference the June 2016 ending fund balances. As of June 30, 2016, projected fund balances are as follows:

Education Fund	\$39,130,307
Operations & Maintenance Fund	\$2,072,339
Debt Service Fund	\$850,290
Transportation Fund	(\$297,321)
Illinois Municipal Retirement Fund	\$615,186
Social Security Fund	\$420,854
Working Cash Fund	\$5,304,699
Tort Fund	\$582,526
Fire Prevention & Safety Fund	\$288,032
Total Fund Balance	\$48,966,912

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

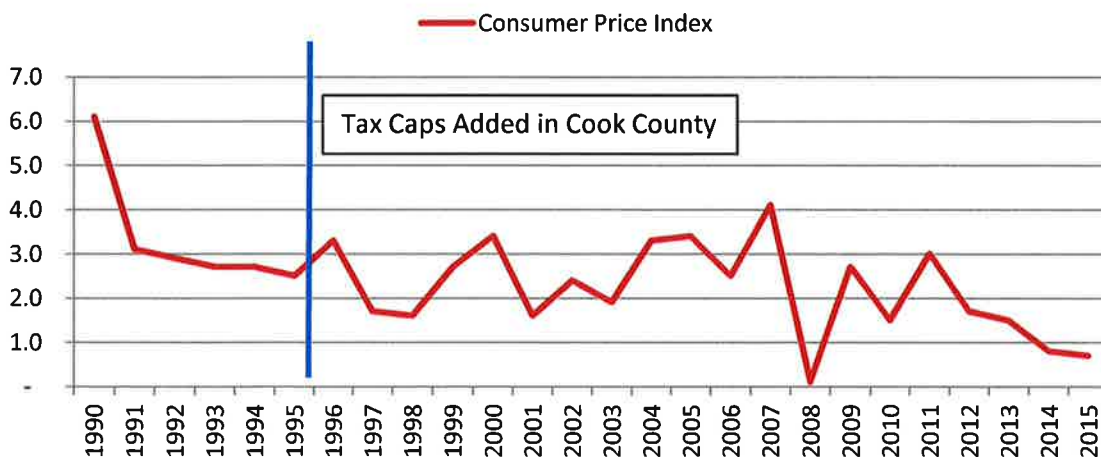
With the goal of providing an excellent education to children and ensuring the financial condition of the district remains healthy, it is imperative to examine major issues that may have a significant impact on the district's financial condition as well as the education provided and consider these issues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

Current Economic Crisis

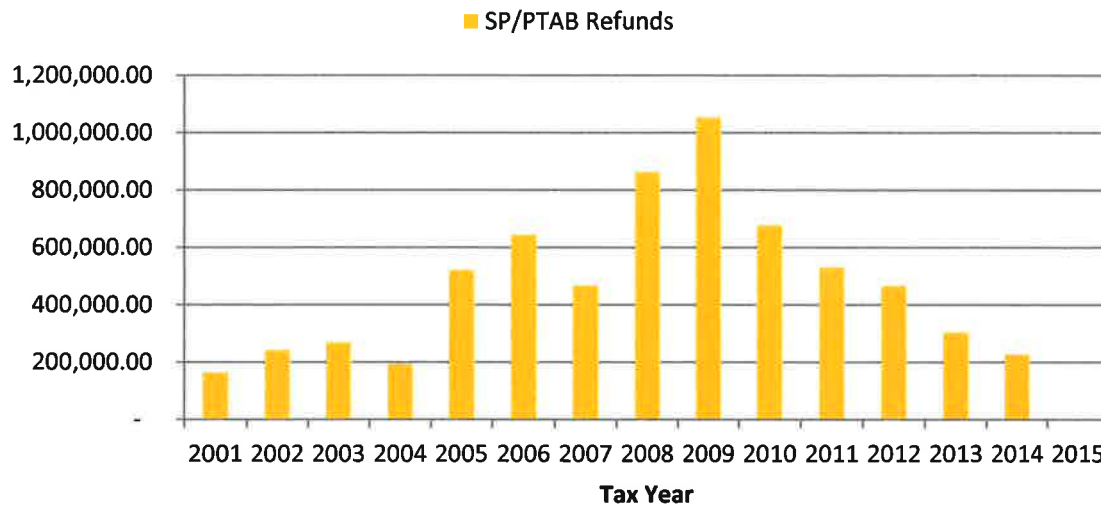
The economic climate is slowly recovering from the downturn just a few years ago. The district must be cognizant of the strong likelihood that this economic contraction will have a growing impact on the schools, and it must take action to prepare for that possibility. The impact of this economic crisis 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 2016, tax revenue growth will be capped at the 2015 consumer price index of 0.7%. 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 78% 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

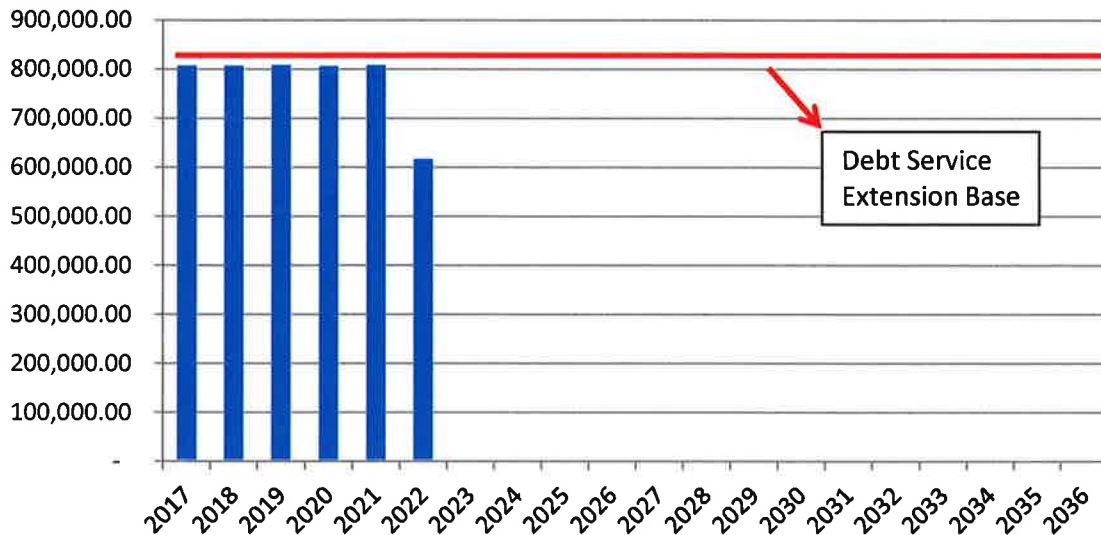
Only 11% of the district's revenues come from State sources, but this amounts to over \$3 million dollars. In FY09 and FY10 the State was forced to rely on \$1 billion in Federal stimulus money in order to cover mandatory State-aid payments. In FY11, the State no longer received those funds which created 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 temporary tax increase expired on December 31, 2014 and we are again experiencing delays in distribution 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 7% 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 FY18.

Available Debt Limitations

The following chart illustrates the current debt service levies of the district. The line marked "Debt Service Extension Base" is the maximum levy the district can incur in its bond fund under existing tax cap legislation. The district is allowed to have in place a levy to cover the principal and interest payment of its debt for up to twenty years.



As can be seen by the above graph, the district's debt service extension base is relatively full through 2021 but is open beginning in 2023 and beyond. 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 1.0%. Additional taxes generated from new property are projected to be mostly offset by tax refunds charged against collections. A two year tax freeze has also been built into the projections for FY18 and FY19.
- 2) Replacement taxes will decline by 5% per year over the next five years.
- 3) It is projected that the district will receive 80% of its General State-Aid payments in FY17.
- 4) There will be a change in the general State-aid formula and the district will see a 20% reduction in general State-aid each year over the next five years beginning in FY18.
- 5) Restricted State revenues will remain consistent with current amounts.
- 6) Federal and State grant revenues will remain consistent with current amounts.

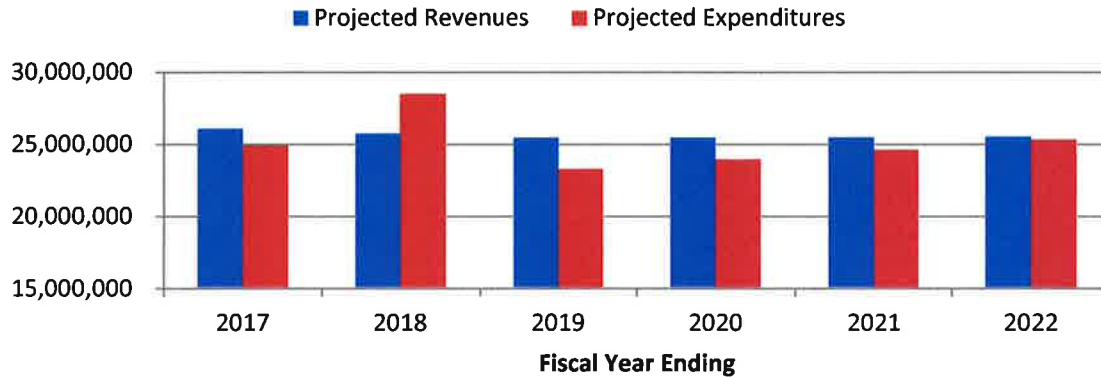
Expenditure Assumptions

- 1) Salary expenditures in FY17 reflect actual salaries, and are projected to grow at 4% in FY18, and 2.5% in FY19, FY20, FY21 and FY22.
- 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.
- 4) Expenses related to supplies and materials are higher in FY17 because of the Board of Education's commitment to establish a 1 to 1 program for grades K – 8. Beyond FY17 the cost is projected to drop to \$2,000,000 and then projected to increase 2% annually.
- 5) The district is projected to spend \$1,192,000 on capital improvements in FY17, and then \$1,000,000 annually in years following.
- 6) The State of Illinois will start to shift pension costs to local districts in FY17; 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 FY17 are the Hazelgreen playground, the new maintenance garage, and costs for starting construction projects for the summer of 2017. The major capital projects included in FY18 are the amounts provided by the district architect for the Life-Safety Survey and the Facility Assessment.
- 9) A onetime payment to IMRF to pay off the actuarially calculated liability of \$1,500,000 is included in FY17.
- 10) A onetime payment for the payoff of the outstanding bond is included in FY18.

Projections FY17 through FY22

Projected Revenues vs. Expenses

The following graph reflects that total revenues are projected to exceed total expenses in each year with the exception of FY18. This is due to the projected major capital improvements scheduled during FY18. Upon completion of major capital improvements revenues are projected to again exceed expenditures.

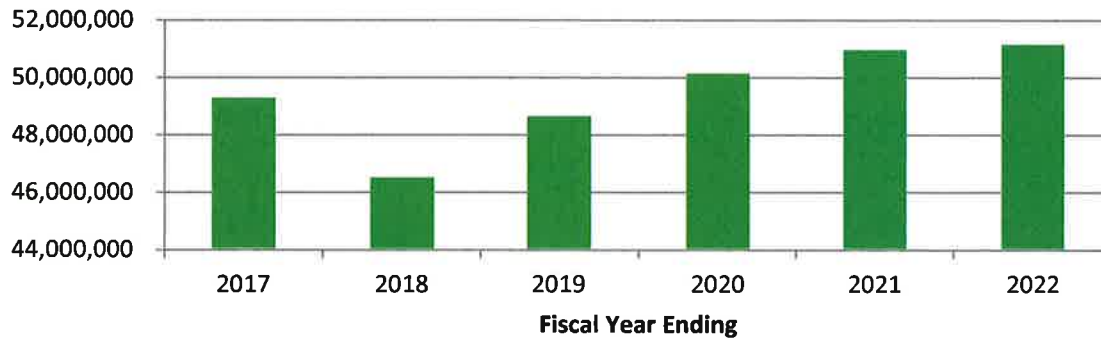


The revenue and expenditure projections would result in the following annual surplus/deficits projected for the district. The "projected surplus/deficit" column indicates the difference between the revenues received by the district for a given fiscal year compared to the expenditures incurred for the 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, 2017	1,169,441	49,286,068
June 30, 2018	(2,783,129)	46,502,939
June 30, 2019	2,152,587	48,655,525
June 30, 2020	1,479,851	50,135,376
June 30, 2021	827,148	50,962,524
June 30, 2022	185,972	51,148,495

Projected Fund Balances

The following graph illustrates that total fund balances (excluding bond and interest fund) are projected to increase from \$48,116,627 on June 30, 2016 to \$51,148,495 on June 30, 2022.



Alsip, Hazelgreen and Oak Lawn Elementary School District 126

Financial Summary (Excluding Bond Fund)

Fiscal Years Ending June 30, 2007 through June 30, 2016

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Beginning Fund Balance	7,238,209	12,519,913	25,934,659	26,664,344	26,683,299	31,307,153	34,411,828	36,776,515	41,323,666	43,713,403
Revenues:										
Real Estate Taxes	14,512,339	14,934,675	16,659,198	19,319,519	19,438,243	19,654,929	19,189,689	20,781,322	20,420,577	21,370,625
Replacement Tax	1,084,652	1,195,594	1,048,121	870,275	1,073,575	946,864	1,002,168	1,050,280	1,098,931	1,011,627
Other Local Revenues	669,589	740,003	910,555	676,527	466,651	625,988	657,985	757,365	714,806	852,744
General State-Aid	652,856	583,875	610,806	640,781	924,065	1,010,177	1,197,856	1,666,899	1,793,992	1,706,200
Restricted State Grants	1,750,333	990,739	1,065,977	1,220,796	1,501,231	1,436,118	1,676,689	1,971,738	1,219,418	1,416,957
Restricted Federal Grants	624,017	742,671	891,565	1,541,492	1,144,111	1,233,870	1,292,823	1,013,422	1,280,702	1,117,557
Total Revenues	19,293,786	19,187,557	21,186,222	24,269,390	24,547,876	24,907,946	25,017,210	27,241,026	26,528,426	27,475,710
Expenses:										
Salaries	8,391,287	8,885,643	9,507,266	10,307,445	10,283,381	10,593,358	10,452,537	10,686,697	10,957,793	11,028,611
Employee Benefits	1,670,722	1,576,887	2,008,543	2,223,538	2,631,103	2,437,643	2,609,340	2,496,550	2,505,526	2,579,940
Purchased Services	1,388,197	1,641,673	2,052,746	1,756,368	1,934,416	2,359,973	1,963,283	1,633,943	1,541,581	1,488,992
Supplies & Materials	1,139,290	1,148,490	1,599,558	1,292,583	1,967,027	2,191,886	1,407,379	1,528,066	1,614,428	2,101,512
Capital Outlay	667,355	623,858	998,190	288,971	969,614	517,127	665,701	903,546	744,954	708,890
Out of District Tuition	767,588	627,958	784,527	1,019,676	1,174,453	1,570,605	1,520,297	1,424,677	1,353,091	1,310,265
Other Expenses	27,684	44,481	11,075	106,919	264,028	108,868	210,802	93,618	71,509	204,069
Total Expenses	14,052,123	14,548,990	16,961,905	16,995,500	19,224,022	19,779,460	18,829,339	18,767,097	18,788,882	19,422,279
Revenues vs. Expenses	5,241,663	4,638,567	4,224,317	7,273,890	5,323,854	5,128,486	6,187,871	8,473,929	7,739,544	8,053,431
Transfers (To)/From Bond Fund	40,041	776,179	(294,632)	-	-	-	-	-	-	-
Major Capital Projects	-	-	3,200,000	7,254,935	700,000	2,023,811	3,823,184	3,926,778	5,349,807	3,650,207
Bond Proceeds	-	8,000,000	-	-	-	-	-	-	-	-
Ending Fund Balance	12,519,913	25,934,659	26,664,344	26,683,299	31,307,153	34,411,828	36,776,515	41,323,666	43,713,403	48,116,627

Alsip, Hazelgreen and Oak Lawn Elementary School District 126

Financial Projections (Excluding Bond Fund)

Fiscal Years Ending June 30, 2017 through June 30, 2022

	FY17	FY18	FY19	FY20	FY21	FY22
Beginning Fund Balance	48,116,627	49,286,068	46,502,939	48,655,525	50,135,376	50,962,524
Revenues:						
Real Estate Taxes	20,937,897	20,937,897	20,937,897	21,147,276	21,358,749	21,572,336
Replacement Tax	850,000	807,500	767,125	728,769	692,330	657,714
Other Local Revenues	627,000	627,000	627,000	627,000	627,000	627,000
General State-Aid	1,482,627	1,186,102	948,881	759,105	607,284	485,827
Restricted State Grants	1,048,129	1,048,129	1,048,129	1,048,129	1,048,129	1,048,129
Restricted Federal Grants	1,117,679	1,117,679	1,117,679	1,117,679	1,117,679	1,117,679
Total Revenues	26,063,332	25,724,307	25,446,711	25,427,958	25,451,171	25,508,685
Expenses:						
Salaries	11,578,509	12,041,649	12,342,691	12,651,258	12,967,539	13,291,728
Employee Benefits	2,770,755	2,909,293	3,054,757	3,207,495	3,367,870	3,536,264
Purchased Services	2,061,924	2,103,162	2,145,226	2,188,130	2,231,893	2,276,531
Supplies & Materials	3,060,551	2,000,000	2,040,000	2,080,800	2,122,416	2,164,864
Capital Outlay	1,192,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Out of District Tuition	1,585,000	1,664,250	1,747,463	1,834,836	1,926,577	2,022,906
Other Expenses	95,152	100,000	100,000	100,000	100,000	100,000
Total Expenses	22,343,891	21,818,355	22,430,136	23,062,519	23,716,296	24,392,293
Revenues vs. Expenses	3,719,441	3,905,952	3,016,575	2,365,439	1,734,875	1,116,393
Extraordinary expenses:						
Major Capital Projects	1,050,000	2,210,053	-	-	-	-
IMRF Liability Payment	1,500,000	-	-	-	-	-
Outstanding Bond Payment	-	3,636,113	-	-	-	-
Pension Cost Shifted from State	-	842,915	863,988	885,588	907,728	930,421
Total Extraordinary Expenses	2,550,000	6,689,081	863,988	885,588	907,728	930,421
Ending Fund Balance	49,286,068	46,502,939	48,655,525	50,135,376	50,962,524	51,148,495