Palos Heights School District 128

Financial Analysis Presentation

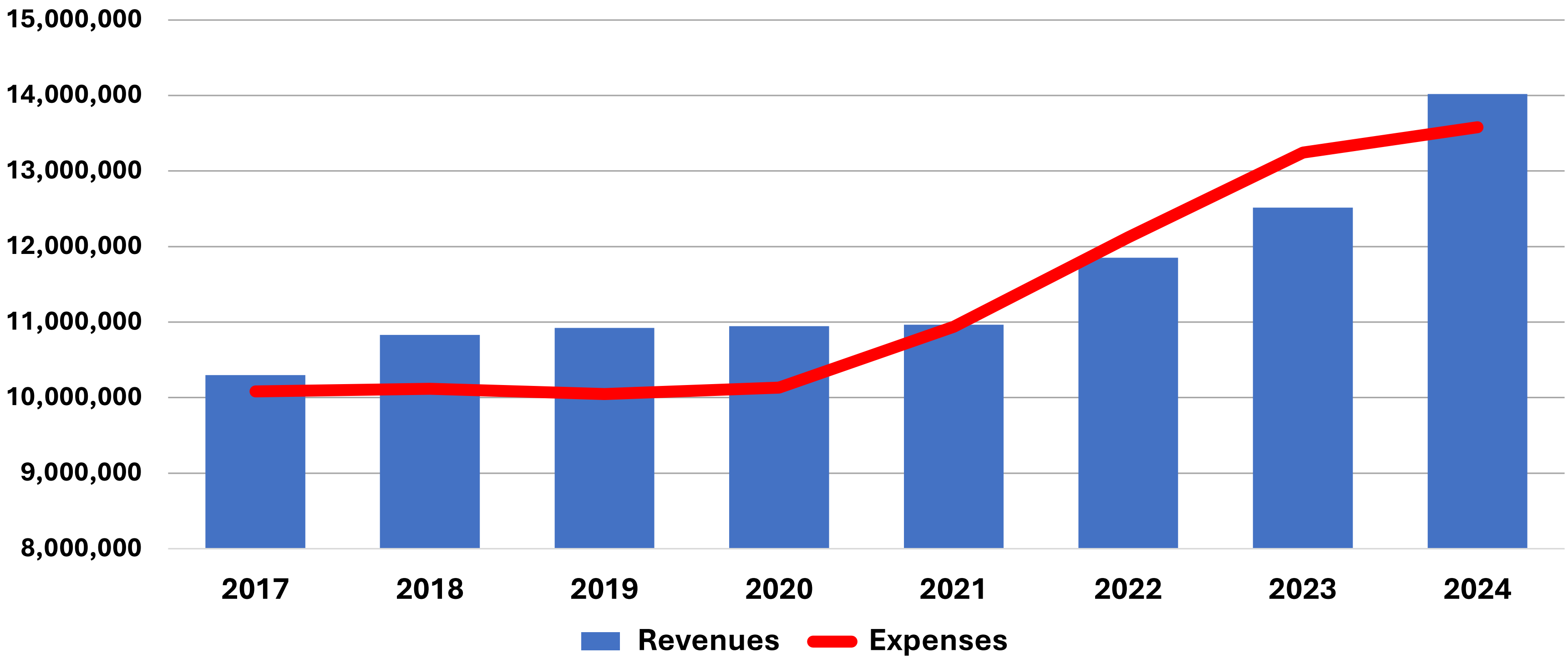
January 2025

Illuminate

Historical Financial Summary

Audited Revenues and Expenses

Excluding Major Capital Activity

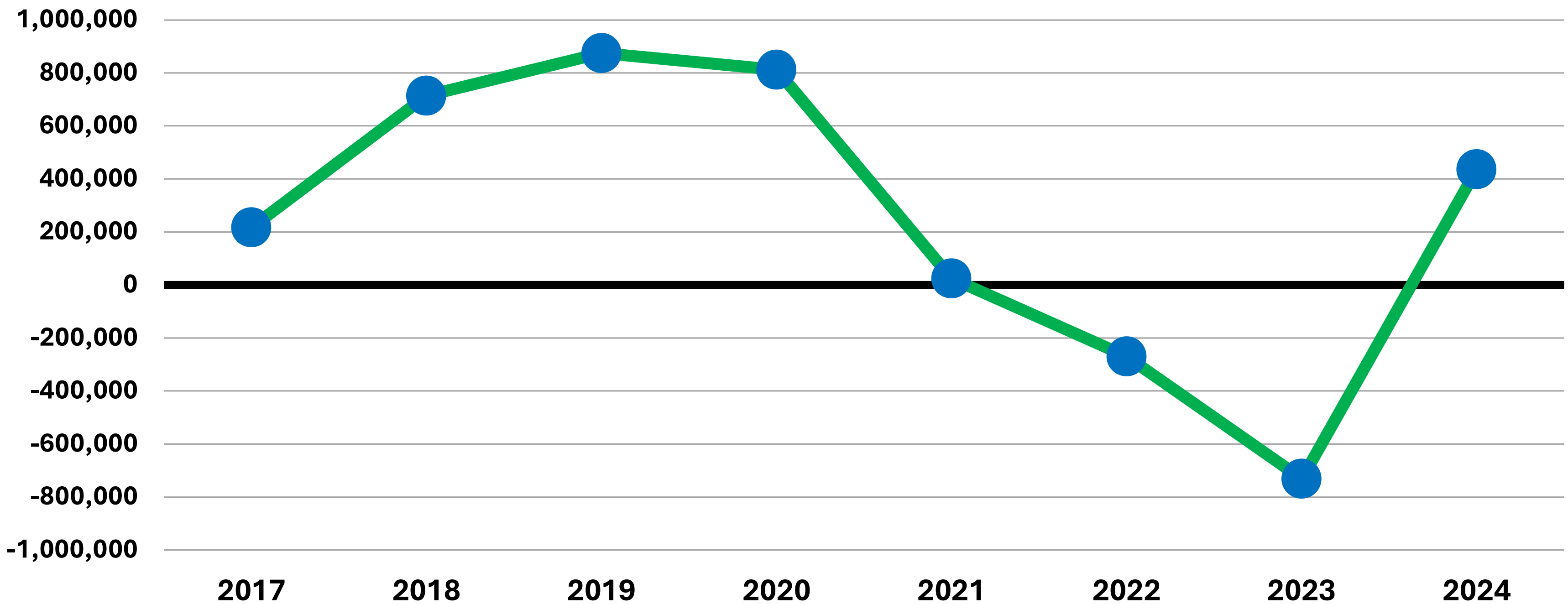


4.50% Compound Annual Growth Rate – Revenues

4.35% Compound Annual Growth Rate – Expenses

Annual Revenues vs. Expenses

Excluding Major Capital Activity



Over the past eight fiscal years, total revenues have exceeded total expenditures by $2 million.

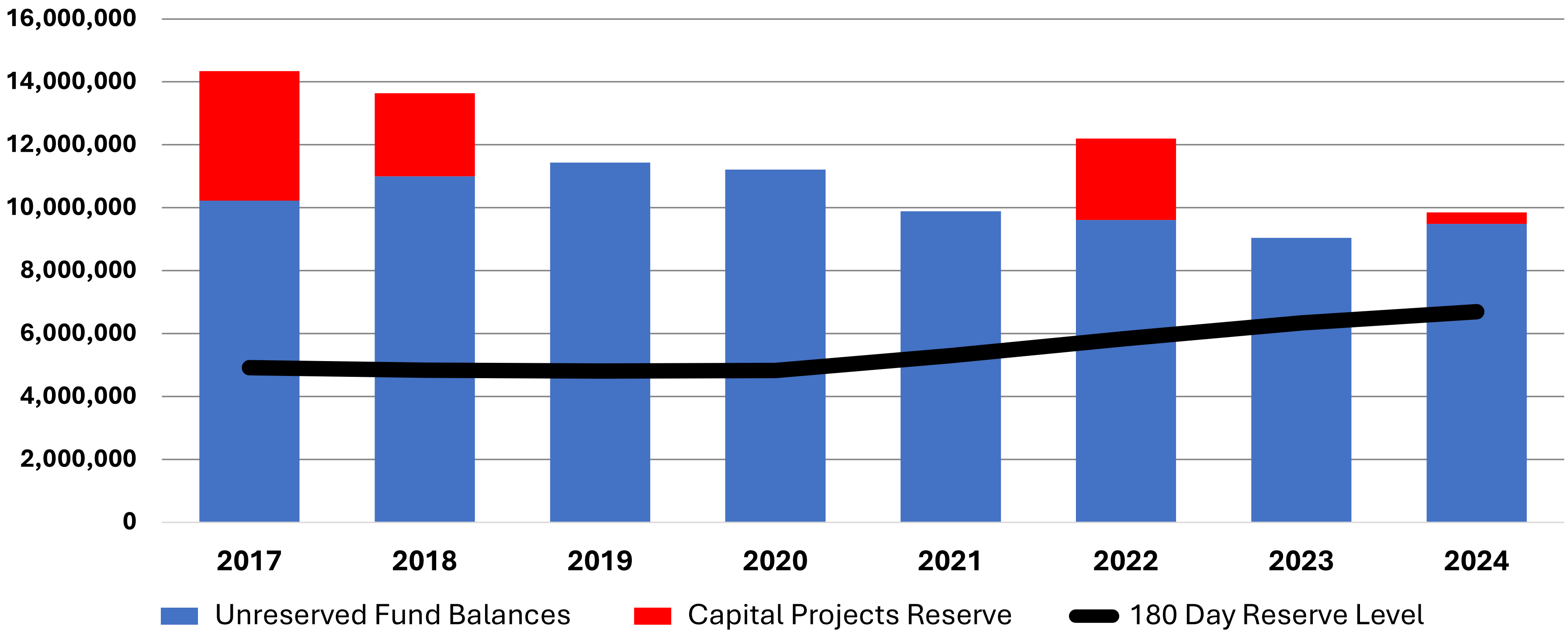
Factors Impacting Fund Balances

Fiscal Year	Non-Capital Surplus/Deficit	Capital Fund Investment	Bond Proceeds	Net Impact on Fund Balances
2017	$ 217,000	$ (109,000)	-	$ 108,000
2018	714,000	(1,414,000)	-	(700,000)
2019	875,000	(3,084,000)	-	(2,209,000)
2020	812,000	(1,032,000)	-	(220,000)
2021	24,000	(1,352,000)	-	(1,328,000)
2022	(270,000)	(2,417,000)	5,004,000	2,317,000
2023	(731,000)	(2,424,000)	-	(3,155,000)
2024	436,000	(1,710,000)	2,075,000	801,000
Total	**2,077,000**	**(13,542,000)**	**7,079,000**	**(4,386,000)**

Between FY17 and FY24, D128 invested $13.5 million in major capital projects. $9.1 million was covered by annual surpluses and bond proceeds. The remaining $4.4 million was funded through fund balances and capital reserves.

End of Fiscal Year Fund Balances

All Funds



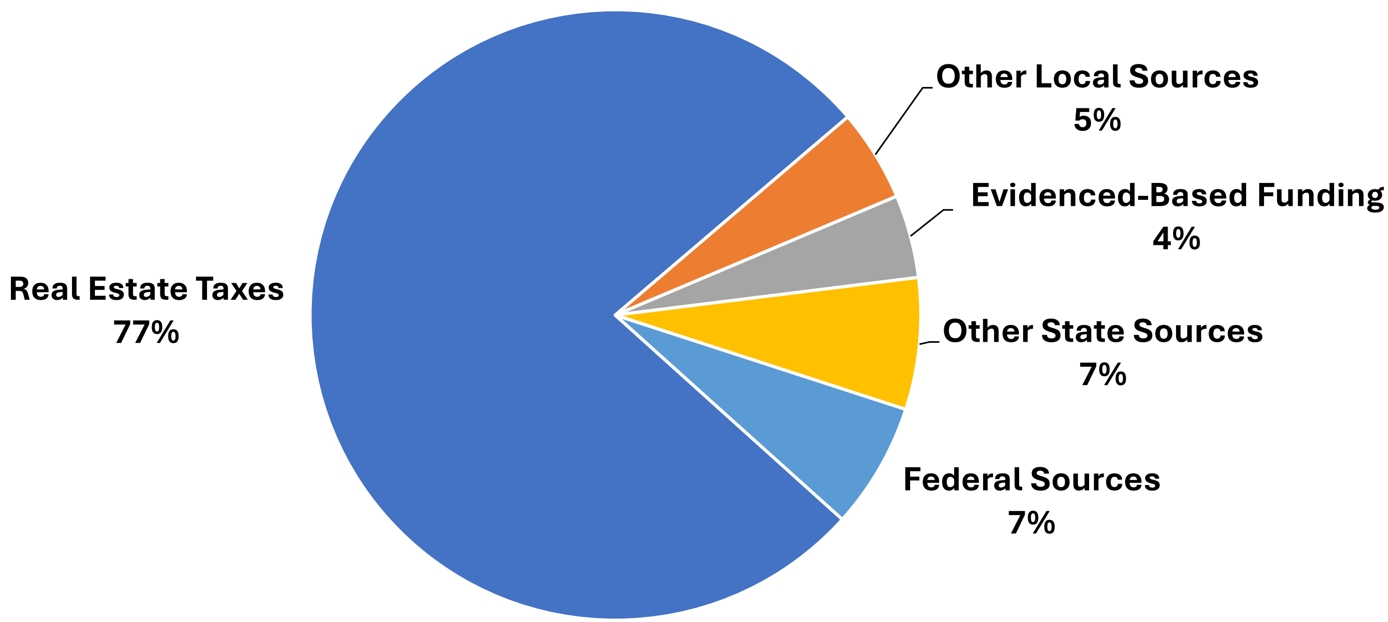
Financial Forecast

Future Financial Headwinds Anticipated to Impact Illinois School Districts Over the Next Several Years

Real estate tax revenue growth in tax-capped school districts are expected to decrease dramatically as CPI growth (inflation) declines.
ESSER funds, which have been a valuable source of fiscal stability for both school districts and the State, have dried up. Will this impact future State funding?
Corporate personal property tax revenues will have declined over 60% since FY23 as the IDOR adjusts for its prior period error.
Interest earnings are expected to decline as the Federal Reserve lowers rates.
Expenses tied to labor intensive areas of budget (i.e. collective bargaining agreements, transportation services and special education) have been soaring.

Composition of Revenues – FY 2024

Real Estate Taxes Comprise 77% of District Revenues



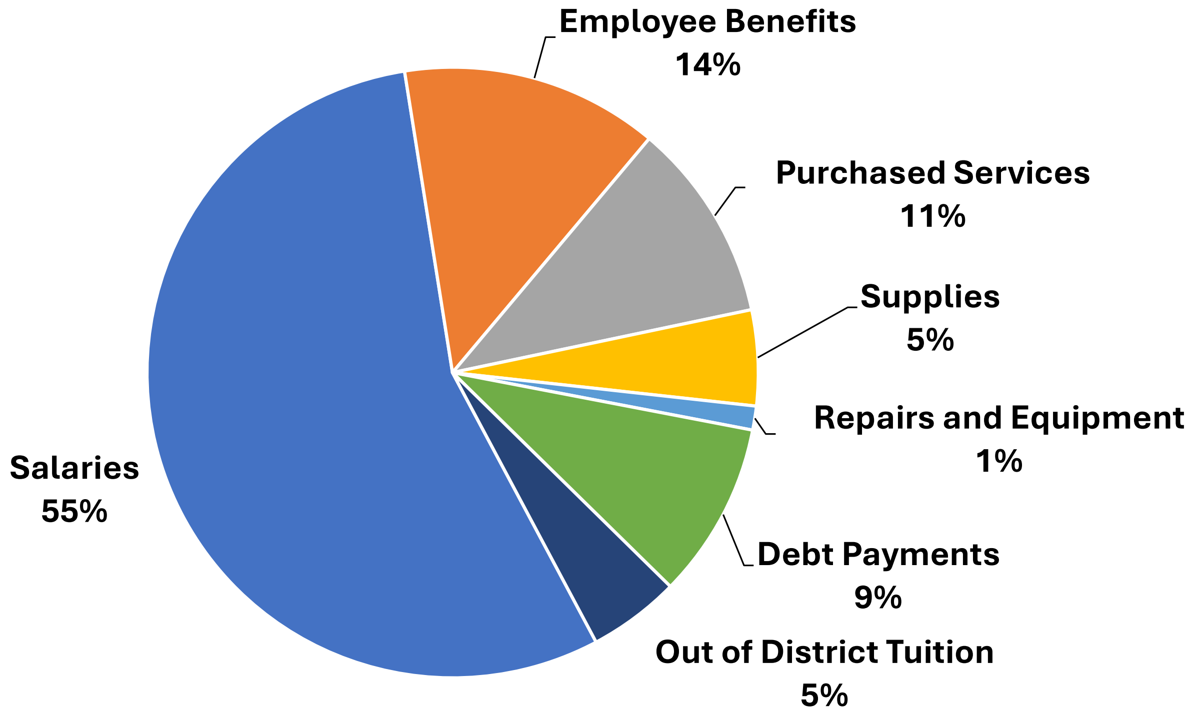
Major Projection Assumptions - Revenues

- Real estate tax revenue growth will be tied to inflation levels as follows: 2024 levy (3.4%), 2025 levy (2.9%) and then projected at historical average CPI growth rate (2.4%) thereafter.
- Corporate Personal Property Taxes are projected to decrease $75,000 in FY25 and be flat thereafter.
- Interest earnings are expected to decrease based on assumption that the Federal Reserve will lower interest rates during the projection period.
- Evidenced-Based Funding dollars will increase $2,000 annually (historical average).
- The District will receive its final ESSER grant payment of $162,000 in FY2025.
- Other State and Federal grant revenue growth will be relatively flat.

Impact of Assumptions: Total revenues are projected to increase at an average annual rate of **1.5%** during the projection period.

Composition of Expenditures – FY 2024

Employee Salaries and Benefits Comprise 69% of District Expenditures



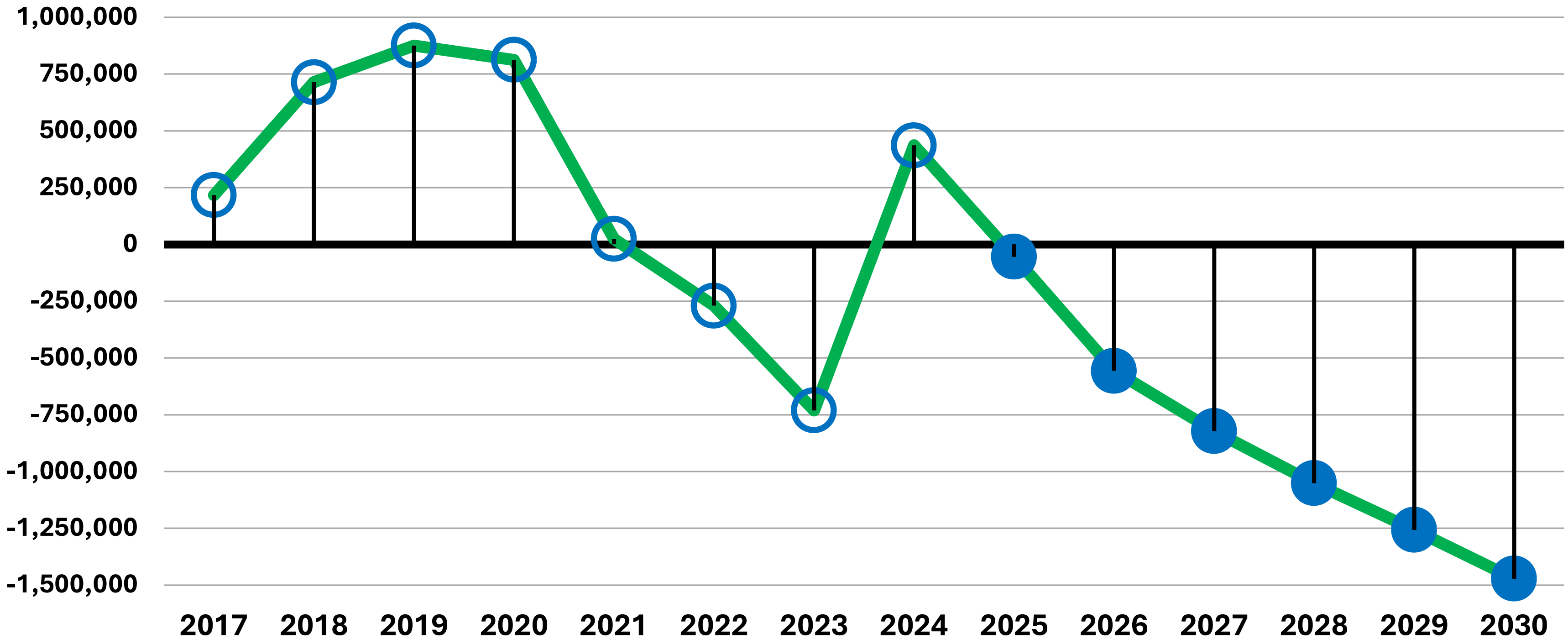
Major Projection Assumptions - Expenditures

- The District is projected to hire one occupational therapist and one special education teacher beginning in FY26.
- Salary expenses are projected to increase on average 4.4% annually during the projection period based primarily on current labor agreements, projected raises and increases in staff composition.
- Driven primarily by increases in health insurance premiums, employee benefits are projected to increase at an annual growth rate of 5.0%.
- Out-of-District tuition expenses are projected to decrease by $326,000 in FY26 (four students) and then increase $85,000 in FY27 (one student).
- The District is projected to invest $3 million into major capital projects during the projection period utilizing $3 million in bond proceeds to be issued in FY25.
- All other expenses will increase approximately 3% annually.

Impact of Assumptions: Total expenses are projected to increase at an average annual rate of 3.6% during the projection period.

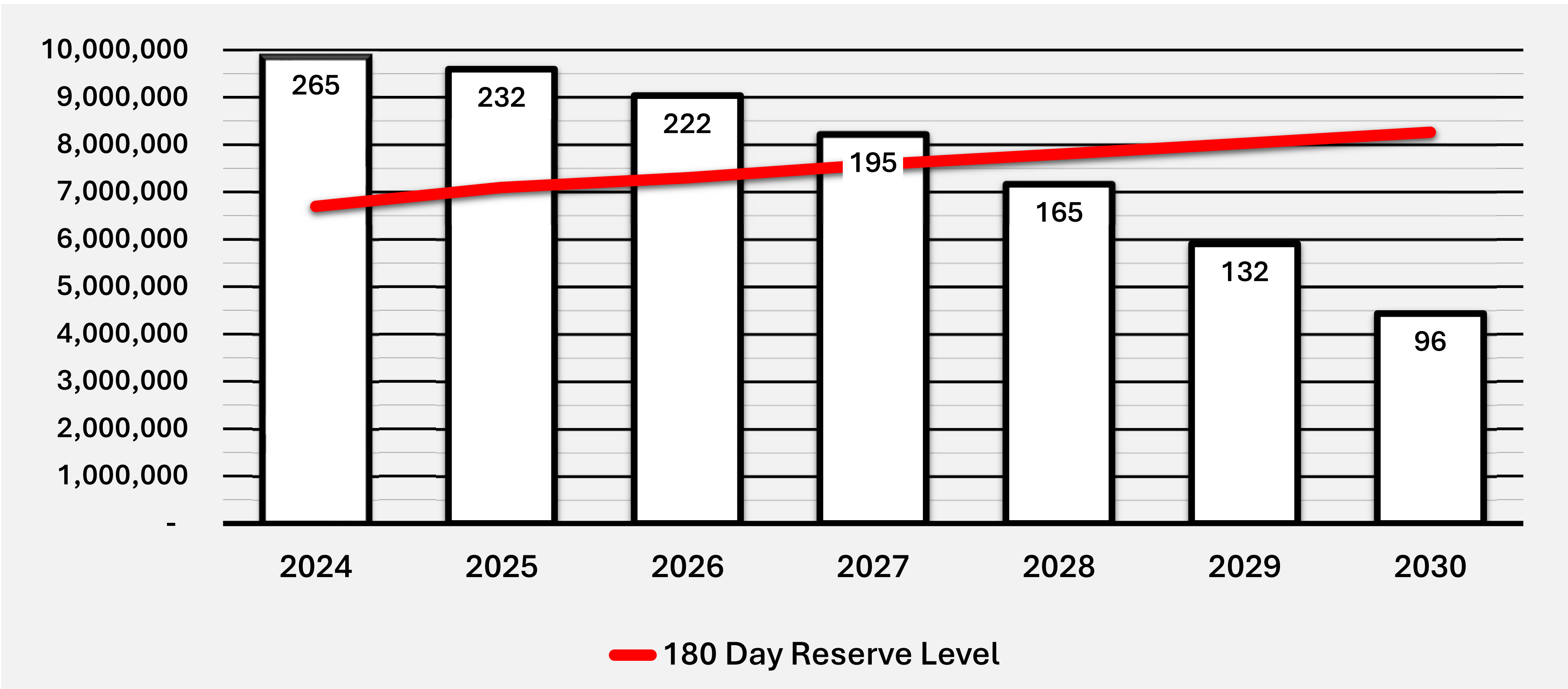
Historical and Projected Revenues vs. Expenses

Excluding Major Capital Activity



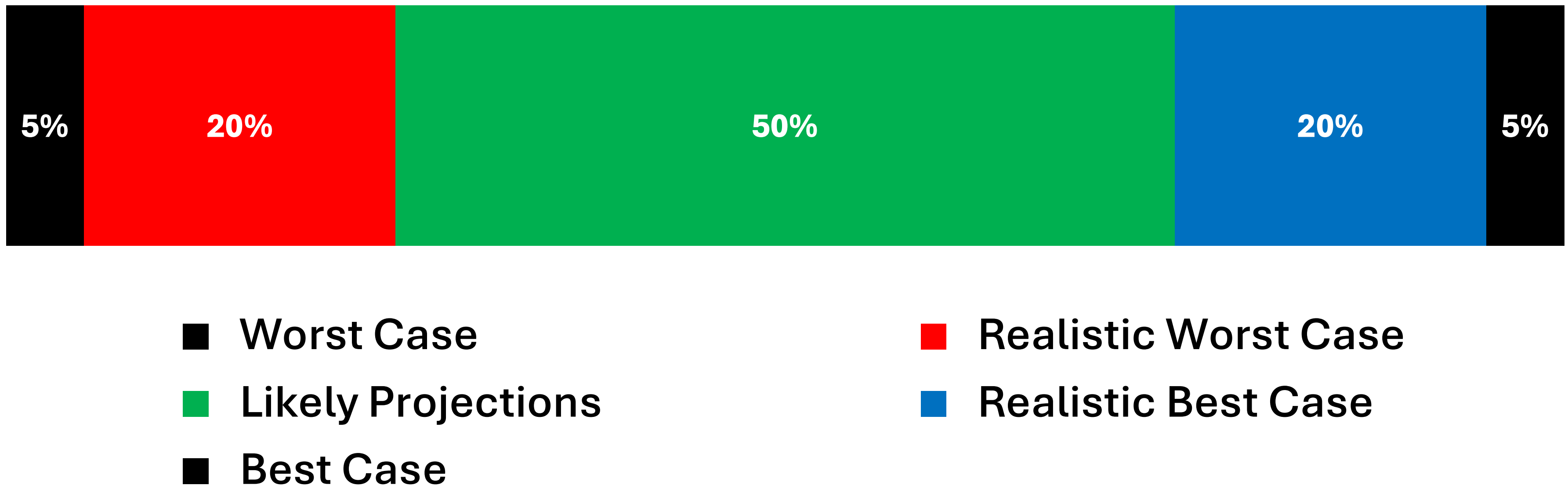
Projected End of Year Fund Balances (Non-Capital)

Figures in White Columns Represent Projected Days of Cash on Hand



Projection Probability Matrix

Developing Projections Using Multiple Scenarios



Alternate Projection Scenarios

Major Assumption Changes

Realistic Worst-Case Scenario

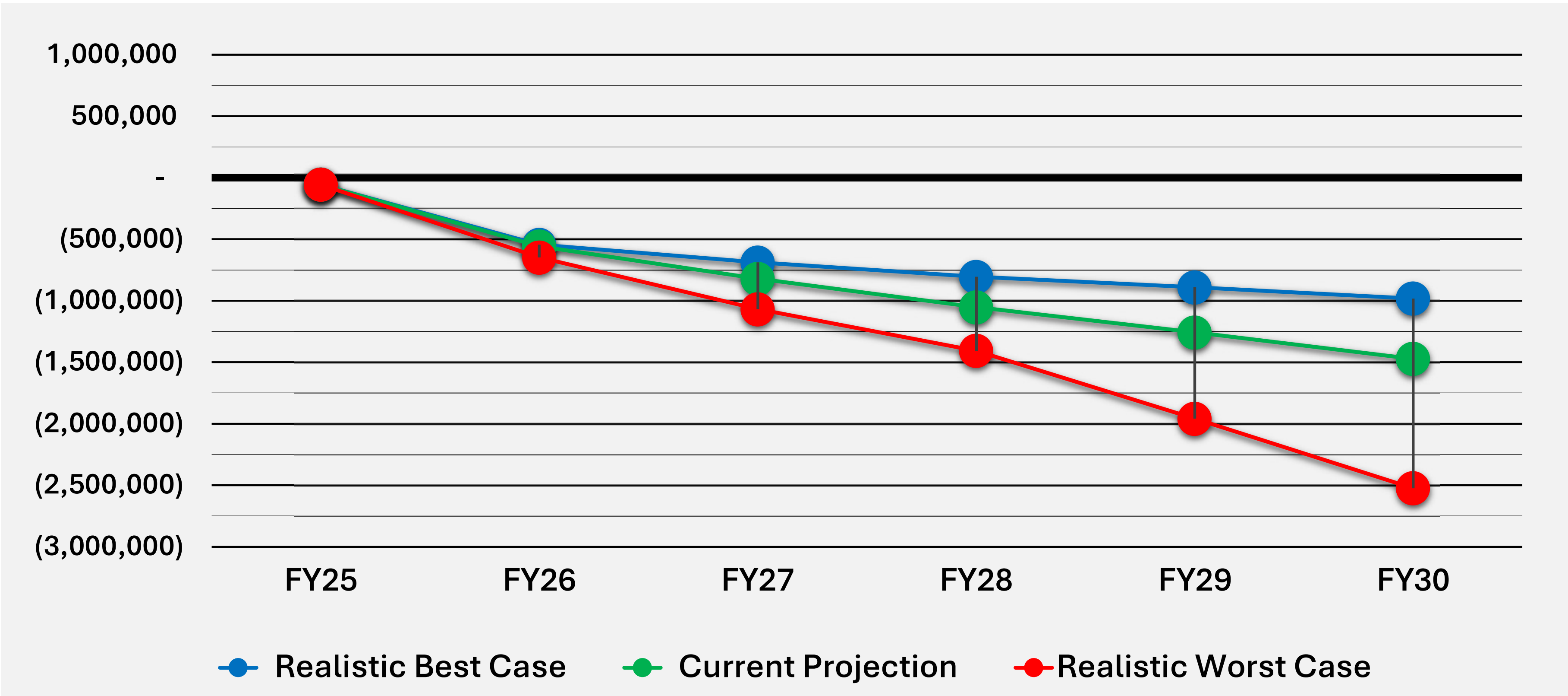
- The consumer price index tied to tax extension growth will drop to 1.4% (versus 2.4% projection rate) beginning in the 2026 levy year.
- Non-salary expenditure growth will exceed projected growth levels by one percent.
- The District will hire one additional 3rd grade teacher in FY26.
- The State's *Pre-School for All* grant will decrease 50% beginning in FY29.

Realistic Best-Case Scenario

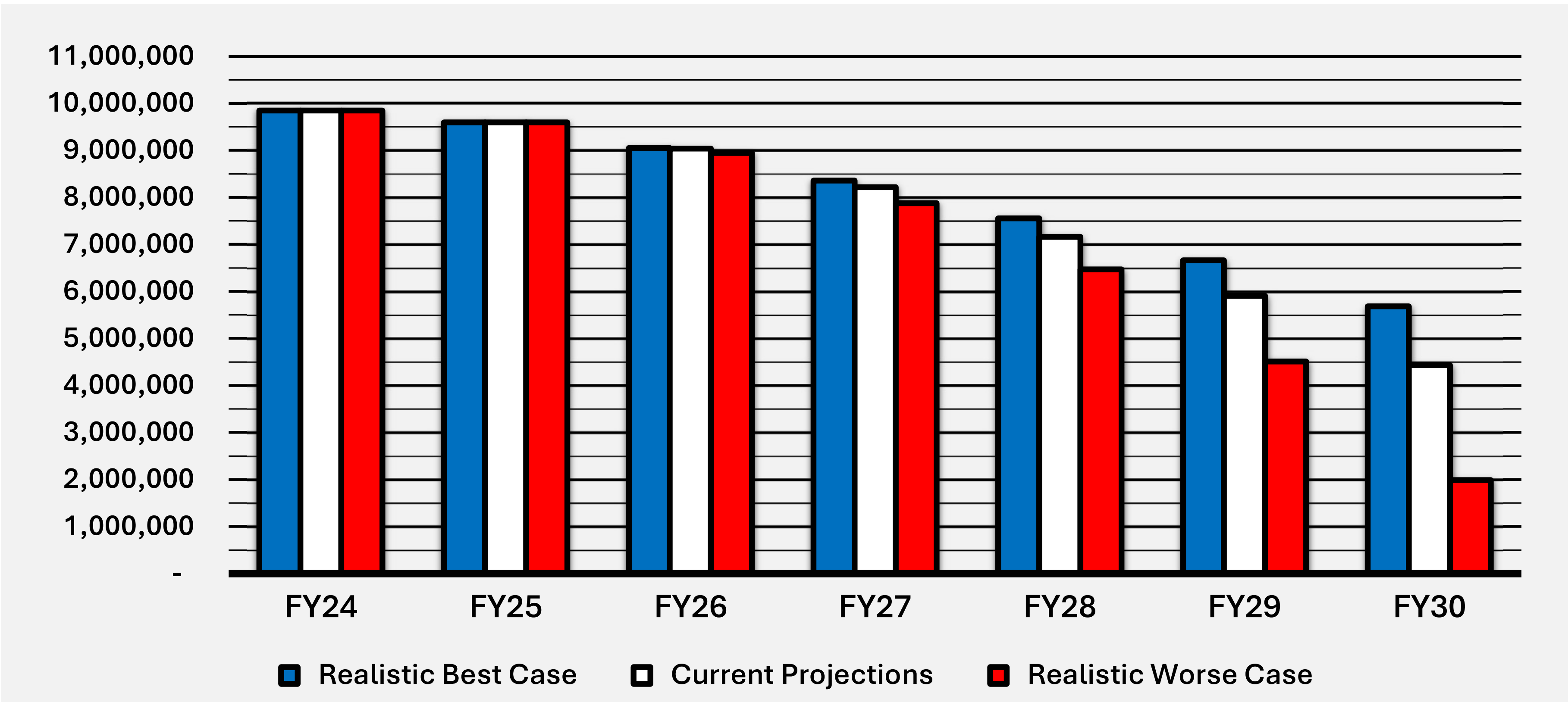
- The consumer price index tied to tax extension growth will remain high at 3.0% due to inflationary pressures within the economy beginning in the 2026 levy year.
- Non-salary expenditure growth will be below projected growth levels by 1%.

The Projection Zone

Projected Revenues vs. Expenses (Excluding Major Capital Projects)



The Projection Zone – Fund Balances



Observations and Recommendations

Observations

- D128 has been faced with an enormous challenge of maintaining balanced budgets despite a 14% increase in enrollment, a 200% increase in out-of-district special education costs and no new permanent revenues sources from either the State or Federal government.
- The 5% CPI increase over the past two years has provided temporary relief in the form of increased real estate tax revenues, but with CPI trending down towards historical averages, tax revenue growth is projected to be cut in half.
- Despite annual expenditure growth projected to decrease from 4.3% to 3.6%, expenditure growth is expected to outpace revenue growth (1.5%) during the projection period, producing growing and unsustainable deficits.
- Fund balance reserves are projected to be below minimum target of 180 days worth of expenses by FY28.

Recommendations

- The District needs to begin consideration of major action to generate long-term fiscal stability as it is unlikely that the District can sustain current operations.
- The District should continue to closely examine major expenditure decisions with a goal of ensuring that annual expenditure growth does not exceed annual revenue growth if possible.
- The District should continue to regularly update financial projection model to track the timing and the scope of likely necessary major decisions.

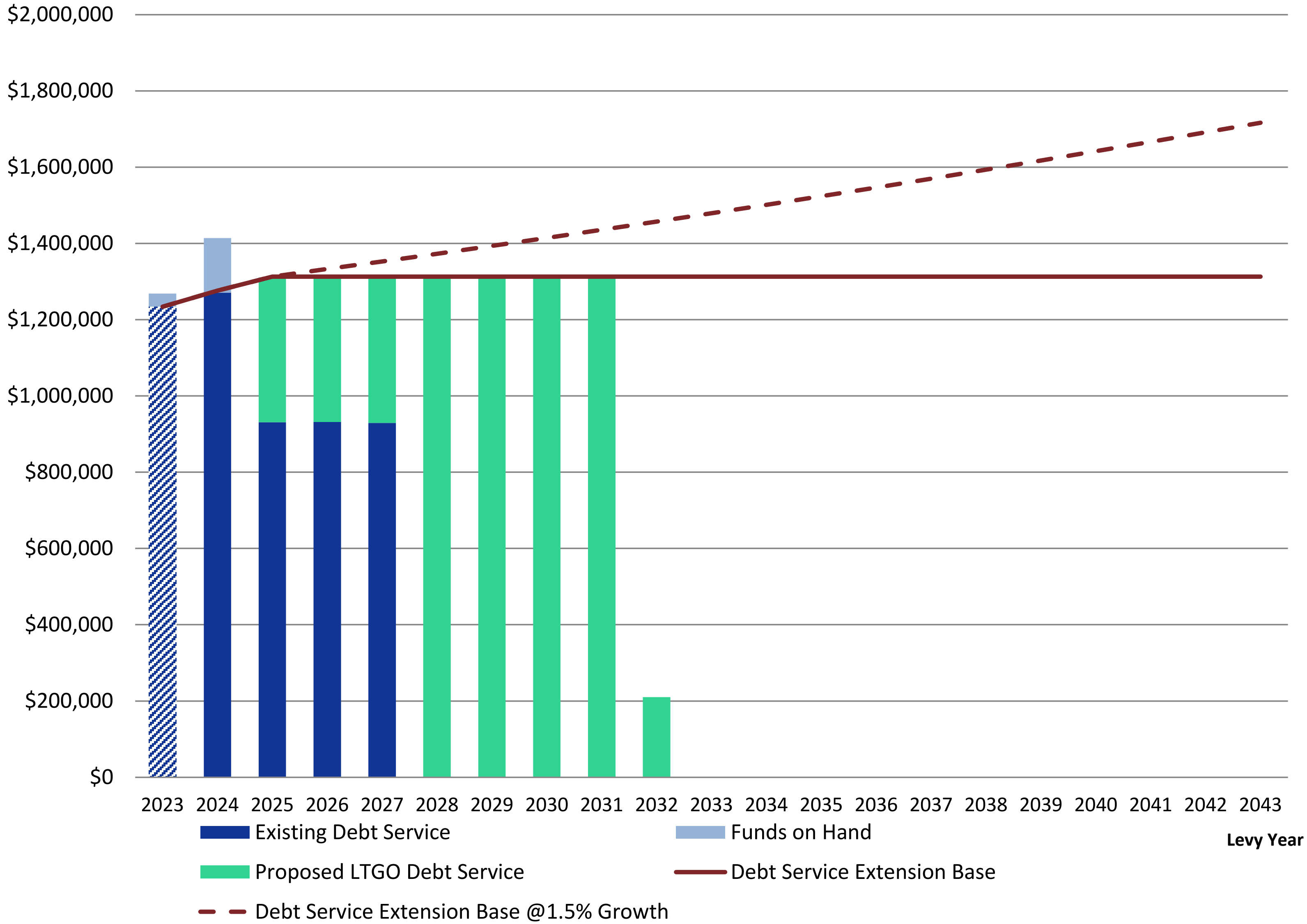
DSEB – A Tax Cap Concept

- Since the school district is subject to the “tax cap” law, the annual debt service (principal and interest) payments on certain non-referendum General Obligation (GO) bonds are limited by its Debt Service Extension Base (DSEB)

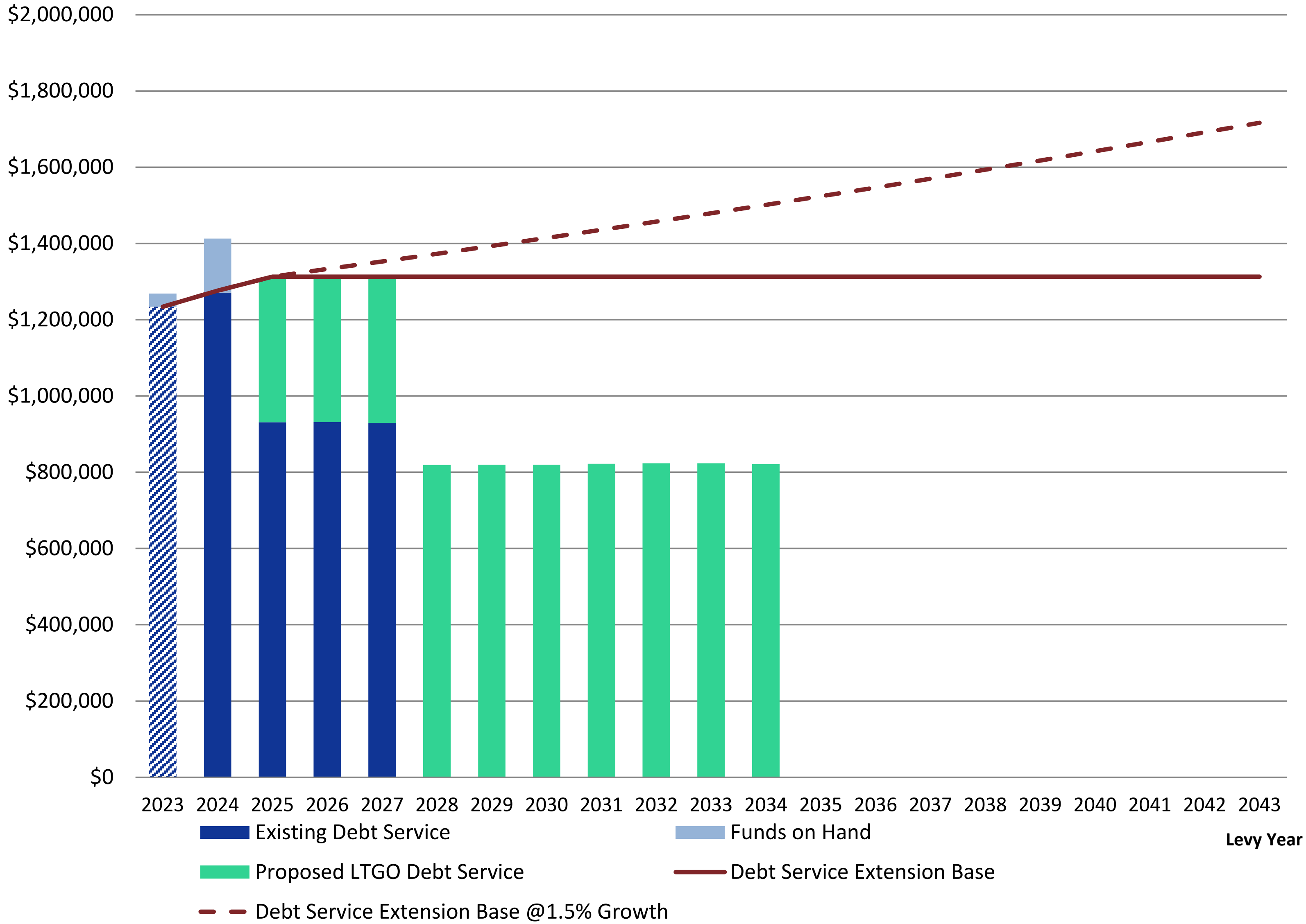
- Original DSEB was determined in the levy year in which tax caps became law and was equal to the amount of non-referendum debt service levied for that year

- Public Act 96-0501, enacted in 2009, increases a district’s DSEB annually by the Consumer Price Index (CPI)
  - Original DSEB: $902,094
  - DSEB for levy year 2025: $1,311,801

$5.5 million Bond Issue - Accelerated



$5.5 million Bond Issue – 10 Payments



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End of Presentation

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