

STATE OF ILLINOIS

CITY OF URBANA

SPECIAL JOINT MEETING
URBANA CITY COUNCIL
AND
URBANA SCHOOL DISTRICT BOARD
THURSDAY, SEPTEMBER 26, 1996

The City Council of the City of Urbana, Illinois and the Urbana School District Board met in special session at 7:30 p.m., Thursday, September 26, 1996 in the Council Chambers of the Urbana City Building.

Present at the meeting were Members of the Council: Hayes, Kearns, Patt, Pollock, Ryan, Taylor, and Whelan; Members of the Board: Jean Burkholder, John Dimit, Laura Haber, Steve Summers, Tina Gunsalus, and Andy Kulczycki, and District Staff: Gene Amberg, Superintendent, and Carol Baker.

There being a quorum, the meeting was called to order at 7:37 p.m. by Mayor Satterthwaite and School Board President Tina Gunsalus.

Mayor Satterthwaite stated that he had prepared a brief agenda. The first item on the agenda is a presentation by the School District Board on how tax caps work and the impact of tax caps on the Urbana School District. The second item is open discussion on the issue. There was no objection to the agenda.

Board President Tina Gunsalus thanked the City Council for making time in their schedule to hold this meeting.

Ms. Gunsalus stated that the School Board is united on the issue of tax caps.

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Ms. Gunsalus reported that the position of the School Board is a unanimous position of being committed to living within its means. In order to do that, the budget has been balanced in a very painful way and at some great costs. The base commitment was to holding the tax in the city stable.

For the first time in a number of years, the budget is balanced in a number of funds. Interest is being earned on the Working Cash Fund and the Bond Fund. This interest is transferred to support direct cost of education, rather than borrowing money and paying interest.

The Board now sees all of that work threatened by the proposed tax cap legislation that is on November's ballot.

The School Board faces decisions that will effect the City, and as a result the Board is here to consult the City Council and hope to get advise on this situation.

The Board is particularly interested in exploring with the Council whether there is any creative way to work for the good of the community.

The School Board is faced with very complex legislation on the ballot in November. The Members are working very hard to disperse information to the public regarding this legislation. It is felt people will reject this law if they have knowledge of its affect on the community.

This legislation is designed to solve a problem that

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Urbana does not have. The problem that it is designed to solve is the rapid increase in the valuation of the tax base in the collar counties of Cook County and may or may not solve that problem.

Our problem is that the State is not supporting schools.

The constitution of this state expresses the intent that the State should be the primary support of the school. Twenty years ago State support was at around 49%, and today it is 32% of the support for schools statewide. The State is not meeting its obligations.

Some believe that this is wise legislation because it will drive the schools into crisis and therefore force the Legislature to act. It is an improper approach to put our children on the line to force the Legislature to live up to its obligations. This approach was taken in Michigan and it took twenty years for them to reform their property taxes and one third of their school districts were in receivership.

This legislation is deceptive. It is labeled as tax caps referendum but it doesn't lower taxes, in fact it doesn't even keep taxes from going up. There is no way for voters to repeal or amend the legislation after it is passed. Only the Legislature can rescind it.

The Board faces a decision regarding how to fund \$2,000,000 of unfunded State mandates which must be done within the next three years. This is life safety work, none of which poses a danger to children, and none of which would have been done in that

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timeframe. Without tax caps, this work was going to be done one step at a time and without a tax increase, knowing that there was the option of selling life safety bonds to meet these mandates.

Because of this legislation, the district cannot be put in a position of having to lay off teachers to meet these mandates.

The Board is now in the position of having to sell \$2,000,000 worth of bonds and that must be done before the election.

While this legislation limits the increase of taxes, and the rates, it freezes for all time the bonding authority of units of government. Those limits are set on the election day and they never change.

To meet the challenge of the unfunded mandates and the tax caps, and still maintain the goal of keeping the tax rate stable is beyond the ability of the school district to achieve on its own. One of the reasons the School District asked for this meeting is to explore with the City Council ways working together, to meet that challenge.

Alderwoman Patt requested that the School Board explain, in dollar amounts, the difference in the financial position of the district with caps versus without caps.

Ms. Gunsalus stated that the District has calculated the amount of money it would not have received if tax caps had been in effect for the past five year. The calculation is that the schools would have received 1.6 million dollars less than was received. It

would be a problem to run the schools on that much less.

Board Member John Dimit explained the mechanics of the immediate past year when the CPI increase was 2.5%. Last year Urbana was experiencing growth in it's EAV that was higher than the rate of inflation. It was 4.7% for the School District, which was a little different from the City. If the 2.5% tax cap had been in place, the levy would have increased 2.5% on existing property, of the difference between 2.5 and 4.7, which is 2.2%, 1.2% of that has been estimated to be due to new construction. There would have been tax revenue received from the new construction. The loss would have been the 1% that is left. That loss would have been about \$165,000. When the fact of matching State funds, in part the formula for the State funds is driven by local effort, and that loss of \$165,000 in revenue would have also been a loss of \$125,000 in State support. The total loss would have been about \$290,000 in one year. As this advances a few years down the road, the value of compounding begins to take place, these funds are coming off the base amount. It also depends on the rate of inflation.

Board Member Jean Burkholder stated that in terms of the effect on the children in schools, this would equal ten teachers. Two years ago when the \$800,000 worth of cuts was made, five elementary teachers out of the six elementary schools were cut.

Alderwoman Ryan requested further clarification about the jump from the \$165,000 loss to the \$290,000 loss and the impact of

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new construction?

Mr. Dimit stated that the \$165,000 to \$290,000 is based on the \$125,000 in State matching money that the School District gets for the \$165,000 that is raised locally. The decrease of local revenue by \$165,000 would correspond with a decrease in state aid of \$125,000.

Mr. Dimit stated that there was benefit from new construction. Starting with the 4.7% increase in EAV, and coming backwards, 4.7% was the total increase. 1.2% of that was new construction, backing us to 3.5%. 2.5% would have been the allowable amount of increase, which meant a 1% loss. The estimate would be that property values on a whole in the Urbana School District had a inflationary increase in their value of 3.5%, when the CPI only went up \$2.5%.

Alderman Hayes questioned what happens to the bonds that the district will sell, should the referendum fail?

Ms. Gunsalus stated that there are possibilities of abating the bonds, should the referendum fail. The district would then go back to the original plan of taking it one step at a time.

Mr. Dimit stated that since November 5 is the forever day, if we do something prior to November 4, it might affect our ability to react or not, ten years down the road.

Mayor Satterthwaite requested that Mr. Dimit explain why the November 5 date is so important and what is frozen as of that

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date as far as the debt service is concerned and talk about the debt level and the debt service levels?

Mr. Dimit passed out and explained a chart which shows the current debt picture (see attached). The Non-Referendum Debt Service primarily refers to the working cash bonds and work at Urbana High School that was life safety based. This was about half of the cost of the renovation. The referendum debt refers to the portion of the high school work that was based on referendum.

The limit that is in effect on the morning of the election, if the referendum passes, is the non-referendum debt service. What is limited is not the amount of indebtedness that the school district can have, it is the amount of money that can be levied to service the debt. The current, potentially available debt service is \$2,250,000 per year. The chart that was passed out shows how that debt service would be used.

In response to Mayor Satterthwaite's question if \$2,250,000 of debt service would allow \$17,000,000 in debt, School District staff member, Carol Baker stated that would be financed over 20 years with over 4.5% interest rate. Mr. Dimit stated that the current level of debt is \$16,600,000.

Responding to a question from Alderman Whelan regarding what percentage of State funding Urbana receives, in comparison to the 32% state-wide funding, Ms. Gunsalus stated that it is 30%.

Alderman Whelan inquired about the permanence of the tax

caps. Ms. Gunsalus stated that local voters can vote in the referendum but cannot repeal it once it is in effect. It erodes the local control.

Ms. Gunsalus stated that state legislation gave the counties the discretion to put this referendum on the ballot in November. Many counties have elected not to vote on it until there has been an opportunity to review it completely.

In response to a question from Alderman Whelan regarding what it means to say that the money to cover losses created by the downward spiral comes from the education fund, Ms. Gunsalus stated that the State mandates the accounting system that schools use. It is a very complicated fund accounting system that requires that schools have money and levy in a whole series of different ways.

The Education Fund is the fund out of which teachers and the direct costs of education are paid. It would be the equivalent to the City's General Corporate Fund.

Ms. Baker explained the funds of the school district to be:

1. Education Fund: major fund from which approximately 80% of expenditures are taken, such as teachers' salaries, program costs
2. Operations and Maintenance Fund: cost of maintaining buildings and grounds, as well as the cost of the cleaning service
3. Transportation Fund: cost for transporting pupils to school
4. IMRF Fund: pension fund for non-certificated employees, as well as their Social Security benefits

5. Bond Fund: Bond and interest fund where the school board levies based on the bonds that are outstanding
6. Working Cash Fund: internal bank, can be used only to get through cash flow problems during the year

Aldерwoman Patt requested an explanation of the difference with tax caps in place versus caps not in place, if in four years there was a need for a new school.

Ms. Gunsalus stated that a better example might be a boiler going out or a roof falling in. The current estimates for building a new school are in the area of \$8,000,000. Based on the history of this board's approach, that amount of money would need a referendum.

If there is an unexpected expense, there are two approaches. One is to rearrange the present year expenditures and the ability to issue life safety bonds.

Responding to Aldерwoman Patt's questions as to whether tax caps would prohibit the School Board from issuing life safety bonds, Ms. Gunsalus stated that tax caps freeze the ability to issue life safety bonds.

Mr. Dimit stated that it is dependent upon your status on the chart. "In ten year old terms, if the line is considered the lip of a bucket, as long as the bucket is full (as long we are using all of the available debt service, no more can be issued), if there is space in the bucket, we can fill the bucket back up."

Mayor Satterthwaite inquired how the School Board would

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deal with the life safety issue if the tax cap threat was gone?

Ms. Gunsalus stated that there was a plan to rearrange the O&M Fund, put off some things, and try to get enough of the required work in the first year done out of current receipts to "string the State along." There is a three year bond issue that will be paid off in December of 1997, then there will be that nickel that could be used for life safety work.

Mr. Dimit stated that this could not be done with tax caps because the "space in the bucket" in 1997 represents that nickel. That nickel would support approximately \$200,000, which is about the size of the priority one needs. Those priority one needs could have been done with that nickel.

Referendum debt can go as high as the voters want it to be. The referendum debt does not increase the size of "the bucket."

Alderman Taylor inquired under tax caps, what is the conduit by which the City would legally transfer funds to the school district for life safety work, in the event the bonding authority wasn't sufficient to pay in an emergency situation?

Ms. Gunsalus stated that the School Board does not have the answer to all these questions but one option is the funds from the TIF Districts, because those TIF Districts are presently withholding taxing monies from the School Board.

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Alderman Taylor asked Chief Administrative Officer Bruce Walden if, other than the TIF options, from a municipal standpoint and our legal ability to transfer funds from the City unit to another unit, what is the legal ability, outside of TIF, to transfer money from the City budget to the school district?

Mr. Walden stated that staff has not researched this yet, but there is research being done regarding the TIF aspect. In the past, TIF contributions have needed to be listed in the plan.

Alderman Hayes discussed the support of the booster clubs and their contributions to the school district. He stated that community should have a pat on the back for its support.

Alderman Whelan inquired when the unfunded, life safety mandates were initiated? Ms. Gunsalus stated that happens every ten years; the current set just came into effect this year.

Alderman Taylor inquired what is the maximum that the "lip of the bucket" can be raised between now and November 5, 1996?

Ms. Gunsalus said that has been explored very carefully and the board believes it could be raised by \$1,000,000.

Mr. Dimit stated that doesn't mean a \$1,000,000 increase in the levy, the levy is already about \$2,800,000 of which \$2,200,000 is inside the bucket, and \$600,000 is out. It would involve about a \$400,000 plus increase in the total bond levy.

Mayor Satterthwaite inquired what level of debt could be serviced by a debt service of around \$3,200,000 or what level of

debt does the board want to be able to carry?

Ms. Baker stated that it was not necessarily a level of debt they want to carry, it's allowing flexibility for the future needs that cannot be anticipated at this point.

Mayor Satterthwaite stated that at this point, the discussion is centering around approximately 10% of the budget and there is the rest of the budget that would also be impacted. This is the area in which advanced planning can make a significant difference.

Mr. Dimit stated that the reason this is of primary concern is that debt service is the part that is frozen. The rest of the law still allows for inflationary increases as the community grows. On the debt side, the "lip of the bucket" is frozen forever. On the operating side, the line would be a steadily increasing line that would increase at a rate lower than it would without tax caps.

Alderwoman Patt inquired how, if for the sake of debate the Consumer Price Index goes up 2.5% a year, without tax caps and without raising the tax rate, do you get more than 2.5% if salaries are raised more than that percentage?

Mr. Dimit stated that under tax caps it is done by referendum, today it might happen because there is growth in the community or property values are going up by a rate higher than

inflation.

Mayor Satterthwaite stated another example, if last year's CPI was used, funds are limited to a certain percentage and expenses, such as insurance, are not limited at all.

Alderwoman Patt stated she keeps hearing that new construction doesn't count. What happens after the first year with new construction?

Mr. Dimit stated that new construction does count. Assume a \$100,000,000 tax base and a 40 cent tax rate. That would create a \$4,000,000 revenue. If the inflation rate was 2.5% and there was 1% growth in construction, the 1% growth in construction is \$1,000,000, which generates \$40,000. In year one, the \$4,000,000 plus the \$40,000 would be brought in. The \$4,040,000 becomes the base levy the following year. That is extended out against \$101,000,000. If there is a bit of an inflationary increase the rate will probably drop by 1% a year but the levy will go up by the rate of inflation plus the value of new construction.

The new construction becomes a part of the base in the second year, which will end up with a new rate in the second year. That is applied against the new construction in year two.

Alderwoman Kearns stated her understanding that the School Board is here to talk to the City about coming up with a creative way to help increase the debt level. In addition to that, is the Board anticipating that it will have to do a tax rate

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increase in any of the funds?

Ms. Gunsalus stated that this is a situation where tax caps force districts to do things they would not ordinarily do. Nothing will be done until the results of the referendum. The long term commitment has been to keep the tax rate stable.

Mayor Satterthwaite stated that the entire tax cap issue is a solution to the problem that Urbana does not have. The problem was in the collar counties of Cook County where they were experiencing high rates of increase for property taxes and taxing districts were seeing quite a rise in their revenue without raising the tax rate.

This tax cap could take power out of the hands of the School Board and put every issue to a referendum.

Mayor Satterthwaite suggested a motion to direct the staffs of the Urbana School District and the City of Urbana to further explore possible impacts of tax caps on the Urbana School District and to present options that would help the School District plan for tax caps should the tax cap referendum pass in November.

Mayor Satterthwaite suggested that these options be presented at a joint Council/School Board meeting at 7:30 p.m., October 8 at the Urbana School District Administrative center.

Alderman Taylor moved to direct the staffs of the Urbana School District and the City of Urbana to further explore possible

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impacts of tax caps on the Urbana School District and to present options that would help the School District plan for tax caps should the tax cap referendum pass in November. The motion was seconded by Alderwoman Patt.

Alderman Pollock inquired who will present the options, where they are coming from, or is this something that will be received at the meeting on October 8, with no time to review them before discussion?

Mayor Satterthwaite stated that there has been discussion of some options.

Mr. Amberg stated that the School District has looked at different areas which include grants, refinancing and TIF.

Alderwoman Patt requested that the Council have an opportunity to review any material before the October 8 meeting?

Mayor Satterthwaite stated that it is his hope that information will be available prior to the meeting.

Alderman Taylor requested specific information on the advisability and legality of direct loans or grants, and the use of TIF fund from the City of Urbana to the Urbana School District.

Mayor Satterthwaite stated that he would like to see an option of restructuring the existing School District loan.

The motion to direct the staffs of the Urbana School District and the City of Urbana to further explore possible impacts

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of tax caps on the Urbana School District and to present options that would help the School District plan for tax caps should the tax cap referendum pass in November carried by a voice vote.

Mr. Dimit moved to direct the staffs of the Urbana School District and the City of Urbana to further explore possible impacts of tax caps on the Urbana School District and to present options that would help the School District plan for tax caps should the tax cap referendum pass in November. The motion was seconded by Ms. Burkholder and carried by a voice vote.

Ms. Gunsalus stressed that the School Board is going to do everything possible to inform the public of this issue and would welcome the Council's assistance in the effort.

ADJOURNMENT

There being no further business to come before the joint meeting of the Urbana City Council and the Urbana School District, Mayor Satterthwaite declared the meeting adjourned at 9:15 p.m.

Tod Satterthwaite
Mayor

Phyllis D. Clark, City Clerk

*This meeting was taped.

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**This meeting was broadcast on cable television.