

TRANSPARENCY REPORT

Financial Snapshots and Implications



Galena Unit District
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An Education Newsletter, Volume 2, 2018-19

Message from Superintendent Greg Herbst

Allow me to end the suspense.

In less than two years, I will be making a recommendation to the Board of Education that the District place a referendum on the consolidated election ballot in 2021. This referendum will ask our taxpayers to vote for a bond in a yet-to-be-determined amount, but it is safe to project in the upper 7-figure to lower 8-figure range.

Why?

A simple question with multifaceted elements, many of which span decades of decision-making, external factors, and Father Time.

In the following pages, I will explain five significant factors that have led us to where

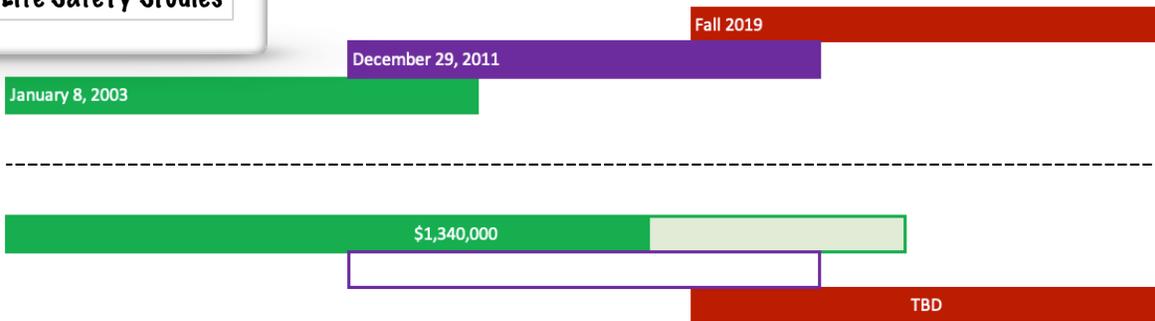
we find ourselves today, as well as the implications they hold for the future.

In so doing, I anticipate that the information contained herein will spawn many conversations and inquiries, as well it should.

On behalf of 831 learners, I appreciate your willingness to be engaged and informed.

Snapshot #1 Health/Life Safety Studies

HEALTH/LIFE SAFETY STUDIES



BONDING FOR HEALTH/LIFE SAFETY PROJECTS

Every ten years, Illinois school districts are required to conduct what is called a Health/Life Safety (H/LS) study, whereby architects and engineers descend upon and thoroughly inspect each building in the District. The final outcome is a list of H/LS projects with projected costs, prioritized into one of three categories:

- A. Projects to complete immediately.
- B. Projects to complete after List A is accomplished.
- C. Projects to complete prior to the next H/LS study.

It is common for the total costs of H/LS projects to exceed that which can be supported in a district's annual budget.

To account for this, districts typically secure H/LS bonds to pay for H/LS projects. It is designed to be a simple alignment:

- 10-year study/10-year bond;
- New 10-year study/new 10-year bond;
- And so on.

The bar graphs above depict the last two H/LS studies, along with what will be the District's third to begin this fall. These studies are aligned to their color-coded bonding counterparts.

As shown in green, a 10-year H/LS study was completed in January 2003, for which the District secured a 20-year General Obligation Bond (to be discussed later in this newsletter).

The subsequent H/LS study (shown in purple) was completed in December 2011, for which no bond was secured. As has been relayed to me, the intent was to pass a referendum to build new schools, thereby rendering the completion of H/LS projects as inessential.

Which leads to the H/LS study to be conducted later this year. The physical plant concerns of our facilities are well-documented; accordingly, it is reasonable to project that the costs of repairing and replacing all items on the forthcoming prioritized lists will be in the \$8M to \$12M dollar range, a conclusion supported by previous studies.

FYI...

The completion of the H/LS study in January 2003 coincides with the creation of a Buildings and Grounds Director position, an action approved by the Board of Education in August 2003.

Snapshot #2
School Budgeting and
Funds for Facilities

Budgets for Illinois school districts consist of nine funds, numbered in multiples of ten from 10-through-90.

Three of the nine funds may be used for the maintenance and modernization of facilities.

Funds 20 and 90 below are funded primarily through property taxes, while fund 60 is funded through the one-cent School Facilities Occupation Tax. [Fund 70 may be used for facilities, a consideration given only when all other options have proven inadequate.]

PUBLIC HEARING FY 2019 PRESENTED 18 SEPT. 2019	10 EDUCATION	20 O&M	30 DEBT SERVICE	40 TRANSPOR- TATION	50 IMRF/SS	60 CAPITAL PROJECTS	70 WORKING CASH	80 TORT	90 FIRE PREV. & SAFETY	TOTALS
ESTIMATED JUNE 30, 2018 FUND BALANCE	4,991,308	871,655	2,010	481,114	119,857	3,692,438	857,878	144,658	98,180	11,259,097
ANTICIPATED REVENUES	9,778,918	1,160,991	537,717	541,570	418,883	471,400	99,778	110,423	24,905	13,144,585
ANTICIPATED DISBURSEMENTS	9,766,220	923,420	528,925	635,960	386,885	2,093,000	0	72,000	41,000	14,447,410
NET ANNUAL CHANGE	12,698	237,571	8,792	(94,390)	31,998	(1,621,600)	99,778	38,423	(16,095)	(1,302,825)
ESTIMATED JUNE 30, 2019 FUND BALANCE	5,004,006	1,109,226	10,802	386,724	151,855	2,070,838	957,656	183,081	82,085	9,956,272

Overstated by \$3,223,889 due to an early property tax payment and indebtedness



In context, the sum of the dollars that may be used for facilities in funds 20, 60, and 90, do not approach the funding needed to address the District's Health/Life Safety needs. This reality is exacerbated by the rapidity of equipment failures within our aging facilities.

Snapshot #3
Evidenced-Based Funding

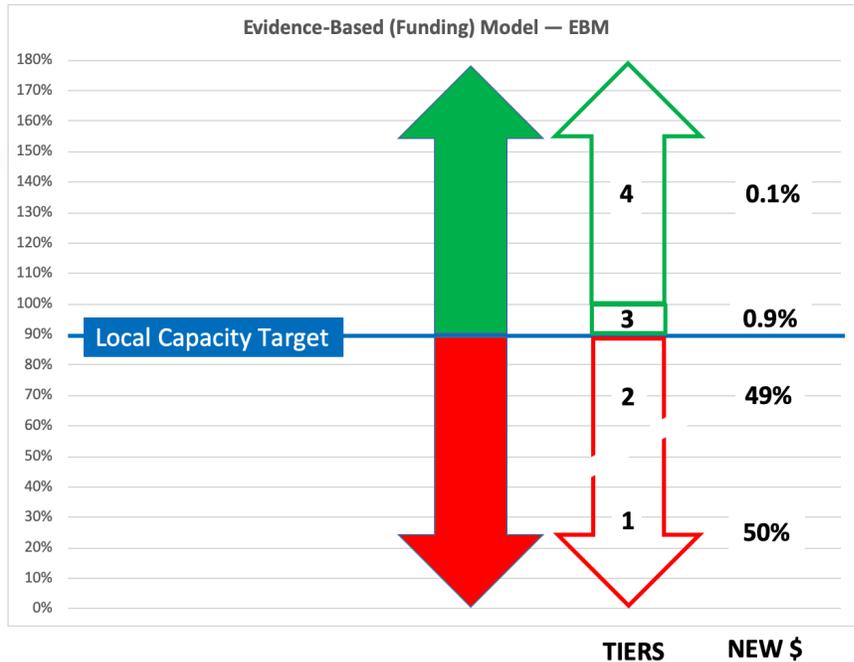
Beginning with the 2018-19 school year, the Illinois State Board of Education changed the way they fund schools.

Moving away from the system called General State Aid, the State now employs an Evidence-Based Funding Model (EBM).

The objective of the EBM model is to ensure all schools are funded at 100%, also known as the Adequacy Target. Under the premise that schools receive approximately 10% of their funding from the federal government, all other sources of revenue should account for the remaining 90%, which is known as the Local Capacity Target (LCT).

A review of the more than 800 school districts in Illinois revealed the obvious; that is, many districts fall below the LCT, whereas others exceed the LCT. Schools above and below the LCT are divided into two tiers each.

The tier to which a district belongs is significant. When the General



Assembly appropriates new dollars into the EBM, schools in tier 1 will share 50%, tier 2=49%, tier 3=0.9%, and tier 4=0.1% of the new revenue.

The variables to identify a district's tier placement are re-applied every two years, with

the expectation that districts below the LCT will move toward the Adequacy Target.

The LCT for Galena Schools for the 2018-19 and 2019-20 school years is 107%, making us a tier 4 district.

FYI: LCTs and Tiers . . .

- East Dubuque: 78%, Tier 2
- Galena: 107%, Tier 4
- River Ridge: 121%, Tier 4
- Scales Mound: 157%, Tier 4
- Stockton: 77%, Tier 2
- Warren: 81%, Tier 2

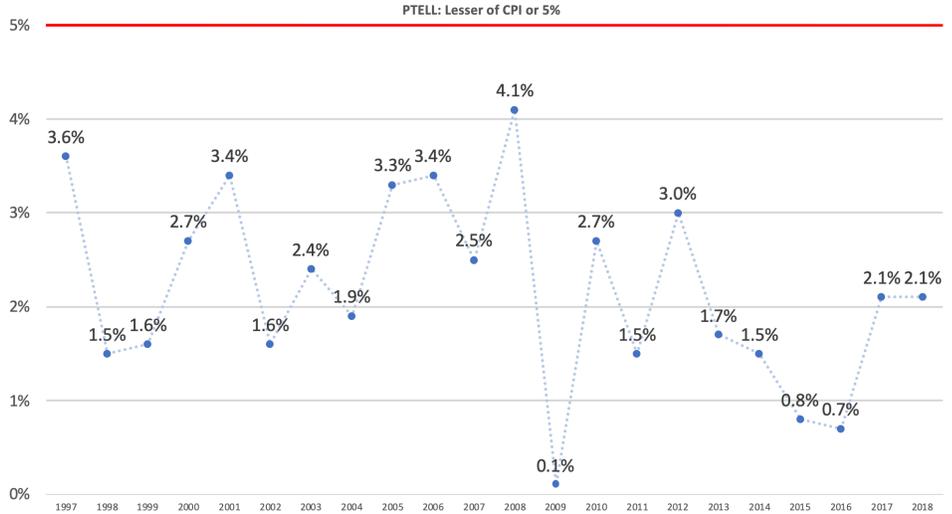
**Snapshot #4
Local Funding**

Local funding for Illinois taxing bodies comes primarily from property taxes, which are calculated using the equalized assessed valuation (EAV) of property within the taxing boundaries.

In 1997, the residents of Jo Daviess County voted to institute a property tax cap, officially known as the Property Tax Extension Limitation Law (PTELL).

Through PTELL, tax increases on existing property are capped by the lesser of 5% or the Consumer Price Index (CPI). As shown in the graph, the CPI has not exceeded 5% since the implementation of PTELL in 1997.

To be fair, the graph at the right only tells part of the story. Yes, it portrays the tax-cap on existing property, but it does not communicate the actual



amount of tax dollars received before and after the application of the cap.

In the most unambiguous of terms, let me be clear—Galena Unit School District No. 120 is extremely fortunate, as the EAV of the community in which it serves is substantial,

thereby making the proportional tax extension generous.

Putting words into numbers, the total property tax extension to Galena USD 120 in fiscal year 2019, including the interest distribution, was \$10,072,739.34.

**Snapshot #5
Bonds and Debt Service
Extension Base**

Unlike a typical household, school districts do not go to a local financial institution when it needs to borrow money; rather, districts sell bonds to acquire additional revenue.

Like a typical household, there is a ceiling on how much money a district can bond.

The total amount borrowed/bonded is contingent upon the total amount that can be repaid with respect to revenue and time.

The cap on the amount of money that can be repaid in any fiscal year is determined by what is called a Debt Service Extension Base (DSEB).

**BOND REPAYMENT SCHEDULE
QUALIFIED ZONE ACADEMY BONDS (QZAB)**

		FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
APPLE RIVER STATE BANK	January 1 Payment	9,000.00	9,000.00	8,000.00	8,000.00	8,000.00	7,000.00	65,000.00	65,000.00	65,000.00	65,000.00	41,000.00
Approved September 20, 2016												
Principal: \$350,000.00												
Interest: \$0.00												
ILLINOIS BANK & TRUST	January 1 Payment	9,000.00	9,000.00	8,000.00	8,000.00	8,000.00	7,000.00	65,000.00	65,000.00	65,000.00	65,000.00	36,000.00
Approved September 20, 2016												
Principal: \$345,000.00												
Interest: \$0.00												

The DSEB is unique to each district, and in our case allows for bond payments to be capped at \$130,000 annually.

At the beginning of this school year, the District was making payments on three bonds:

1. A 20-year General Obligation Bond (GOB) secured in 2003 for \$1,340,000 from the Bank of New York Mellon. [Interest: \$724,073.51]
2. An 11-year Qualified Zone Academy Bond [QZAB] secured in 2016 for \$350,000 from Apple River State Bank. [Interest: \$0.00]

3. An 11-year Qualified Zone Academy Bond [QZAB] secured in 2016 for \$345,000 from Illinois Bank & Trust. [Interest: \$0.00]

As referenced in Snapshot #1, the 20-year GOB was secured for projects emanating from the 10-year Health/Life Safety Study.

Here is some good news—in October of last year, the School Board voted to pay-off the balance of the 2003 GOB at a cost of \$507,526.11, thereby saving the taxpayers \$44,348.89 in interest.

FYI...

The objective of this table is to provide a visual regarding the repayment schedules of our bonds.

As for the two 2016 QZABs, they are interest-free. The annual repayment amounts are minimal at the beginning and balloon to a combined \$130,000 in FY24. This schedule was created to account for the payments from the 2003 GOB and the DSEB.

What are the implications?

**Snapshot #1
H/LS Studies**

The H/LS Study is sure to provide a long list of items that will need to be addressed, and the dollars needed to satisfy these safety-related projects will be exorbitant.

**Snapshot #2
Funds Facilities**

The three funds that may be used for facilities and infrastructure projects will not support the costs associated with the upcoming H/LS project list.

**Snapshot #3
EBM**

Since Galena is identified as a Tier 4 district in the EBM, our state funding is essentially flat, as we will share 0.1% of any new money with other Tier 4 districts.

**Snapshot #4
Local Funding**

As stated in Snapshot #4, it is my opinion that our local funding is indulgent. In the context of additional dollars, the fact remains that the District is capped by PTELL.

**Snapshot #5
Bonds & DSEB**

The District's DSEB, when applied to our outstanding bonds, has suspended the District's bonding capabilities into the 2027-28 school year, unless schedules are renegotiated.

What does it all mean?

In consideration of the implications presented herein and a multitude of others, it means I will have no choice but to recommend to the School Board that the District place a referendum on the 2021 consolidated election ballot. This recommendation could take two forms—

one being to mend and replace items as indicated in the impending H/LS Study, and the other the construction of a new Primary School to be built off of the current Middle School in the direction of the High School. The latter of these scenarios emanates from discussions held by the Buildings and Grounds Committee and gives you, the

taxpayers, an option as to where you would prefer to spend your money.

In either instance, a preliminary estimate of the referendum will be between \$8M-\$12M, an amount sure to fluctuate as more information is gathered.

It is your right to vote **YES** to the referendum.

If it were to pass, the District will proceed per terms of the referendum at that time (again, either H/LS projects or a new Primary School).

The latter option takes into account the phasing approach that was introduced during the most recent referendum.

Much information and many presentations will be provided within the two-year calendar of this framework.



It is your right to vote **NO** to the referendum.

If it were to fail, the District will have no other option but to begin eliminating programs and reducing personnel.

The conditions of our infrastructure render this outcome as unavoidable. There can be no more delays in this area.

A second consideration, yet to be discussed, is the sometimes heard but rarely embraced topic of consolidation.

As I explained to the School Board at our most recent Business Meeting, we will eventually be asking the taxpayers of this community for \$8M-\$12M of their hard-earned dollars.

Knowing what is presented in this newsletter, it is reasonable and expected

that this same population will pose a question before entering the voting booth—what has the Board done to take advantage of opportunities to save money when said opportunities presented themselves?

The first of what is sure to be many answers is found in the most recent action of the

School Board to abolish the District's Certified School Librarian position by an affirmative vote of 4-2.

This action, however difficult and unpopular, is a direct reflection of our circumstances and a sign of what is to come should we fail to be proactive.

FYI: On behalf of 831 students, I appreciate your willingness to be engaged and informed.