

**District 200 Finance Committee**  
**Concurring Report of Mark O. Stern**  
**February 11, 2009**

**Committee Recommendations.** The finance committee is recommending that to cover the deficit in the 2009-2010 budget, the Board implement a short-term bailout plan, consisting of (1) **budget cuts**, (2) **spending savings reserves** from the working cash (reserve) fund to cover part of the operating deficit, and (3) **borrowing \$20 million in new debt**. The plan funds the budget, but does not balance it, because it uses long term borrowing to pay current operating costs.

The \$20 million of new debt will be “working cash” bonds, which require additional taxes that the Board has the power to impose without voter approval. Because the new borrowing will be tacked on to existing debt, total actual costs to taxpayers, including interest, will be well over \$40 million.<sup>1</sup>

Although I am very reluctant to support more debt, I joined the rest of the committee in voting for the bailout. I voted yes for two reasons. First, the administration, led by our superintendent, has made a good faith effort to begin controlling spending by cutting \$7 million from the budget. The specific cuts were not proposed by or provided to the committee, but I voted yes with the expectation that they will be made as promised. Second, I support this only as a one-time, last chance bailout. Because of decisions the Board has made – as to which the finance committee was not consulted and over which it had no control – it is not possible to meet this year’s expenses without spending working cash reserves at this time.

I believe the committee acted diligently and in good faith within the constraints placed upon it. I have prepared this concurring report, which represents my views only, to explain the underlying cause of the present budget problems and outline my recommended long term solutions.

**The budget deficit is not a surprise.** It was not caused by the current national economic slowdown, by mistakes in financial projections, or by unexpected expenses. It was caused by the Board’s repeated decisions to spend faster than the projected rate of revenue growth, while the Board knew that it already faced deficits. The District has been running deficits since 2003. In the summer of 2005 – long before the current national economic problems became apparent –the District predicted that it would run out of money by 2010.<sup>2</sup> As the committee report notes, the amount of this year’s deficit has increased due to lower than expected inflation (which reduces growth in property tax revenue), along with uncertainties in state funding. However, a \$7 million deficit was already projected before either of these factors came into play.<sup>3</sup>

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<sup>1</sup> Source: RW Baird “Overview of 2008 Financing Program.” Baird told the committee that the new borrowing would extend the District’s current debt repayment by about two years if the bond and interest tax rate is kept level. Extending the proposed “tax rate” two additional years would result in roughly \$42 million of additional taxes to repay the \$20 million borrowed plus interest over 15 years.

<sup>2</sup> District 200 Breaking News, “Board Moves Closer to Balanced Budget,” [www.cusd200.org](http://www.cusd200.org). The press release stated that deficits were being absorbed by fund balances (reserves) but that these would run out in all funds by 2010. See also *Daily Herald* article, “Dist. 200 may still need tax increase to fix deficit,” James Fuller, September 15, 2005.

<sup>3</sup> See Five Year Financial Projections prepared by PMA Financial Network, District’s financial consultants.

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I strongly disagree with the claim that “the imbalance in revenues and expenditures that has existed for many years in the District [is] due in large part to the funding structure of public education in the state of Illinois.” In fact, the District’s property tax revenues have increased every year at the rate of inflation plus roughly 1.2%, a long term trend that is projected to continue.<sup>4</sup> State and federal payments fluctuate, but total District revenues increased at roughly the same rate. Overall District revenues increased by 5.38% from the last fiscal year to this fiscal year,<sup>5</sup> but the District still ran a deficit because spending grew even faster, due in large part to a nearly 7% increase in salary costs, which comprise roughly 80% of District spending. Salary costs reflect the cost of base salaries plus benefits, which are determined by teacher and staff contracts that the Board negotiates in advance. There are no “surprises.”

It is not possible to erase a \$7 million deficit without addressing salary costs. The committee’s plan recognizes this and anticipates that there will be staff cuts next year, whether through attrition or layoffs.

The District’s overall financial picture is subject to many factors, and the administration, with the assistance of its consultants, provided extremely detailed information to the committee. However, looking at the big picture, increases in salary expense versus property tax revenue ultimately will determine whether the budget is balanced. In round numbers, District 200 has a \$150 million budget, and gets roughly 80% of its revenue from local property taxes, which have increased every year. The District’s ability to increase property tax collections every year is not affected by changes in property assessments, or by the amount of exempt (church, forest preserve) property in the District – only by the rate of inflation.

Costs for items such as utilities, gasoline, and insurance have increased, but these increases alone account for only a small portion of the deficit. For example, eliminating every dollar (not merely the recent increases) the District spends on gasoline for buses would only make a 5% dent in the deficit.<sup>6</sup> Changes in outside funding also aren’t large enough to cause a multi-million dollar deficit. Federal and state funding has varied every year, but within a range of about plus or minus \$1 million. While these changes do affect the budget, the District has never experienced a large enough decrease to create a \$7 million deficit.

Meanwhile, the number of students in the District has declined by over 100 every year since 2001 and is projected to keep declining at that rate. A District with increasing revenues and fewer students to educate should be able to balance its budget.

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<sup>4</sup> Figures based upon the District’s levy presentations made to the Board and available on the District web site, [www.cusd200.org](http://www.cusd200.org). As noted in the committee report, next year’s revenues are proposed to be nearly flat to slightly declining – a projected decrease of less than 0.5% – but inflation is also projected to be close to zero. Meanwhile, total revenues are projected to resume growth in the following years, increasing roughly 3% annually.

<sup>5</sup> Five Year Financial Projections prepared by PMA Financial Network.

<sup>6</sup> Fuel escalator cost for last fiscal year was about \$700,000 (District budget, page 17); this is only 5% of a \$14 million deficit.

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**The Solution.** The figures presented to the finance committee assume that the District will give most teachers a 4.7% raise every year for the foreseeable future, when inflation is projected at only 3%. The committee's recommendations contemplate staff cuts, but we can balance the budget with no cuts, if we simply slow the rate of salary growth. The District's own financial consultants project that simply reducing raises to 3.7% every year – still more than 20% above the projected inflation rate – would cut \$8 million a year from the annual deficit by 2014. Merely limiting salary increases to the rate of inflation could balance the budget, or come very close, with no staff or program cutbacks and no additional borrowing or tax increases. In today's economic climate, how many District 200 residents and taxpayers would be grateful just to have their job security guaranteed, let alone receive a guaranteed cost of living increase every year?

The current finance committee was not charged with deciding whether teacher salary levels are "fair." Still, it is a fact that last year the District hired about 75 new teachers from over 8,000 applications, suggesting that current salary levels are attractive enough. This month, the *Chicago Sun-Times* reported that District 200 has 94 employees making over \$100,000 per year,<sup>7</sup> and the *Chicago Tribune* reported that there is currently a glut of teachers statewide.<sup>8</sup>

**The underlying cause of the deficits is the Board's choice**, in May 2006, to enter into a three year teacher contract obligating it to spend roughly a quarter billion dollars over the 2006-7, 2007-8, and 2008-9 school years. The contract required the District to raise salaries for most teachers at nearly 6% per year,<sup>9</sup> faster than inflation and faster than it can increase revenues.

Under Illinois law, the rate at which the District can increase its property tax collections is capped at roughly 5% per year. Thus, if the Board votes to increase spending by more than 5% annually, it cannot balance the budget and will incur deficits. Because the District's property tax revenue cannot increase more than roughly 5% a year without a referendum, a contract that requires 6% annual raises makes a balanced budget impossible under any economic conditions. As noted above, the Board knew at least a year before it voted for the 2006 contract that it expected to run out of money by 2010. The Board unanimously approved the contract anyway, but took no action to prevent the coming budget crisis.

I spoke at the May 24, 2006 Board meeting to ask whether the Board had a plan in place to pay for this spending, and warned of the consequences if it did not. Because the contract provided annual raises of nearly 6% to most teachers, it was immediately apparent that deficits would increase without a plan to offset these higher salary costs. A copy of my remarks is attached as **Appendix A** to this report.

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<sup>7</sup> "What do your teachers make," Art Golab and Rosalind Rossi, *Chicago Sun-Times*, February 2, 2009, see <http://www.suntimes.com/data/1408824.illinois-salaries-teacher-administrator.article>. Data also available at [www.thechampion.org](http://www.thechampion.org).

<sup>8</sup> "In Chicago and elsewhere in Illinois, schools see an oversupply of teachers," Diane Rado, *Chicago Tribune*, February 4, 2009.

<sup>9</sup> See salary schedules to current teacher contract, available at [www.markostern.com](http://www.markostern.com). The contract provides for an average annual raise (step increase plus increase in salary base) for teachers with master's degrees – who make up more than 75% of district staff – of roughly 5.98%.

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**“For which one of you, when he wants to build a tower, does not first sit down and calculate the cost to see if he has enough to complete it?”** Luke 14:28 (NASB). Whether or not one believes that this is a “fair” contract, it is mismanagement for the Board to incur a major obligation to teachers without taking steps to ensure funding to pay the costs. If the Board believed in the contract, it could have asked taxpayers to fund it without engaging in deficit spending. It did not do so. The Board approved the contract without a plan to maintain a balanced budget. It formed a finance committee, of which I was a member, in late 2006, but dissolved that committee two months later without reaching any conclusions. Another 18 months went by before the current committee was formed, while the deficit continued to grow.

Meanwhile, in 2007, the Board proposed a major building referendum, which passed in February 2008, providing roughly \$100 million in new tax obligations for construction, but no money to pay teachers.<sup>10</sup> Yet the Board still did not address its growing operating deficit. Instead, the Board President claimed during the referendum campaign that voters “need not fear an education fund referendum in the near future for general expenses” and that “no such tax increase question is forthcoming.”<sup>11</sup>

By December 2008, the Board knew the District faced a \$7 million deficit. Yet, ignoring the maxim, “when you’re in a hole, stop digging,” the Board (without consulting the finance committee, which was then meeting, or waiting for its recommendations) extended the contract and provided additional guaranteed raises of 4.34% for most teachers next year, in a time of serious, nationwide economic turmoil. An excerpt is attached as **Appendix B**. Even now, the Board is not asking for an operating tax increase – not because it thinks it will balance the budget without one, but because it does not believe it will pass.

**Taxpayers are already paying their share; District property tax revenues have increased significantly faster than inflation.** On average, when inflation averaged 2.5% per year over the last decade, the District’s property tax revenues increased roughly 3.7% per year<sup>12</sup> (while enrollment declined by about 100 students per year). The District’s property tax revenues have grown 39% over the last decade. Yet inflation – measured by the Consumer Price Index – was only 24% over the same period.<sup>13</sup> In other words, District property tax revenue grew 60% faster than inflation.

Many District taxpayers are worried about their jobs, and many have lost jobs. Many who are employed have faced salary freezes, or even cuts. Unemployment is increasing. In my view, this is not the time to be passing out generous raises when the District already faces multi-million dollar deficits. Major corporations that received bailouts were justifiably pilloried for turning around and giving large bonuses.

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<sup>10</sup> RW Baird “Summary of Options Reviewed,” September 25, 2007.

<sup>11</sup> “Voters weigh options on Hubble move,” James Fuller, *Daily Herald*, January 16, 2008.

<sup>12</sup> Figures compiled from levy presentations to the Board, available at [www.cusd200.org](http://www.cusd200.org).

<sup>13</sup> October 10, 2007 tax levy presentation, available on the District web site, [www.cusd200.org](http://www.cusd200.org).

