ANNUAL REPORT TO THE STATE SUPERINTENDENT

PREPARED BY

FINANCIAL OVERSIGHT PANEL FOR

EAST ST. LOUIS SCHOOL DISTRICT NO. 189

September 2002
Annual Report to the State Superintendent
From the Financial Oversight Panel for East St. Louis School District No. 189
As of September 2002

Purpose

The purpose of this report is to comply with Section 1B-5 of the School Code, which requires the Financial Oversight Panel (the “Panel”) to submit annually a report to the State School Superintendent. This is the eighth report being submitted 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 highlight the financial and operational improvements that have been made since the inception of the Panel, the future outlook for the District from the Panel’s perspective, and some suggestions for legislative and other changes with regard to State oversight.

The District 189 financial situation is unique, compared to other Illinois school districts; only 7% of the District’s revenues are from local property taxes - the amount of revenues from federal and state sources represent 90% of the District’s budget. In addition, the culture of the District has been to be more concerned about providing jobs for local political associates and less concerned about improving the learning environment and academic performance of the students. That is not to say that there are not some concerned board members, administrators and staff. However, political and local pressures prevent those who desire change from implementing the necessary improvements in the organizational structure, administrative resources, operating procedures and fiscal management that could optimize the District’s achievement of its educational mission. The Panel believes that the State of Illinois needs to consider new and creative ways in governance for a District with the situation like that of District 189. This concern has been shared with the State Board of Education, whose staff generally concurs with this conclusion.

It is difficult to compare East St. Louis to any other school district in Illinois. The percentage of the population made up of minority groups is among the highest in any large urban district. In addition, the economic level of the community is one of the lowest in Illinois. This school population requires many special services and unique approaches to the teaching methodology.
With these hurdles, the District needs assistance from the State in almost 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 administrators and teaching and support staff can be made more accountable for the academic performance of the students. The District needs help to continue developing appropriate long-range objectives and plans. The leadership needs to be free from concerns about the political pressures of local employment and contracting. We believe that a competent administration, given the freedom to make decisions and with the assistance and resources of the State can make a difference.

Financial History

When the Panel assumed control of the District’s finances, the District had operating deficits 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 the General Fund’s fund balances since 1994:

Note: this graph does not include use of funds for construction projects; the decrease in Fiscal Year ended June 30, 2001 was mainly due to a transfer of certain funds from Operations and Maintenance (a sub-fund of the General Fund) to Site and Construction.

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The improvement in financial solvency 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>
</thead>
<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>
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</tr>
<tr>
<td>June 30, 2002</td>
<td>$14,554,014</td>
</tr>
</tbody>
</table>

Other matters addressed by the Panel during the year included the following:

Transition of Panel Personnel

During the previous year, certain business office positions were transitioned back to the District. The entire transition has been completed except for the employees who serve supervisors or managers. While the District was initially concerned about how this would work, it has proven to work well for both the Panel and the District; the Panel has its people in place to conduct the required oversight and the District has the supporting staff that continues to be trained and supervised by capable managers. This system eliminates the need for duplication of effort and positions. It also allows for no break in financial operations even under a union strike situation because the supervisors and managers handling key financial transactions are outside of the bargaining unit.

Construction Manager

The decision by the Illinois Capital Development Board (CDB) to discontinue its involvement with the East St. Louis School District was a major disappointment to the Panel. When the District began the construction program that would include 9 new buildings, the management of those projects was a major concern. The overseeing and management of that process by CDB was thought by the Panel to be economical, efficient and enhanced the District’s ability to achieve quality results. Because of political pressure from both local- and state-level politicians, the CDB withdrew from all future projects. The Panel and the District worked together to try and select a qualified Construction Management Firm. Because of recent court decisions in St. Clair County regarding the bidding process, the Panel and the District were forced to accept the low bid rather than whom they felt was the most qualified firm. This is completely different from the process for hiring other professional service firms. The current firm engaged by
the District has not performed as well as the Panel had hoped and the additional cost to the District will be almost $2,000,000 over a three-year period. The Panel is working with the State Board staff to try to elicit more accountability from the vendor in this contract.

**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 grant. The consultant (Ernst & Young) has made several useful recommendations to the District and the Panel. The project was completed on time and within the budget. The District buildings are now fully equipped in every classroom with both Internet access and internal computer communication capabilities. The Panel continues to be concerned about the optimal use of this technology advantage. The Panel members believe that internal technology oversight needs to be strengthened so that these technological resources are utilized to enhance learning options and academic performance.

**Administrative Contracts**

The Panel spent much thought on improving accountability for academic performance from the District’s administrative and teaching staff. One of the areas the Panel investigated was the use of pay for performance. The Panel discussed the possibility of granting pay increases based on test scores with technical consultants who have worked with other Districts in this arena. Since administration of this type of pay/reward system would be very difficult, it was decided to defer any further pursuit at this time. However, the Panel did work with the District to develop performance-based contracts for all principals.

**Administration of District**

Last year, the Panel approved a complete new organizational chart for the administration of the District that included a new assistant superintendent. This year, the Superintendent submitted additional changes to that chart and additional administrative team members. The Panel’s hope is that these changes will improve the effectiveness of the administration.

**State Involvement and Intervention**

State Superintendent Dr. Max McGee and State Board Chairman Ron Gidwitz have indicated to the District that the State Board wants to see significant academic improvement and will take serious steps if they do not see improvement. The State Board of Education completed an Academic Audit Report in March 2001. This report addressed the Organizational Effectiveness of the District. Many issues and
recommendations were raised in that report. The Panel hopes that the State Board will continue to monitor the District’s progress against the recommendations of that report.

Human Resources Audit / Review

In May 2001, the Panel commissioned an audit of the District’s human resource functions since personnel constituted the largest expenditure item for the District. That report raised many concerns and noted several areas for improvement. The District has yet to implement any of the recommendations and the Panel has considered issuing a directive to move this forward.

Some of the findings of the Human Resource audit include:

- The current structure of the Human Resources department is not functioning effectively.
- The current Director of Personnel has no human resource experience and he is not supported by appropriately trained technical staff.
- The recruitment and hiring process is fraught with inequities and potential favoritism.
- There is a lack of a sound performance measurement system.
- The Board appears to be too involved in the hiring process.

Purchase of property for Middle School

The District proposed the purchase of property for a new middle school at 56th and State. The proposed purchase price was questioned by the Panel and the Panel insisted on an environmental study. The Panel required that almost all of the purchase price be escrowed until the environmental costs could be determined. This saved the District almost $500,000 when the environmental survey brought major problems to light.

Sale of Parsons Field

The District proposed to sell Parsons Field which is the former football field used by the District. When the District proposed to sell the property for only $40,000, the Panel requested additional appraisals that resulted in an ultimate sale for just over $200,000.

Employment of Architectural Firm

Since the Capital Development Board had withdrawn from its role as active construction manager, the District proposed to hire Kennedy and Associates as the architect for the 2 last schools to be designed. The Kennedy firm had been removed from the CDB list of pre-qualified firms because of performance standards. In fact, at the District’s own project (Lansdowne) there were over $1.2 million dollars in change orders that were a result of design errors. The Panel rejected the District’s proposed contract with Kennedy firm.
New Depository Bank

The Panel staff together with the District’s Executive Director of Business and Operations conducted a review of the banking relationships being used. In August 2002, the Panel having responsibility for cash administration changed to UMB Bank where the Panel expects to get additional services and improved interest earnings for the District.

Budgeting Assistance

Because of the current funding situation, the District’s financial administrative resources are being stretched further than in previous years. The Panel’s staff spent a great deal of time assisting the District in analyzing the budget and looking for cost savings. Currently, the Budget proposed by the District has very little room for contingencies.

Purchasing Review

During the year, the Panel staff conducted a review of the purchasing procedures of the District and made recommendations. Recently, it was discovered that some of the procedures in place were not being followed bringing rise to concerns about bidding and purchasing integrity. The Panel has requested the District’s independent auditors to review this area and undertake certain special audit procedures.

Joint Agreement for Special Education

The Panel and the State Board staff have been reviewing the operations of the Special Education Joint Agreement. What has been discovered is that the District has not been billing the other member District for its share of the cost thus foregoing earned revenue. The State Board staff is analyzing the options available for revising the current arrangement.

Recommendations:

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 considerable 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 the construction of 9 new schools in East St. Louis is the greatest achievement to date to benefit the students and the City of East St. Louis.**

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 mission of the District – education. The Panel does 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. The Year 2002 is only two years away from that end.

The Panel held a planning retreat in April 2002 to develop ideas for the future. The chart marked exhibit “A” details the results of that session. Among the highest rated suggestions of the Panel were:

- Establishing performance standards for administrators
- Performance-based pay for administrators
- Performance-based pay for teachers
- Don’t spend money on schools the District intends to close
- Monitor enrollment vs. capacity
- Eliminate local funding so that local control can be replaced

Many of the ISBE staff and concerned community members have commended the Panel members on their outstanding contribution to the District. Two of the current members have served eight years and the other has served 3 years. These members serve without pay and for a community that they do not even reside or work in. They serve because they want to make a difference for the children in East St. Louis.

The Panel wants some assurance that the credibility and integrity they have brought to the District will continue to improve. There is substantial doubt that this will continue after the Panel’s expiration if there is no change in governance. It would be a shame if after all that has been accomplished, the District would revert back to the “old ways”. The present school board views the Financial Oversight Panel or any State intervention as “interference” and a type of profiling. Instead, Board Members and the administration need to remember how far the District has come in the last several years.

- School buildings are being maintained better than ever before
- For the first time in decades, new buildings are being constructed
- There are some outstanding schools
- Principals and Administrators are being held accountable
- The District continues to operate within a balanced budget

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Dorothy Magett prepared a report to the State Board in 1999. Her report had several recommendations, but the one regarding governance still remains a possible alternative:

“Rather than follow the trend of taking over the District, which has not proved to be effective in other locations, the Illinois State Board of Education is advised to follow a course of action, designed to build capacity in the community… Therefore it is recommended that the State Board of Education seek legislative authority to eliminate the elected East St. Louis Board of Education and replace it with an appointed board of no more than 5 members…” (Dorothy Maggett, October 1999)

The Panel believes the above recommendation or some form of governance change is necessary in order to make the significant culture changes needed to effect change in the District. These changes must be made if the District is going to move forward academically. Every year that we wait to make these changes, we lose another group of students.

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