TO: Illinois State Board of Education

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

Agenda Topic: Action Item: Cairo Unit School District 1
Petition for a Voluntary Financial Oversight Panel

Materials: Petition from Cairo Unit School District 1  
           Information on the District’s Financial Condition

Staff contact(s): David Wood and Gary Ey

Purpose of Agenda Item

- Provide the Board with an understanding of the severe and growing financial difficulties in Cairo Unit School District 1 (Alexander County). Cairo is a unit school district with an enrollment of 900 students.

- Cairo Unit School District 1 petitioned the State Board of Education on January 23, 2003, for certification under Section 1A-8 and the appointment of a Financial Oversight Panel under Section 1B.

Expected Outcome(s) of Agenda Item

- Staff will provide basic details on the school district’s financial position and the possibilities for exhausting all available reserves in the Educational, Operations and Maintenance, and Transportation Funds prior to the end of the 2002-2003 school year.

- The Board will evaluate the legal basis to certify the district pursuant to Section 1A-8 certification criteria. The basis for this action is that the district had $405,000 in Tax Anticipation Warrants and $144,342 in General State Aid Anticipation Certificates outstanding reported on its 2002 Annual Financial Audit and Report.

- The Board will approve ongoing technical assistance and the appointment of a three-member Financial Oversight Panel so that a comprehensive fiscal assessment can be given to the State Board and General Assembly during the spring legislative session.
**Background Information**

The State Board of Education discovered of the pressing financial difficulties at Cairo Unit School District 1 by means of a thorough analysis of the district's cash flow capacity. Staff worked closely with Superintendent Isom and attended the January 23, 2003 board meeting where a resolution to petition the State Board of Education for immediate appointment of a Financial Oversight Panel was considered and unanimously approved.

By means of the technical assistance given by the State Board of Education staff, Superintendent Isom was able to inform the Board at its December 19, 2002 Board meeting that the “district was in the midst of a major financial crises”. As of December 31, 2002, the district was utilizing restricted funds in excess of $60,000 to meet ongoing operational expenditures. In January 2003, the district issued Tax Anticipation Warrants totaling $414,000 which is the maximum allowable by law. Current financial projections indicate that the district will likely exhaust all available resources in its three operating funds within the next sixty days. By that time, the district will need to secure a line of credit for an additional $500,000 to meet current year expenses.

Article 1B petition for a Financial Oversight Panel requires a school district be certified as being in “financial difficulty” pursuant to Section 1A-8 and sets forth specific criteria for such designation. As was done for Hazel Crest 152.5, we believe it was the intent of the General Assembly that a district such as Cairo Unit School District 1 under similar extreme financial conditions should be eligible. Due to of the district’s serious financial circumstances, it is necessary for them to bypass the normal progression of financial designation and instead petition the State Board directly for immediate appointment of a three-member Financial Oversight Panel.

The Panel will be able to provide timely financial oversight and approval for additional lending by the district as well as development of an “emergency financial assistance and recovery plan.” Under law, the panel can recommend an Emergency Financial Assistance Grant for $230,000 and an Emergency Financial Assistance Loan for $900,000. Both of these would address the near term cash flow crisis of the district and set the stage, with the assistance of the Financial Oversight Panel, for eventual financial recovery.

**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 options.
Policy Implications
Cairo Unit School District 1 was on the Financial Watch List in Fiscal Year 1993 through Fiscal Year 1995 and again in Fiscal Year 2000. For Fiscal Year 2001, they were placed under Financial Technical Assistance.

Hazel Crest School District 152.5 set a precedent and Cairo is now petitioning for a Financial Panel before being certified pursuant to Section 1A-8. The extreme financial distress of this district warrants immediate consideration by the State Board of Education.

Budget Implications
Provided a Financial Oversight Panel is established and requests a state grant or loan, the State Board of Education has sufficient appropriations in its Emergency Financial Assistance Fund to cover the $230,000 Emergency Financial Assistance Grant but not sufficient funds to cover a $900,000 loan. The loan would require an additional General Funds appropriation. With an infusion of the Emergency Financial Assistance Grant and Loan, maintaining current revenue levels, increasing salaries 2% to honor their negotiated contract and maintaining current spending levels for all other expenditures; it is estimated that additional revenue or expenditure reductions will be necessitated for Fiscal Year 2004 in the amount of approximately $400,000. Without the additional revenues or expenditures reductions, it is projected that the district will again realize a cash short-fall in March of 2004.

Legislative Action
The Financial Oversight Panel may eventually recommend special legislation (i.e., a School Finance Authority, immediate dissolution of the district, etc.). The General Assembly will likely seek recommendations for total reform of Section 1A-8 and Article 1B.

Communication
On the eve of the release of the new Financial Profile System, this district further validates the need for earlier identification and interventions by the State Board of Education.

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

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

The Superintendent recommends the State Board certify Cairo Unit School District 1 as being in financial difficulty under Section 1A-8 and authorize appointment of a Financial Oversight Panel.