Why Do School Districts Borrow Money at the Expense of the Taxpayers?

Unlike businesses which pass costs along to their consumers and increase the prices of their products to stay afloat financially, school districts don't have that luxury. They have to operate like your family. They either live within their means, or they borrow temporarily to provide essential goods and services which their normal income will not defray. In a very real sense, your school district is a *macrocosm* or larger-scale model of the typical family and household in the communities we serve. The parallels are striking.

If you take *your* basic family statistics and multiply them by 1,000, you have an *approximation* of <u>our</u> basic "family" statistics in Bremen Community High School District 228.

Your most important responsibility as a parent is to insure the well-being, health and safety of your children and to provide them with very best that you can afford in terms of housing, food, clothing, security, and medical care. In addition, you want to provide opportunities for their intellectual and social growth as they develop from childhood into adulthood. *We also* have a responsibility toward *your* children which encompasses many of the very same provisions.

Problems arise, however, when you (and when we as a school district) *cannot afford* to provide everything that we feel the children should have for their optimal development. Why? Because we have what just about every family experiences and recognizes, namely, a "cash flow" problem. What you deem to be important, and even essential, for your family, you buy for them, even if you have to "go into the hole" to do it. You engage in some "deficit spending," that is, you spend what you don't have; and you try to keep that deficit under control so that you don't end up in bankruptcy court.

Just about everyone engages in deficit spending, *even you.* Are you paying on a mortgage? Then you are living in a home that is not yet your own, and you are paying *interest* for the privilege of using *someone else's* money to provide shelter for your family. Are you making car payments? That's because you can't afford to buy a car and you need to borrow someone else's money and pay *interest* on the loan in order to purchase one. Do you have a son or daughter in college (at anywhere from $8,000. to $ 25,000. per year)? Can you afford that expense "out-of-pocket"? Probably not. So you take out student loans and pay *interest* on those funds; it's that important to you. And, if you're like most families today according to published statistics, you make a lot of purchases with credit cards: Car repairs, holiday and birthday gifts, dinner out, gas for the car, and even groceries! And you pay approximately 21% interest a.p.r. for the "privilege" of making deficit spending your everyday way of life. Shocking? Perhaps, but true nonetheless.

And yet, it comes as "news," especially when the local papers splash it on the front page, and we express virtual *panic* and *outrage* at the very idea, that our school district occasionally has to *borrow money* in order to provide our children with what WE want them to have: A top-notch education WITH all the "frills" attached, not just the "three R's" with three textbooks, a desk at which to sit, and a chalkboard at the front of the room. We want MORE than that for *our* kids! Don't we?? Your school district sometimes has to borrow money *for the very same reason* that YOU have to borrow money.

Unlike *family* finances, however, *school* finances are governed by the law. There are rules to control deficit spending, caps on what can be borrowed, limits on bonding power, time-frames for repayment of bonds and interest, deficit plans that must be filed and approved which show how shortfalls are to be relieved either by means of budget cuts or increased revenues. *Families* in fiscal trouble either *refinance* their indebtedness under an umbrella loan (with even *more* interest to pay), or they go to a bankruptcy attorney and "bail out." Fortunately for you, the taxpayer, <u>the</u> <u>law</u> controls what your school district can and cannot do. Do the taxpayers eventually have to stand good for the repayment of the district's indebtedness? Of course, they do, just as they have to stand good for their own *family* debt. And they do it *for the same reason:* To provide for their children (and for the other children of the community) what they could never afford on their own. It costs **over $ 7,000 *per year*** to educate <u>one</u> high school student; and that figure rises to over **$ 12,000** when all operational costs are included. It is a popular ***myth*** that a homeowner "pays for" the education of his children with his own property taxes. Those taxes don't make a dent in the cost of educating his <u>one</u> child, much less his three or four children. And that's a plain fact.

So that you as a taxpayer and as a parent understand better the financial pressures faced by the Board of Education in providing a quality education for your kids, remember that **your *school district* is a macrocosm** (or large-scale model) **of *your family***, and consider the following comparisons:

Average Family Statistics[1]	x 1,000 =	**2006 - 2007 School Statistics**[2]
Family Size: 5 (two adults and three children)	x 1,000 =	5,000 Students in District 228
Family Income: $ 56,636.50 (median)	x 1,000 =	$ 56,636,500.00 in School Revenue
Dad's Income: $ 37,468.90	x 1,000 =	$ 37,468,900.00 from Local Taxes
Mom's Income: $ 17,899.60	x 1,000 =	$ 17,899.600.00 from State Aid
Other Income (Interest, etc.): $ 1,268.00	x 1,000 =	$ 1,268,000.00 Federal Grants-in-Aid
Family Budget: $ 62,207.13	x 1,000 =	$ 62,207,131 Budgeted Expenditures
Family *Deficit* * this year: ($ 5,570.63)	x 1,000 =	($ 5,570,631.00) *Deficit* ** this year

[1] United States Census Figures

* Covered by <u>loans</u> (mortgage, auto, student, credit cards, etc.)

[2] District 228 Report Card and Fiscal Budget

** Covered *this* year by a cash surplus; however, in *succeeding* years by <u>loans</u> from the Working Cash Fund, secured by sale of bonds

Family deficits, unless they are to spiral out of control, must be covered by **a) increased revenue** from one or both of the incomes of Dad and Mom; **b) decreased spending** in a trimmed-back family budget; or **c) a combination of both**.

In the illustration above, the median *family* income is taken from *real* statistics. It's not a lot of money in today's economy; and many families are struggling just to get by, even with both parents working. Some are on a fixed income, fixed on the <u>bottom rung</u> of the ladder. Deficit spending for *them* is a necessary fact of life, like it or not. Where would such families be if both parents were forced to live on a "minimum wage" income?

But think of where your *school districts* are in the "income" department: **Illinois** is (and has been for years) **49th** out of the 50 states in its support of education. Only <u>one state</u> in the union funds its schools <u>*worse*</u> than does the State of Illinois! And that is a **disgrace**! Please don't blame your Board of Education for that. Do you really think that your district *wants* to live on a "minimum wage" income?? Blame the legislators in Springfield who are elected and re-elected term after term and do virtually NOTHING to reform school finance and to change this disgusting statistic! And who elects them? The very ones who complain about high property taxes, the sale of working cash bonds, and deficit spending in the schools. It sounds harsh, but the lawmakers whom you elect are forcing YOUR school district to rely for its income at the "minimum wage" set by the state legislature. Our schools, our parents, and our taxpayers need to hold the legislators to account for this shameful situation, and soon.

School District deficits, according to law, must be eliminated *in timely fashion* by **a) increased revenue** from one or all of the sources noted above, **b) decreased spending** accomplished by cutting back some expenditures without, however, decreasing the quality of the children's education; **c) borrowing** from the "Working Cash Fund" (secured by the sale of bonds) <u>as a temporary measure ONLY</u>. Indebtedness must be eliminated on a fixed time schedule by paying off the bonds sold, including interest charged. Fortunately for the taxpayers, bond interest (particularly for *tax-free* bonds) is a very attractive rate compared to the interest charged the average citizen in refinancing programs. It's not "free money" by any means, but it's not the burdensome interest that it could be.

FACTS YOU SHOULD KNOW:

1) The sale of bonds to relieve *temporarily* the crunch in a deficit budget is *completely legitimate* and *legal*. It does **not** constitute the underhanded and irresponsible fiscal policy that panic-peddlers make it out to be. It is a remedy provided under the law, and yet regulated by the law for the safety of the taxpayers.

2) District 228 has approximately $ 75,000,000. in bonding power, *legally* and *legitimately* at its disposal to use for necessary expenses not covered by its regular income sources.

3) District 228 is not a fiscal "spendthrift," playing with the taxpayers' money like a kid in a chocolate factory. As the result of diligent management and attention to the annual budget, the district's deficit from fiscal year 2006 to fiscal year 2007 was *reduced* approximately $ 8,000,000. Capital spending was cut by $ 5,000,000. Delay in textbook replacement and even in the purchase of some materials saved $ 1,000,000. There was a reduction in certified staff by attrition, not replacing twelve retirees. Certain technology purchases were scrapped, and there was reduced energy consumption.

4) Down the line, a slightly increased class size should help to decrease costs, and the number of addenda positions (club sponsorships and other co- and extra-curricular supervisory posts) at each of the four campuses will have to be limited. And finally, "the biting of the bullet," barring the state's immediate action to increase its dismal level of support, a tax rate increase will have to be sought. Your children's schools, trying to stay afloat on "minimum wage," will have to ask for a "pay raise."

5) District 228 hasn't had a "pay raise," that is, an increase in its tax rate, for *almost* *twelve* *years!* Whether we like it or not, real estate taxes (borne chiefly by the residential homeowner) are legally the schools' main source of revenue, thanks to the state legislature. And it's fairly easy to say "no" to a tax rate increase when the unfair burden is ours to bear. HOWEVER, give these perspectives your objective consideration, and the picture looks different: **a)** What if YOU hadn't had a pay raise since 1995? What would *your family's* finances look like right about now? **b)** What if YOU had nowhere to go for a needed increase in your income to provide for your kids but to "the boss"? **c)** What if he, pointing to his own costs, refused to give you even a nominal raise in pay? **d)** What would you say to your kids when they asked why they couldn't have what other kids have? ....For those who have kids; for those who love kids, even though they have none of their own; for those who want to provide the best *for the kids* and want to see them progress to the very best of their ability; and for those who know that in *public education* we get the biggest bang for our buck, the answer is simple really. We have no choice. We have to do the right thing.

We strongly encourage all of our citizens, parents and non-parents alike, to become better educated concerning school finance, concerning the fiscal management of District 228, and concerning the legitimate right of your school district to *borrow money* at times to deal with temporary budget shortfalls. It's not out of line, it's not unreasonable, and it's not irresponsible for your district to do what *YOU* would do if you were faced with *its* problems.

To learn more about

- School Finance in the State of Illinois
- The Budgetary Process in Local School Districts
- Good Public Policy Regarding School Finance
- Deficit Reduction Plans Required for Schools with Unbalanced Budgets
- The Fiscal Budget of Bremen H. S. District 228
- Steps *Already Taken* to Reduce Our Deficit in District 228
- Steps *under Consideration* for Further Deficit Reduction
- How the Sale of Working Cash Fund Bonds Is a *Wise* Move for the Temporary Relief of Deficit Pressure

....and other matters of interest,

please contact or otherwise connect with the following persons and resources for authoritative information:

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(708) 389-1175, x 2007 tomalley@bhsd228.com

The District 228 Website: http://www.bhsd228.com
for hotlinks to our School Report Cards, the Board of Education,
the Illinois Association of School Boards (with a host of free, downloadable documents),
and other information about our school district

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We always welcome your inquiries, your suggestions, and your constructive criticism.
We are, in a very real sense, a macrocosm of YOUR family.

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