



Assessment of Current Financial Condition and Practices of Evanston/Skokie School District 65

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ACTION TAKEN TO STABILIZE THE DISTRICT'S FINANCIAL CONDITION OVER THE PAST 11 MONTHS

In September 2023, Illuminate, Inc. was appointed to serve as a financial advisor to Evanston/Skokie School District 65. For over three decades, I have worked with many school districts and have had the opportunity to be appointed by the Illinois State Board of Education on multiple occasions to oversee state takeovers of school districts in financial distress.

At the direction of Superintendent Dr. Angel Turner, we have worked diligently to assess the financial condition of the District in this short period of time. Within days after entering into an agreement with the District, we discovered that the projected cost of the new Fifth Ward School was \$25 million above the figure presented to the Board of Education and community. We also learned that the transportation savings identified as the source of funds to support the borrowing for the project was significantly overstated. Dr. Turner immediately shared the information with the Board of Education and community and presented various options to pivot from the initial decision which averted an even more significant and devastating financial impact.

On February 6, 2024, after an initial analysis of the District's financial position, we reported to the community that "without significant action taken to address the problem, Evanston/Skokie School District 65 is projected to experience growing and unsustainable deficits". The magnitude of the financial challenge became clearer as we learned about accounting practices that misstated the data we reviewed and after receiving the fiscal year ending financial report. In early March 2024, after dozens of meetings led by Dr. Turner and Dr. Green, the team developed and the Board supported the current administration's 'Phase One' of a long-term plan to stabilize the District's financial condition. At that time, we stated that Phase Two of the Plan would be developed during FY25 and be implemented in FY26.

Given little time and minimal institutional knowledge of the overall budget, Dr. Turner and this team developed Phase One of the plan by reducing staff by 3% and developing budgetary cuts for FY25 of approximately \$6 million. Given the circumstances, in over three decades in school finance, I have never been a part of a more rapid and strategic budget reduction process. The team then immediately pivoted into a deeper dive of District operations to



develop Phase Two of the plan which will be presented to the Board and community in September 2024.

CONCERNS REGARDING PRIOR FINANCIAL INFORMATION PROVIDED TO THE BOARD OF EDUCATION AND COMMUNITY

In mid-July, we received the unaudited FY24 financial report for the fiscal year ending June 30, 2024. The report reflected a second consecutive year of deficit spending in excess of \$10 million. This is despite the fact that in each of those years the Board of Education was presented with a balanced operating budget. Underperforming a budget in this manner for two consecutive years is unique based on all of my experience.

In our short time working with the District, the most troubling matter we have come across is that the Board of Education seemed to have been regularly provided with information that understated the financial impact of the major financial decisions they were asked to support.

This is evidenced by two poorly developed budgets, inaccurate information of the financial implication in the construction of the new school, monthly financial reports that reflected data that were more than two months old, and financial reporting that positively skewed the District's financial condition through techniques that included delaying the payment of bills and accelerating the receipt of grant revenues into the District before the associated expenses actually occurred.

These actions are irregular and not consistent with best practices. The Board of Education and community deserve fidelity in the data that is presented. Had the Board received accurate information on the cost and savings generated from the Fifth Ward School, I believe their decision making related to the new building would have been different, at least in scope and these real expenditure reductions would have started sooner. I also believe that the deficit reduction plan would have been accelerated.

This administration and its support team is committed to ending these practices and have already begun to take the necessary actions. This is a critical step in developing real solutions to solve real problems.

THE BUDGET FOR FISCAL YEAR 2025

The Board of Education will be presented with the budget for FY25 in early September. The budget will be a true reflection of what Tamara Mitchell, the District's new CFO, and her team projects for the fiscal year. The budget plays no games. Grants are not accelerated, bills will be paid in a timely manner, and there will be no bias in the figures.



Despite the likely headwinds related to the impact of contractual increases; health insurance premiums increasing by over \$1 million; a 12% increase in the cost of transportation routes; and the first full payment of the \$3.3 million due on the Fifth Ward borrowing, we are currently budgeting expenditure growth at less than 2%. This compares to an expenditure growth rate of approximately 6% over the previous five years. This is due to the offsetting effect of Phase One budget reductions; the elimination of expenditures tied to expired grants; and fiscal tightening throughout the budget.

Despite these efforts, the FY25 budget reflects that there is much to be done to stabilize the District as projected revenue decreases of around \$4 million and timely reporting of financial activity still show a major deficit that would have been much worse without the enactment of Phase One of the deficit reduction plan.

This District has assembled a team that has the passion and the capacity to solve this financial challenge, and the Board of Education must be equipped to make the difficult decisions to achieve our objective. This financial challenge is solvable and will be solved. Additional information will be presented to the Board and community in September.