



District 123



Financial Advisory Committee Recommendations

Dec 13, 2010

Financial Advisory Committee Members

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Committee Objectives

- ❖ Understand the financial environment
 - ✓ Overall assessment
 - The sky is NOT falling...
 - ...but could be in a few years
 - ✓ Nuances of district finances and budgeting
 - ✓ Historical perspective (past – present – future)
 - 2006/2007 – State Financial Watch List
 - 2007 – \$14 mil working cash bond Issuance
 - Spring 2010 – \$1.2 mil budget reductions
 - Since then
 - \$600,000 in additional operational reductions
 - \$900,000 in positive budget adjustments

Committee Objectives (cont.)

- ❖ The charge was **NOT** to:
 - ✓ Identify budget reduction items...**NOT!!**
- ❖ The charge **WAS** to:
 - ✓ Make a general recommendation (5 year projection)
 - ✓ Utilize standard approaches of referendum, bond issuance or budget reductions
 - ✓ Assign a \$ level of financial impact
- ❖ **Our** overriding consideration was to minimize the impact on District 123's excellent instructional program
- ❖ Time constraint of ten weeks

Overall Approach

- ❖ Understand the task
- ❖ Foster the notion of transparency
- ❖ Hold weekly meetings (learning and questioning)
- ❖ Request clarification and additional material
- ❖ Review and edit off-line

Assumptions

- ❖ Basic information
- ❖ PMA projections
- ❖ Our thought process

Basic Information

- ❖ Most significant budget items and dollars
 - ✓ Property tax receipts are 78% of total revenue
 - ✓ Salaries and benefits are 76% of total expenses
 - ✓ \$550,000 annual hit for unfunded mandates and other

- ❖ Issues relative to property tax revenue receipts
 - ✓ Delayed series of partial receipts (Cook County)
 - ✓ Often later than expected
 - ✓ Do not coincide with expenditure requirements
 - ✓ Increases need for reserves

- ❖ Guidelines for working capital reserves
 - ✓ 25% of budget (Approx \$8,000,000 for 2011)
 - ✓ Covers 3 months of expenditures

Basic Information (cont.)

- ❖ Assessment of high impact items
 - ✓ Enrollment trends stable
 - ✓ Curriculum is sound/changes will not impact finances
 - ✓ Staff is strong/FTE to class size in acceptable range
 - ✓ Other financial items stable

- ❖ Reliance on PMA projections
 - ✓ Materially accurate and reliable for 2-3 years out
 - ✓ Base model is our starting point

- ❖ Current deficit spending
 - ✓ Expenses will exceed revenues for 2011
 - ✓ Will continue unless mitigating action is taken

Basic Information (cont.)

❖ Continued deficit spending

- ✓ Can be sustained in the short run by accessing reserves
- ✓ If continues will likely exhaust reserves in 36-48 months
- ✓ Immediate and significant short term borrowing needed
- ✓ Compounds going forward
- ✓ Considerable budget reductions, bonds or referendum

❖ Mitigation alternatives

- ✓ Bond issuance/referendum
- ✓ Budget Reductions
 - Operational
 - Program

Basic Information (cont.)

❖ Delineation of reduction “types”

✓ **Operational** reductions:

- Previous **non-recurring** expenditures
- **Recurring** expenditures adjusted for typical fluctuations in enrollment volume
- True efficiencies gained on recurring expenditures

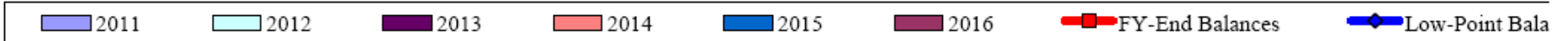
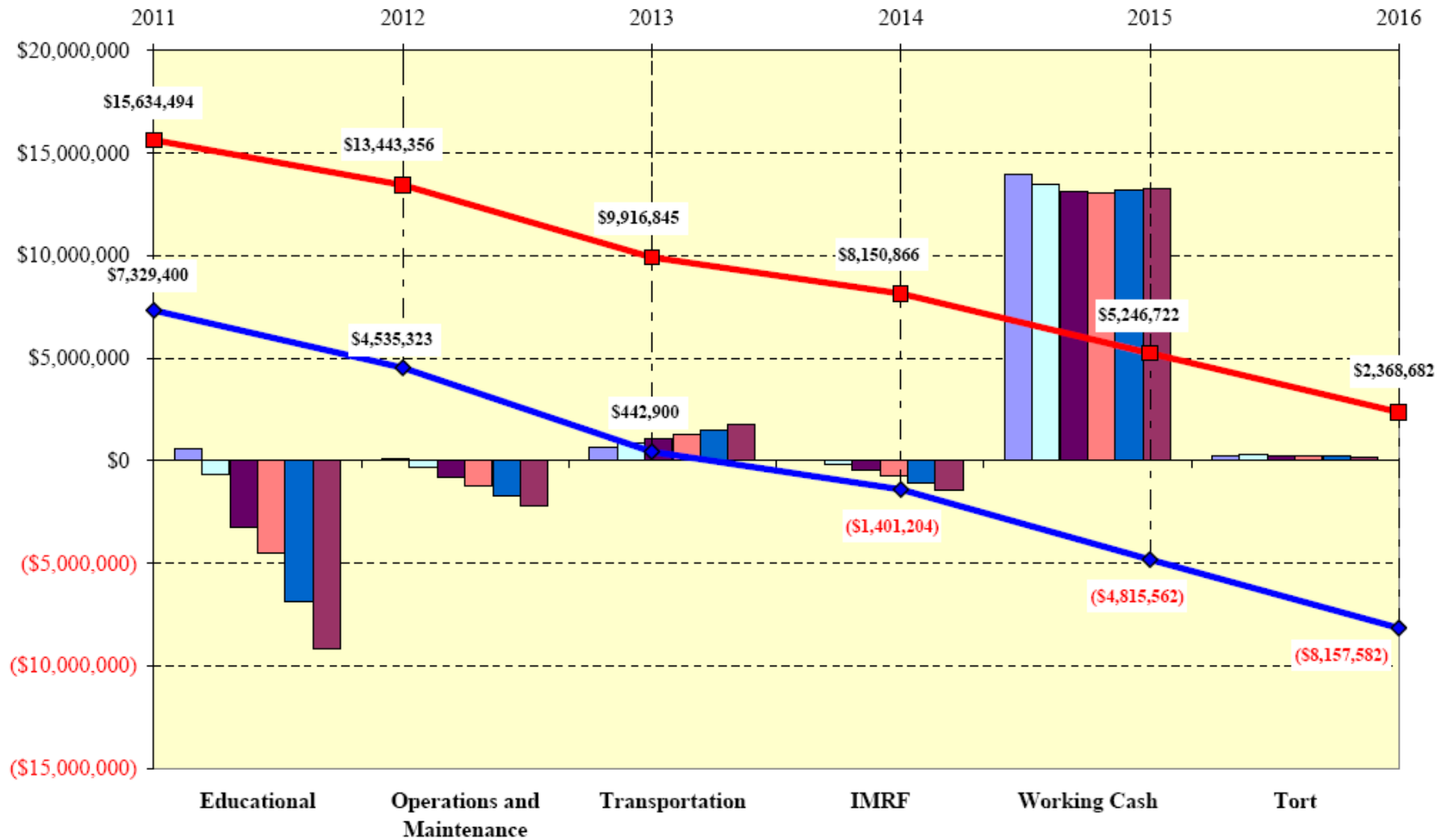
✓ **Program** reductions:

- Not usually based on enrollment volume
- More likely impact FTEs and/or instructional methodology

❖ Additional operational reductions under review

- ✓ Approximately \$500,000 (could be more)
- ✓ No decisions made

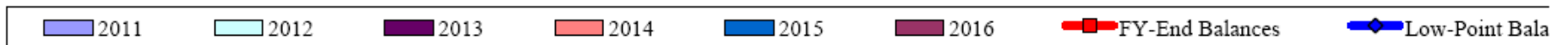
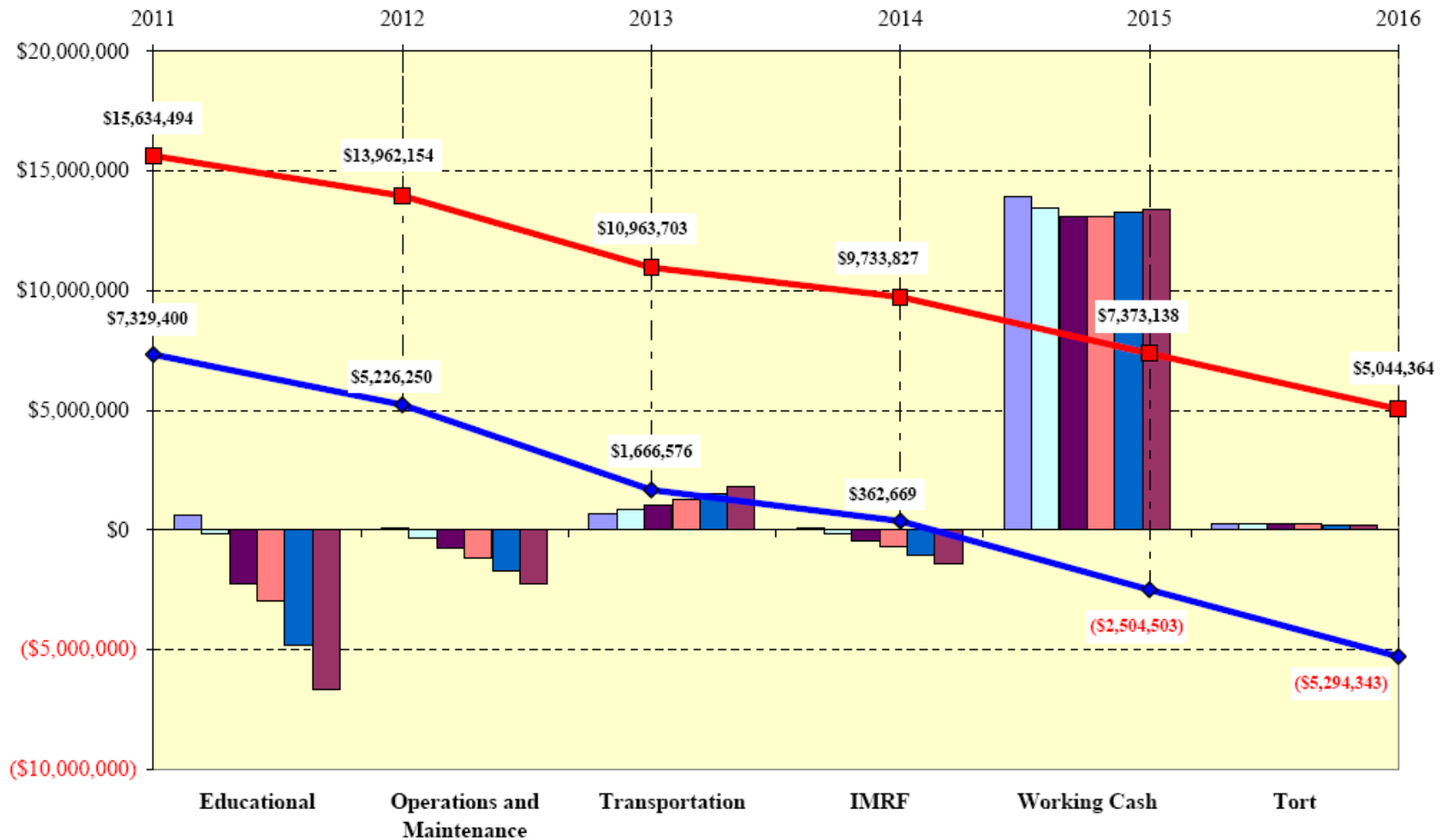
PMA Base Projection



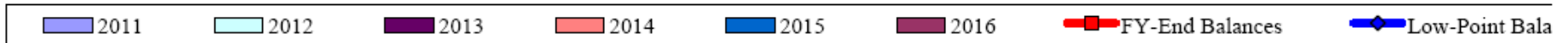
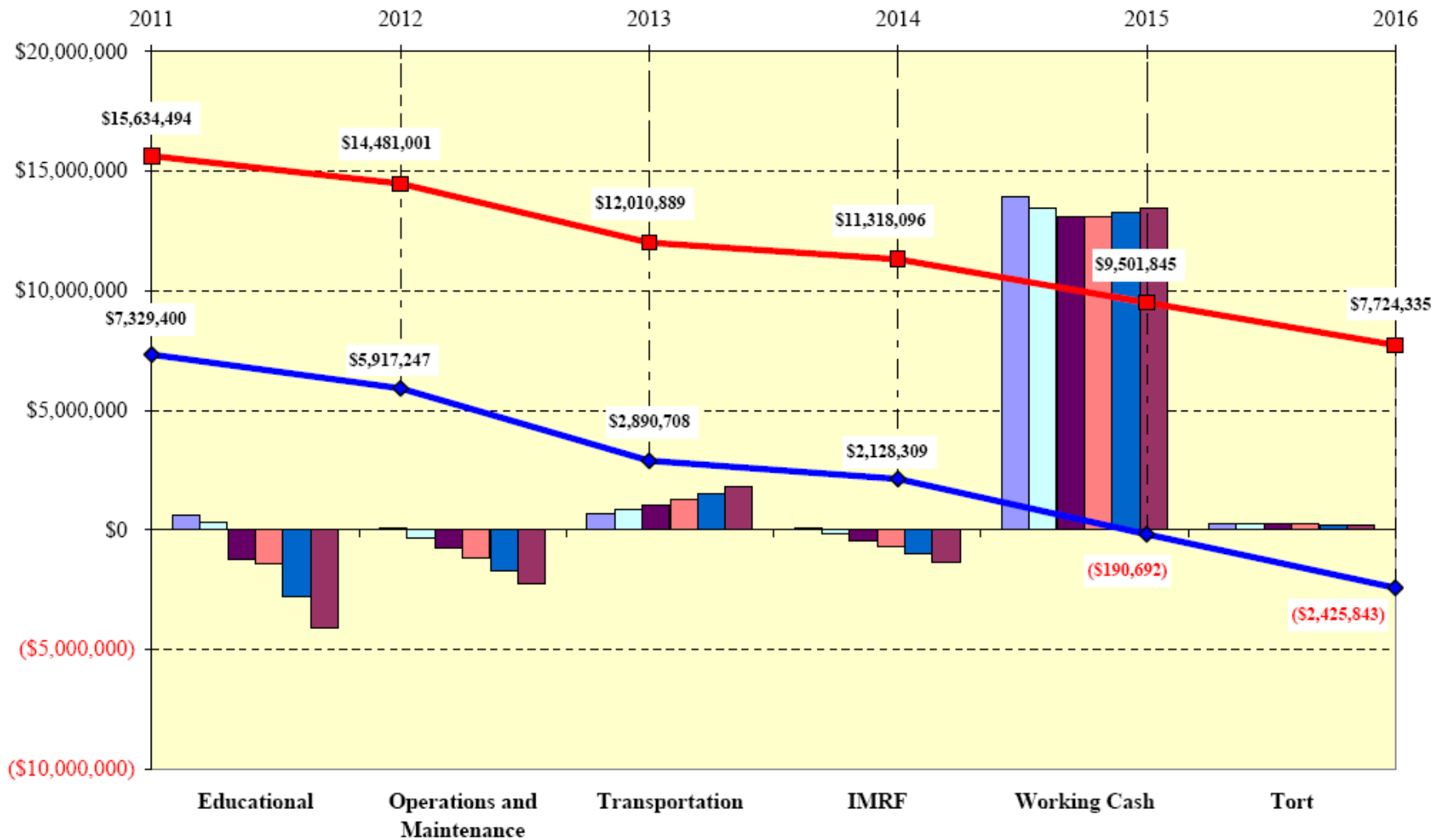
PMA Base Projection Observations

- ❖ Overall prospect is not good beyond 2013
 - ✓ Would likely fall below state guidelines for working capital balance
 - ✓ Based on projections, once the financial picture turns, it worsens quickly
- ❖ Would likely require short term borrowing sometime between 2014 and 2015
- ❖ Would likely result in deep cuts and/or referendum for 2015 - 2016

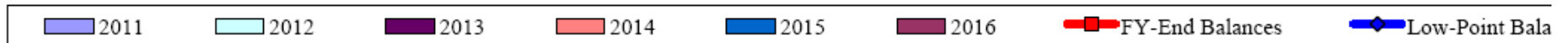
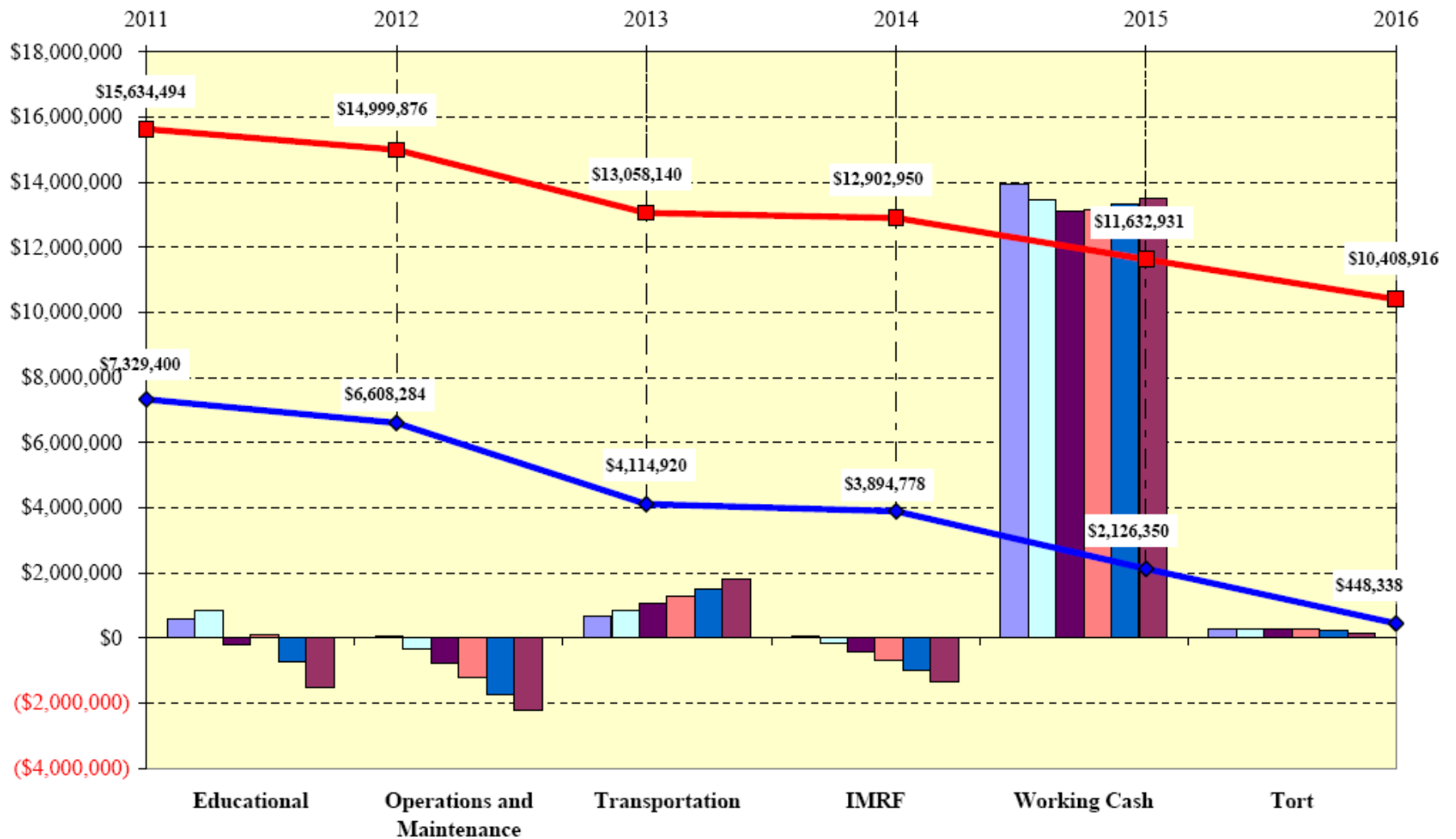
PMA \$500,000 Reduction Projection



PMA \$1,000,000 Reduction Projection



PMA \$1,500,000 Reduction Projection



Our Thought Process

❖ Key Financial Recommendation

- ✓ An incremental approach is best
- ✓ Bond issuance and referendum not fiscally responsible nor viable at this time
- ✓ \$500,000 reduction scenario doesn't provide much cushion
- ✓ 1,000,000 reduction scenario would likely start to impact curriculum
- ✓ Recommend reductions between \$500,000 and \$1,000,000

Key Financial Recommendation

- ❖ Formalize and initiate plan for proposed 2012 operational reductions approximating \$500,000
- ❖ Continue to scrutinize the budget targeting another \$300,000 - \$500,000 in operational reductions while ensuring minimal impact on curriculum
- ❖ Benefits include:
 - ✓ Reduces level of deficit spending
 - ✓ Increases prospect of future balanced budget
 - ✓ Mitigates projected reductions in working capital reserves
 - ✓ Ensures positive fund balances through 2016
 - ✓ Preserves current excellent instructional program while demonstrating fiscal responsibility during difficult economic times

Process Improvements

- ❖ Establish appropriate target reserves to prevent taxpayer supported increase in revenue streams
 - ✓ Adopt budget criteria to ensure year-ending fund balances remain positive for a minimum of 5 years in the PMA projections
- ❖ Ensure construction fund reserves are strategically deployed
 - ✓ Analyze fund balance relative to facility requirements
 - ✓ Move reserves and adjust revenue allocation ratios according to budgetary needs of specified projects
- ❖ Ensure PMA projections are materially accurate
 - ✓ Request rolling, 5-year historical comparison of projections to actual as standard annual report
 - ✓ Provide current year set of assumptions and review with board annually
 - ✓ Evaluate accuracy of model and make adjustments to assumptions and target reserve balances (contingency) as appropriate

Process Improvements (cont.)

- ❖ Create a formal process to actively identify resource streamlining and re-allocation opportunities on a regularly scheduled basis. This process would marry the evaluation of program approach and outcomes with an assessment of the relative financial resource provisions
 - ✓ Create district-wide budget or cost analysis broken down by program.
 - ✓ Establish a hierarchy of programs beginning with core programs
 - ✓ Establish an annual review schedule of all significant programs evaluating both outcomes and budgeted costs
 - ✓ Include comparisons with other district programs and to comparable school districts and/or country/state-wide statistical information as available.
 - ✓ Effect reallocation of resources as required

Process Improvements (cont.)

- ❖ Creating a formal process to actively identify resource streamlining and re-allocation opportunities allows for:
 - ✓ More controlled, scheduled process to identify “low hanging fruit” resulting from typical operational fluctuation in the budget from one year to the next
 - ✓ An improved basis to assess each program approach and outcome along with some validation of the return on investment
 - ✓ A tool to provide guidance and a continuum of thought for ongoing reallocation review and potential additional reductions (or enhancements) as required
 - ✓ A format that creates better synchronization with the strategic plan, which has a program-based framework.

Process Improvements (cont.)

- ❖ Establish a commissioned-based grant-writing program with scheduled report of the results of activity
 - ✓ Recruit individuals willing to be compensated on commission basis
 - ✓ Issue regularly scheduled report indicating the efforts and results attained in both federal and state grants
- ❖ Collaborate with other school districts to gain economies of scale
 - ✓ Explore prospects to combine knowledge, resources and purchasing power
- ❖ Expand district communication plan to focus on public awareness of educational accomplishments, financial challenges and fiscally responsible practices
 - ✓ Include a strategy (with budget) deploying appropriate forms of communication
 - ✓ Create a “financial focus” corner on district web page

Process Improvements (cont.)

- ❖ Conduct a current “town hall” style meeting addressing significant financial issues
 - ✓ Explain reasons behind deficit spending
 - ✓ Explain major line item cost variances between D123 and other comparable districts
 - ✓ Provide an update on re-deployment of Brandt as rental property
 - ✓ Follow-up on website FAQs
 - ✓ Discuss student achievement advancements
- ❖ Revise format of Strategic Plan to improve synchronization with budget projections
 - ✓ Include cost assessments and potential financial limitations by year for all items
 - ✓ Determine an approach that ensures coordination between plans

Final Observations

- ❖ District finances are complicated
- ❖ The battle to stay solvent is arduous
- ❖ The most aggressive plans don't ensure long-term liquidity
- ❖ Major expense categories are outpacing major revenue categories

Closing Remarks

- ❖ Thanks to Administration and Board
- ❖ Great opportunity to demonstrate transparency
- ❖ Collaboration was excellent
- ❖ Great experience, everyone glad to assist

District 123 is an AWESOME place to learn!!