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MEMO

To: Board of Education

From: Anthony Cozzi

CC: Dr. Ed Condon

RE: COVID-19 Financial Implications

Date: April 30, 2020

I am writing this memo to give you high-level information about the financial implications of COVID-19 for the remainder of the current fiscal year, fiscal year 2021 and beyond.

Current Fiscal Year (As of 4/30/20)

Revenues –

Property Tax collections and CPPRT (our largest revenue sources) are at 97.7% of budget compared to 98.2% at this time in the prior year. All other local revenue are well over budget projections for this time of the year due to an unusually large Interest on Investments distribution from the Township School Treasurer as well as a large distribution from the IMET case. Both of those extraordinary items were discussed at previous Board meetings and are just that, extraordinary. Total actual revenue amounts include a significantly reduced amount of Summer School Tuition due to a number of class cancelations and subsequent refund requests. It still remains to be seen what effect COVID will have on our registration fees for the 2020-2021 school year. Early bird registration opened on April 20, which was earlier than the May 15 date from last year, with the standard fee date consistent with the June 15 date from last year. Thus, the District has begun receiving registration revenues earlier than last year. We haven't received any, nor do we expect to receive any refund requests between now and June 30th. In addition, the time frame is too small to determine if there is a slowdown of activity.

Evidence-Based Funding distributions from the State have been received fully through 3/31/20. ISBE is committed to make all payments in a timely manner. The April payments have been vouchered and are with the State Comptroller waiting for disbursement. It remains to be seen if the April and subsequently, the May and June payments are received in a timely fashion. The remaining payments (including April's) total approximately $293,000.

For all other state mandated categorical programs, only one of the three payments have been received. ISBE is estimating that it will not distribute the remaining two until the next fiscal year. While it is common for the one of the three payments to overlap into the next fiscal year, delaying two into next year will be significant as the remaining payments total approximately $353,000.

All federal funds that have been claimed through monthly and quarterly expenditure reports have been vouchered and received by the District. No delays in these revenues are expected through the end of the fiscal year as ISBE is merely a pass through entity. The only decrease in revenues we expect to see is in our Special Milk reimbursement grant due to our lack of milk consumption from March 16th through the end of the school year. That, however, is offset by the lack of milk supply costs.

Expenditures –

Expenditures other than Regular Transportation, Special Education Transportation, Interscholastic Transportation, Staff Travel/Professional Development, Electricity, Water Usage and a small amount of Supplies have continued on at an approximate normal rate. Total expenditures are at 76.2% of budget compared to 77.6% at this time last year. We don't expect to see a significant savings in our expenditures through the end of the year. We have incurred some remote learning and PPE expenditures, which should offset any savings we realize from above. We hope that these costs will be considered allowable expenditures to be claimed under the CARES Act grant and/or a FEMA grant. We do, however, expect a significant increase in salaries through the end of the year as the teaching staff is taking full advantage of the Staff-Initiated Curriculum stipends for their Remote Learning lesson planning. That could be as much as a $200,000 increase over last years' stipend payouts.

Fiscal Year 2021

Revenues –

After discussions with Maria Pappas, Cook County Treasurer, it seems probable that the bills for the 2nd installment of property taxes normally due August 1st will be delayed thirty to sixty days. Our cash flow is adequate to cover that time frame as long as we are able to close on our Life Safety Bonds sale by mid-July. If you remember, back in the Great Recession, property tax bills were delayed one year until December 1st and we survived. However, if we do not close the bond sale by mid-July, we will be forced to approve a temporary interfund loan from the Working Cash Fund to the Operations and Maintenance Fund to cover life safety construction costs and that, along with delayed tax collections will put a strain on our cash flow. Unfortunately, that is not the most worrisome piece. Even with a timely bond sale close, the biggest worry is not the timing of the property tax bills, but the property tax collections and distributions. According to Mrs. Pappas, due to rash of unemployment and business closures, regardless of when bills come out, collection percentages are due to plummet. Even escrow payments, which normally are the first to be paid, are being cancelled by property owners. We could see a reduction of up to 25% in the 2nd installment collection rate, which normally sits around 98%. Even the 1st installment of 2020 taxes due on March 1, 2021 could be affected. This reduction could be up to $5,000,000 for District 90. Please note, that these percentages are being estimated county-wide. Hopefully, the demographics of District 90, without a large percentage of commercial/industrial properties and vulnerable businesses and a large percentage of affluent homeowners that may still be able to afford to pay their property tax bills, will allow for the collection rate to not drop as much.

Corporate Personal Property Replacement Taxes (CPPRT) are received from the Illinois Department of Revenue. They are collected by the State from local corporate income and other taxes received. Due to the projected reduction in sales by businesses during the closure and subsequent reduction of income taxes paid, CPPRT is projected to reduce by 40%. For District 90, that is a reduction of $62,000 of the normal $155,000 received.

We have already been told by our Township School Treasurer to expect a significant reduction in Interest on Investments. For other local revenues, it still remains to be seen how local registration fee collections are affected. We may see a significant increase in families eligible for fee waivers and free/reduced lunches. Our current fee waiver percentage sits around 7%.

District 90 is classified as a Tier 4 district for Evidence-Based Funding, our largest state aid revenue. According to the EBF plan, if the State incurs such a shortfall in revenues and cannot fully fund the Base Funding Minimum, Tier 4 districts would be the first to see a reduction on a per-pupil basis equivalent to the total number of the Average Student Enrollment. While it could be a political disaster to repeat this, let's not forget that the State prorated General State Aid every year between 2010 and 2016, with a low funding rate of 87.1% in 2015. Currently, District 90 receives $1,072,000 in EBF funding.

As mentioned above, the last two installments of fiscal year 2020 state mandated categorical programs will be received during fiscal year 2021. ISBE says it's possible that is all they will be distributing during that fiscal year, thus putting them three payments behind by the end of that year.

Regardless of that projection, we remain hopeful that ISBE will still distribute the $50,000 School Maintenance Project Grant that we were awarded to cover a portion of our Roosevelt Window project. Finally, we don't anticipate any reduction in our federal grant funding.

<u>Expenditures</u> –

Regardless of whether we are utilizing remote learning or in-person learning at the start of the next school year, Salaries and Benefits, which are approximately 70% of the total budget will not significantly change from our previous projections as all positions on the previously approved staffing plan are set to be filled. The Board should consider whether or not any additional vacancy fill requests are essential prior to approving. Most other expenditures will remain as projected, except those mentioned above in the Fiscal Year 2020 section if remote learning continues. Any decrease in the need for in person supplies and materials will be offset by the need for remote technological supplies.

If the worst case scenarios occur during this fiscal year, it would require utilizing our Working Cash funds to provide interfund loans (for delayed revenues) or interfund transfers (for permanently decreased revenues) to cover operating fund deficits. As you know, our normal projections expected deficit spending. This would exacerbate the deficit. It could get to a point where we would have to seek short term borrowing, such as tax anticipation warrants from local financial institutions.

<u>Beyond Fiscal Year 2021</u>

Due to uncertainty, we won't speculate too much. However, there are several items to consider without too much speculation. First, there is a good possibility that the Consumer Price Index (CPI) for December 2020 will be at or near zero, it may even be in negative territory for the first time in recent memory. That affects the amount that the District can increase the 2020 tax levy, which would be received (if property owners pay) in August of 2021. It also affects the collective bargaining agreement with the teacher's union. The current contract has salary increases tied to CPI with a percentage floor. If the CPI is zero or negative, the spread between the floor and actual will be large. Additionally, our Debt Service Extension Base increases each year by CPI. A low or negative CPI decreases our future bonding power. The District is planning for a sizeable Working Cash bond sale in 2023.

Finally, if the State does not have the dollars to fund EBF, pay mandated categorical and other obligations, it could ultimately lead to the much anticipated pension cost shift or recently discussed property tax freeze. Our projections account for a pension cost shift, but not a tax freeze.
As mentioned each year, projections are fluid. At no time was this statement more appropriate than now. New information will be coming to us on a daily and weekly basis and we will be ready to adjust and modify our decisions accordingly.

If you have any questions or comments, please feel free to contact me.