SCHOOL FINANCE AUTHORITY
for Round Lake Area Schools
District No. 116

Annual Report to the State Superintendent

March 1, 2003
Background and Overview

The Illinois State Board of Education (the “ISBE”) created the Financial Oversight Panel (the “Panel”) for Round Lake Areas Schools District No. 116 in May 2000. Since its last Annual Report to the State Superintendent, the Panel worked to have legislation pass that would create the School Finance Authority (the “SFA”) under Public Act 92-0547. The Panel’s recommendation to establish the School Finance Authority was the result of a comprehensive analysis undertaken by the Panel to explore various alternatives to the long-term configuration of the District (that included among others, reorganization).

The Panel considered the establishment of the School Finance Authority as the optimal long-term approach to addressing the many barriers to financial stability identified by the Panel:

- The District’s level of Debt was extremely high (Exhibit I).
- The Investment Banking community viewed the Round Lake School District as an extremely high-risk borrower with its high level of short-term debt, TAWs (Exhibit II)
- The terms of the current collective bargaining agreement were very costly.
- The tax base of the Round Lake School District is extremely low compared to neighboring districts (Exhibit III).
- The student population has a higher than average percentage of special need students; in addition, there was a large disparity between enrollment and Average Daily Attendance (Exhibit IV) indicating a significant truancy problem.
- The age and condition of the buildings is poor.
- Morale of staff and administrators is low.
- Leadership had made poor financial decisions.

Panel accomplishments

During its tenure, the Panel worked with the District’s Business Office and held the District to its goal of balancing the budget. For the years ended June 30, 2001 and June 30, 2002, the District achieved surpluses in the operating funds, for the first time in many years, without having to resort to bond issuances to cover shortfalls. Exhibits V.a and V.b show clearly the shift in financial performance.

The establishment of the Panel allowed the District to access emergency assistance grants that made surpluses possible. Working with the District Board of Education, the Panel (through its Financial Administrator) recommended cost containment measures such as tracking of personnel inventory and more stringent review of vendor contracts. The Panel encouraged the appropriate level of staffing for the Business Office and the establishment of practices that enhanced revenue generation (for instance, in School Lunch program compliance, more timely and accurate grant expenditure filings, and increased user fees). Cognizant of the impact of the collective bargaining agreement on costs, the Panel also
encouraged the District to work with the union to forge agreements that would hold the line on personnel costs.

Referendum bonds were issued that related to needed construction partly funded by State school construction grants. The construction of the High School addition was begun with the Business Office, the Board of Education and the Panel closely monitoring costs. Working cash bonds were also issued and structured as to provide the District with needed Working Cash fund monies that could be tapped to “substitute” for funds impounded by the General State Aid intercept which had been required as a debt covenant on certain alternate revenue bonds. The Panel restricted the use of these funds to alleviate temporary cash shortfalls.

The most recent improvements owed their achievement to the committed efforts of the District’s Business Manager and his staff. The participation of ISBE staff and District Board members in Panel meetings has also contributed to accomplishments. Lisa Maher of ISBE assisted the Business Office in developing procedures for accurate attendance monitoring. Some years back, an error in attendance reporting caused the District to receive an overpayment of General State Aid that had to be reimbursed in the following years. The Business Office pointed the Board’s attention towards compliance problems related to the District’s lunch program. The Panel supported the investment in equipment and technology that had led to a “clean bill of health” for the program in the latest ISBE monitoring visit.

Panel recommendation for School Finance Authority

Despite these successes, the Panel determined that structural change was needed in addition to procedural improvements. The creation of the Chief Executive Officer, Chief Educational Officer and Chief Fiscal Officer positions was incorporated within the legislation to establish the School Finance Authority. With these positions in place and reporting to the School Finance Authority, the Panel believed that the District would have the necessary organizational resources to craft a recovery plan that would lead to long-term financial stability.

After passage of the Downstate School Finance Authority legislation, the Panel petitioned for and the Illinois State Board of Education approved the establishment of the School Finance Authority on August 13, 2002. On August 22, 2002 the ISBE named five members of the School Finance Authority: Lewis “Bud” Hoose (for a term of 2 years), George Lingel (for a term of 3 years), John Schockmel (for a term of 3 years), Alex Solla (for a term of 2 years), and Maru Tomusiak (for a term of 2 years). Bish Krywko replaced Alex Solla when Mr. Solla accepted a job assignment outside of the area. The State Superintendent designated John Schockmel to serve as the SFA’s Chairperson.
Special powers of SFA

Aside from investing the SFA with the same powers as the Panel, the legislation also had certain significant additional features:

- Power to appoint employees including a Chief Executive Officer, the Chief Educational Officer and the Chief Fiscal Officer (the top management of the District)
- Power to borrow money and issue SFA obligations as provided for by Article 1E and to fund, refund, advance refund or redeem such obligations (with a debt limit of 13.8% of equalized assessed valuation that is separate and independent of the District’s own statutory limit)
- Power to establish tax rates to retire these obligations
- State pledge not to alter or limit the SFA’s powers so as to impair the rights of bondholders
- Power to negotiate collective bargaining agreements with District employees
- One-time exemption from the Property Tax Extension Limitation Law (“tax cap”) for the levy year in which the SFA is established.

SFA accomplishments

Within weeks of its establishment, the SFA set the parameters for collective bargaining negotiations and consulted with the District’s negotiating team throughout the negotiations. This was crucial to the District meeting its goal of balancing the FY2003 budget that the SFA also reviewed (with the assistance of the Financial Administrator) and approved before the deadline set by law.

In conjunction with this process, the SFA designated the District’s Business Manager as the Chief Fiscal Officer. The SFA also worked closely with the District during the final stages of the High School addition’s construction.

The SFA participated in resolving the location of the Middle School addition. The District brought for the SFA’s consideration the issue of where the Middle School addition could be located consistent with the terms of the referendum-approved construction bonds. Based on an opinion from bond counsel, Chapman and Cutler, the District relocated the Middle School addition to Indian Hill from the Magee Middle School site. SFA members called the District’s attention to potential traffic and other problems and asked the District to meet with Village government representatives and constituents. The resulting meetings with the Village have paved the way for improved coordination on the project. However, the location issue delayed the construction schedule. The SFA asked ISBE staff to work with the District to obtain the Capital Development Board’s authorization to extend the construction schedule. With that commitment in hand, the District and the SFA appointed the architect and construction manager for the Middle School addition.
In December 2002, the SFA’s Financial Administrator worked with the Chief Fiscal Officer and the District Financial Advisor to develop the 2002 tax levy. Their objective was to set rates that would maximize the opportunity presented by the one-time lifting of the tax cap, while not exceeding the maximum rate allowed by either statute or referenda. The increased tax revenues will generate needed resources for the newly established risk and safety management program, curricular improvements and certain lease repayments. SFA members have voiced their opinion that the increased revenues also be allocated to projects that would have direct impact upon students.

**District’s preliminary financial projections**

The SFA has asked the District Business Office to develop preliminary financial projections for use in short-term planning (see Exhibit V.a). These estimates indicate continued operating fund surpluses. However, the margins are tight and the Business Office needs additional input from the school administrators to refine the estimates.

**Near-term SFA agenda**

At this writing, the SFA has undertaken the search for its Chief Executive Officer and Chief Educational Officer. The SFA engaged ProAct Inc., a prestigious search firm, to assist the SFA in developing the position profiles and the process to be followed in selecting individuals to fill these crucial positions. Exhibits VI and VII present the position profiles for these two critical positions. They embody the attributes the SFA believe would characterize the Chief Executive Officer who would be charged with spearheading the development of a more detailed financial plan that is supported by better demographics and data regarding the current academic and infrastructure resources. They embody the attributes of the Chief Educational Officer who would be charged with developing an academically sound curricular program consistent with resources available to District 116. In addition, that individual would also have to address the truancy problem in order to improve the ability of the District to generate General State Aid.

There are still a number of issues that remain to be resolved:

- Revisiting of the collective bargaining agreement to conform its terms with available resources and personnel needs;
- Restructuring of the short-term and long-term debt;
- Building needs arising from long-delayed repair and maintenance and increasing student population.

The SFA’s power to issue its own debt represents another, still-untapped alternative approach for addressing some of these concerns.

As the SFA moves forward, its members are intent on continuing to work collaboratively with the District Board of Education, the community, and the Illinois State Board of Education.
Exhibit I: Bonded debt – History & projections
Exhibit II: Tax Anticipation Warrants – History & Projections
Exhibit III: Assessed Valuation per student – Levy year 2000
Exhibit V.a: Financial History & Projections – Net Surplus (Deficit) (Ed, O&M, Trans & W/C)

- Net rev/exp
- Bonds
- Net rev/exp (Panel/SFA)
Exhibit V.b: Fund balance History and Projections – (Ed, O&M, Trans, W/C)
Exhibit VI: CExO Profile

The School Finance Authority (SFA) of Round Lake Area Schools District 116 seeks as its new Chief Executive Officer (CEO) an experienced, results-oriented executive with vision, creativity and outstanding leadership, managerial, fiscal and communication skills to implement all policies and practices of the SFA and the policies of the Board of Education, including administration, fiscal management, procurement, communications and education strategy.
Exhibit VI: CExO Profile (continued)

Candidates must demonstrate:

- Personal and professional commitment to the SFA’s mission, goals, policies and practices, consistent with state law, and the school district’s education strategy, programs and services.
- Business and financial acumen, including a firm grasp of budget and finance as well as complex processes and organizational structures; and skills to develop and maintain consistently high standards of fiscal and physical plant management.
- Successful experience in strategic and operational planning and organizational/culture change; in requiring accountability for results at all levels.
- Data-driven decision making and the analytical skills to improve the district’s financial performance and to evaluate practices, programs and initiatives for optimum effectiveness.
Candidates must demonstrate:

- Experience in building effective teams through participatory management; in demonstrating openness, self-confidence and motivating others to effective collaboration; in developing a management team and in conducting senior level performance evaluations.

- Successful experience in sustaining a community of interest, in building support for and investment in public education, in enhancing public confidence and understanding of strategic directions.
Exhibit VI: CExO Profile (continued)

Candidates must demonstrate:

- Effectiveness in public relations, with expertise in working with the boards of directors, media, community organizations, funding groups, financial institutions, business leaders, elected officials, government organizations; being politically astute.

- Computer literacy/knowledge of information and financial systems; experience in technology improvements for administrative and instructional functions.

- Ability to exercise bold leadership, including being a risk taker, a consensus builder and a manager of change.

- Exceptional oral, listening and written communication skills, being articulate, persuasive and inspiring.
Exhibit VI: CExO Profile (continued)

Application Criteria

- At least ten years of experience in senior management positions, preferably in managing an organization through a change process; experience in a public education setting is desirable.

- Master's degree preferred in finance, business or public administration or other related fields.
Exhibit VII: CEdO profile

The School Finance Authority (SFA) and the Board of Education of the Round Lake Area Schools District 116 seeks as its new Chief Educational Officer (CEdO) an experienced, results-oriented executive to provide leadership and support to all schools in implementing the educational policies and procedures established by the Board of Education and in providing the link between the central office and the schools.
Exhibit VII: CEdO profile (continued)

Candidates must demonstrate:

- A proven track record in education and/or organizational reform; ability to define and implement best practices and continuous improvement strategies with high expectations for performance; commitment to maintaining high standards and increasing accountability for results at all levels.

- A proven track record of continuous improvement in student performance and other indicators of success such as increased attendance and enrollment, lower suspension and expulsion rates, lower rates of discipline and safety-related incidents, lower turnover rates of teachers, increases in certified teachers and decreases in teachers teaching out-of-field.

- Successful experience in sustaining a “community of interest,” in building support for and investment in public education, in enhancing public confidence and understanding of strategic directions.
Exhibit VII: CEdO profile (continued)

Candidates must demonstrate:

- Successful experience in working with low income and multi-cultural constituencies; being responsive to issues and concerns and developing initiatives that close achievement gaps while raising achievement levels for all students.
- A proven collaborative management style for building effective teams and consensus around issues, initiatives and a common agenda; demonstrating openness, self-confidence and the ability to delegate.
- Excellent analytical, planning and organizational skills to maintain a strategic direction; employing contemporary management principles to develop and implement a long term strategic plan aligned to the district's strategic initiatives.
Exhibit VII: CEdO profile (continued)

Candidates must demonstrate:

- Strong interactive communication skills to reach out, listen, and build confidence, respect and trust of the Board, parents, teachers, school administrators, students, bargaining units, taxpayers; as well as community, political, foundation, technical school, college/university, business and industry leaders.

- Successful experience in promoting partnerships and collaborations with external groups such as parent groups and families, nonprofit organizations, government, education and private enterprise to support continuous improvement in urban public schools.

- High energy leadership, displaying vision, being a calculated risk-taker to challenge the status-quo; being articulate, persuasive and highly visible throughout the community as a relentless champion and advocate for all students.
Exhibit VII: CEdO profile

Application Criteria:

- At least five years of experience at an executive level within a diverse organization, along with an understanding of the complexities of running a public institution.
- Master's degree required in education, public or business administration or other related fields; earned doctorate preferred.
- Compliance with Illinois superintendent licensure regulations.