ILLINOIS STATE BOARD OF EDUCATION MEETING
May 17, 2012

TO: Illinois State Board of Education

FROM: Christopher A. Koch, Ed.D., State Superintendent of Education
       Linda Riley Mitchell, Chief Financial Officer


Materials: Summary of Finances for North Chicago School District 187

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Purpose of Agenda Item

Relationship to/Implications for the State Board’s Strategic Plan
The agenda item relates to the school district’s financial stability and financial plan. The
financial plan estimates along with the financial consulting support and technical assistance
provided to the district by Financial Oversight Panel members and ISBE staff will assist the
district in making sound financial decisions. This will impact all three goals of the State Board’s
Strategic Plan.

Expected Outcome(s) of Agenda Item
A recommendation for the State Board of Education to approve a Financial Oversight Panel for
the district.

Background Information
In recent years, the district has experienced severe cash flow problems and has dramatically
reduced its fund balances. In FY 2009, the district incurred a $4.8 million deficit and the district’s
fund balance was only $1 million. The district anticipated another deficit in FY 2010 and in June
2010, the District issued $42.5 million in Alternate Revenue Bonds in order to have cash
available for payroll and other obligations. The Alternate Revenue Bonds are secured by
Federal Impact Aid paid to the district to support the education of a large pupil population
consisting of children whose parents are stationed at Great Lakes Naval Base nearby. Federal
Impact Aid is paid to local school districts having substantial numbers of pupils whose parents
are stationed at military bases with the intent is that the federal government provide these
payments as a subsidy due to the impact of the lack of local taxes such districts would normally
collect to support the education of students. In recent years, the number of children from Navy
families enrolled in the district has declined.

To meet the annual obligations associated with these Alternate Revenue Bonds, the district is
required to divert $6 million of Impact Aid from the Operational Funds to the Debt Service Fund.

At the time, ISBE strongly advised the district against issuing these bonds and documented our
concerns in letters to the district from the State Superintendent and from ISBE’s Chief Financial
Officer. The future of the Federal Impact Aid payments to the districts is uncertain due to
declines in the numbers of Navy students. Also, these funds had historically been a source
available to support the districts ongoing operations. That is the purpose for which Federal
Impact Aid is intended. They are meant to subsidize local school district operations.

In August 2010, the Illinois State Board of Education entered into a management oversight
agreement with North Chicago School District 187.
Despite reductions in staff, potential school closings, and other budget reductions, the district has not realized enough financial improvement to eliminate its projected deficits. The status of the districts operating results, including incurred and projected deficits is described below:

- **Fiscal 2011**
  The FY 2011 Annual Report for the period ended June 30, 2010 reflects an Operational Fund deficit of $1.2 million deficit. However, as funds remain from the 2010 Alternate Revenue Bond borrowing the district’s Operational Fund Balance is $32.6 million.

- **Fiscal Year 2012:**
  The FY 2012 budget submitted to ISBE reflects a deficit of $6 million. In February 2012, North Chicago administration determined that they would realize an operational savings of $3.5 million which should result in a decrease to the anticipated deficit. The ending fund balance for FY 2012 is now projected to be $28.96 million.

- **Fiscal Years 2013 and 2014 Projections:**
  Initially, district management projected that in FY 2013 and FY 2014 the school district would incur deficits of $16.8 million and $8.6 million, respectively. The FY 2013 deficit was projected to be significantly larger due to $9.5 million of necessary building repairs. Subsequently, the projected FY 2013 deficit has increased to reflect a $2 million decrease in General State Aid funding and to reflect a higher per capita tuition payment for the new Charter School. Projected enrollment has increased and the per capita payment is expected to be 100% of per capita cost instead of the 75% originally estimated. These adjustments increased the deficits to $19.8 and $12.8 million. The ending fund balance for FY 2013 is projected to be $9.2 million. Further, it is projected that the district will incur a negative fund balance of $3.6 million at the end of FY 2014.

**Other Concerns:**
The 2011 Annual Financial Report and the 2012 District Budget reflects zero beginning and ending cash balances for the Operation and Maintenance Fund and the Pupil Transportation Fund. The Operation and Maintenance Fund is realizing deficits and sustained by the Education and Working Cash Funds. The Pupil Transportation Fund is projected to be operating at a deficit for FY 2014 if the transportation formula is revised.

**Future long term financial issues**

District management has been reluctant to take steps necessary to reduce operating expenditures and revenues are not expected to increase. An improvement in the district’s working cash position or tax levy is unlikely as the district has a limited tax base. There is little more that can be done to reduce costs this year.

- The 2010 total EAV is $254.2 million.
- With a taxable EAV of $254.2 million, each $1 taxed per $100 assessed value will realize $2 million maximum for the district. This does not take into account tax exemptions.
- If the 2011 enrollment of 3,988 is utilized, the EAV per student is $63,749.
- The average EAV per student in the state is over $283,000.
  - Therefore, the same dollar taxed per $100 assessed value will realize only $637 per student (compared to the average of $2,830 statewide).
Also, the district relies on a disproportionate amount of financial support from the federal government:

- Thirty-two percent (32%) of the district’s funding is from federal sources, compared to the statewide average of 12%.
- Only 28% of the district’s revenue comes from local sources compared to the statewide average of 65%.

**Financial Oversight Panels**

Under Public Act 097-0429, the Financial Oversight Panel (FOP) is a five-member panel. (Previously, an FOP only had three members.) The FOP members must be named by the State Superintendent within 15 days of ISBE Board action creating a panel. The FOP has the final approval of all district financial issues and is in existence for a minimum of three years.

The State Board considers the following in determining whether a Financial Oversight Panel should be established:

- If a Panel is in the best educational and financial interests of the district
- If a Panel is in the best interest of other schools in the area and the educational welfare of all the pupils therein
- Whether the board of education has complied with the requirements of Section 1A-8 of this Code

The State Board can establish a Financial Oversight Panel (FOP), or school districts may request that the State Board establish an FOP. As the North Chicago School District is currently under the management oversight of the State Superintendent, the State Superintendent is requesting that the State Board establish an FOP.

- FOP panel members are appointed by the State Superintendent.
- Members of the FOP are selected based upon experience in financial management and education finance. Two members of the FOP are to be community representatives and residents of the school district.
- The FOP exercises financial control over the school district and furnishes financial management expertise to assist the district in meeting obligations to creditors and debt holders.

Under the provisions of the new legislation, the district can only obtain an Emergency Assistance Loan if there is an FOP in place. In accordance with the School Code, the loan is administered through the Illinois Finance Authority.

**Emergency Financial Assistance Loans**

The structure and process for Emergency Financial Assistance loans is described in Section 1B-8 [105 ILCS 5/1B-8] and 1H-65 [105 ILCS 5/1H-65] of the School Code.

School districts that are experiencing financial difficulty and have been placed under a Financial Oversight Panel may receive an Emergency Financial Assistance Loan. Section 1B-8 of the School Code stipulates that the maximum amount of this loan is calculated at $4,000 times the number of pupils enrolled in the school district during the preceding school year, that is, the year prior to the State Board’s approval of the school district’s petition for emergency financial assistance. Such a loan for North Chicago School District would be at a maximum amount of $16 million. At present, it is not anticipated that the district would not need financing at this level.
In July, 2005, PA 094-0234 revised the language of the Emergency Financial Assistance Loan and changed the issuer to the Illinois Finance Authority (IFA). Previously, ISBE was designated as the Issuing Authority. The IFA reviews the terms and conditions of the Emergency Financial Assistance Loan, including the schedule of repayments. The FOP and ISBE staff will assist IFA and offer suggested terms based on the financial status of the school district.

In establishing the terms and conditions for the loan, the FOP annually determines whether a separate local property tax levy is required for repayment. Emergency Financial Assistance Loans which are repaid using a property tax levy are considered General Obligation Limited Tax debt. The repayment amount is set pursuant to statute. If the repayment obligation is greater than the allowable tax levy stipulated above, the district would be required to pledge General State Aid or other such revenue security to satisfy the repayment obligations.

**Analysis and Implications for Policy, Budget, Legislative Action and Communications**

Policy Implications: None at this time

Budget Implications: None

Legislative Action: None

Communication: None

**Pros and Cons of Various Actions**

Pros: If a Financial Oversight Panel (FOP) is recommended and approved by the State Board, assistance given by the FOP and ISBE staff should assist the district in obtaining financial stability.

Cons: Additional ISBE staffing resources would be required to support the FOP.

**Superintendent's Recommendation**

The State Superintendent in providing Management Oversight to North Chicago School District 187 recommends that the following motion be adopted:

> The State Board hereby approves the establishment of a Financial Oversight Panel in North Chicago School District 187 in accordance with Sections 1B and 1H of the *School Code*.

**Next Steps**

The State Superintendent will identify individuals to serve as members of the Financial Oversight Panel. ISBE staff will work with the FOP and the district to meet with the Illinois Finance Authority to begin to determine the structure of an Emergency Financial Assistance Loan for North Chicago School District 187.