

TO: Board of Education

FROM: Sally Pryor
Becky Allard

DATE: April 5, 2010

RE: Financial Implications to District 64 from Recent Legislation

Extensive news media coverage of the nation's continuing economic turmoil and current budget crisis in Illinois has focused a great deal of attention on the financial situation of school districts and other tax-funded public bodies. A wave of budget cutbacks announced this spring specifically by school districts planning for the 2010-11 fiscal year have added to this uncertainty. Budget cutbacks in the Park Ridge municipal government and Maine Township High School District 207 have brought this issue home to our own community.

This memo is intended to point out several significant factors that have strengthened District 64's financial position and created a different outlook for us. We also will identify the financial implications to our District of recent legislation.

District 64 Financial Outlook

Several key factors have combined to create a positive financial environment for our District:

▪ Impact of 2007 Referendum

The first and foremost factor in District 64's current strong financial position is the successful passage of the 2007 referendum. In retrospect, the referendum was remarkably well timed. The overall economy was still growing and local taxpayers felt willing to offer District 64 additional support. Referendum funding was used to restore many educational programs and staff that had been cut or were planned to be cut.

The referendum also restored District 64's financial health by allowing us to rebuild our operating fund balance in line with the Board's Fund Balance Policy.

The Illinois State Board of Education (ISBE) just released the 2010 School District Financial Profile, which designates District 64 in its top category – financial recognition – for a third consecutive year. (Attached)

▪ Fund Balance Policy

In January 2006, the Board officially adopted an operating fund balance policy of having four months (33%) or 120 days of operating expenses at the end of each fiscal year. This was an increase from the Board's previous goal of having only 20%. At the close of the last fiscal year on June 30, District 64's fund balance was about 47%. This was the first time District 64 reached that goal. District 64 expects a surplus in the current year budget as well, which will help to strengthen the fund balance further.

In the next several years, the fund balance will decline as envisioned at the time of the referendum. The District continues to carefully monitor its financial progress through quarterly reports to the Board and periodic reviews of financial projections. The District has developed its own long-range financial model in conjunction with the Community Finance Committee (CFC). An outside consultant also has provided projections to the Board in early 2010 to offer additional perspective. In addition, the CFC continues to update its model to reflect actual figures and run different scenarios. All the models agree that District 64 is financially strong, and that the Board will have time in future years to make adjustments. This means that if needed, District 64 can take steps to remain on course to meet the 2007 referendum promise of not returning to taxpayers again via a referendum for 10 years.

▪ **Transparency of Operations & CFC**

As you know, the CFC is comprised of community members, staff and administrators who have worked together for many years to examine the District's finances and operations in depth. This independent view helps ensure transparency in the conduct of our business and develops trust among taxpayers over critical issues. District 64 also maintains a wide array of financial data on our Web site.

In addition, the CFC's spend management study group continues to research and provide advice to District 64 to control non-labor costs and utilize good practices to ensure that we get the best value for what is purchased. District 64's purchasing agent also works diligently to control costs through competitive bidding and periodic review of contracts.

▪ **Low Reliance on General State Aid (GSA)**

District 64 receives only about 8% of its revenues from state funding sources. This includes General State Aid (GSA) and "categorical" aid, such as special education and student transportation reimbursement.

GSA is the greatest portion of that state funding. The funding level calculation begins with the state "foundation" level, which in FY10 was \$6,119 per student. This base level is then reduced by several factors, including local Equalized Assessed Valuation (EAV), low-income count, and average daily attendance (ADA). The final per student state aid amount for District 64 after these deductions will be \$391, or about 6.39% of the foundation level.

Categorical funding, such as special education reimbursement, block grants for reading improvement and bilingual education, and transportation reimbursement account for the remainder of state revenues.

▪ **Outside Funding to Preserve and Improve School Buildings**

District 64 is fortunate to serve an established residential community, which takes pride in its schools as part of the fabric of its neighborhoods. Our oldest buildings, in fact, have served generations of students. District 64 each year budgets for life safety work and other necessary maintenance projects to preserve and maintain these buildings.

Our proximity to O'Hare, however, has allowed District 64 to utilize Federal Aviation Administration (FAA) funding to shift some of this cost burden from local taxpayers. Replacement windows, electrical upgrades, air conditioning and other related work

needed to provide sound insulation at several schools have significantly improved the facilities, while removing those expenses from the District's ongoing budget.

In addition, District 64 also has qualified for federal American Recovery and Reinvestment Act (ARRA) funding for needed work at Jefferson School, again shifting the cost burden from local taxpayers for building maintenance.

- **Strategic Plan to Guide Priorities**

District 64 is fortunate to have finished work on its strategic plan and is poised to begin its first year of implementation in the 2010-11 school year. This plan represents the shared vision of our community for the education of children in District 64 well through this new decade. District administration and the Board can confidently implement the action plans that were developed and prioritized in the plan by focusing the District's financial and instructional resources around these common goals. An implementation plan and budget will be adopted for each school year, which will allow us flexibility to adjust to changing conditions if warranted.

- **Fiscally Prudent Staffing for 2010-11**

Acting in a prudent manner, the Board in March did act to separate 22 certified and 11 non-certified employees at the end of this school year. The Reduction-in-Force (RIF) is part of the annual staffing planning District 64 carries out, based primarily on enrollment, to make sure the District does not carry forward more employees than are absolutely needed to staff classrooms and programs according to the class size guidelines now in place. If it becomes necessary the District will add staff in coming months as enrollments become known.

Implications of Legislation

The state's current fiscal crisis has both immediate as well as longer term concerns for school districts across Illinois.

- **Immediate Concerns**

Currently, the state is behind in its payments to all school districts except General State Aid, which is required by State statute to be paid by specific dates. The state owes District 64 \$1,623,664.16 of the \$3,681,080.13 vouchered by the Illinois State Board of Education (ISBE) or 44.11%. District 64's strong fund balance as discussed above allows us the flexibility to handle this delay. The direct impact is the loss of interest income that would have been generated in our investment account managed by the Maine Township School Treasurer.

- **Long-Term Concerns**

As the news media continues to document, the state legislature is being asked to consider sweeping reductions to school funding in the upcoming fiscal year. This is a situation in which District 64's overwhelming reliance on local funding of schools is critical in insulating us from the impact, as noted above.

It is difficult to predict what these changes will be. One scenario calls for a reduction in the foundation level for GSA. Because we receive such a small percentage, however, the impact would be muted. If the foundation level this year had been \$5,669 instead of \$6,119, for example, District 64 would have received about \$125,000 less in GSA.

Another scenario calls for the legislature to reduce the amount of categorical funding for reimbursement for special education and transportation, for example. There are infinite variations on how this could be structured or phased in, making it difficult to predict what impact it would have.

On the positive side, there also is legislation pending that might modify the District's obligation to comply with curricular or instructional mandates if state funding is not provided.

District 64 is remaining watchful of the progress of legislation and will continue to monitor reports from state educational organizations on these issues.

Conclusion

Financial stress is being felt at the national, state and local levels as the after effects of the recession continue to work their way through the economy. The state's own ongoing budgetary crisis compounds the problem.

Thanks largely to the Park Ridge-Niles community's unwavering support for quality education evidenced by the 2007 referendum, District 64 is ready to face these uncertainties with a strong and secure financial position. The District can act deliberately to make any adjustments that may be needed in future years to maintain that financial strength and fulfill the expectations of local taxpayers.

District 64, therefore, can look to the future confidently as we begin implementing a new strategic plan to better meet the educational needs of all students in this new decade.