

Financial Projections

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Long Range Financial Projections: Constructing Data-Driven Decisions During Critical Times

A Rationale for Long Range Financial Planning

“Financial planning can help districts that are growing and those that are not. Growing districts need to plan for investments, such as facility construction and workforce expansion, to accommodate an increasing population. Districts that are not growing need to ensure that their current cost structure does not over commit them to an unsustainable level of expenditures that would later require dramatic and painful cost if not first scaled back gradually.”

~ Shayne Kavanaugh, “Long Term Financial Planning for Districts”, School Business Affairs, Nov. 2007, pages 27-30.

Long Range Financial Planning – Questions To Ask

- Does my District engage in a routine annual financial review process?
- Does the review process include an updated multi-year financial projection?
- How are the Board and Administration using that financial projection?
- Do the other stakeholders understand the projections?
 - Staff
 - Community
 - Press

Additional Questions

- Do the dollars we spend achieve our educational / financial goals and objectives?
- How do we measure that?
 - Strive for maximum credibility
 - Establish metrics
 - Adopt metrics and benchmarks that can be monitored
 - Understand how our decisions are going to affect our performance
 - Measurements
 - Using the tools available to measure performance
 - How frequently should we measure?
 - Comparisons
 - “How do we compare? – Are we where we want to/need to/should be?”

The Goal of a Financial Plan

- To provide an interactive and comprehensive planning tool that will assist the Board of Education, administration, and community stakeholders in making well-informed, data-driven decisions to satisfy educational goals.

Why Develop a Multi-year Financial Projection?

- Budget Planning
- Trend Analysis
- Set Fiscal Policies
- Negotiations and Referendum Planning
- Planning Tool
- Communicating with your Stakeholders
- Scenario Analysis
 - What would happen if?
 - Best case, worst case

How to Communicate Your Financial Plan

- Show information in multiple ways
 - Tables
 - Graphs
 - Charts
- Meet needs of various groups
 - The accountant types
 - The charts and graphs types
 - The in-depth analysis
 - The 30 second elevator speech people
- Logical and clear presentation with one summarizing sheet

Using Your Projections to Your Best Advantage

- Budget development and mid-year review
- Levy development
- Year-to-year budget analysis
- Staffing patterns
- Collective bargaining
- Referendum planning
- Capital project planning and financing
- Opening new schools, or closing old ones
- “What If?” Scenario analysis

How do You Forecast Accurately?

- A projections is based on multiple variables, many of which are beyond your control
- Focus on the key variables
- Break it down into logical pieces by focusing on the big numbers – both on the revenue and the expense sides.
- Use the most reliable sources for data
- Be conservative, but reasonable

Sample – Educational Fund History Data

	ACTUAL REVENUE / EXPENDITURES								BUDGET		
	FY 2007	FY 2008	% chg	FY 2009	% chg	FY 2010	% chg	FY 2011	% chg	FY 2012	% chg
REVENUE											
Local	\$6,824,469	\$6,895,090	1.03%	\$6,979,750	1.23%	\$6,974,188	-0.08%	\$7,007,582	0.48%	\$7,367,123	5.13%
State	\$377,805	\$282,979	-25.10%	\$329,133	16.31%	\$238,343	-27.58%	\$309,346	29.79%	\$218,435	-29.39%
Federal	\$28,708	\$31,119	8.40%	\$126,926	307.87%	\$142,268	12.09%	\$74,905	-47.35%	\$25,430	-66.05%
Other	\$0	\$0		\$0		\$0		\$0		\$0	
TOTAL REVENUE	\$7,230,982	\$7,209,188	-0.30%	\$7,435,809	3.14%	\$7,354,799	-1.09%	\$7,391,833	0.50%	\$7,610,988	2.96%
EXPENDITURES											
Salary and Benefit Costs	\$5,425,469	\$5,872,060	8.23%	\$5,674,459	-3.37%	\$5,757,742	1.47%	\$6,092,869	5.82%	\$6,138,720	0.75%
Other	\$1,086,961	\$1,092,072	0.47%	\$1,138,880	4.29%	\$1,223,975	7.47%	\$1,078,296	-11.90%	\$1,491,918	38.36%
TOTAL EXPENDITURES	\$6,512,430	\$6,964,132	6.94%	\$6,813,339	-2.17%	\$6,981,717	2.47%	\$7,171,165	2.71%	\$7,630,638	6.41%
SURPLUS / DEFICIT	\$718,552	\$245,056		\$622,470		\$373,082		\$220,668		(\$19,650)	
OTHER FINANCING SOURCES/USES											
Transfer Among Funds (Net)	\$0	\$0		\$0		(\$32,098)		(\$32,100)		\$0	
Sale of Bonds	\$0	\$0		\$0		\$0		\$0		\$0	
Other Financing Sources	\$0	\$0		\$0		\$0		\$0		\$0	
Other Financing Uses	\$0	\$0		\$0		\$0		\$0		\$0	
TOTAL OTHER FIN. SOURCES/USES	\$0	\$0		\$0		(\$32,098)		(\$32,100)		\$0	
SURPLUS / DEFICIT INCL. OTHER FIN. SOURCES	\$718,552	\$245,056		\$622,470		\$340,984		\$188,568		(\$19,650)	
BEGINNING FUND BALANCE	\$4,886,489	\$5,605,041		\$5,850,097		\$6,472,567		\$6,813,551		\$7,002,119	
YEAR-END FUND BALANCE	\$5,605,041	\$5,850,097		\$6,472,567		\$6,813,551		\$7,002,119		\$6,982,469	
FUND BALANCE AS % OF REVENUES	77.51%	81.15%		87.05%		92.64%		94.73%		91.74%	
FUND BALANCE AS # OF MONTHS OF EXPEND.	10.33	10.08		11.40		11.71		11.72		10.98	

What You Might Need to Consider...

- District Fiscal Policies
 - Cash Balances
 - Fund Balances
 - Expenditure Limits
 - Balanced Budget
- Budget-to-Actual Review Process
- Community Group Engagement

Critical Revenue Assumptions

- Tax collection rates
- Distribution of taxes between fiscal years
- EAV projections
- New property growth rates
- CPI (Consumer Price Index) rates
- General economic conditions

How to Formulate Projections - Local Revenue

- Tax Levy
- Other Local
 - CPPRT (Corporate Personal Property Replacement Tax)
 - Tuition
 - Investment earnings
 - Food service
 - Pupil activities
 - Textbooks
 - Rentals

Levy Process

- School district passes budget
- Determining the levy amount:
 - How much do you ask for?
 - Are you under the Tax Cap?
- Board adopts Levy
- File Certificate of Tax Levy with County Clerk prior to the last Tuesday in December. Double-check the bond amounts (County clerk offices can make mistakes!)
- File Abatements, Certificate of Compliance, PTELL resolution

Truth in Taxation

- If current year's levy request (excluding bond and interest) is more than 5% greater than prior year's extension:
 - A notice must be published in a newspaper
 - A public hearing must be held
- The determination of the applicability is usually established through the adoption of a tentative levy
 - Determination can be no less than 20 days before the adoption of the levy ordinance.

Truth in Taxation (Continued)

- If Truth in Taxation notice is required
 - Publication must be no more than 14 and no less than 7 days before the date of the public hearing
 - Same rules apply as for other notices regarding publication in a “newspaper of general circulation”

- Public Hearing
 - District explains the reasons for the levy and any increases
 - District must permit anyone wishing to speak the opportunity
 - May be part of a regular Board of Education meeting (no longer first Tuesday in December)

Extension

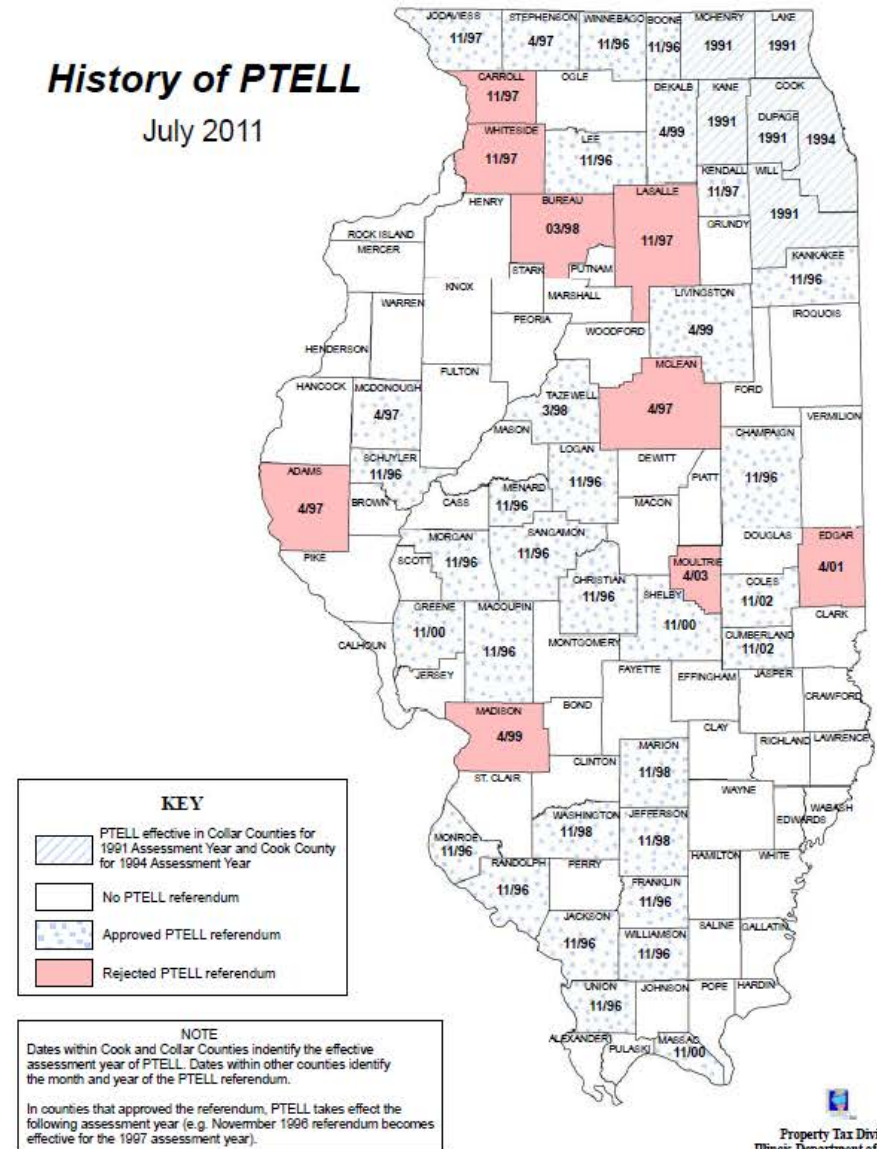
- May add loss amount to District levy
- Calculate Property Tax Extension Limitation (if applicable)
- Calculate final tax rates for each taxing district
- District reviews for accuracy and signs off
- Extend taxes on Equalized Assessed Value
- County Treasurer prepares tax bills

Property Tax Extension Limitation Law ("Tax Cap")

- Enacted in suburban Collar Counties in 1991 and Cook County in 1995.
- 1996 Amendments. PTELL enacted for remaining Illinois counties if approved at county-wide referendum. If law is approved in referendum, then it becomes effective in the next levy year.
- If a district is in multiple counties, all must be tax capped for district to be tax capped.
- Limits the increases in property tax extension to 5% or the increase in the "Consumer Price Index-All Urban Consumers" (CPI-U), whichever is less.
- Allows districts the flexibility to continue to extend bonds to a level equal to its 1994 debt limit (DSEB).

Tax Capped Counties

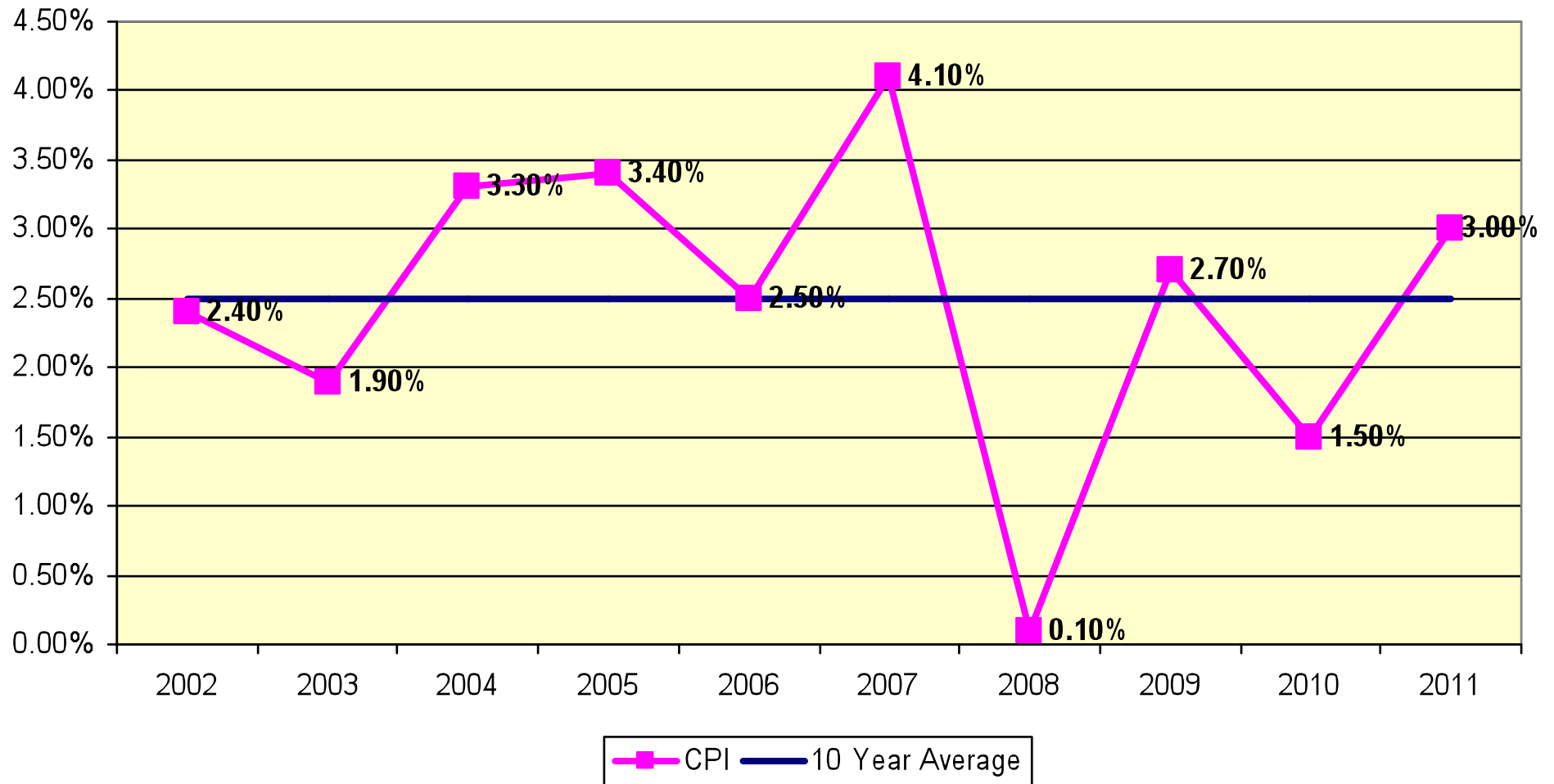
History of PTELL July 2011



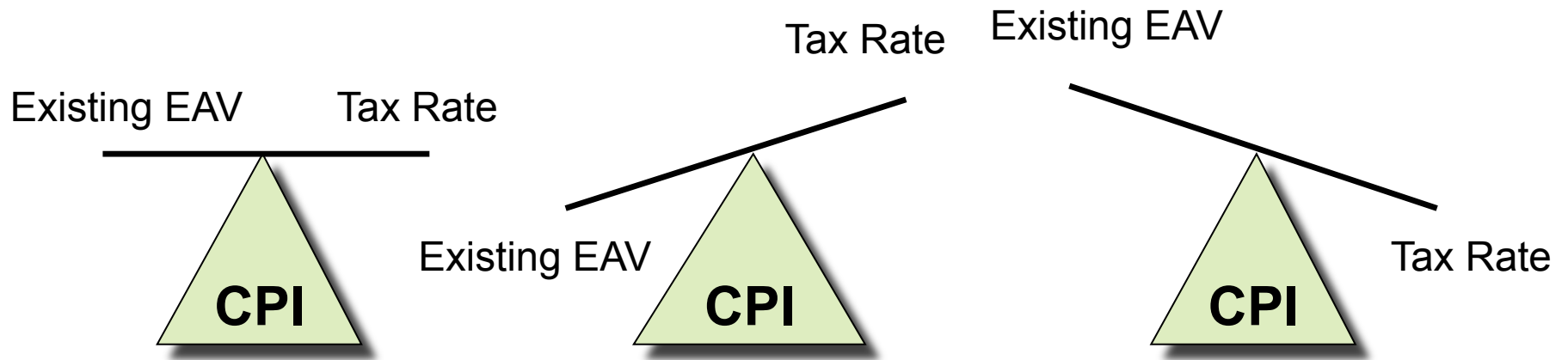
Property Tax Extension Limitation Calculations

- Limiting rate: $(\text{Aggregate Extension Base} \times (1 + \text{CPI})) / (\text{Equalized Assessed Valuation} - \text{New Property})$
- Aggregate Extension Base: Prior year extension for all funds excluding the bond & interest fund.
- CPI: All Urban Consumers for year ending December 31st. CPI for December 2011 = 3.0%, to be used for 2012 Levy.
- <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt>
- New Property: New improvements or additions to existing property on any parcel of real property that increased the assessed value of that real property.
- Debt Service Extension Base: The tax levy for debt service levied in tax year when the Law was enacted. Now increases by the amount of CPI each year.

Consumer Price Index (CPI) History



EAV Change, CPI and Tax Rate



Collection & Distribution

- Two mailings of tax bills
- Taxes due one month after billing date
- Distribution : Cook County March & Fall; Collar Counties 1/2 in June and 1/2 in September; Downstate often July and September
- Non-payment triggers preparation of delinquent tax list and notices of Application for Judgment on Real Estate

Referendums (SB1682)

- Have your legal counsel and county clerk(s) check your referendum question(s) as well as calculations in subsequent years.
- Tax Capped
 - No more rate increase factors (RIF)
 - No more individual fund rate increase questions
 - New ballot question asks for an increase in the total limiting rate for 1 to 4 years
 - Even if you haven't passed a referendum, it allows you to extend up to the statutory maximum rates in individual funds. No new money, just increased flexibility between funds.
- All Counties – revises ballot language and ballot supplementary information

How to Formulate Projections? State Revenue

- General State Aid
 - Review Prior Year Claims:
<http://webprod1.isbe.net/gsinquiry/asp/Default.asp>
 - Key Variables
 - EAV
 - Tax Rates
 - CPPRT
 - Average Daily Attendance (ADA)
 - DHS Low Income Rates
 - Foundation Level

General State Aid Worksheet for the 2010-2011 Claim Payable in 2011-2012			
TAX YEAR: 2010		<i>Referendum ? No</i>	
		Foundation Level = \$6,119.00	
DATA SECTION			
2009 Original EAV	\$2,485,435.195		
Adjustments	\$220,509.737		
A. 2009 Adjusted Real EAV	\$2,705,944.932	2008-2009 Audited ADA	2,974.98
Prior Year EAV used for GSA Calc	\$2,199,648,546	2009-2010 Audited ADA	3,074.17
Prior Year EAV*ELR	\$2,206,027,527	2010-2011 ADA	3,122.11
		Average of Last 3 Year's ADA	3,057.09
EAV Used for GSA Calc	\$2,206,027,527	2. ADA used for 2010-2011 GSA	3,122.11
2008: DHS Low Income Count	540.00	3. 2009 CPPRT (Rec'd in 2010)	\$1,440,177.18
2009: DHS Low Income Count	498.00	4. Calculation Rate	0.0105
2010: DHS Low Income Count	588.00	<small>(Unit=.0300, Elementary=.0230, High School=.0105)</small>	
6. District Low Income Concentration	0.1736	Complete if Subject to PTELL (Tax Caps)	
7. Available Local Resources	\$24,603,466.21	2009 Original EAV	\$2,485,435.195
8. Available Local Resources per ADA	\$7,880.39	2009 Limiting RATE	2.34675
9. Percentage of Foundation Level	1.2878	2008 Original EAV	\$2,337,528.355
1997-1998 Hold Harmless Base	\$1,278,116.12	2008 OTR	2.48793
		2009 Extension Limitation Ratio	1.002900
SECTION A - FOUNDATION FORMULA			
10. Foundation Level X ADA	\$0.00		
11. Available Local Resources	\$0.00		
12. FOUNDATION FORMULA AMOUNT	\$0.00		
SECTION B - ALTERNATE FORMULA			
13. Line 9 minus .93	0.3578	14. Line 13 divided by .82	0.4363
15. Line 14 times .02	0.0087	16. .07 minus Line 15	0.0613
17. Amount per ADA	\$375.09		
18. ALTERNATE FORMULA AMOUNT	\$1,171,072.23		
SECTION C - FLAT GRANT FORMULA			
19. FLAT GRANT FORMULA AMOUNT (S218 x ADA)	\$0.00		
SECTION D - POVERTY GRANT			
If Line 6 < .15 then	LIC=355		
Otherwise ((Line 6^2)/2700)+294.25			
LIC Factor	\$376	Total Adjustments	\$33,548.68
FY2012 Calculated Poverty Grant Amt	\$203,586	Hold Harmless Base	1278116.12
FY2003 Poverty Grant @ 0%	\$0	Hold Harmless	0
Difference	\$203,586.20		
21. POVERTY GRANT	\$203,586.20		
22. GROSS GSA ENTITLEMENT	\$1,171,072.23		
23. GENERAL STATE AID	\$1,374,658.43	GSA	\$1,408,207.11

How to Formulate Projections? State Revenue

- Other State Revenues
 - Know your trends in the factors that impact categorical reimbursements:
 - Special Ed enrollment (Extraordinary, Private-Facility)
 - Special Ed staffing (Personnel)
 - Bilingual enrollment (TPI, TBE)
 - Transportation expenditures (Transportation)
- Estimated State proration levels
- Timing of Disbursements

Critical Expenditure Assumptions

- Enrollment projections
- Average new-hire or reduction-in-force salary
- Employee benefits (\$)
- Unemployment Costs
- Salary increases
 - Certified
 - Non-Certified
- IMRF/TRS contribution rates – PENSION REFORM IMPACT?
- Staffing changes

How to Formulate Projections –Personnel Expenditures

- Focus on the biggest pieces
- Break salaries into bargaining units
- Factor-in future salaries that are known from current, multi-year contracts
- Build scattergrams to project teachers and other groups with Lane/Step salary schedules
 - Add/reduce staff as enrollment changes
 - Incorporate retirement costs/savings if significant
 - Consider lane change costs
- Be as proactive as possible with benefit programs

Tips, Tricks and Traps

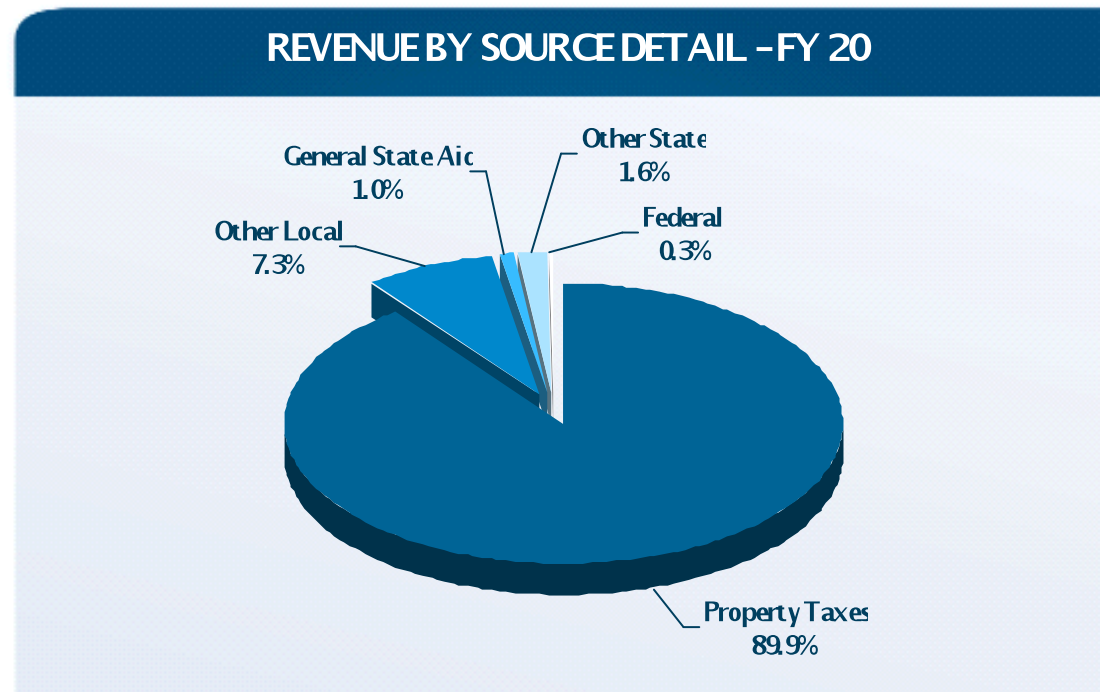
- Long range financial projections are just that – projections
- Projections are dynamic and are subject to constant change
- Results are fully dependent upon:
 - Quality of data entered into the projection
 - Assumptions coming to fruition
 - Understanding changes outside the of the District's control

Sample – Revenue Projections

Aggregate – Revenue Analysis

	BUDGET	REVENUE PROJECTIONS									
	FY 2012	FY 2013	% chg	FY 2014	% chg	FY 2015	% chg	FY 2016	% chg	FY 2017	% chg
LOCAL											
Property Taxes	\$8,538,120	\$8,704,592	1.95%	\$8,966,195	3.01%	\$9,211,706	2.74%	\$9,439,195	2.47%	\$9,670,402	2.45%
CPPRT	\$312,744	\$312,744	0.00%	\$312,744	0.00%	\$312,744	0.00%	\$312,744	0.00%	\$312,744	0.00%
Earnings on Investments	\$98,494	\$21,944	-77.72%	\$44,770	104.02%	\$90,483	102.11%	\$138,275	52.82%	\$186,408	34.81%
Other Local Revenue	\$278,506	\$224,400	-19.43%	\$224,400	0.00%	\$224,400	0.00%	\$224,400	0.00%	\$224,400	0.00%
TOTAL LOCAL REVENUE	\$9,227,864	\$9,263,680	0.39%	\$9,548,109	3.07%	\$9,839,333	3.05%	\$10,114,614	2.80%	\$10,393,955	2.76%
STATE											
General State Aid	\$94,065	\$96,262	2.34%	\$96,708	0.46%	\$98,438	1.79%	\$98,592	0.16%	\$102,791	4.26%
Other State Revenue	\$155,155	\$155,155	0.00%	\$155,155	0.00%	\$155,155	0.00%	\$155,155	0.00%	\$155,155	0.00%
TOTAL STATE REVENUE	\$249,220	\$251,417	0.88%	\$251,863	0.18%	\$253,593	0.69%	\$253,747	0.06%	\$257,946	1.66%
TOTAL FEDERAL REVENUE	\$25,430	\$25,430	0.00%	\$25,430	0.00%	\$25,430	0.00%	\$25,430	0.00%	\$25,430	0.00%
FLOW-THROUGH REVENUE	\$0	\$0		\$0		\$0		\$0		\$0	
TOTAL REVENUE	\$9,502,514	\$9,540,527	0.40%	\$9,825,402	2.99%	\$10,118,356	2.98%	\$10,393,791	2.72%	\$10,677,331	2.73%

Sample Report - Revenues



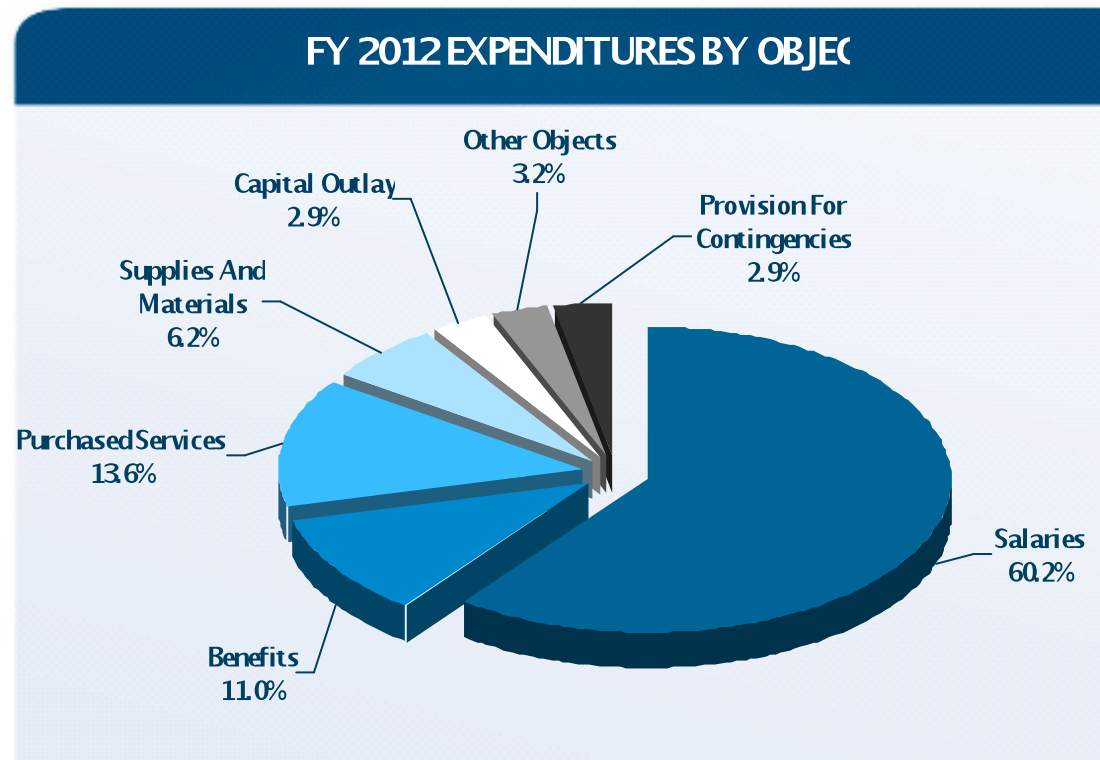
Operating Funds – Educational, Operations & Maintenance, Transportation, Illinois Municipal Retirement Fund and Working Cash

Sample – Expenditure Projections

Aggregate – Expenditure Analysis

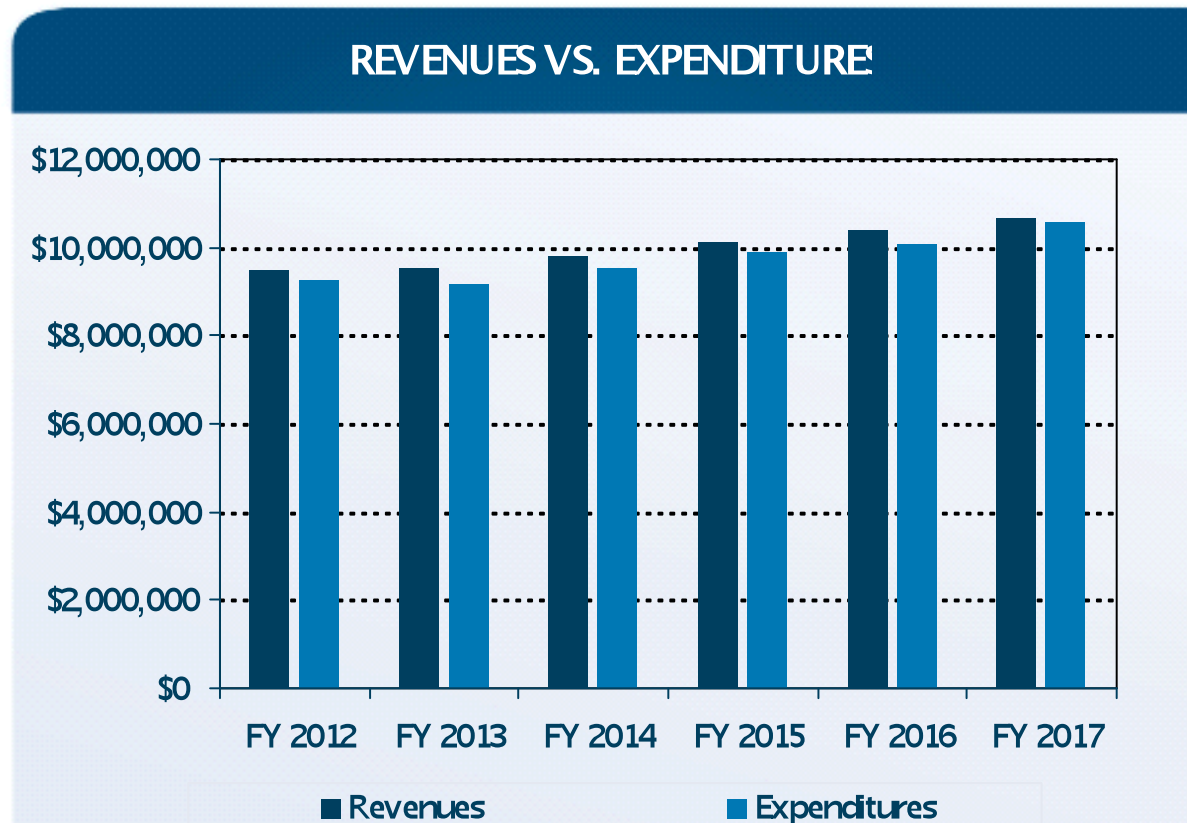
	BUDGET	EXPENDITURE PROJECTIONS									
	FY 2012	FY 2013	% chg	FY 2014	% chg	FY 2015	% chg	FY 2016	% chg	FY 2017	% chg
Salaries	\$5,563,531	\$5,510,778	-0.95%	\$5,745,006	4.25%	\$5,961,010	3.76%	\$5,968,057	0.12%	\$6,279,691	5.22%
Benefits	\$1,013,178	\$1,052,833	3.91%	\$1,123,316	6.69%	\$1,180,216	5.07%	\$1,276,270	8.14%	\$1,390,936	8.98%
TOTAL SALARIES & BENEFITS	\$6,576,709	\$6,563,611	-0.20%	\$6,868,322	4.64%	\$7,141,226	3.97%	\$7,244,327	1.44%	\$7,670,627	5.88%
Purchased Services	\$1,256,835	\$1,296,449	3.15%	\$1,337,462	3.16%	\$1,379,931	3.18%	\$1,423,914	3.19%	\$1,469,470	3.20%
Supplies And Materials	\$572,846	\$587,167	2.50%	\$601,846	2.50%	\$616,892	2.50%	\$632,315	2.50%	\$648,123	2.50%
Capital Outlay	\$271,120	\$432,513	59.53%	\$433,326	0.19%	\$434,159	0.19%	\$435,013	0.20%	\$435,888	0.20%
Other Objects	\$298,767	\$306,236	2.50%	\$313,892	2.50%	\$321,739	2.50%	\$329,783	2.50%	\$338,027	2.50%
Non-Capitalized Equipment	\$0	\$0		\$0		\$0		\$0		\$0	
Termination Benefits	\$0	\$0		\$0		\$0		\$0		\$0	
Provision For Contingencies	\$271,759	\$0		\$0		\$0		\$0		\$0	
TOTAL ALL OTHER	\$2,671,327	\$2,622,365	-1.83%	\$2,686,526	2.45%	\$2,752,722	2.46%	\$2,821,024	2.48%	\$2,891,508	2.50%
TOTAL EXPENDITURES	\$9,248,036	\$9,185,975	-0.67%	\$9,554,848	4.02%	\$9,893,948	3.55%	\$10,065,351	1.73%	\$10,562,135	4.94%

Sample Report - Expenditures

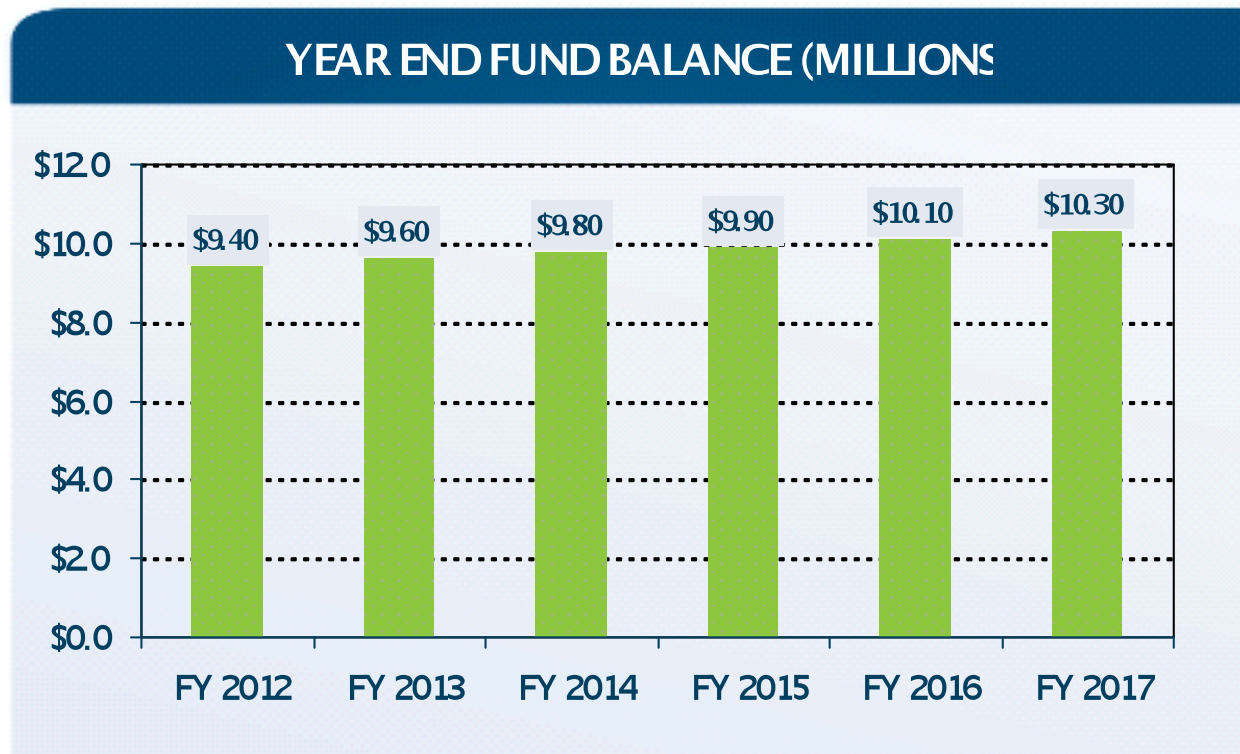


Operating Funds – Educational, Operations & Maintenance, Transportation,, Illinois Municipal Retirement Fund and Working Cash

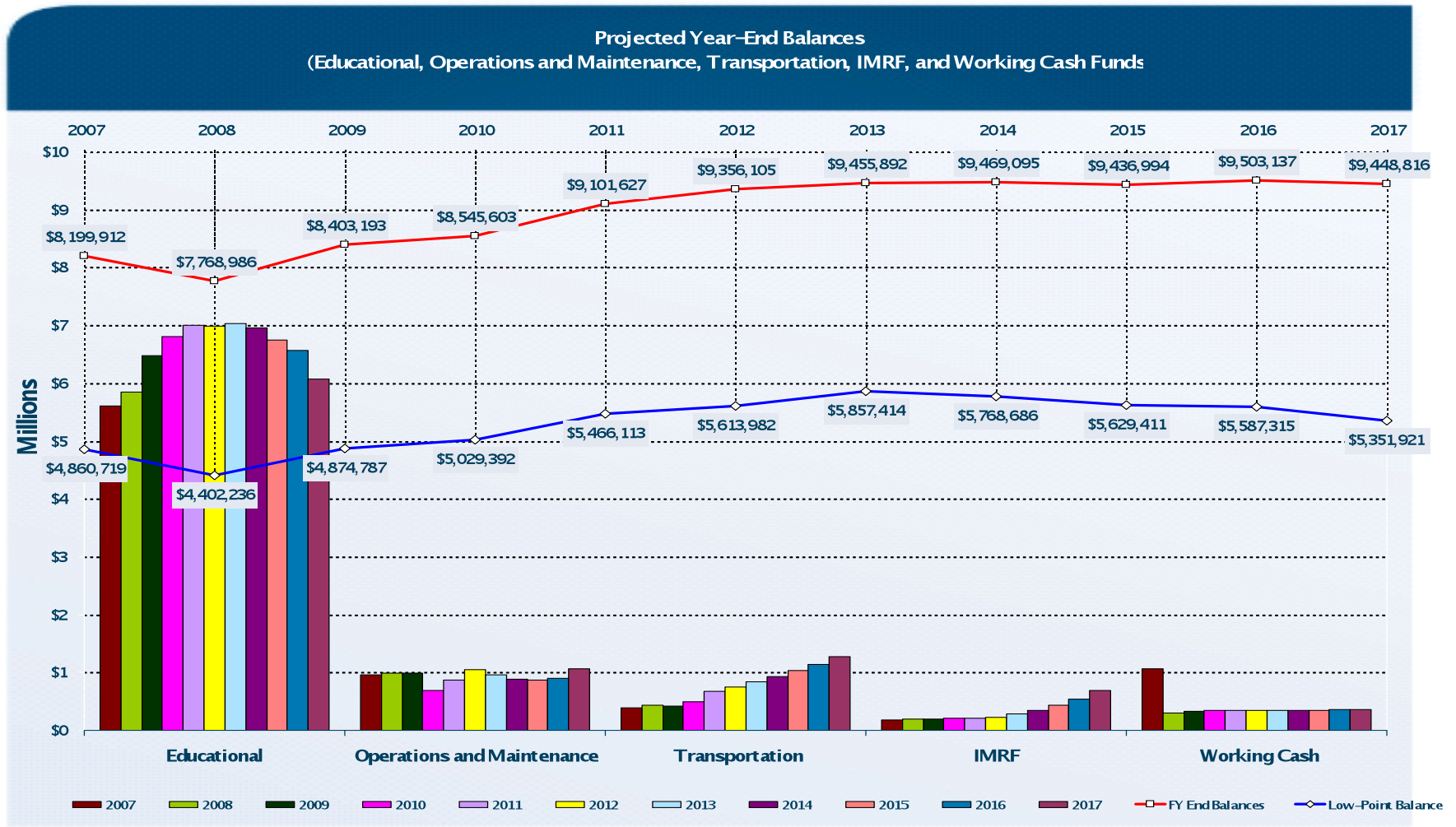
Sample – Revenue vs. Expense



Sample – Ending Fund Balances



Sample – Summarizing Chart



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