Annual Report to the State Superintendent
From the Financial Oversight Panel for East St. Louis School
District No. 189
As of November 2000

Purpose

The purpose of this report is to comply with Section 1B-5 of the School Code, which requires the Financial Oversight Panel to submit annually a report to the State School Superintendent. This is the fourth report being issued to the State Superintendent. The Financial Oversight Panel was established by the State Board of Education on October 20, 1994.

Financially and operationally the District is much different today than it was in 1994. Tremendous improvements have been made and will be discussed in this report. This report will focus on the financial and operational improvements that have been made since the inception of the Panel, the future outlook for the District from the Oversight Panel’s perspective, and some suggestions for legislative and other changes with regard to State oversight.

The District 189 situation is unique. The Panel believes that the State of Illinois needs to review new and creative ways in governance for a District with the situation like that of District 189.

It is difficult to compare East St. Louis to any other school district in Illinois. The District receives 89% of its revenues form state and federal sources, which is higher than most other districts. In addition, the minority percentage is among the highest in any large urban district. The school population requires many special services and unique approaches to the teaching program.

With these hurdles, the District needs assistance from the State in most every area. The Panel still feels that given proper leadership and governance, District 189 can flourish both financially and educationally. The District has been saved from financial “insolvency” but continues to be academically troubled and one of the lowest performing school districts in the State. The Panel believes that the children of District 189 can be given a better learning environment, better educational choices and a well-run educational program with the funding that currently exists. The District needs help to continue to develop long-range plans and objectives. Leadership needs to be free from concerns about the political pressures of local employment and contracting.
**Financial History**

When the Panel assumed control of the District’s finances, the District had deficits from operations for the prior 3 years. Very little was being spent on building maintenance or materials and supplies. Revenues were almost entirely directed for employment purposes. The following table shows the growth of fund balances since 1994:

* Note: above does not include use of funds for construction projects.

All of this has been accomplished while maintaining a program to improve the conditions of the District’s buildings. The following shows amounts spent on capital outlay since the Panel’s inception.

<table>
<thead>
<tr>
<th>YEAR ENDED</th>
<th>TOTAL CAPITAL OUTLAY</th>
</tr>
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<tbody>
<tr>
<td>June 30, 1994</td>
<td>$ 457,000</td>
</tr>
<tr>
<td>June 30, 1995</td>
<td>$1,505,000</td>
</tr>
<tr>
<td>June 30, 1996</td>
<td>$1,367,000</td>
</tr>
<tr>
<td>June 30, 1997</td>
<td>$2,802,000</td>
</tr>
<tr>
<td>June 30, 1998</td>
<td>$6,142,000</td>
</tr>
<tr>
<td>June 30, 1999</td>
<td>$9,850,054</td>
</tr>
<tr>
<td>June 30, 2000</td>
<td>$4,300,539</td>
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Other matters addressed by the Panel during the year included the following:

Management Information System

During the year, the Panel and the District approved the purchase of a new management information system. This new system will provide for financial reporting, personnel tracking and student scheduling, attendance and record keeping. The system was successfully installed and is being used by the Panel staff and the District.

Food Service Contract

The Panel’s insistence that the District rebid its food service contract to include full labor by the contractor was accomplished. In the past, the District employed the food service workers and the contractor was responsible for management. While the initial operation under the new format has had some problems, the Panel feels that in the long run the District will be better served using this complete outsourcing method.

Technology Director

The Panel has been persistent in its request that the District hire a competent technology Director. Since the District spends several million dollars each year on technology, it was important to the Panel that this area be coordinated. This person was finally hired in August 1999. However, the Panel is aware of the State Board’s concerns regarding curriculum issues related to technology. We still need a person to deal with the “learning” piece of technology.

E Rate Grant

The District was successful in obtaining a grant under E-Rate to equip and wire all of its buildings. At the Panel’s insistence, the District hired an outside consultant to supervise this $7,000,000 plus grant. The consultant (Ernst & Young) has made several useful recommendations to the District and the Panel.

Litigation

In January 1999, the Appellate Court handed down its opinion regarding the ongoing lawsuit concerning the Panel’s takeover of the District’s central-office business and accounting functions. The Appellate Court ruled that all bargaining unit positions in the business office must be returned to the District’s control.
On November 1, 2000, 8 jobs formerly staffed by McGladrey employees were returned to the District. The same employees that had worked for McGladrey became employees of the District. Currently, the McGladrey staff supervises the Business Office. This arrangement accomplishes the oversight requirements of the Panel, and at the same time does not duplicate efforts of the District.

Administration of District

The Panel approved a three–year extension to Superintendent Nate Anderson’s contract. The Panel believes the continuity of management has been helpful to the improvement in the District.

Bond Rating

Together with the District and its investment banker, the financial administrator worked to increase the District’s rating for its bonds. We were successful in upgrading the rating by one point, which is the most Moody’s will improve a unit in one year.

School Construction

The District has been awarded a total of approximately $80,000,000 in school construction grants. These grants together with local funds of over $35,000,000 will be used to construct 9 new schools. The Panel has insisted on the management of these projects by the Illinois Capital Development Board.

State Involvement and Intervention

State Superintendent Dr. Max McGee and State Board Chairman Ron Gidwitz have shown the District that they want to see improvement and will take serious steps if they do not see improvement. The Panel is extremely happy with this leadership and direction.

Summary and Conclusions:

As noted earlier, the East St. Louis School District is a unique situation. The State Board of Education has been attempting to improve the situation in East St. Louis for years. Certainly the imposition of the Financial Oversight Panel in 1994 was a bold move at the time. The State has and continues to dedicate resources to the District. It needs to be said that the successes of the Panel could not have been accomplished without the coordinated efforts of the Panel and the State.
As can be seen from the above report and results to date, the creation of the Financial Oversight Panel for East St. Louis School District 189 has been successful for the improvement of the financial management and position of the District. The District has accumulated over $35,000,000 in fund balances, and for the first time in many years has embarked on a massive construction program to improve its facilities for the children of East St. Louis. **Clearly this construction of 9 new schools in East St. Louis is the greatest achievement to date for both the children and the city.**

As we have previously reported to you, however, the State Board of Education and the Governor need to develop a plan that changes the way this District is governed. It is clear to the Panel that the District cannot excel academically with the current form of local governance. The political pressures of jobs and contracts are just too pervasive for board members to be concerned about the real business of the District – education. We do not see that changing. While discussions with current board members continue, they too often act for personal and political benefit. This type of governance stifles leadership, change and the desire by employees to have a world-class organization. Of concern to the Panel is the sunset provision that provides that the Panel be dissolved at the end of ten years. We are only a few years away from that end.

The Panel would be happy to discuss this report at any time.