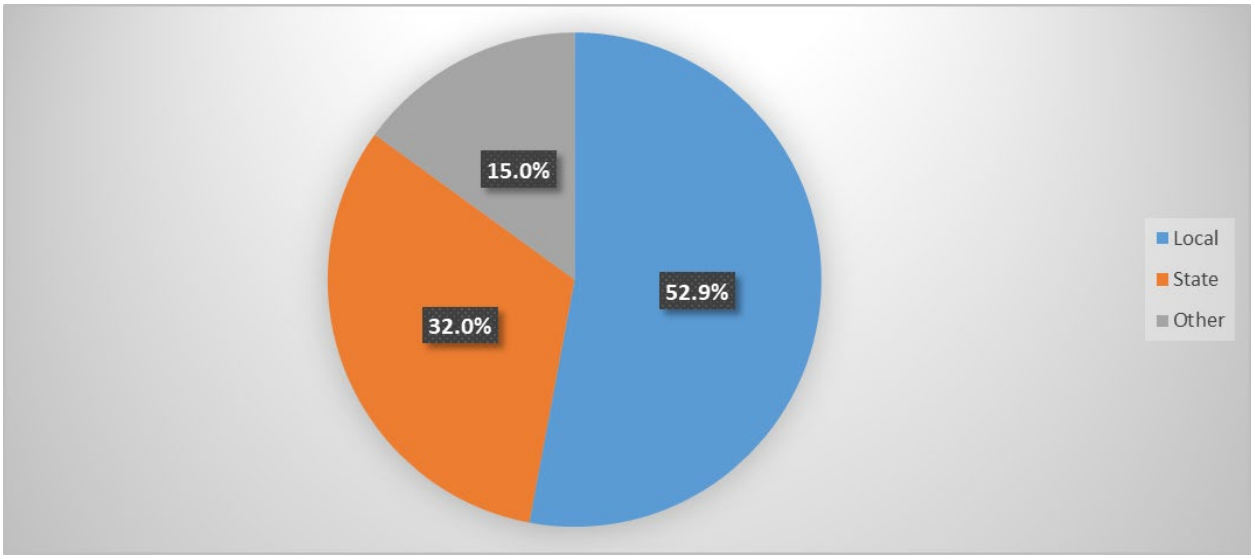
FY 2022 Year End Report

Hello,

I want to spend some time looking back on the past fiscal year (FY) 2022, which ran from July 2021-June 2022, and where the District currently stands financially. I will be focusing on the General Fund, which is the main source of revenues and expenditures for the District. It is also the fund represented on the biannual five-year forecast, submitted each November with an update in May.

FY 2022 Source of General Fund Revenues

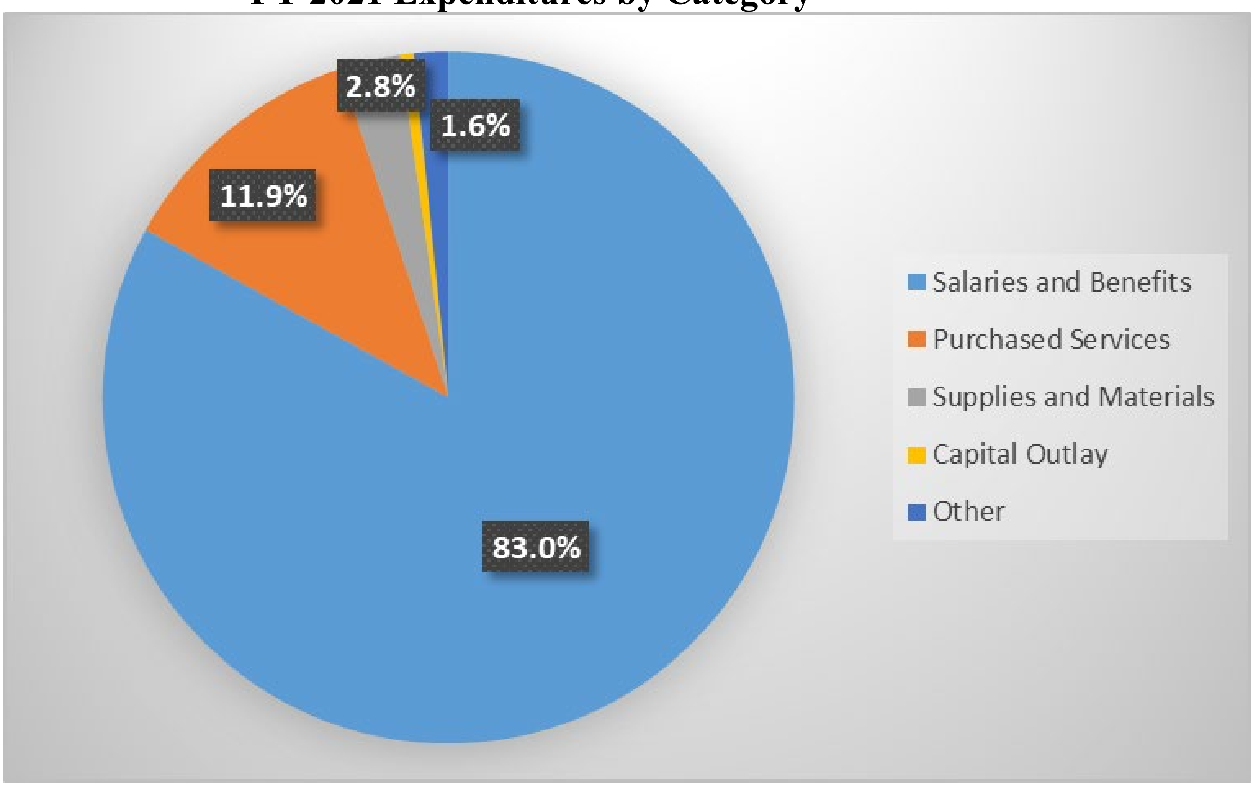


Local sources remain the largest source of revenues. These include funds received from property taxes and income taxes. The District saw an increase of $1.2 million, or 24.8% increase in property taxes in FY 2022 compared to FY 2021. This is due to the District receiving the second half of property taxes following the 2020 reappraisal in August 2021 and having a large industrial site come onto the tax rolls in time for the February 2022 payment. Outside of abatements rolling off properties I will expect to see more modest growth of property tax revenues in FY 2023. Income taxes rebounded significantly from the pandemic lows, increasing by $215,000, or 12.1%, compared to FY 2021. This is a sign that the local economy is robust and staying strong.

State sources of revenue remained largely flat compared to FY 2021, despite the passage of the new state funding formula. The biggest change is classifying more revenues as restricted state aid vs. unrestricted. This is due to changes in the law. Overall the District saw a net increase of just under $237,400 from the state formula. Due to declining enrollment and increased local wealth I am expecting the District to be on what's known as the guarantee for FY 2023. This would result in no additional funds from the formula. The District received a large catastrophic cost reimbursement from the state to help defray its special education costs in June 2022. Special thanks to Mrs. Becky Krall, special education director, for organizing and submitting the data required to receive the reimbursement. The reimbursement totaled over $90,000 and is far larger than previous reimbursements the District has received in the past.

Other sources of revenue include payments received as part of payment in lieu of taxes agreements with developers who received tax abatements. The District saw an increase in the amount paid from those agreements due to increasing payroll at those developments, which increased the revenue from the income tax sharing agreement with the Village of West Jefferson, as well as payments associated with the $0.01/square foot agreements. The payments from the $0.01/square foot agreements are hard to predict since they are triggered by the awarding of occupancy permits at the developments. The income tax sharing agreements will start to decrease as developers lose their tax abatements, thus coming onto property tax rolls, and if the current 50/50 split agreement with the Village is not renewed. The current income tax sharing agreement ends in 2024. Overall, revenues increased by $1.9 million, or 13.4%, in FY 2022 compared to FY 2021.

FY 2021 Expenditures by Category



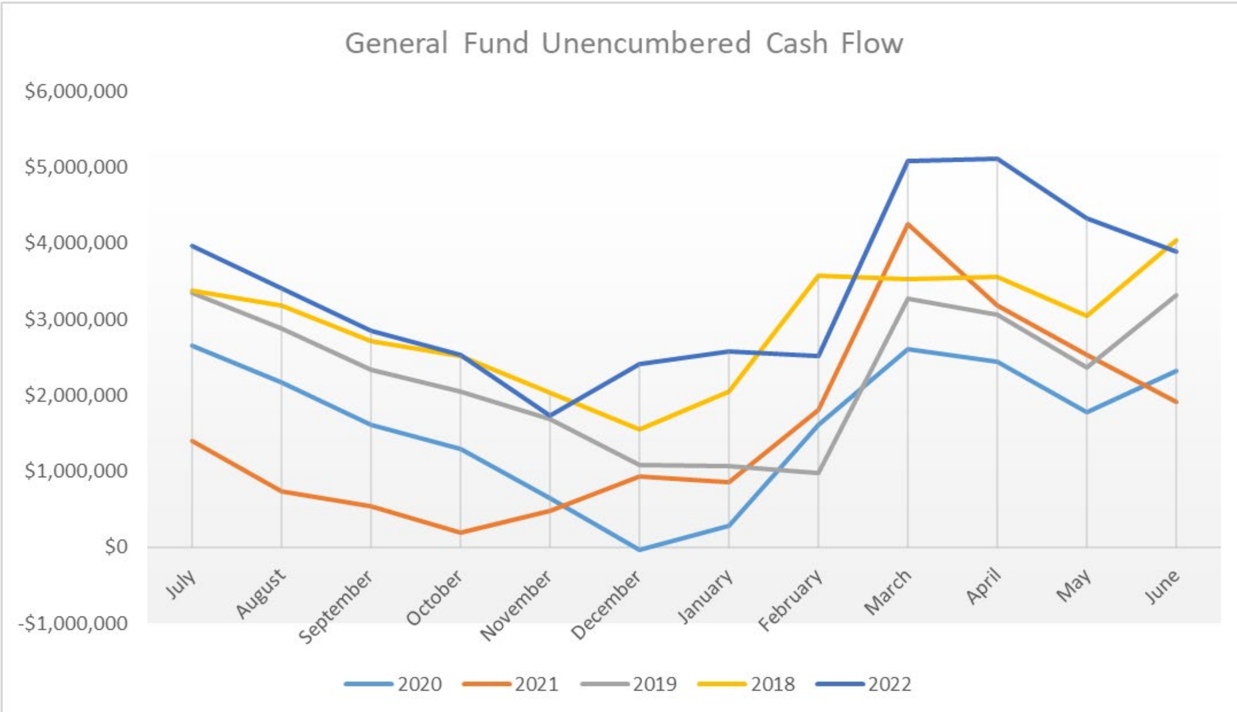
Personnel costs, which are made up of salaries and benefits, remains by far the largest source of expenditures at the District and saw an increase compared to FY 2021. This is to be expected as the District is a service organization and as such people will be its largest cost. The District negotiated three-year collective bargaining agreements with its two unions this past fiscal year, providing staff with a 2.75% base increase plus the standard salary steps. Administrators and non-union staff also received a 2.75% increase. Despite these raises salaries and benefits remained largely flat compared to the previous fiscal year. This is due to the budget reduction plan passed by the Board in the spring of 2021 as well as further resignations/retirements that were filled by subs or less experienced, and thus less costly staff. The District also did not provide a $500 across the board stipend as it did in FY 2021 and saw fewer severance payments compared to FY 2021. The District also utilized Title funds to help defray salary costs. I would expect these costs to rise going forward with the negotiated increases barring any additional staff turnover.

Purchased services declined slightly in FY 2022. This category consists of repairs and other specialized services provided by private individuals and companies. The District utilized federal COVID funds to help defray these costs where appropriate. Special education services provided by the Madison-Champaign ESC saw a drastic decrease in costs as the District moved some services in-house and also due to a decline in enrollment of students requiring such services. The state funding formula change also affected this area as open enrollment costs are no longer deducted as an expense from District funds. This is a change that will impact all schools in the state.

The other expenditure categories remained consistent with FY 2021. Supplies were defrayed with the use of federal COVID funds and by utilizing existing resources more efficiently. I would expect those costs to increase as inflation has made the cost of everything from paper to diesel fuel significantly more expensive compared to this time last year. Capital outlay remained a low percentage of overall expenditures as the District looks to maintain what it has instead of replacing where practical. Examples of capital outlay include furniture, HVAC systems, and physical structures. The other category is just that, expenditures that are not neatly categorized. Examples includes fees paid to the county for property tax collection purposes, fees associated with income tax collection, and professional membership dues and fees. Overall, expenditures decreased by $440,500, or 2.9%, compared to FY 2021.

The unencumbered[1] General Fund cash flow for the fiscal year is below.

[1] Unencumbered means funds that are not committed to a purchase order or some other financial commitment.



As you can see from the dark blue line above, The District finished FY 2022 with its highest unencumbered balance since FY 2018. Ending fund balances from before FY 2021 are misleading as the District had a practice of requesting and receiving property tax advances from the county auditor in June. Those advances are for property taxes that were due to be paid the following fiscal year, artificially increasing the cash balance in one fiscal year by taking from another. This is a practice that was ended in FY 2021. The unencumbered fund balance represents the funds available for the District to pay its obligations, including the salaries and benefits owed to its employees. The higher the fund balance, the better the District can weather emergencies and stretch out new requests for funds from its taxpayers.

Overall, the bottom line is that the District finished with an **operational surplus**. That means revenues exceeded expenditures for the fiscal year. Due to strong revenues and prudent fiscal management the District finished the fiscal year with a surplus of **$2 million**. As a result, the District saw a year over year increase in its ending fund balance. Due to the nature of school funding, with largely flat revenues and increasing expenditures, this is a hard accomplishment to achieve. This result is a direct testament to the District's hard working and dedicated staff to find ways to provide a valuable education to the children of West Jefferson in an efficient and effective matter.

Thank you. If you have any questions or concerns, please let me know.

Mark Ingles
Treasurer/CFO
Jefferson Local School District