DRAFT
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D200 Finance Advisory Committee Recommendations for Fund Balance Phase Down and Property Tax Relief

Background

- Total Fund Balance grew unusually high over the last 10 years due to:
  - Phase in of 2002 referendum
  - Efforts to minimize growth in expenses
  - Maximum allowable tax levies
- High fund balance creates risks:
  - Unnecessarily high tax levels
  - Community distrust
  - Use of fund balance to pay for deficits over several years could lead to a need to request a large tax increase in a future referendum

Phase Down Objectives

- Reduce Operating Fund Balances[1] to:
  - Under 100% of expenses within 2 to 4 years, i.e., by June 2018.
  - Further reductions to below 40% of expenses (approximately 5 months), but not less than 25% (3 months), within 8 to 10 years, i.e., by June 2024.
- Maintain Non-Operating Fund Balances[2] at reasonable levels to meet debt service requirements on any outstanding bonds and for clearly identified Life Safety and Capital projects.
- Key considerations while pursuing phase down, which must be balanced, are to:
  - Assure sound financial footing to be able to focus on educational objectives
  - Constrain growth of taxes
  - Provide tax relief in the near term in an effort to benefit more property owners who helped build the fund balance
  - Seek to have significant capital projects paid for over time
  - Minimize financing costs when possible
  - Plan for a reasonably sized and timed referendum
  - Maintain ability to borrow money at favorable rates, if needed
  - Provide District with flexibility to adjust strategy for phase down based on refinement of pool proposal and adoption of 5-year strategic plan currently under consideration by the Board
  - Continuously improve financial oversight and communications practices (additional recommendations to be provided by FAC)

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[1] Operating Fund Balances include the following funds: Educational; Operations and Maintenance; Transportation; Municipal Retirement/Social Security; Working Cash; and Tort

[2] Non-Operating Fund Balances include Capital; Life Safety; and Debt Service funds.

Phase Down and Property Tax Relief Mechanisms

- A combination of some or all of the following mechanisms can be used to achieve the phase down objectives:
    - Pre-pay outstanding debt certificates in December 2013, as approved by the board in November, 2013
    - Pay principal and interest on outstanding bonds until maturity in 2016 through transfers from Operating Fund Balance rather than from taxes
    - Maintain a flat (2012 rate) levy for up to 4 years, beginning with property taxes paid in 2014 (assessed in 2013)
    - Provide a significant levy reduction over a period of 1 or 2 years, beginning with property taxes paid in 2014 (assessed in 2013)
    - Transfer a portion of the Operating Fund Balance to Capital to pay for the pool project, subject to appropriate community support
    - On-going efforts to minimize growth in expenses

Specific recommendations for 2013 property taxes

- Abate taxes for debt service of approximately $2.4 million
- Adopt a levy at one of the following levels:
    - 2012 level (assessed in 2013) with no changes (flat)
    - $10 million dollars below the 2012 level

Recommendations for 2014 – 2016 property taxes

- Abate taxes annually for remaining debt service on outstanding debt
- Bring the Operating Fund Balance below 100% of annual expenses through one or more of:
    - Continued flat property tax levies
    - Considering an initial, or one additional, significant levy reduction in 2014 and/or 2015
    - Appropriately authorized expenditure on the pool project

Notes and Key Constraints

- The above recommendations are based upon information provided to, and reviewed by, the Finance Advisory Committee between July and December 2013.
- If the Operating Fund balance is reduced in the short term primarily through tax reductions, building and other major capital spending could be financed in part using non-referendum borrowing or through a bond referendum. Community support for a pool or other major capital project is, however, considered vital.
- The significant tax reduction strategy is subject to important constraints:
    - State law limits the ability of a school district to reduce the tax level and then return to prior levels. Specifically, D200 can reinstate an earlier, higher tax level only after 1 or 2 years of reduction, and only if the second year's levy is an additional cut from the 1st year's
    - Due to Cook County's tax collection process of using 55% of prior year's taxes to determine the first installment, taking too large a single year cut would cause the formula to show taxes due of less than 0 in the year

following the cut. If the board decided on pursuing a significant levy reduction, doing it over two years would therefore make more sense.