

Regular Board Meeting – December 20, 2011

SUBJECT: FINANCIAL PROJECTIONS

Five-year financial projections are prepared each year to assist the Board of Education and Administration as we plan for the future of the educational program and work to provide operational stability for the District. The projections are based on recent trends and the latest available information. They are intended to represent a conservative mid-point of likely revenues and expenditures. This year an additional operating fund chart is included to illustrate the impact of proposed legislation limiting tax increases under the tax cap even further than the current legislation.

It should be noted that small changes in revenue or expenditure patterns can have a dramatic impact when projected out over a five year period. As we look toward the future, it will be important to look for opportunities to reduce future deficits in order to insure the long-term financial stability of the district.

Given the reliance of the District on property taxes, it is important to note that the revenue projections rely heavily on assumptions about future unknown factors related to the tax base including new property growth and the tax cap. This is especially noteworthy in the current economic climate. The state's financial crisis also creates a higher degree of uncertainty about general state aid and funding for mandated special programs.

Assumptions underlying the revenue and expenditure projections are described below.

Revenue Assumptions

- Tax revenues are projected within the constraints of maximum tax rates in each fund, the tax cap, and factor in estimates of new growth and tax appeals
 - The tax cap is projected at 2.0% for 2012 and future years (average of last five years)
 - The Equalized Assessed Valuation (EAV) of existing property in the district is projected to remain relatively flat after several years of significant growth. New property growth is estimated at \$2.0 million per year.
- CPPTRR is projected to decrease at a rate of 3% based on economic conditions
- Interest revenue is projected at a 2% rate of return on invested reserves
- Student fee revenue is projected to remain constant with fee increases offset by increases in low income waivers
- Lunch fees and reimbursements and other local revenue are projected to increase 2% per year
- State aid is projected to remain constant at approximately \$1.9 million based on recent trends
- Federal aid is projected to increase by 1% per year as a result of increasing Title I entitlements
- Working Cash Bonds are issued as previous bonds are retired, with the proceeds transferred to the Education Fund each year to cover the gap between revenues and expenditures

Expenditure Assumptions

- Enrollment and staffing are projected to remain constant at the 2011-12 level, except for increases in staffing related to program changes
- Total salary costs are projected to increase 3% per year including savings from retirements and turnover
- Benefit costs are expected to increase 9% per year
- Cost increases for services and utilities are estimated at 5% per year
- Increases for supplies and equipment are estimated at 3% per year
- Special education tuition costs are projected to increase 9% per year
- Expenditure projections exclude contingency amounts and estimated unspent budget in each fund

Key Unknowns

- The economy
 - Tax revenue uncertainty
 - Property tax collection rates
 - Limited new construction in the District
 - Future tax cap levels
 - Commercial property refunds
 - State budget crisis
 - Ability to fund categoricals and general state aid with current revenue shortfall
 - Underfunding of pension plans
- Proposed changes to the tax cap which would limit extensions to 0% rather than the CPI in years when the district EAV declines
- Possible changes in legislation that may impact future ability to sell Working Cash Bonds
- Possible school finance reform which may include a “tax swap”
- Future enrollment and corresponding impact on staffing levels
- Changes in employee insurance associated with health care reform
- Impact of increases in low-income student population
- Cost of initiatives that may emerge from the update of the District Strategic Plan in 2012-13
- Impact of program changes and any resulting staffing increases

The projections reflect the positive impact of new property growth in the District as well as the bond sale strategy approved by the Board. Continuing long-range planning and prudent management of expenditures are critical to the financial stability of the District.