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# Successful Long Term Planning

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Presented by:

PMA Financial Network, Inc.

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# Questions

1. Does your District engage in a routine annual financial review process?
2. Does the review process include an updated multi-year financial projection?
3. How does the District use the projection?

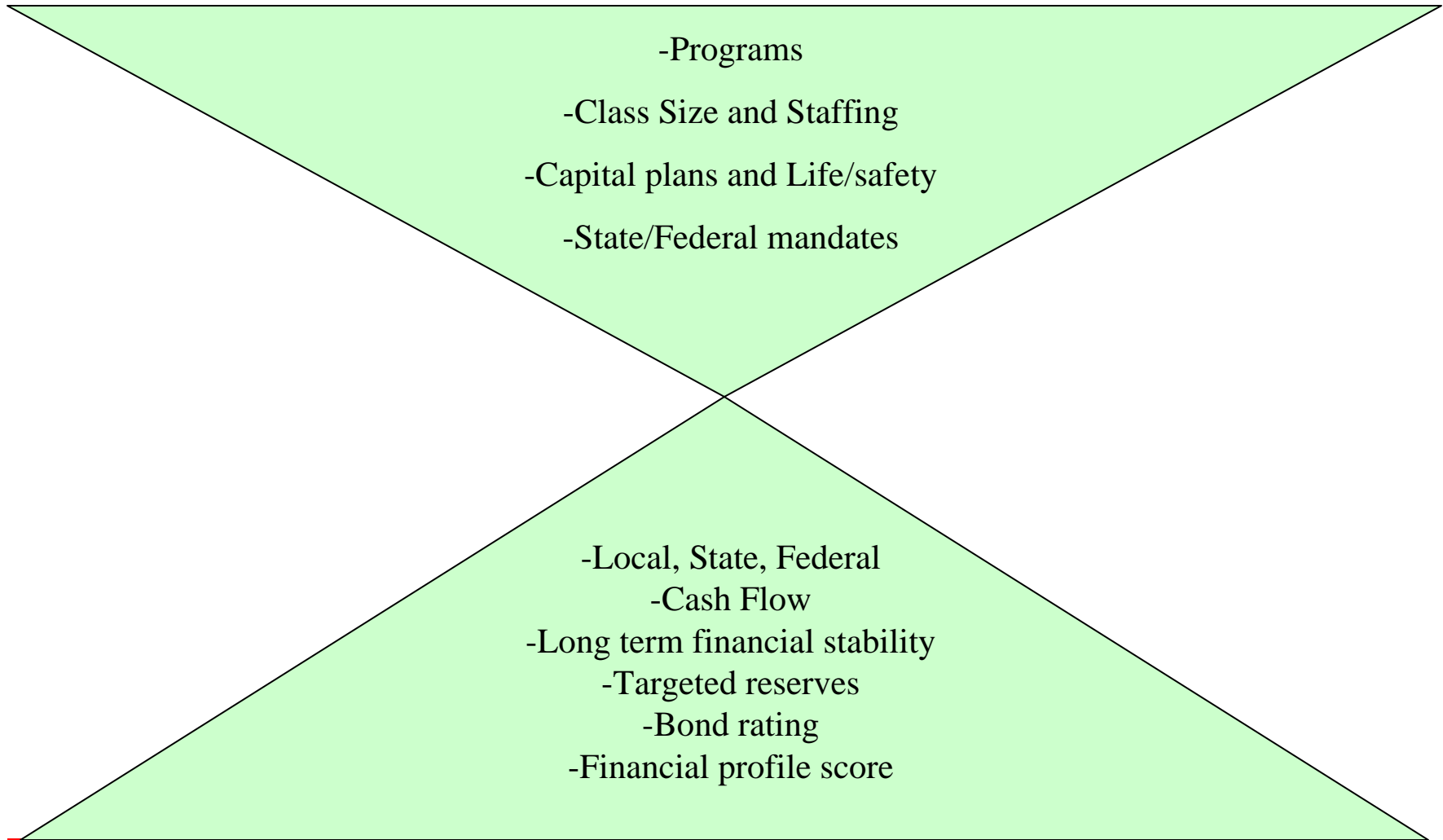
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# Questions

4. Is the format of your financial review process enhancing communication between District stakeholders?
5. Does your financial review process help align district financial resources with educational goals?
6. Does your financial review process stand up to scrutiny?

# Alignment of Education and Finance

## Educational Goals & Requirements



## Financial Goals & Resources

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# Long Range Financial Planning Goals

- Do the dollars we spend achieve our educational 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/need to be?”
- Public relations

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# Understanding Financial Projections

- Projections are a living, breathing element of the financial review process
- Projections are dynamic and are subject to constant change
- Results are fully dependent on:
  - quality data entered into the projection
  - assumptions coming to fruition

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# Elements of a Financial Forecast

## Past – Present – Future

- Educational Performance Data
- Historical Data
  - Audited Revenue and Expenditures (AFR)
  - Enrollment
  - EAV & New Property Growth, Tax Rates, Collection %
  - Trends
- Current
  - Budget
  - Enrollment
  - Staffing Levels
  - EAV & New Property, Tax Rates
  - Economic Indicators

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# Elements of a Financial Forecast

## Past – Present – Future

- Future

- Assumptions

- Trends

- EAV & New Property Growth

- Enrollment

- Consumer Price Index

- State Funding

- Foundation Level (State Funding Per Pupil)

- Categoricals (Other State Funds)

- Salary Agreements

- Employee Benefit Costs

- Capital Outlay / Life Safety Survey (Building Needs)



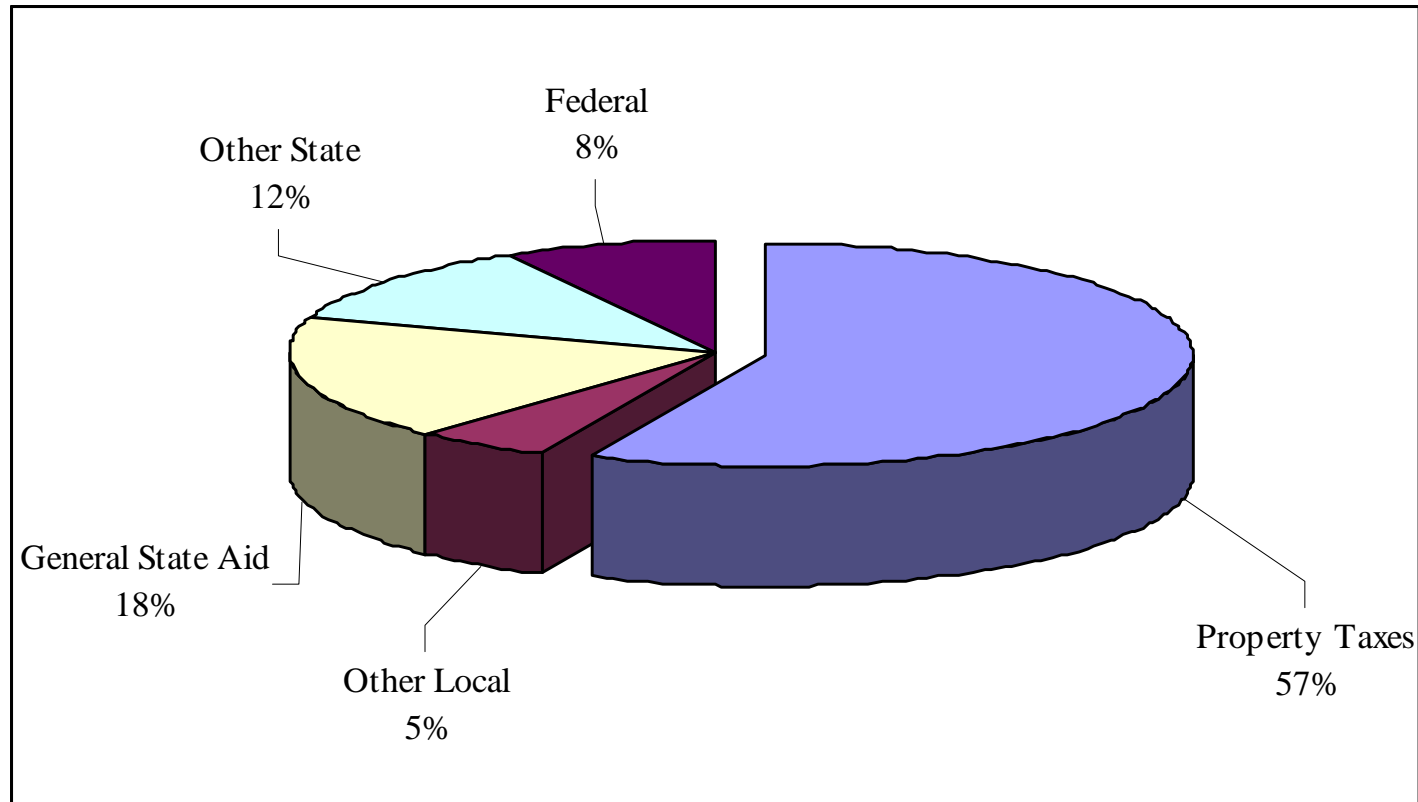
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# How do you Forecast Accurately?

- Start with an accurate budget
- Focus on the key variables
- Break it down into logical pieces by focusing on the big numbers – both on the revenue and expense sides.
- Use the most reliable sources for data
- Be realistic on assumptions

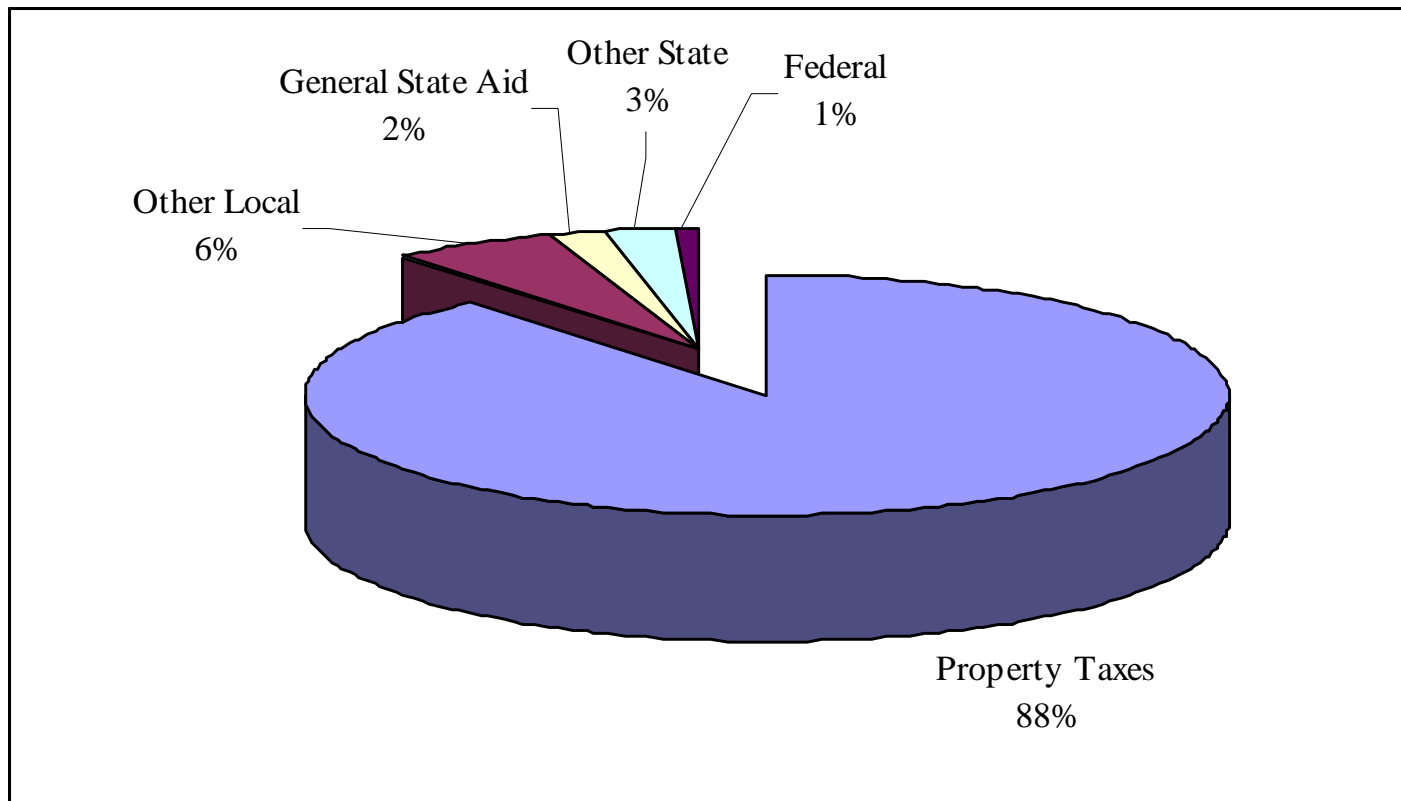
# Revenue by Source

## State-wide



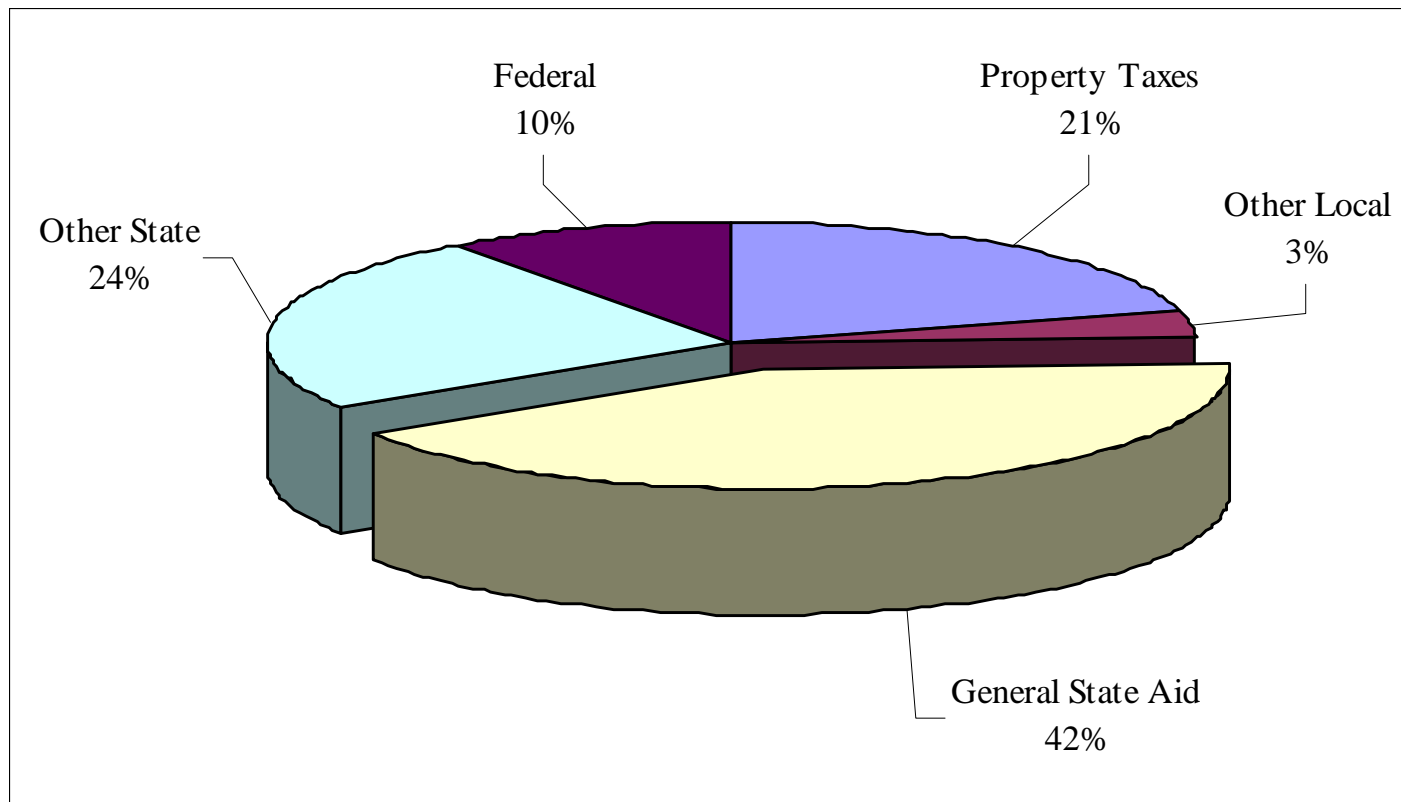
# Revenue by Source

## Suburban DuPage County Elementary District



# Revenue by Source

## Suburban Cook County Elementary District



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# Revenue Projections

## Property Taxes

- Tax Capped – Key Variables:
  - Prior Year Extension
  - EAV
  - New Property EAV
  - CPI
  - Levy Strategy
- Not Tax Capped – Key Variables:
  - EAV
  - Maximum Rates

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# Revenue Projections

## General State Aid

- **Prior Year Claims:**

<http://webprod1.isbe.net/FRISInquiry/>

### Key Variables

- EAV
- Tax Rates
- Average Daily Attendance (ADA)
- Foundation Level

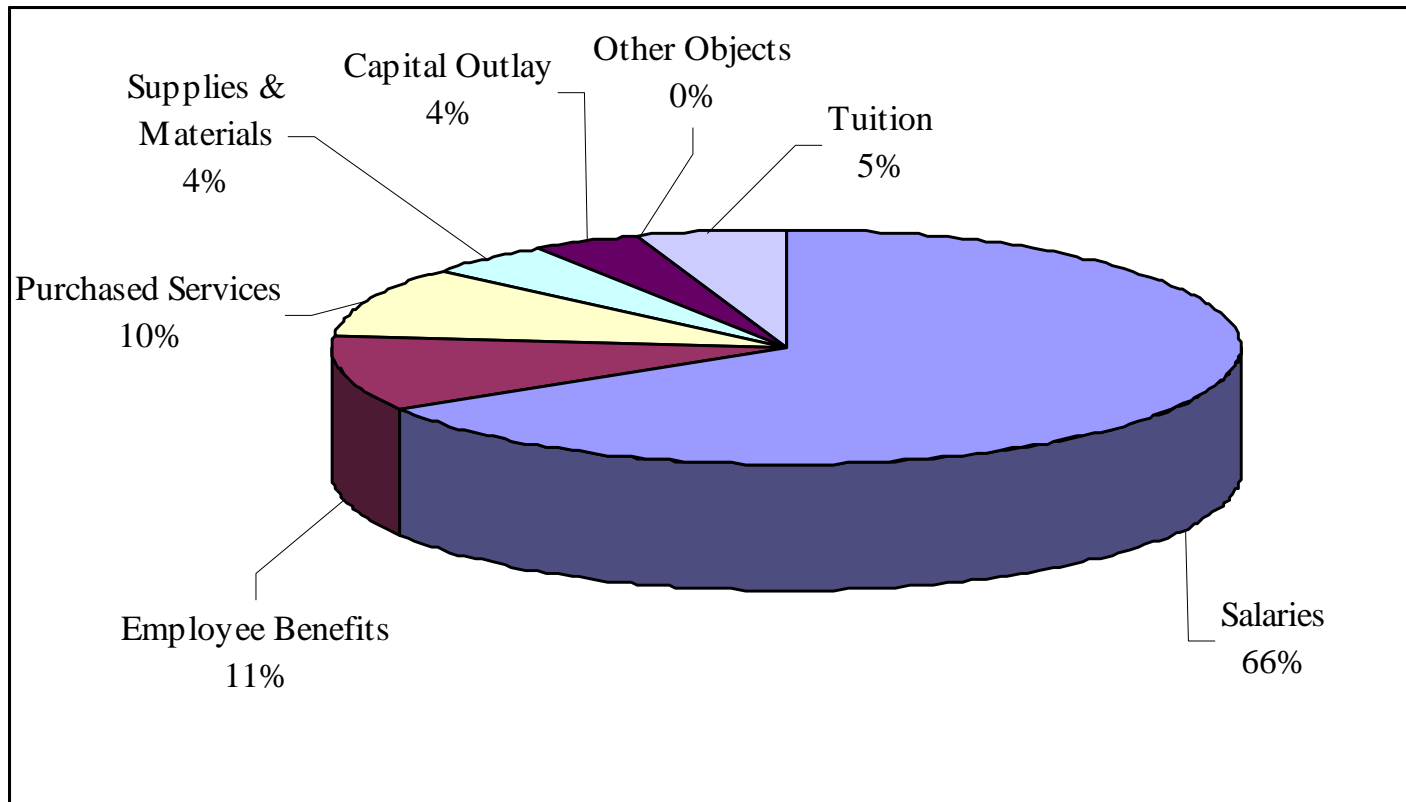
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# Revenue Projections

## Other State Aid

- 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
  - Special Ed Personnel – 100%
  - Special Ed Private Tuition – 75% - 100%

# Expenditures by Object Typical District





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# Expenditure Projections

## Personnel Costs

- 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
- Be as proactive as possible with benefit programs

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# Expenditure Projections

## Non-Personnel Costs

- Contractual Services – Analyze big pieces
  - Food Service contract
  - Custodial contract
  - Transportation contract
  - SPED professionals – Psych, Soc. Wk., Speech
- Supplies – Usually a small piece
  - Textbook adoptions
- Capital Outlay
  - Utilize multi-year technology replacement plans
  - Incorporate future facility needs
- Tuition

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# Financial Projection Modeling

- Single factor modeling
  - Salaries, CPI, State Aid, Enrollment
  
- Advanced scenario analysis
  - Cuts now vs. later, retirements, class size
  
- Variables & Relationships

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# Meritorious Budget Award

- Developed by ASBO International to promote and recognize excellence in school budget presentation
- Only 71 Schools received the MBA Award in 2004-2005 in 24 states
  - Seven from Illinois
- Budget guidelines and criteria established by ASBO International
- Due 90 days after budget adoption

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# Meritorious Budget Award

## ■ Benefits

- Enhanced communication and credibility
  - Superintendent
  - Board
  - Community
  
- Strengthen public confidence
  
- Encourage short- and long-term budget objectives
  
- Working Document
  - School District Objectives and Goals – Board of Education Policies – Enrollment and Financial Information – Test Scores – Capital Improvement Plan – Bond and Interest Schedules
  
- Positively viewed by rating agencies

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# Thoughts on Fiscal Management

- Sample “best practices”

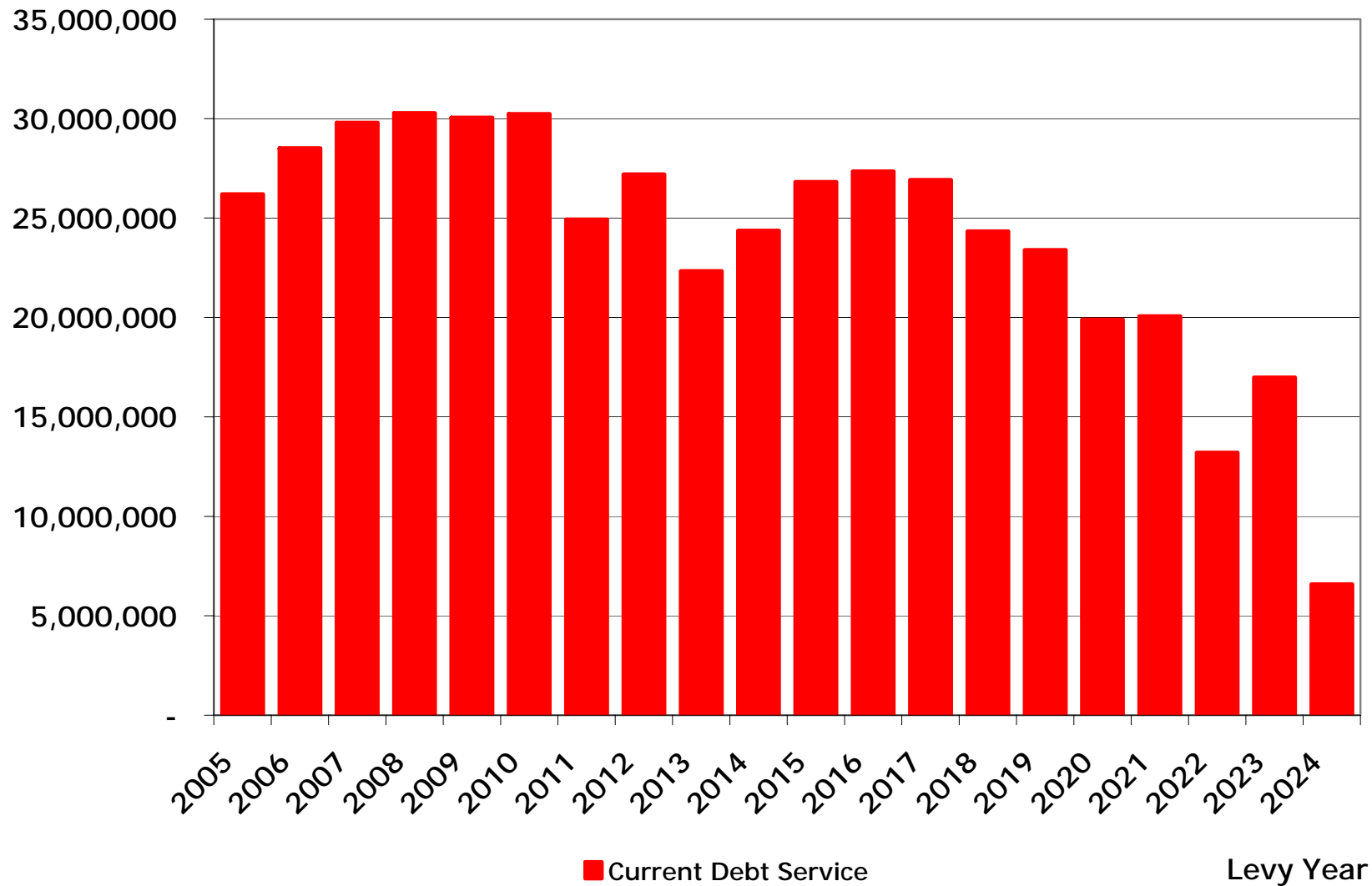
- The District has effective long-range planning processes.
  - Financial Planning Program
  - Maximize ISBE Financial Profile Score
- The District performs quarterly reviews of its budget to analyze any deviations.
- The District strives to receive a Meritorious Budget Award to maximize credibility with the District stakeholders.
- The District adopts a budget process that provides sufficient revenues to meet expenditures.
- The District has a policy regarding “fund balance/equity” levels.
- The District has a policy regarding “days cash on hand”.
- The Board routinely reviews monthly financial statements and other financial information.
- The District reconciles “cash balances” each month end.

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# Debt Management

- School Districts should establish policies pertaining to the issuance of debt.
  - Identify projects that may or may not be funded with debt.
  - Create a long term capital replacement/renovation plan. (3 to 5 year optimally)
  - Goals for maturity and debt service structure.
    - Level Debt
    - Level Tax Rate
    - Duration of debt
    - “Back end loading”
  - Refunding guidelines.
    - 2% GFOA minimum threshold
  - Use of security and pledges
  - Derivative strategies

# Sample Debt Structure



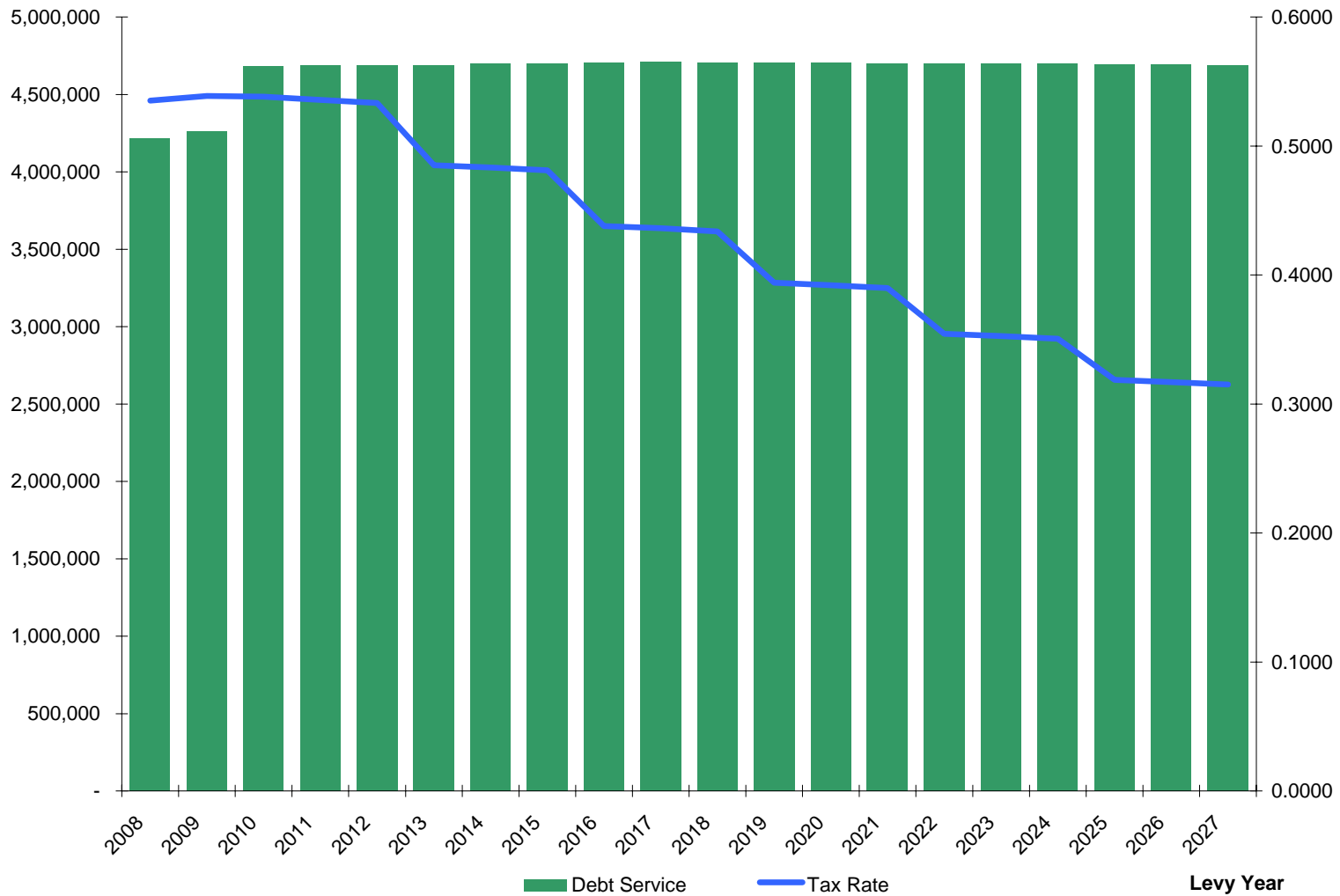


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# Debt Management

- Development of policy for debt amortization options.
  - Level debt service?
    - Principal and interest payments remain constant (e.g. \$2,000,000 per year for 20 years)
  - Level B&I tax rate?
    - The B&I tax rate remains constant (e.g. projected to remain at \$0.50)
  - Level overall tax rate?
    - The B&I and operating tax rate remains constant (e.g. projected to remain at \$3.50)
  
- Impact of debt amortization
  - Taxpayers
  - Rating
    - Rapid amortization (50% or more in 10 years)
    - Debt ratios
      - Debt to market value
      - Debt per capita

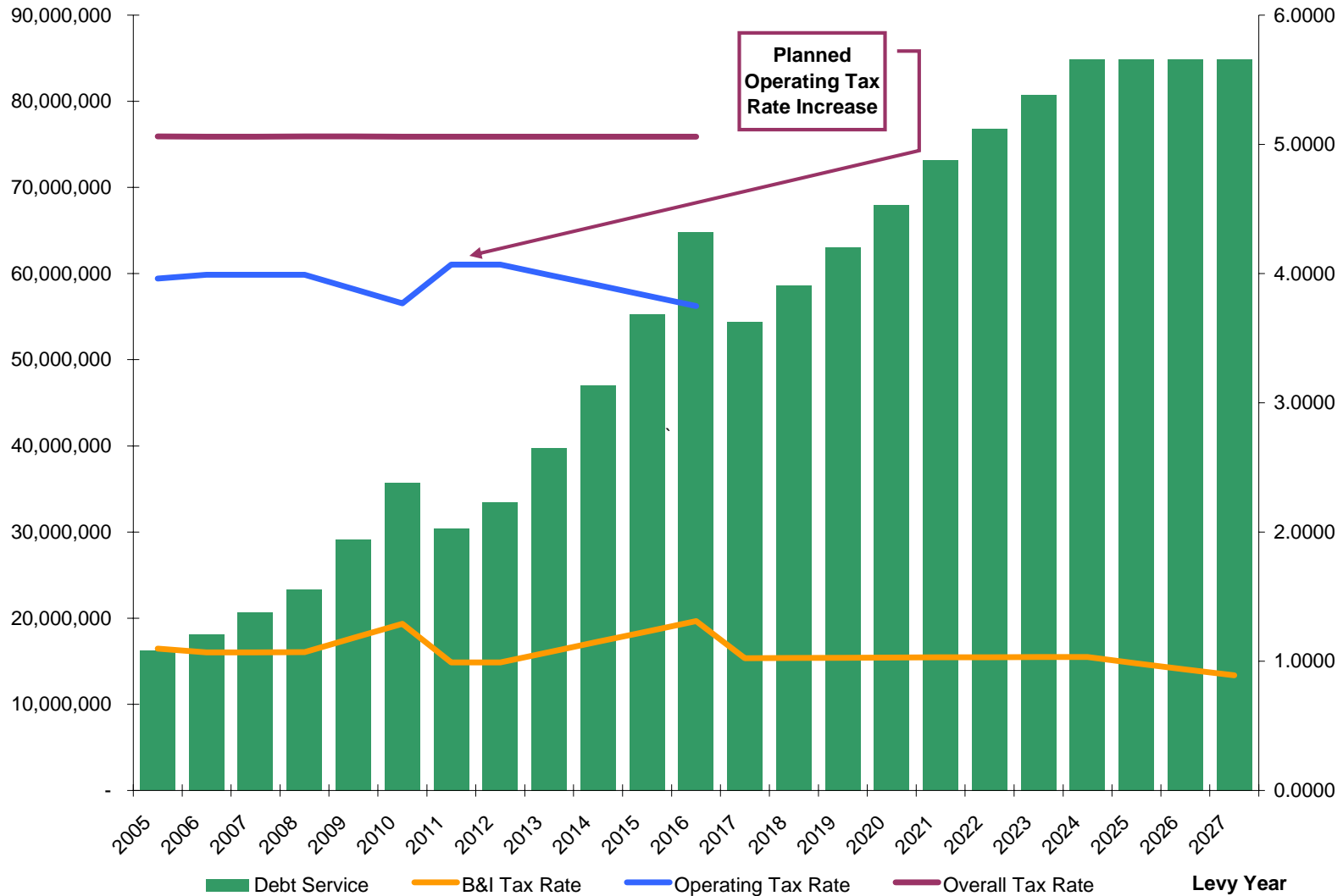
# Debt Management – Level Debt Service



# Debt Management – Level B&I Tax Rate



# Debt Management – Level Overall Tax Rate



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# Questions and Discussions

Thank you.

PMA Financial Network, Inc.

[www.pmanetwork.com](http://www.pmanetwork.com)

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