

OFFICE OF THE SUPERINTENDENT

Millburn Public Schools

INFORMATION ITEM

June 7, 2010

To: Board of Education Members

From: Ellen E. Mauer, PhD

Subject: Budget Discussion

At this time, we have the results of the parent survey and we have emailed those to you. Listed below are all ideas that we have discussed this year. We should formally reject those that we know are not viable and determine which of the avenues we want to be researched in depth. We will also need to be open to any suggestions from the public that we have not already heard.

- Do nothing.
- Changing Millburn Central/West boundaries. Idea of a lottery to "encourage" people to move from Central to West.
- Consolidation with another district.
- Borrowing more money.
- Closing West and moving to Central.
- Cutting non-mandated programs.
- Raising class sizes.
- Converting to grade level center reconfiguration.
- Running a building fund referendum.
- Running an ed fund referendum.
- Running a working cash fund referendum.

At this point, we may want to consider these options permanently non-viable for our December deadline due to the rationale listed below:

- Do nothing. The BOE has considered this earlier in the year and found that doing nothing led to borrowing more money and ultimately, state take over.
- Changing Millburn Central/West boundaries. Idea of a lottery to "encourage" people to move from Central to West. We looked at this idea on March 1 and found that it would actually cause Central to take on the staffing characteristics of West and that we would have to employ 4 additional staff members for 2011-12 if we went this route. While the idea of a lottery is a nice one, the reality is that it is very difficult to depend upon the idea that people may or may not want to switch schools from year to year. Running this kind of program takes additional staff time to set up and do each year and there is no guarantee of an outcome. Additional bussing may be needed, too. Even if we did a lottery, it does not solve the additional staffing issue.
- Borrowing more money. The BOE has considered this earlier in the year and found that continuing to borrow led to state take over at a certain point.
- Consolidation with another district. The BOE discussed this earlier and the discussion led to the ideas that parents probably would not like this idea and that we were not likely to get another district to take us on with our debt. Also, we would have to raise the salaries of our employees to match those around us. That would not save us money.
- Running a building fund referendum. We are allowed to borrow 6.9% of the value of taxable property located in the school district as determined by the last assessment before indebtedness is to be incurred. This limit may be increased by approval of the State Board of Education for the purpose of school construction. Our EAV for the district is \$295,460,340. If you multiply that by 6.9%, you will see

the number of \$20,386,763. That is our maximum debt load. We currently have approximately 22.3 million dollars out in building bond debt. This is over the limit, but was approved by the state the last time a referendum was passed because we needed the space to house children.

In looking at how the district's financial profile is calculated, only operating funds are used. That means that any money we got through a building fund referendum could not be used to take us off of the financial watch list. (I have attached some documents to show this.)

Other options to consider:

- Running an ed fund referendum.
- Running a working cash fund referendum. We may want to explore these ideas more in depth with PMA at our next meeting in June. I can arrange for Howie to be at that next meeting if you would like.
- Closing West and moving to Central. Since the enrollment is not projected to be below 1400 until 2014-15, we could not see any impact from this option until that year. We would like to keep this option on hold for now and explore some other alternatives first since the needs are more immediate.
- Cutting non-mandated programs.
- Raising class sizes.
- Converting to grade level center reconfiguration. We would like to use some combinations of the above to present to the BOE at a later meeting. We would also use some scenarios of keeping the K-8 structure in both buildings. All scenarios would reflect the cutting of 1.6 million dollars.

AUTHORITY TO BORROW

26:90 Are school boards authorized to borrow money?

School boards may borrow money and issue bonds for various purposes and in various ways specified by law.

105 ILCS 5/10-22.14

26:100 Is there any limit to the amount of money that a school board may borrow?

The maximum debt limitation for a unit district is 13.8 percent of the value of the taxable property located in the school district as determined by the last assessment before the indebtedness is to be incurred. The maximum debt limitation for an elementary district or high school district is 6.9 percent of the value of the taxable property located in the school district.

These debt limits, which apply to the aggregate of most forms of debt, may be increased by referendum or in certain emergency situations. If a school district is certified by the State Board of Education as financially distressed and if the school district meets certain other statutory requirements, it may incur debt beyond the debt limits. Under certain circumstances a school district may incur debt beyond its limits to finance school construction bonds issued in conjunction with a school construction project approved under the School Construction Law.

In addition to the limits on aggregate debt, there are limits to the amounts that may be borrowed against anticipated taxes and state aid.

105 ILCS 5/19-1

People ex rel. Lindheimer v. Hamilton, 373 Ill. 124, 25 N.E. 2d 517 (1940)

SHORT TERM BORROWING

26:110 What forms of short term debt may a school board incur in order to meet current operating expenses?

School boards are authorized to issue warrants or notes against anticipated property tax income; issue notes against anticipated state aid and corporate personal property replacement taxes; and to issue general obligation orders in the payment of teachers salaries.

30 ILCS 305/2

105 ILCS 5/8-16

105 ILCS 5/17-16
105 ILCS 5/18-18
105 ILCS 5/32-4.14

26:120 What are tax anticipation warrants?

Tax anticipation warrants are issued in expectation of the collection of taxes and may be issued to the extent of 85 percent of the total amount of the tax levied. The warrants must be repaid upon receipt of tax moneys by the district and bear interest at a statutory rate.

30 ILCS 305/2

105 ILCS 5/17-16

105 ILCS 5/18-8.05

26:130 When may a school board issue tax anticipation warrants?

When there is no money in the treasury of the school district to pay necessary expenses of the district, including amounts necessary to pay maturing principal and interest of bonds, a school board may issue warrants or may provide a fund to meet the expenses by issuing and disposing of warrants, drawn against and in anticipation of any taxes levied for the payment of the necessary expenses of the district, either for transportation, educational or for all operations and maintenance purposes, or for payments to the Illinois Municipal Retirement Fund, or for the payment of maturing principal and interest of bonds, as the case may be, to the extent of 85 percent of the total amount of the tax so levied.

The warrants must show upon their face they are payable in the numerical order of their issuance solely from such taxes when collected and such taxes are to be set aside and held for their payment.

105 ILCS 5/17-16

105 ILCS 5/18-18

Hamer v. Board of Education of School District No. 113, Lake County, 132 Ill. App. 2d 46, 267 N.E. 2d 1 (2nd Dist. 1971)

26:135 May a school district borrow money from a bank rather than issue tax anticipation warrants?

In lieu of issuing tax anticipation warrants, a school district having a population of 500,000 or less inhabitants may issue notes, bonds, or other obligations (and in connection with that issuance, establish a line of credit with a bank) in an amount not to exceed 85 percent of the amount of property

The School District Financial Profile

Illinois State Board of Education

March 2010

Pursuant to the authority provided by Section 1A-8 of the School Code, the Illinois State Board of Education (ISBE) developed the “**School District Financial Profile**” to help monitor the finances of school districts and identify which are in or are moving toward financial difficulty. This system replaced the “Financial Watch List and Financial Assurance and Accountability System (FAAS)” that had been used for the assessment of a school district’s financial health. The major change in methodology was that the FAAS utilized only one financial indicator – the Fund Balance to Revenue Ratio. The Profile includes that indicator plus four additional measures to expand our capability to accomplish a truer risk assessment. The five indicators are individually scored and weighted in order to arrive at a Total Profile Score and applicable designation.

The School District Financial Profile was developed with the invaluable assistance of school superintendents, school business administrators, financial advisors, lawyers, and bond brokers throughout the state as well as major interest groups such as IASBO, IASA, ED-RED and LUDA. Influenced by their feedback, we were able to make significant enhancements in systematically analyzing/monitoring finances of all Illinois public school districts.

The following provides a detailed explanation of each indicator. It is the Total Profile Score that we believe best determines a district’s financial strengths or weaknesses. This document will also lead you through the four applicable designations, Financial Recognition, Financial Review, Financial Early Warning, and Financial Watch.

Financial Profile Indicators:

1. **Fund Balance to Revenue Ratio** – This indicator reflects the overall financial strength of the district. It is the result of dividing the ending fund balances by the revenues for the four operating and negative IMRF/SS funds. Operating Funds are the Educational, Operations and Maintenance, Transportation and Working Cash Funds.
2. **Expenditure to Revenue Ratio** – This indicator identifies how much is expended for each dollar received. It is computed by dividing total expenditures for the Educational, Operations and Maintenance, and Transportation Funds by the revenues for those same funds plus Working Cash. The calculation also takes into account remaining balances of these funds at the end of the year if a district is scoring low for their Expenditure to Revenue Ratio. This is especially beneficial to districts that have saved for projects and are now incurring the expenditures for them or who have healthy fund balances even after spending a portion of their savings.
3. **Days Cash on Hand** – This indicator provides a projected estimate of the number of days a district could meet operating expenditures provided no additional revenues were received. It is computed by dividing the total expenditures of the Educational, Operations and Maintenance, and Transportation Funds by 360 days to obtain an average expenditure per day. Then the total cash on hand and investments for the same funds plus working Cash are divided by the average expenditures per day. As with the Fund Balance to Revenue Ratio and the Expenditure to Revenue Ratio, the Working Cash Fund has now been incorporated into the calculation.
4. **Percent of Short-Term Borrowing Ability Remaining** – Districts often incur short-term debt due to several factors (i.e., delays in receipt of local revenues, etc.). For this indicator, the sum of unpaid Tax Anticipation Warrants is divided by 85% of the Equalized Assessed Valuation (EAV)

multiplied by the sum of the tax rates for the Educational, Operations and Maintenance, and Transportation Funds.

5. **Percent of Long-Term Debt Margin Remaining** – A district often incurs long-term debt for major expenditures such as buildings and equipment. This total is derived by the product of the district's EAV multiplied by its maximum general obligation debt limitation, reduced by any outstanding long-term debt.

Total Profile Score:

Each indicator is scored in order to obtain a district's overall **School District Financial Profile Score**. This overall score is computed for the most current year's financial data.

Each indicator is calculated and the results are slotted into a category of a four, three, two, or one with four being the highest and best category possible. Each indicator is weighted and the weighted indicators' scores are summed to obtain a district's overall "Total Profile Score".

Fund Balance to Revenue Ratio (has a weighting of 35%)

Category 4	Greater or equal to 25% [lowest risk]
Category 3	Less than 25% but greater or equal to 10%
Category 2	Less than 10% but greater or equal to 0%
Category 1	Less than 0% [highest risk]

Expenditures to Revenue Ratio (EXRV) (has a weighting of 35%)

Category 4	District is spending \$1.00 or less for every dollar they are receiving [lowest risk]
Category 3	District is spending more than \$1.00 to \$1.10 for every dollar they receive
Category 2	District is spending more than \$1.10 to \$1.20 for every dollar they receive
Category 1	District is spending more than \$1.20 for every dollar they receive [highest risk]

If the resulting calculation places a district in category 1 or 2, and the Fund Balance to Revenue Ratio (FBRR) is a category 4 then the following calculation is completed:

- $(FBRR - .1)$ divided by $(EXRV - 1.0)$
- If the result is greater than 2, then the Expenditures Revenue score is assigned a 3
- If the result is greater than 1 but less than 2, then the Expenditure Revenue score is assigned a 2

Days Cash on Hand (has a weighting of 10%)

Category 4	At least 180 days cash on hand [lowest risk]
Category 3	Less than 180 days cash on hand to at least 90 days cash on hand
Category 2	Less than 90 days cash on hand to at least 30 days cash on hand
Category 1	Less than 30 days cash on hand [highest risk]

Percentage of Short-Term Borrowing and Long-Term Borrowing Remaining (Short-term and Long-term borrowing each has a weighting of 10%)

Category 4	Greater than or equal to 75% debt margin remaining [lowest risk]
Category 3	Less than 75% but at least 50% debt margin remaining

Category 2	Less than 50% but at least 25% debt margin remaining
Category 1	Less than 25% debt margin remaining [highest risk]

The Total Profile Score is the sum of the five weighted scores. The highest score a district may receive is a 4.00 and the lowest score is 1.00.

Your School District Financial Profile Designation:

If a district receives a score of **3.54 - 4.00**, they are in the highest category of financial strength - **Financial Recognition**. These districts require little or no review or involvement by ISBE unless requested by the district.

If a district receives a score of **3.08 - 3.53**, they are in the next highest financial health category of **Financial Review**. Districts in this category will be given a limited review by ISBE, but they will be monitored for potential downward trends. Staff will be assessing the next year's school budget for negative trends.

If a district receives a score of **2.62 - 3.07**, they are placed in the category of **Financial Early Warning**. ISBE will be monitoring these districts closely and offering proactive technical assistance (e.g., financial projections and cash flow analysis, etc.) These districts will also be reviewed to determine whether they meet the criteria set forth in Article 1A-8 of the ***School Code*** to be certified in financial difficulty and possibly qualify for a Financial Oversight Panel.

If a district receives a score of **1.00 - 2.61**, they are in the highest risk category of **Financial Watch**. As with the Financial Early Warning districts, ISBE will be monitoring these districts very closely and offering them technical assistance including, but not limited to, financial projections, cash flow analysis, budgeting, personnel inventories, and enrollment projections. These districts will also be reviewed to determine whether they meet criteria set forth in Article 1A-8 of the ***School Code*** to be certified in financial difficulty and qualify for a Financial Oversight Panel.

Your comments regarding your district's finances are an integral part of the profile. While the Profile is generated from the District's Annual Financial Report (AFR), there are often extenuating circumstances outside of the School Administration's control which have a financial impact on the district. It is within the Comments portion of the Profile that districts are afforded the opportunity to verbally and publicly convey what has transpired in their district which may have or will impact their Total Profile Score. This will allow for the explanation of significant local financial issues such as cash versus accrual accounting implications and timing of revenue receipts versus expenditures incurred for unique circumstances such as school construction projects. In this capacity, the Profile can be implemented as a communication vehicle for a district's constituents.

We will present Total Profile Scores with the applicable School District comments at our anticipated March Board Meeting. The Profile Scores and Comments will then be listed at the School District Financial Profile website. This website includes a seven year analysis (sorted by district name, county, and designation), a searchable application that will display a 5-year track record.

For further questions regarding ***The School District Financial Profile***, contact a consultant in the School Business Division at the Illinois State Board of Education at (217) 785-8779 or by email at finance1@isbe.net.