

DISTRICT 200 FINANCE COMMITTEE REPORT AND RECOMMENDATION

February 11, 2009

Following the appointment and charge by the Board of Education, the District Finance Committee met over a period of five months, beginning September 29, 2008 and holding its last meeting on January 29, 2009. The Committee's charge was to update the District's financial plan for long-term stability. The Committee's interpretation of "financial stability," was to develop a plan for the District to reach a balanced budget within three years. This interpretation served as the foundation and guiding principle of the Committee's work.

The committee studied a wealth of information and data including student enrollment history and projections, District budget figures, bond history and capacity, as well as current financial trends. The Committee examined District salary information of teachers and found them to be comparable with area school districts. Bill Hepworth, from Robert W. Baird, Inc., the District's bond advisor, shared with the committee the debt structure of the District and potential costs of future considerations. Michael Frances of PMA, the District's financial planners, outlined the District's financial status and using several assumptions related to enrollment, tax revenue, state financial aid, and District expenditures, projected a \$14 million budget deficit for the 2009-10 school year.

This deficit is the result of a number of factors. The imbalance in revenues and expenditures that has existed for many years in the District due in large part to the funding structure of public education in the state of Illinois. In addition, the District has experienced declining student enrollments since 2001 that is expected to continue for the next several years. Circumstances in the last three or four months have compounded the District's financial problems. The unprecedented drop in the Consumer Price Index (CPI) from 4.1% in 2007 to 0.1% in 2008 will result in an anticipated loss of local tax revenue, as defined by the Illinois State Tax Cap Law, of roughly \$4 million over the next two fiscal years. A potential freeze in foundation level funding from the State of Illinois would result in an additional loss of \$3 million to the District for the next school year. These factors, combined with the loss of roughly \$1 million in interest earnings, contribute to the projected budget deficit for next year.

The Committee formulated a number of options to fulfill its charge and examined the advantages and disadvantages of each option. Given the current and projected financial factors facing District 200, the Finance Committee unanimously makes the following recommendations:

District 200 should pursue and implement a three-year phased plan to establish financial stability and a balanced budget. Conceptually, this plan should include cost reductions over the next two to three years, issuing working cash bonds, and the exploration of additional revenues in the future.

Specifically, the Committee recommends that District 200:

- Reduce expenditures for 2009-10 by \$5.5 to \$7 million. It is important to understand that the reductions made for the coming year will have positive compounding effects in reaching financial stability.
- Issue \$20 million in working cash bonds for 2009-10. The proceeds of these bonds would assist the District's cash flow while waiting for state aid and tax payments and reduce the need for short-term borrowing; abate the remaining 09-10 budget deficit not corrected by budget reductions; add to the District's fund balance; and improve interest-earning revenue.
- Reach a balanced budget within three years
- Future boards and committees should study additional revenue sources that could include a rate referendum following the establishment of a balanced budget for the District.

The Committee makes these recommendations with thanks and appreciation for the opportunity to contribute to the continued success of District 200 and our community.

Respectfully submitted,

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