WOODRIDGE
SCHOOL DISTRICT 68

memo

To: The Board of Education and Dr. Patrick Broncato, Superintendent
From: Curt Saindon, Assistant Superintendent for Business Services/CSBO
Date: December 12, 2024
Subject: Business Services Update – December

Accounting/Financial Reporting

November's ending fund balance totaled $69.08M, down by $4.41M from October's ending fund balance of $73.49M. We collected $1.25M in revenues and paid out $5.66M in expenses in November. November's revenues and expenses were typical for this time of year, given the fact that we had three payrolls in November. November is our second "normal" revenue and expenditure month of the year and we will continue steadily drawing down fund balances through May when we get our first early tax payment for next year. After receiving our second large property tax installment on September 6th we were at our "high water mark" for fund balances for the year (at $77.51M), and we will rely on those reserves to carry us through May (we got $2.9M in late May and $21.3M in early June this year from early tax receipts) as we draw down our balances toward the $45M to $50M range.

November expenses totaled $5.66M and included $542K in regular board bills, with about $364K of this total in the Education Fund, $120K in the O&M Fund and $58K in the Transportation Fund. We also processed three regular payrolls accounting for just over $5.1M in total payroll expenses. Our fund balances typically decrease in July and August, then increase significantly in September, before decreasing for the rest of the fiscal year until June (September is our high point at $75M to $80M typically and May is our low point at $45M to $50M).

In November, we booked Property Tax Receipts ($201K). We associated Interest ($53K), regular Interest Income ($262K), Investment Depreciation ($35K), EBF State Aid ($420K), Food Service Receipts ($71K), IDEA Reimbursements ($111K) and Solar Revenues ($156K). This represents over 99% of all revenues collected in November. Overall, we were at $69.08M in reserves at the end of November, and we were $67.85M at the end of November last year (a $1.23M increase). This is a very good result, considering the amount of capital projects work we completed this past summer (about $2.5M in total capital projects) and transfers made to cover the needed construction work, in addition to our growing salary and benefit costs.

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<u>Investments/Cash Management</u>

<u>At the end of November, we held about $9.94M in Cash and Cash Equivalents (0-30 days), $10.32M in Short-Term Investments (30-90 days), $15.11M in Mid-Term Investments (90-365 days) and $33.71M in Long-Term Investments (over 1 year).</u> As rates drop and the investment curve returns to normal, we will move investments out to longer maturity dates as cash flows allow, but for no,w we are leaving larger amounts in cash and short term investments as they remain slightly higher than mid-term and long-term investments (currently around 4.6%-4.8% vs. about 4.1%-4.4% for longer term investments). <u>We are currently investing about $44.98M with PFM, $14.25M with Fifth Third Bank, $8.92M with PMA and $927K with Old National Bank.</u> As of 11/30/24, we have no outstanding vouchers with ISBE. We are in very good shape from a cash flow standpoint, and our cash management and investment program is set to capture interest earnings in the current high interest rate environment. <u>We earned just over $3M in net investment returns last year, including investment appreciation, and so far this year, we have earned $1.295M in interest income and $517K in investment appreciation. We expect interest income to peak in FY2025 and then trend downward thereafter.</u>

Due to a continued inverted investment curve, we have been using short-term investments and cash equivalents to maximize interest income while utilizing longer term investments to ensure positive overall returns. However, for the first time since the early days of COVID, the Fed has begun cutting rates (by 50 basis points in late September, 25 basis points in early November and 25 basis points in mid December) to be followed by another 100 basis points of expected cuts in 2025. This will eventually lead to the return to a normal upward sloping investment curve, where investing out for a longer time frame will yield higher returns. In an attempt to curb inflation, interest rates had risen by over 5.25% from March of 2022 through July of 2023, but they are now starting to come back down. Inflation increased slightly, rising from 2.6% in October to 2.7% in November. <u>Overall, rates have dropped to about 4.75% for short-term investments, 4.4% for mid-term investments and 4.15% for long-term investments, indicating the expectation that rates will keep declining in the near term.</u> Base interest rates are now expected to decline to about 4.25%-4.5% by the end of 2024, 3.25%-3.5% by the end of 2025 and 2.25%-2.5% by the end of 2026. We earned about $1.75M of interest income in FY23 (about $1.4M, net of asset depreciation) and $2.63M in FY24 (about $3.1M, net of asset appreciation), and we expect to earn $3M+ in FY25, as long as we continue to ladder out investments and roll them into high return vehicles as they mature. <u>Our continued level of fund balance reserves (~$50M-$78M), along with a coordinated cash management and investment plan, allows us to realize increased interest earnings and provide additional funds for operations.</u>

State Legislation

The 103rd Session of the General Assembly came to a close with the completion of this fall's Veto Session and planning has begun for the 104th Session to begin in January. There was very little action during the recent Veto Session, and virtually nothing happened related to education. There was a lot of action and talk about a Tier II Pension Fix being developed for this spring, and we expect something to happen in 2025. Additionally, several bills will be discussed and passed to presumably protect Illinois from federal legislative rollbacks and presidential executive orders. The recently completed election solidified Democratic Super Majorities in both chambers and it will most likely be business as usual for the Democrats in Springfield. The General Assembly largely supported and moved the Governor's budget this past spring, and the same is expected for next year. The past six and a half years have been favorable for public education under Governor Pritzker's Administration with increased funding and minimal negative legislation. If we can reduce unfunded mandates, needless red tape, and simplify the school code we should be in good shape. However, the State budget is expected to be very tight next year and not much new money for education (or anything else for that matter) is expected.

Federal Legislation

In Washington, a December 20th continuing appropriations expiration date looms over Congress, and it remains to be seen if a budget compromise will happen if an extension will be negotiated, or if the government will shut down. With President Trump winning the White House back and Republicans overtaking the Senate while maintaining control of the House, the balance of power has decidedly shifted to the right for the next few years. The economy remains healthy and is moving in a positive direction, but the prospect of severe tariffs and potential price increases and inflation has many on edge. Several federal education issues have moved into the spotlight, including the possible elimination of the Department of Education, funding for IDEA and ESEA grants, Medicaid services, Title IX protections, Cyber Security in schools, School Choice, Student Loan Debt Relief, Transgender Rights and Religion in Schools, to name a few.

If inflation stays in check, prices cool and labor markets soften, the economy is primed to grow as long as tariffs don't upset the apple cart. Foreign Policy (Russia-Ukraine, the Middle East, North Korea and China) and Immigration Policy (mass deportations and border security) will remain the two main issues for the new President (not education). We continue to push for expanded federal meal program support and increased IDEA, Medicaid and Title Grant funding, but we may very well be looking at flat funding at best and funding cuts at worst under the new administration. It remains to be seen if the results of this election will result in major changes for public education during the next four years…stay tuned.

Legal Matters

There is very little going on with regard to legal matters except for some ongoing personnel inquiries and special education matters, as well as some WEA-IEA contract language cleanup work. We are also monitoring the Social Media Class Action lawsuit. However, no other significant legal matters are pending at this time. We are beginning to receive tax appeals and tax objections for 2023 (PTAB) and 2024 (BoR), and we will keep you posted if we get any major ones (right now we just have a handful of smaller ComEd appeals related to the valuation of easements and right of ways). As always, with the settlement of the prior year's tax objection lawsuits now done and the ongoing and active management of our fund balances (to keep our Miller Ratios below 2.0), we hope to minimize, or even eliminate altogether, any future tax objection lawsuits…but assessment appeals will always be occurring.

Economic Trends

Year-over-year inflation (CPI) increased in November, coming in at 2.7% (it was 2.6% in October), after peaking at 9.1% in June of 2022. The June 2022 CPI was the highest in over four decades and way above the desired 2.0% - 2.5% target range set by the Fed. Year-over-year core Inflation remained unchanged at 3.3% in November, as the trend of Core CPI exceeding Full CPI continued. The Fed cut rates for the third month in a row in mid December (by 25 basis points), leaving the Prime Lending Range at 4.25% to 4.50%. We expect 100 bps of cuts in 2025 and the same in 2026, and that would drop the Fed Funds Rate to about 3.25%-3.50% by the end of 2025 and 2.25%-2.50% by the end of 2026. The GDP is expected to grow moderately this year (by about 3%) and then ramp up to 3.5%-4.5% over the next few years. Unemployment is expected to increase slightly to around 4.5%-4.75% and CPI and Core CPI are expected to trend down toward 2.25% in 2024 and 2.00% in 2025. A target CPI and Core CPI range of 2.0% to 2.5% has been set by the Fed, but severe tariffs could lead to price increases that generate upward pressure on both prices and related inflation.

Student Transportation

We are developing bid specs with D58 and D99 for our regular student transportation services bid that will be put out in January. We met with Sunrise and some SASED Member Districts recently (and Rachel Wisniewski, the business manager from SASED). We plan to recommend a 3-year contract extension with Sunrise in February or March. We are also using a few other new alternative service providers on a limited basis to supplement our McKinney-Vento and unique Special Education busing needs, as needed. Overall, the number of routes and bus riders stayed fairly steady this year (we are currently at 35 reg. ed routes, 21 special ed routes, seven unique special ed routes, and 4 McKinney-Vento routes). We expect to spend about $4.25M this year on student transportation. In total, last year, we spent about $2.75M on regular education transportation and $1.25M on special education transportation, and we got back about $1.4M on state transportation reimbursements and used $2.6M from our Transportation Levy. Expenses are expected to increase by about 5% this year, based on existing First Student and Sunrise renewals. We hope to complete the bid process for regular student transportation services and bring a recommendation to the Board in February or March for a 5-10 year contract term with an approved student transportation services provider.

Technology

Josh and his team have been very busy implementing and managing several large technology projects, including card access (Verkada), casting services (Vivi), automated time reporting (Time & Attendance), SIS implementation (PowerSchool), expanded security camera monitoring (Avigilon), and a new Food Service software program (MBA Café), in addition to planning for next year already. Even more importantly, they welcomed Mike back after an extended absence and he is getting back into the swing of things. We are beginning to plan for Year 27 of the Federal E-Rate Program and are looking at ways to enhance our cyber security program and minimize the chance of a cyber-attack or data breach. We have again achieved a top-tier Cyber Risk vulnerability rating with SSCIP. Mike and Josh have worked with our Cyber Security Consultants to establish one of the best Cyber scores in the SSCIP Cooperative. These efforts will help ensure we get the best renewal possible for our Cyber Liability Insurance Program (a 4% decrease in premiums for next year ☺ !). We appreciate the hard work that Josh and his team have put in over the past several months!

Utility Management

We began participating in our new energy purchasing cooperative for natural gas and electricity (the IUPC) on July 1st and things have continued to run smoothly. We moved away from individual energy contracts with Constellation New Energy and Exelon and into the IUPC purchasing cooperative. Additionally, we renewed our Demand-Response contract with NRG Energy, where we earn energy rebates in exchange for agreeing to reduce consumption if the utility needs to call a weather related “emergency event” (we had a test event on December 12th and all went well). We are now receiving State reimbursements for our four existing solar arrays ($155K in November), and we are planning for the installation of solar arrays at our remaining three schools this coming summer. Electricity costs are expected to increase significantly in 2025 due to dramatically increased PJM capacity charges. However, our reduced electric demand (due to the solar arrays) will minimize those increases. With our initial solar projects done, we are now in the process of starting to collect State Renewable Energy Credits and have filed for Federal Inflation Reduction Act Tax Credits. We expect to provide information to the Board in January for Phase II recommended contractors and with Board approval, we would begin planning for next summer's roof work and solar array installation work.

Employee Benefits

BenefitSolver is now up and running for all staff, and we have just completed an eligibility audit for health insurance dependents through the EBC. We recently completed our Fall Flu Shot Clinic (on 10/9 and 10/16), and we have dates set for our spring biometric health screening clinics in February and March. We also just completed our 403(b)/457(b) universal availability notice to all staff, and we are looking to add a few requested investment providers to the Omni portal. Additionally, we have rolled out a Wellness Committee and a 403(b) Committee this fall, and we are developing work plans for each group to help ensure that our staff knows about the various employee benefit programs offered by the school district, in addition to our Fall Flu Shot Clinic and Spring Biometric Health Screenings.

Food Services

We just completed our ISBE Food Services Audit and overall, things went very well. We are also evaluating the Open Kitchens bulk food program and will decide if we will do an RFP in the next few weeks. There have been a lot of personnel changes and we are working to get everyone settled in and productive in their new roles. We have worked through some operational and administrative challenges, as well as some menu glitches, but the food does seem to be better, and we are getting positive feedback from students and staff. We are hoping that participation increases dramatically and we will be starting up an Advisory Committee and taste testing potential new menu items at all schools this year. We are focusing on increasing student interest and participation and improving menu options and meal variety. Finally, we will decide in the next few weeks if we will prepare a food service RFP for next year or renew and extend our existing contract with Open Kitchens. While the new program is a definite improvement over prior years, we are always looking for ways to improve the program and maximize participation while minimizing costs for our families. More information will be forthcoming over the next few months, and if we do decide to go out to bid, we would most likely do that in January, in hopes of bringing a recommendation to the Board in March or April, if possible.

Custodial and Maintenance Services

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With the approval of Kyle Hanson to take Alex's place, we are now interviewing for Kyle's current position at JJH…we hope to have that done in a few weeks. Once filled we will begin job shadowing and cross training for both jobs in earnest. We are currently fully staffed thanks to Alex's diligence, and we continue to use Minuteman Staffing to help out with any temporary/short term staffing needs during the school year. Alex has done an awesome job maintaining a top notch custodial staff despite the tight labor market and nagging turnover. The custodians have done a great job and our buildings have received compliments from staff and visitors alike. We also just completed our annual DuPage ROE Health Life Safety inspections and received compliments and high marks from the ROE inspection team.

Construction and Capital Improvements

With the approval of the CIP III plan (34 projects anticipated to cost about $12.5M over the next 4-5 years), we prepared bid specs for this summer's upcoming work and received Board approvals in October. Our 2025 work will start on June 2nd and should be substantially completed by August 8th, and includes miscellaneous HVAC work, electrical work, locker painting, roof work, window treatments and landscaping upgrades. We also have solar array installations and related roof work at Edgewood, Meadowview and Goodrich coming to the Board in January. We spent just under $21M (on $25M of budgeted work) during our first CIP cycle, about $11.6M (on $13.7M of budgeted work) during our second CIP cycle, and we expect to spend about $10.6M on $12.5M of identified projects during our third CIP cycle.

Risk Management

Our Annual SSCIP Renewal Meeting was held on December 6th (see the related Board recommendation) with very good renewal terms. The SELF program is also running smoothly (we focused on loss control and risk management at our mid-year meeting). Both cooperatives are running very well and are financially sound. I began my four year term as Chairman of the SSCIP Executive Board in July, and so fa,r things are going well. We continue to have excellent claims experience with both insurance cooperative programs, and although those markets have seen larger than normal increases in recent years, we have received very competitive renewals for both programs. Both SSCIP and SELF continue to be financially sound and well positioned, and they have adequate reserves in place to assist with premium reduction actions as needed.

As always, please let me know if you have any questions regarding the finances or operations of the Business Office or the School District. Thank you.