TO: Illinois State Board of Education

FROM: Robert E. Schiller, Superintendent  
       David Wood, Director


Materials: Petition from Hazel Crest School District 152 ½  
           Information from the District’s Financial Consultant

Staff contact(s): David Wood, Gary Ey and Harry Blackburn

Purpose of Agenda Item

• Provide the Board with an understanding of the severe financial difficulties confronting Hazel Crest School District 152 ½. Hazel Crest is an elementary school district with an enrollment of 1,200 students located in South Cook County within the villages of Hazel Crest and East Hazel Crest and the cities of Harvey and Markham.

• Hazel Crest School District 152 ½ petitioned the State Board of Education on October 7, 2002, for immediate certification under Section 1A-8, the accelerated appointment of a Financial Oversight Panel under Section 1B, and continued technical assistance from the agency.

Expected Outcome(s) of Agenda Item

• Staff will provide details of the school district’s precarious financial position and the potential for it to exhaust all available cash reserves prior to the completion of the 2002-2003 school year.

• The Board will evaluate the possible legal basis for certifying the district pursuant to the Section 1A-8 criteria. The district has $1.65 M in outstanding Tax Anticipation Notes and $2.3 M in Revenue Anticipation Notes secured by most of this year’s General State Aid entitlement.

• Board will approve ongoing technical assistance and the appointment of a Financial Oversight Panel so that a comprehensive assessment can be made to the General Assembly during the fall veto session.
Background Information

The State Board of Education was informed of the pressing financial difficulties in Hazel Crest School District 152 ½ through media coverage, Harry Reynolds the district superintendent and others. Staff have worked closely with the superintendent and attended a September 30 board meeting where a resolution to petition the State Board of Education for immediate appointment of a Financial Oversight Panel was considered.

The district is receiving pro-bono financial consulting services from Mr. Rob Grossi who also serves as the Bloom Township School Treasurer. Mr. Grossi informed the Board at the September meeting that the “district is in the midst of a major financial crises. Based on current fund balances, it is projected to run out of operating funds within the next sixty days (see attached document).”

This will carry the district to the end of this November when it has two referenda questions on the ballot. One is for an Educational Fund Tax increase from $1.61 to $3.50, the maximum allowed by law. The other is to increase the debt service limitation extension from $450,000 to $1.5 million. The outcome of both of these questions weighs heavily on the financial viability of the district to continue operating through the end of the 2002-2003 school year. The district is currently seeking an additional $1.6 M in tax anticipation warrants on the basis that they have already approved their tax levy for the 2003-2004 school year.

An Article 1B petition for a Financial Oversight Panel requires a school district to be certified as being in “financial difficulty” under Section 1A-8 and sets forth specific criteria for this designation. We believe it was the intent of the General Assembly that a district under the extreme financial conditions that Hazel Crest is under should be eligible. Because of the speed with which Hazel Crest School District 152 ½ found itself in this situation, it is essentially bypassing the normal progression of financial designation and instead is petitioning the State Board to act immediately to appoint a three-member Financial Oversight Panel.

The Panel will be able to provide immediate oversight and approval for additional borrowing by the district as well as development of an “emergency financial assistance and recovery plan.” They will help the public understand the financial distress of the school district and how it occurred. Under law, the panel can recommend an Emergency Financial Assistance Grant from the state of $270,000 and an Emergency Financial Assistance Loan from the state of $1.08 million. Both of these would address the near term cash flow crisis of the district. While these state subsidies will help the district to complete more of the current school year without disruption, it is unclear whether they will be sufficient to bridge the district until next year or permit it to open at all next year.
Analysis and implications for Policy, Budget, Legislative Action and Communications

Analysis
Staff will continue to work closely with the district Superintendent, Board and Regional Superintendent to evaluate the district’s financial capacity.

Policy Implications
Based upon the district’s 2000-2001 Annual Financial Report, they did not appear on the 2002 Financial Watch List. This validates the need to redesign our entire financial analysis and accountability system. The Board will be presented with a totally new “Financial Profile” and designation system this month.

A school district has never petitioned for a Financial Panel before being certified pursuant to Section 1A-8. The extreme financial distress of this district warrants consideration by the State Board of Education.

Budget Implications
Provided a Financial Oversight Panel is appointed and requests a state grant or loan, the State Board of Education has sufficient appropriations in its Emergency Financial Assistance Fund to cover the $270,000 Emergency Financial Assistance Grant but not the $1.08 million loan. The loan would require a new general funds appropriation from the General Assembly and Governor. In the case of the Round Lake Financial Oversight Panel, the General Assembly did not appropriate for a loan, but in the case of the Mt. Morris School district, the General Assembly and Governor did appropriate for a loan.

Legislative Action
The Financial Oversight Panel may eventually recommend special legislation (i.e., a School Finance Authority, immediate dissolution of the district, etc.).

Communication
This situation is likely to become a model for others who are experiencing similar financial difficulties.

Pros and Cons of Various Actions

Pros – By certifying and appointing a Financial Oversight Panel we would be able to better help this district and provide critical cash flow for the remainder of the school year.

Cons – Absent this action, we have limited capabilities to assist the district continue operations for the remainder of the year.
**Superintendent’s Recommendation**

The Superintendent recommends the State Board certify Hazel Crest School District 152 ½ as being in financial difficulty under Section 1A-8 and authorize him to appoint a Financial Oversight Panel for the district.