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Clerk O'Brien: "House Resolution 569, Lechowicz, whereas the largest school district in the state is in a financial crisis, is unable to pay its current obligations and is unable to borrow funds to effect either a short term or long term solution to the immediate financial crisis, and whereas the financial crisis of the Chicago school district is causing severe hardship on citizens of Illinois, including employees of the Chicago school system and their families as well as businesses which serve and supply the system and threatens to cause serious disruption of the schooling of thousands of Illinois school children, and whereas the current financial crisis of the Chicago School Board will have a negative impact on the perceived credit worthiness of the school districts and local governments throughout Illinois and possibly the state itself unless remedies are...and resolved...are resolved promptly, and whereas it is the obligation of the state and this General Assembly to insure sound, responsible, and adequate financing in the common schools throughout Illinois and to protect the integrity of the financial...fiscal and financial affairs of school districts under the laws of Illinois, and whereas resolution of the current crisis of the Chicago School Board appears to require legislation and in any event will require the active involvement of this General Assembly, and whereas legislation has been submitted to this General Assembly proposing means to effect a solution to the current crisis, and whereas the urgency and immediacy of the present financial crisis in the Chicago school system does not permit the usual legislative procedures in the 2 Houses in their normal sequence and time, but require concurrent action and deliberation by the Members of the House and Senate, and whereas it is necessary and proper for responsible and informed legislative decisions on this complex, far-reaching, and urgent subject that



GENERAL ASSEMBLY

STATE OF ILLINOIS

HOUSE OF REPRESENTATIVES

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the entire Membership participate actively in the Committee deliberations. Therefore be it resolved that the House of Representatives of the 81st General Assembly of the State of Illinois, that the House resolve itself in the Committee of the Whole House on Thursday January 10, 1980 at the hour 4:45 p.m. for the purpose of considering: 1) the nature, degree, and causes of the current financial crisis of the Chicago School Board, 2) legislative solutions or means to the solutions to the financial problems of the Chicago School Board in the form of draft resolution prepared in accordance with the rules which is filed with the Clerk for consideration by the Committee of the Whole, and 3) testimony limited to the foregoing matters strictly germane thereto, and be it further resolved that a Clerk is directed to have printed and distributed to each Members desk a copy of each legislative proposal filed for the Committee of the Whole's consideration."

Lechowicz: "Thankyou Mr. Speaker, Ladies and Gentlemen of the House. House Resolution 569 is the call of a General Assembly for a Committee of the Whole. I know each and every one of us have received a copy of the tentative agreement concerning the Chicago schools that was diligently worked by the Governor's staff, the Governor, people from the City of Chicago, the Board of Education, and the banking community. We all know that the Senate started this afternoon as far as their Committee of the Whole, and for this reason, we are running a little bit late as far as having this Body also proceed in the same manner. It is the intent of the Chair and the Membership to thoroughly discuss House Bill 1910 and House Bill 1264, the 2 Bills that Amendments will be offered to to try to ratify the agreement which was reached in the Governor's mansion this past weekend. It is absolutely crucial



and vital, not only for the school children in Chicago, but for the City of Chicago and for the entire state that this situation be resolved. I would like to publicly commend all the people who worked very diligently coming to a very sound conclusion in helping the school system in the City of Chicago. With us this afternoon is Mr. John Perkins, the President of Continental Bank of Chicago, and Mr. Jerome Van Gorkum, the Chairman of the Board of Trans-Union Corporation. I know that Mr. Art Quern, the Director of Government Operations will be the coordinator of the respected people who will be here to give their testimony in behalf of the agreed solution, and in turn I am sure that the question and answer period will be available to the Membership as they seek their questions to be answered. Mr. Speaker, I move for the adoption of House Resolution 569."

Speaker Schneider: "Mr. Lechowicz has moved for the adoption of the Resolution. Is there any discussion? Mr. Dunn."

Dunn: "Just a technical point, Mr. Speaker, I believe the Resolution indicates that the House resolve itself into a Committee of the Whole the hour of 4:45 p.m. today. That hour is long since passed. Does the Resolution need to be amended?"

Speaker Schneider: "The Parliamentarian informs me that in light of that discrepancy, the Resolution will become effective immediately."

Dunn: "Thank you."

Speaker Madigan: "Is there any further discussion? There be no further discussion, the question is 'Shall this Resolution be adopted?'. All those in favor signify by saying 'aye', all those opposed by saying 'no'. In the opinion of the Chair, the 'ayes' have it. The Resolution is adopted, and the House has resolved itself into a Committee of the Whole. The Chair will



ask Representative Schneider, the Chairman of the House Education Committee, and Representative Pierce, the Chairman of the House Revenue Committee to preside during this Committee of the Whole."

Pierce: "The Committee of the Whole will come to order. Co-Chairman Representative Schneider will tell you the purpose of the Committee of the Whole. Representative Schneider, Chairman of the House Revenue Committee."

Schneider: "The Committee of the Whole will listen to testimony from the various principals who are involved, at least to a great extent, in the recent conference over the weekend regarding the Chicago schools. The Director of Government Operations, Art Quern, will introduce the witnesses. We will wait until all the testimony has been presented, then we will entertain questions of those individuals as the Legislators will see fit to ask those questions. So first of all, Mr. Art Quern, Director of Government Operations for some observations and...Do you want to introduce the individuals? And to introduce the witnesses who will be before us today."

Quern: "Thank you, Mr. Chairman. My name is Arthur Quern. I am the Director of Government Operations. I will be joined by Mr. Julian D'Es..."

Speaker Schneider: "Give the Gentleman a chance. Will the electrician turn up the mic a little bit on the Clerk's desk? That's where the witnesses will testify from. If it's not good enough, they can come up here. The Gentleman from Cook, Mr. Lechowicz."

Lechowicz: "Thank you, Mr. Chairman. Would you kindly advise that all unauthorized personnel remove themselves...in the Chamber please?"

Speaker Schneider: "Yes, this is a Committee of the Whole, and our rules provide that only the witnesses who will be testifying will be on the floor. All authorized personnel... unauthorized personnel will leave the floor. The Sergeant



of Arms will clear the aisles of unauthorized personnel. This is a vital subject. We have witnesses here that are outstanding leaders in the financial and educational community of our state and our nation, and I think we owe them the courtesy to hear them out on this most vital issue. Mr. Quern, Director Quern, will you see if you can now be heard? If not, I'll have you come up here."

Quern: "Thank you, Mr. Chairman. My name is Arthur Quern. I am the Director of Government Operations for the State of Illinois. I will be joined today by Mr. Julian D'Esposito, General Counsel to Governor Thompson, by Dr. Robert Mandeville, Director of the Bureau of the Budget, by Dr. Joseph Cronin, State Superintendent of Education, by Mr. John Perkins, President of Continental Bank of Chicago, by Mrs. Catherine Rohter, President Chicago School Board, Mr. Jerome Van Gorkum, Chairman of the Board of Trans-Union Corporation. We are here today...to submit for your consideration..."

Speaker Schneider: "The Gentleman from Kankakee, Minority Leader, Mr. Ryan."

Ryan: "Thank you, Mr. Speaker. I certainly wish that you would bring this chamber to order so we could all hear the testimony. This is an important issue. That's what we are here for, and if you can't do it, ask the Sargeant of Arms to do it."

Speaker Schneider: "Thank you for that suggestion, I think I can do it. Will the Members be in their seats? Will the Sargeant of Arms see that all unauthorized persons are out of the chamber. They are welcome to sit in the gallery. This is a public hearing, and we have many empty seats in the gallery. And those that want to converse, we have a nice rotunda here. The Gentleman from Lake, Mr. Deuster."



Deuster: "Mr. Speaker, one of the problems seems to be the backdoor is open and we can hear all kinds of noise in from the corridor. Perhaps you could direct the Sargeant of Arms specifically to close the backdoor, and that might help."

Speaker Schneider: "Alright, the Sargeant of Arms will close the backdoor. The Gentleman from Cook, Mr. Collins...we'll try to quiet the place down, and Mr. Quern, Director Quern, you will proceed."

Quern: "Thank you, Mr. Chairman. We are here today to submit for your consideration and to seek your support for an emergency program developed in the last few days. A program that is aimed at one primary goal, a goal of keeping the schools of the City of Chicago open. This program was worked out over a series of days of intense negotiation and reflects agreement by a number of parties who have been involved with working with and trying to resolve the crisis facing Chicago public schools. This program reflects a most delicate and complex balance, an agreement hammered out over long hard hours of negotiation. But it was hammered out with some very specific guidelines which I would like to run down with you. First of all, we saw as the primary purpose in this emergency climate, the need to keep the schools open. This purpose was important to the nearly 500,000 children in the schools and their families. It was essential to the teachers and the educational staff of the system. It was vital to the Chicago community, and it was important to all of us in the state who are involved with or concerned over education. Keeping the schools open was therefore our primary goal. We decided, however, that one other thing had to be kept in mind. Given the dimensions of the crisis, given the uncertainty over many of the aspects of the problem, given the immediacy of some of the questions over paychecks, and the opening of schools before us. We



could only focus on restoring stability and finding a means of introducing accountability at this time that we could not seek out all of the reasons and all of the problems in this emergency climate. It was clear to us that there would be time enough to find out what went wrong and who was responsible for the problems of the school system. When the crisis was brought to the Governor's attention, he laid out a number of specific requirements against which any solution would be measured. These requirements, which I will list for you, have been met. And the Bills which you will be asked to consider do indeed fit within the requirements, and therefore we think we have a sound and responsible resolution of the immediate crisis in the package that you are examining. When the Governor laid down these requirements, he laid down the following points. First he said that no one party in the state could or should completely solve the problem in the school system. All parties involved must at the same time, share similar risks in meeting the needs of keeping the schools open. He indicated very clearly that no additional revenues, state or local, would be available at this time. The problem was not to simply pour dollars in. We would not do that at this time. No more dollars than would otherwise go to the schools could be made available now. Until the schools were stabilized, the situation thoroughly analyzed, no request for more taxes, or no requests for additional state aid would be entertained or considered. The Governor said that the Board must begin...the School Board must begin at this moment to cut the costs of their operations to bring the overall operational expenditures within their resources. He also indicated that whatever would be done would not in any way be permitted to endanger the state's fiscal condition or its financial standings. And finally, he said that what we did for



Chicago must be available to any other school district in the state should that district find itself in similar circumstances. These requirements were discussed frequently with the public, with other interested parties, were reviewed with the Legislative Leaders in a series of meetings in December. Each of those occasions confirmed the general wisdom of maintaining those requirements for any resolution that would be acceptable. The situation is critical. The schools are practically without resource...without dollars and money. Problems facing it are enormous, and yet we need to act on complex and difficult issues. We have therefore put together an emergency package which will provide for stabilization will keep the schools open. It introduces control to assure that the resources that are there will be used properly. And it begins to introduce the kind of management requirements that have been sorely needed. It sets, in other words, the stage for us to determine what went wrong and what really needs to be done in the long run to assure that it doesn't happen again, and to assure that education in the Chicago public schools can be maintained at a responsible and effective level. Most importantly, this package puts most of the burden on the community which is responsible for the schools. 94% of the funds involved in this package come from Chicago and ^{the} Chicago community. Only 6% of the funds are state dollars and those dollars are investment dollars. Those are dollars which are simply being lent against existing state aid appropriations. There are no new state dollars in this package. Finally, this package is ready for action now. It is ready for action now because the schools have already used up the first phase. The package includes 3 steps, Phase I which provides \$150,000,000 for immediate need. Phase II which is an interim step while the longer more lasting element of this package is being tested in the schools.



in the courts. It provides for \$225,000,000 of borrowing to keep the schools open. Phase III, which we are asking you to enact at this time, introduces a controlled authority which will begin to have a bottom line budget control over the School Board and its expenditures as soon as it is signed into a law. And it will also be created with the power to provide for \$500,000,000 worth of long term borrowing to enable the schools to complete most of this school year and meet their basic obligations and also begin to reduce the cost that must be reduced if they are to settle their affairs and begin on the road to recovery. This package is complex. It is being brought to you in a time frame that is not of our choosing. The crisis was not one that we were aware of or control...in control of. It came to the state. We have been dealing with it, trying to resolve it. The time factor is something that was determined by the depth of the crisis and the difficulty of the problem. We will attempt in the testimony that follows to outline the proposal, to describe why we believe it is a sound and responsible step, and to answer any questions you might have as we proceed. If you will, each of the witnesses will speak briefly to you, and then at the end of the series of presentations, we will attempt to answer your questions. The next speaker will be Mr. Julian D'Esposito, General Counsel to the Governor who has over the last few days been chairing a Committee to draft the legislation which you have before you."

Speaker Schneider: "Mr. D'Esposito. We have with us right over the podium the State Treasurer of Illinois, Mr. Jerry Cosentino in the audience. I know Jerry worked hard on this solution."

D'Esposito: "Mr. Speaker, Ladies and Gentlemen of the House, my name is Julian D'Esposito, and I'm Counsel to Governor Thompson. What I would like to do is briefly



with your permission, go through the Bills that you have on your desks. There are 2 separate Bills which will be before you, House Bill 1264 and House Bill 1910. These Bills are being used for different purposes. House Bill 1264 will contain the financing...long term financing in controlled portions relating to the Chicago Board of Education. House Bill 1910 will contain what we have affectionately referred to as the 'bridge financing' which will get us through the time of the court test in conjunction with House Bill 1264. Let me begin with House Bill 1264. There are 2 separate things which are critical to this Bill and a number of Amendments to the basic education...to the basic School Code made to conform to that portion. If you look...on page 23, a new article is added to the School Code called the School Finance Authority which is a Body politic incorporated unit of local government in special districts having 5 Members, 2 appointed by the Governor, 2 by the Mayor, a Chairman appointed by both for a 3 year term staggered. They receive no compensation and there are no qualifications for office other than the Constitutional requirements. After its definitional Section on...and...on page 27, you find the general powers which this authority is given. By the legislation, those powers are typical for special districts, powers such as those to sue and be sued, provides for its organization and internal management, make and execute contracts, etcetera. On page 29, the provisions relating to the Board of Directors are set out to terms at the bottom of that page. On page 30, Section 303 establishes provisions concerning conflict of interest which essentially requires that a Director disclose and abstain from voting if there is any conflict of interest which do not require...do not prohibit him from continuing to hold office which is current law under the Corrupt Practices Act. On page



31, Section 305, permits other agencies of the state, units of local government, and school districts to enter into cooperative agreement with this district with this authority to share personnel and other kinds of services which we think may be used in at least the start up of this particular authority. This authority will be subject to the law of respect...with respect to open meetings. On page 32 is the heart of this Bill. It begins the heart of the Bill. The Section numbered 400 provides the essential control functions which we believe are necessary to bring fiscal responsibility to the Chicago Board of Education. This is accomplished by requiring that the Board develops and submits for the approval of the authority financial plans and budgets which are calculated to bring the Board's budget into balance in its fiscal year 1982. By March 1 of this year, the School Board must present to the finance authority a financial plan covering the balance of this fiscal year and...say succeeding 2 years. The Board then must report...must report to the General Assembly on the status of that by April 1 of this year. A budget for the remainder of this fiscal year must be presented by the School Board to the finance authority by February 1 of this year, and the report of the con...of the finance authority to this Body will contain its analysis of that as well. One particular point needs to be made about the power of the authority with respect to both the budget and the financial plan. The authority does not have power to do anything other than reject the entire plan or budget with the exception of the revenue estimate. With respect to the revenue estimate, the authority is given the power to make its own. It may not, in other events, dip into the budget or the financial plan and say this particular element is unrealistic and must be changed. It may point out



things and provide information to the Board and to the public, but it does not have the legal authority to require the School Board to make specific changes. That is the responsibility and will remain the responsibility of the schools to provide for education in the City of Chicago. The role of the Control Board, the finance authority is to see that that mission is accomplished within revenues available. Similarly with respect to contracts, a matter of which there might be some considerable debate, on page 36, the provisions with respect to contracts state that a contract may not be entered into by the School Board unless it is in compliance with the previously adopted financial plan and budget. The authority is also given a power to require that the School Board submit to it for its approval contract, not all contracts, but the contracts that it determines it needs to review. It may, in fact, disapprove of those contracts, but it may only do so under the standards at the bottom of page 36 Subparagraph D where it says that the authorities must approve the contract, if the information required to be submitted is complete, and the contract is consistent with the budget and financial plan in effect. I think it is important to emphasize that the authority does not have power to amend or reject, in part, any contract. The important words are in part. On page 37 there are some other typical provisions that one might find in a local government being established and some other control provisions such as the power to approve the chief financial officer of the Chicago School Board the authority to audit the Chicago School Board, the authority to obtain control over the cash accounts of the School Board. On page 38, the authority to direct reorganization of the financial management and information practices of the School Board. Section 38 contains...I'm sorry, on page 38, the



Section numbered 500, and following contain the power of the finance authority to engage in long term borrowing. This is the provision that provides for what has been referred to as Phase III of this plan that is before you. The Board is authorized to issue up to \$500,000,000 in general obligation bonds to be financed by a property tax upon property within the City of Chicago. As a matter of structure, what has occurred is that the power of the School Board to levy a property tax for operating purposes has been reduced from \$2.11 to \$1.61, and you will find that language on page 21. Conceptually what has occurred is that the 50¢ reduction in operating revenues...operating tax rates will be taken and levied by the Control Board or the finance authority to retire its debt service. Let me try, before the question period to make one thing more clear. The language with respect to the tax levy is absolute. If you look on page 40, the authority is authorized to demand and direct the City Counsel of the city to provide by ordinance for the levy and collection of a direct annual tax upon all taxable property located within the district sufficient to pay and discharge the principle. There is no statement specified in the law. That is a typical provision with respect to retirement of long term general obligation bonds. The practical limit upon the tax is the limit of the purpose of the tax which is the tax to retire the debt. If one sells \$500,000,000 worth of bonds, it will take approximately \$50,000,000 a year to retire those bonds. A 50¢ levy will produce sufficient revenue to pay the principle and interest as it comes due. That 50¢ levy is taken away from the operating purposes of the School Board and in effect is given to the control authority, although that is not so specified and it need not be specified because the limitation on the amount of debt that can be issued is an effective limit upon the tax rate. If you then turn to page 45, you



get into the additional miscellaneous sections requiring that the...meetings of the finance authority be open to the public and encourage public participation in the financial decision making which the finance authority is required to undertake...provisions... at the bottom are legal requiring the survival of rights of action against the authority after its abolition permitting the authority to indemnify its officers and directors. On page 47 there is a typical boiler plate language which insures that the obligations issued by the Control Board or the finance authority are not obligations of the State of Illinois, the City of Chicago, or the School Board, but are limited to the property taxes being levied to retire those obligations. I point out one more time that the purpose of this is to require the finance authority and the School Board to begin immediately the process of an investigation of the budget for the remainder of this fiscal year and to develop in conjunction with that a 3 year financial plan requiring a balanced budget in fiscal year 1982. The initial results of that action will be required to be presented to you by the Control Board on April 1 of this year. At that time, you will judge the consequences of the powers that you have given them and what needs to be done in the future, if anything. The second statute is House Bill 1910. An Amendment will be offered to that Bill which will add a new Article to the School Code Article 34B which permits the schools to remain in operation pending the issuance of the long term bonds. This is necessary because we anticipate that a court test will be required to uphold the validity of this new governmental Body and its long term bonding power. The School Board needs cash to operate, and what in effect has been done is that the current short term borrowing power of the School Board



which they attempted to issue in November of the past Calendar year, and we are unable to do so because of the drop in their credit rating, will be transferred to the City of Chicago. The City of Chicago will sell up to \$225,000,000 worth of notes which will be financed by the same property tax levy that the School Board would have utilized to finance its short term borrowing in November. The purpose of this is to provide access to the market for short term borrowing to continue the operations of the School Board. As additional security to insure that these notes are purchased in the market, the note holders will be given the opportunity, if there are not sufficient funds available, to offset against state aid due in owing the City of Chicago...the City of Chicago School Board. They will do so by sending a notice to the Treasurer who in turn...the Comptroller who in turn will pay so much of school aid as is due in owing to the trustee for the bond holders so that there is this additional security. Lastly, the Control Board will be financed by a diversion of a portion of state aid payable to the Chicago School Board in an amount equal to the budget adopted by the Control Board. The language for that is found on page 17. The purpose of that is to provide financing for this new authority for its operations only. The...new authority will also have its operations subjected to an audit by the Auditor General. That is a basic outline of each statute, and I will be available later to answer the questions which I'm sure you have. Thank you."

Speaker Pierce: "I believe Mr...Dr. Robert Mandeville, Director of the Bureau of the Budget, is the next witness. Dr. Mandeville. Did I hear some boos?"

Mandeville: "Thank you for the opportunity to address this august Body. My comments are going to be limited to



the financial aspects of this settlement. I think it is a good settlement financially for the Chicago School Board. From the aspect of the state, it is an excellent settlement. The state is not at risk in this settlement in any way. In Phase I, the State Treasurer has an alternate investment decision, has purchased \$50,000,000 pledged by future state aid payments that would otherwise go to the School Board, will now go to the state. It is a self liquidating investment on the part of the state and on the part of the City of Chicago relative to Phase I. The additional \$50,000,000 in Phase I is simply expediting payments to the School Board that otherwise would have gone there during the next month or so. Two things that the Governor committed to the rating services in New York were: 1) no state guarantee of any debt under this settlement, and 2) no new dollars to the School Board under this settlement. Both of those commitments have been fulfilled in the settlement. Phase II, \$225,000,000 will be loaned to the School Board by the City of Chicago, secured in the same way that any tax anticipation note any other school district uses is secured. That's the future stream of revenues from property taxes that they currently have the authority to levy. There is a unique feature in the Phase II, the interim financing. That's if a note holder chooses at any point after October 1 of 1980, they can come to the State Comptroller and ask that any payment otherwise owing to the Chicago School Board, that that portion which represents their equity in the note be paid to the note holder instead of the School Board. It is the same offset provision currently in the law that any state agency can use if an outside vendor owes the state money. We extend it for this issue only to the note holders of the \$225,000,000 interim financing. No state put, no state take out, no state



guarantee in Phase II. Phase III does not have the state involved at all. The control authority will issue up to \$500,000,000 in long term funding bonds. Some of those proceeds will be used to retire the short term debts... Some will be used for operating costs of the School Board. In summary, there is no state guarantee. The state is not at risk. The School Board and the city are pulling themselves out of this problem, and I think it is a good settlement for all concerns. Thank you."

Speaker Pierce: "Thank you, Dr. Mandeville. The next witness is our State Superintendent of Education, Dr. Joseph Cronin."

Cronin: "Thank you very much. I am going to address the question 'What is the impact on the Chicago Board of Education and also on downstate school districts and school boards. First of all, the legislation proposed is a tough flap at the Chicago Board of Education for allowing deficits to go on, and on, and on over a period of years and for now watching carefully enough the interfund transfers, conduct which is clearly specified in law. Now I believe that the remedies are tough, and yet appropriate. The establishment of an escrow account which appears in your legislation as a debt service fund, the establishment of a financial Control Board for a number of years which is not a Board of Education and does not replace their role in terms of making educational decisions and judgments or personnel decisions, but is an authority which will enforce and insist upon a balanced budget and which will curtail the borrowing needs of the Chicago school system. Borrowing needs so great in recent years that the total amount of interest paid is \$73,000,000 a year. Clearly excessive and very very close to the amount of the deficit that remains between revenues and expenditures this year. There



was also a very necessary provision for dedicating... existing a portion of the educational funds to pay back the notes of referative years, but the percentage that would be set aside amounts to less than 5% of the total budget, so it will not disable the school system from carrying on the necessary educational functions.

A second point, the Chicago Board of Education to make this plan work must make some economies, must take some stringent cost cutting measures, and I am sorely convinced that they will do it. I met today with the acting General Superintendent. She has proposals ready to go to the Chicago Board of Education for actions and decisions within the next week, reductions in staff, reduction in the number of school buildings, just like other school districts in the state have had to make. That is an important ingredient and commitment on their part. A third point, there is no negative impact on downstate school districts. Other school districts will get all the money appropriated for education. I have had a number of letters and phone calls saying, 'Will what's happened today mean a reduction or delay in school aid for our school district?'. The answer is no. They will be on time for the balance of this year. As a matter of fact, the other 1,011 school districts so far have benefited from the plight of Chicago in that the Governor had agreed to advance general school aid payments from 2 to 4 weeks on 2 occasions for the... in November, the payments for the month of December, and then in December, those payments which would ordinarily go to all the other school districts in the month of January. You could say that when Chicago sneezed, everybody on the state was given a free handkerchief or its equivalent. Truth is that other school districts have made money so far from the advancing of school aid payments. By the Peoria District Board...reported last week that they have made \$7,500 on interest on the



first payment alone. Other school districts, which at this time of year have borrowing requirements, where able to reduce the amount of borrowing that they were able to do, and unlike the Chicago schools, they were able to borrow. A fourth point, and that is this issue needs to be resolved quickly. I know that many of you would like to get to the bottom of this issue, perhaps engage in a study which might go 2 or 3 months. I still think that that is possible, but it should be in addition to acting on the fiscal emergency measures that are before you right now. It is absolutely vital that we take the kind of action that has been proposed. ~~The consequences of not so doing could~~ affect other school districts. For example, all school board notes are likely to cost more money if people looking at Illinois or Chicago school notes feel that in an emergency like this, action wasn't taken in a timely fashion, or all of those doing business with the schools, the vendors, may want to raise their bids in the future to have a little contingency factor in case payments are delayed, they work...the way they work in several months in Chicago. So we must take the prompt action to impose discipline that the school finance authority will bring to the Chicago Board of Education, its revenue projections, balancing of budgets, and establishing an orderly way of doing business in the future. I think we owe it to the vendors just as I think we owe it to the children to make sure we have properly organized financial structure in Chicago for the balance of this year and for the next several years. The other long term issue so study could go on simultaneously, but we do need this emergency legislation right now. Thank you very much."



Speaker Pierce: "Thank you, Dr. Cronin. Our next witness ...Representative Skinner...our next witness is Mr. John Perkins, President of the Continental Illinois National Bank and Trust Company of Chicago. And Representative Skinner has kindly agreed to give him up for a few minutes so the rest of us can hear from Mr. John Perkins."

John Perkins: "Thank you. I'm delighted to be here and have a chance to talk on this issue strictly from the financial side. I think I ought to say first that there is a crisis and it is urgent indeed. The Board of Education's bond rating dropped to double B which effectively put it out of the market. It has since dropped to double C which is next to the category of loss. It has no access to markets. The money is not there. There is no alternative way to get it and there's eventually a danger to the credit of all School Boards in the state and other government bodies, particularly around Chicago, if we can't get at this problem. I need to emphasize that the Phase I money that has been put up now, one and fifty million, will be gone by the end of this week...paying vendors and teachers what was owed them. And the Phase II money will keep the schools open only for a relatively short period of time pending the long-term resolution of the problem to the Phase III long-term funding operation. The Board of Education has had budget problems for a long time. It was moving toward a crisis, in terms of deficits, in last '75 and early '76. At that time the Board, the Superintendent and others got together...with others and developed a program to start to reverse the increasing budget deficits and turn the tide. That program indeed worked for a couple of years and there was a more favorable outlook. But ultimately, in the past



year, the basic trends have caught up again and hit us in spades and it's just impossible to beat. Inflationary costs have gone up steadily. The Board's revenues, on a tax basis, have been unchanged since 1971 and there has been no expansion of the tax base due to inflation for the particular problems of certain areas of Chicago. In addition to that, there have been a whole series of mandated and other programs, perhaps each fine in its place, but they have not been funded and not been financed. As a result, we have had a very fast pyramiding of a deficit to one hundred million dollars in the year ahead...or in this year we are in, more next year. We've lived with band-aids and in the process the reserved funds and the bond reserve funds and others and the working funds were all depleted and they are at zero. With no access to the money, all of this funds will do is provide some bridge until some first taxes come in, that will be very rapidly used in their operations. So there is no relief ahead without a long-term solution. The solution that has been developed, which I believe is a good, effective basis for a program, was done in six weeks of around the clock work by a number of people. The problem was to not just think of a short-term band-aid, which would only compound the problem, get us in deeper and deeper with no way out, but it was to achieve a program that had both a short-term solution and a long-term, day light way out to permanently stabilize the Board of Education's finances and permit the efforts to be concentrated on the educational process. We feel very strongly that the schools must be kept open. Public schools need to be paid with public funds. The teachers and the vendors must get their money and their debts must be met. And



this involves them...this basic three part program. We do have some special financial problems in this area that, perhaps are not often realized or often overlooked. For example, it's often said, 'Why don't the Chicago banks temporarily advance this or that money?' The fact is, that with the bond ratings they have now, it would be illegal, a criminal violation, a personal liability of a criminal nature to directors and officers if they made investments that were not of investment quality. These securities are in no way of investment quality now. It's just plain impossible for a financial institution, particularly regulated ones such as banks, to lend as it is. In addition to that, in the legal area where I would not like to go into it, but there are an enormous number of legal complications. When we finance in the corporate world we can do some things that are proper at the time that we can't do in the municipal area because of the particular legal and other constraints. The control of the currency in Washington and other federal regulators of the Securities and Exchange Commission are all looking in to this area. Secondly, which is not often realized when people say, 'Why don't the Chicago institutions do something?' This problem unfortunately has gotten so big that it cannot be handled except through getting access through the combined national financial markets throughout the United States. The amounts are too big for the local banks in addition to what they have in terms of paper now to handle legally, even if they could overlook the credit problems, which there's no way they can under the laws and the common law, as officers of the banks. We are pleased to join now though to support the program that has been developed. It is a coordinated



program that is presented for your consideration. It has a short-term solution. It has daylight in the long-term funding bonds so that we can then properly make investments and loans because we can see daylight and a way out of the kind of trouble we're in. There's still a massive job ahead to get it done in the markets. This law, though, will give us the tools to start doing the job. It's going to take some months to complete. I should say that the authority that is proposed is an absolute must, the key feature in the program. It is through that vehicle that we get the control and particularly from a financial standpoint, we get the needed credibility to make this paper attractive to institutions throughout the United States. There are also a number of technical features that Julian D'Esposito covered very briefly, such as the third party escrow payments to set off rights for the Comptroller and some of these other things. They may seem unduly cumbersome, they may seem a little complicated. I think I can assure you that they are necessary as part of putting a credible, total package together as part of developing paper that can be sold and sold throughout the country...and sold legally. So in conclusion, I would say this program is urgent. Urgent meaning right away, within the next few days. It is sound. It faces the issue that offers a long-run solution as well as short-term financing. It is complicated, true. But it does address the major problem of market credibility and the requirements to have paper that can be distributed nationally on a legal basis. We, in the Chicago banking community, pledge our continuing effort to work constantly and steadily to see that this job gets done for the benefit of all of our



people in Chicago and our students. Thank you."

Speaker Pierce: "Thank you, Mr. Perkins. The next witness is Mr. Eugene Keilein, Vice President of Lazard-Frores...not here, back to New York. President Catherine Rohter of Chicago Board of Education. She...she'll return. Mr. Jerome Van Gorkum, Chairman of the Board Trans-Union Corporation, Lincolnshire, Illinois...32th Legislative District, Huff-Darrow."

Van Gorkum: "Thank you. My name is Jerry Van Gorkum, and my position here is probably rather strange. I better give you a little background. I am the head of a company called Trans-Union Corporation which has a large number of employees in the City of Chicago. It is a very broadly diversified company scattered throughout the United States and other parts of the world. We do about \$900,000,000 worth a year, and we make about \$60,000,000. We have 14,000 employees. We are quite diversified. I was asked by the Mayor to come down to her office about 5 weeks ago. I thought she was going to talk to me about something else. I had never met her before, and she asked me if I would be willing to head up a Financial Oversight Committee with regards to the school situation in Chicago with which I was totally unfamiliar. I told her immediately I don't live in Chicago and she said that that didn't make any difference. They wanted somebody with my background. I happen to be a lawyer and a certified public accountant and I'm head of a company that I have run for some 17 years, and I said that I didn't know anything about it, but I would investigate. So I went to the auditors of the school system, Arthur Anderson and Company, and spent 2 days with them and discovered that the school system was indeed in an absolutely desperate situation. It was in very serious danger of closing. I could hardly believe what I learned, as a matter of fact.



So I told the Mayor that I would be glad to do so. On the other hand, it then developed, of course, that the Mayor had no real power over the School Board, and no power to give me...the Governor had no powers either, and so it was agreed that if ever an Oversight Committee of some type came into existence, they would probable both appoint me to serve as the Chairman. So I became so interested in the subject and was so concerned about the possibility of having 425...475,000 students in Chicago put out in the streets for perhaps months that I stayed with it even though I had no particular official position except my interest in maintaining the school system, and during the last 4 or 5 weeks I have talked endlessly with the state, with the city, with the banks, and with the School Board, and even with the union in attempt to get fully informed and to help work out a solution. And I have been involved in all of these problem Sessions. They have been endless. Last night we didn't finish drafting the Legislation that you are looking at until 4 c'clock this morning. There is an extreme emergency. There isn't any question about it, and to close the schools, of course, which some people have even suggested closing them for a while as one way to solve the problem would absolutley be tragic, not only in the sense that the children involved, but also it would have a definite impact in a very short time on the financing of the city and that would eventually impact the financing of the state. So the fact that I have no children in the school, and never have had does not mean that I am not deeply concerned about it. Of course; I am deeply concerned about it just as a human being. That is my only relationship with the system, my only reason for consenting to take, if it is ever created, a position that would be exceedingly difficult and probably thankless. I



would like to add this new school...new authority that is being created is being created primarily because the school system has lost its borrowing power completely. It has no credibility in the financial world. To create this new authority was necessary only in order to create an entity that will have borrowing power which the school system has lost. The powers that will be given to this new authority under the legislation which you have before you are powers, frankly, which have not been dictated by me, but rather by the financial community. The bonds, the long term bonds have to be sold if we are to keep the school system alive. They can't be sold if the School Board name is on them. They can only be sold if there is a new name on the bonds, and that name represents fiscal integrity and the ability to pay the bonds back. And the legislation which you have permits this new authority to do that. They have 2 basic powers, one of which I have already alluded to, and that is to borrow about \$500,000,000 and to give that money to the School Board in order to do a lot of things. First of all, of course, they got into this position because they were unable to borrow. They had expected to borrow during this year \$260,000,000. That means they're \$260,000,000 short of funds that they expected to have in order to carry on the system. In addition to that, they had borrowed from some of the restricted funds the sum of approximately \$131,000,000. So you have \$390,000,000 in those 2 entities alone... those 2 factors. As a result, the \$400,000,000 is by no means too much in order to accomplish what must be done if the schools are to remain open. The second power given to the...this new authority is the authority to do whatever is necessary in order to make sure that the School Board in the future does not, again, spend more money than it has. That is the reason they



got into this problem in the beginning. It is a financial authority, and I must emphasize that. This new entity that is being created will not run the Chicago school system. I can't say that too loudly or too often. I've said it repeatedly and a lot of other people have, but I am continuously being asked questions which indicate that many people think we are going to run the school system. We are not. This new authority, this new Board of Directors that runs this authority will only be handling the financial aspects of the School Board and making sure that they live within their means. All the decisions with regards to programs will be the decisions of the School Board. It is only fair, I guess, to say that since we will be dictating the total amount of money that the School Board can spend, we will impact their programs, because in order to live within the amount of money that we will permit them to have, they will have to make some very difficult decisions with regard to the number of employees, what they do, and the programs that they can afford. So we really divided the School Boards function into 2 pieces. One is education and the other is finance. The education remains with the School Board, the financial power will reside in the new authority. And this authority, in doing what it is permitted to do under the statute, I emphasize, will only be doing what the School Board should be doing itself and should have been doing all along. There is nothing new being created here in that sense. One of the Senate Members complained, perhaps with cause, I'm not that familiar with it, that the school system is sick. And he meant by that that the school system, the education provided for it is not acceptable to a large number of the citizens of Chicago. If that is true, you should know that this new legislation and the new entity, the new authority being created will not solve that, will not make the system well in



that sense. But the choice here is not between a sick school system or a well school system, the choice right now is between a sick school system or no school system whatsoever. Therefore, this Bill in other words was intended to keep the school system alive. If it requires medical treatment in order to make it better, that can come in the future. But it cannot wait until the...this legislation can't wait until that happy day. I think that is all I have to say. Thank you very much."

Speaker Pierce: "I thank you very much. We have been...the Minority Leader has brought to my attention the fact that we haven't been as courteous at all times to these witnesses as we should be in a Committee of the Whole. I notice a lot of the noise is coming from the press over here and from different places, but we are getting conversations that I can hear up here. I can almost hear every word being said. Now I understand our State Treasurer, Jerome Cosentino, I've seen his back. ... He's been talking quite a bit on the floor, would like to say a few words. Treasurer Cosentino."

Cosentino: "Thank you, Representative Pierce, Ladies and Gentlemen. I didn't want to say anything, but there seemed to be some question as I was moving around the floor by some of the Members here in the House, and the question was whether I was going to roll over that \$50,000,000 loan to the Chicago School Board come April, May, or June. I want to assure you right now that I already made that public at a press conference over a month ago, and when I stated that if we made the loan to the Chicago School Board, it would only be until the end of this fiscal year which ends in...August. We have no plans, and I definitely am not going to roll over the \$50,000,000. The loan was made in an emergency basis,...on an emergency basis just to keep the schools going so that it could come to the Legislature to solve



their problems. I wanted you to know, and I want to promise you that I have to institute any roll over. And I tell you right now that it will not come from the Treasurer's office. We will not roll over the \$50,000,000 loan. Thank you."

Speaker Pierce: "Treasurer, we all appreciate your work in pioneering the spirit to get this agreement together. John S. Appel, Executive Director, Citizen School Committee is a proponent and wish to testify. Is Mr. Appel here? Alright, Pauline Pantsios, President Chicago League of Women Voters, a proponent. Written statement has been filed, Is Ms. Pantsios here? Alright, has President Rohter returned? We have some opponents here. I think we'll here from some opponents while we wait for Mrs. Rohter to testify...before we have questions. Mrs. Margaret Sullivan, President... Parents for Neighborhood Schools and taxpayers and mothers of public school children of 3246 West 66 Place, Chicago. Opponent of Oversight Committee, Mrs. Margaret Sullivan."

Sullivan: "Thank you...My name is Mrs. Margaret Sullivan. I reside in the City of Chicago. I am the wife of a Chicago police officer and the mother of 7 children. I don't have copies of my statement, so you will have to listen carefully to make sure you hear everything. I'm speaking to the Oversight Committee to be informed to overlook the Chicago Board of Education. My main concern with this Committee is that I do not want the Legislature to give this Committee the power of taxation. I realize, of course, if this power is given to them, the appointed people, this lets the Governor, Mayor, and Representatives off the hook, and the elected people can then say, 'We didn't raise your taxes...' Ho, ho. Any property tax increase should be put to a referendum vote. Many of you may be aware that the Chicago police pension fund helped



to bail out the Chicago public schools to the tune of \$15,000,000. I resent the fact that the teachers pension fund is not being touched to protect their own jobs. A good many of the Chicago public school teachers are suburbanites, and therefore will not be affected by a property tax increase in Chicago."

Speaker Pierce: "Let's give the Lady some attention there, especially in the first row. Treasurer Cosentino."

Sullivan: "I appreciate it. I am not used to speaking in the House of Representatives. I thought it was better than the Chicago Board of Education. I thought here you would pay attention. I in the Organization of Parents for Neighborhood Schools knew the Chicago Board of Education was in serious financial trouble for quite a few years. The Board Members should have known. The bankers should have known, and the auditors must have been playing tiddlywinks. Now everyone wants the overburdened taxpayer to play pick up the sticks. If you are setting out to correct the problem, remember, foresight is better than hindsight. Don't follow the Federal Legislators in creating another Frankenstein like H.E.W. We do not need more bureaucracy in this state. Checks and balances have to be applied to any Oversight Committee be informed. A definite time limit has to be established for this Committee's existence. And representation on this Committee by taxpaying parents who have children in the Chicago public schools should be guaranteed. There are many frills that can be cut from the Board's budget. Right now we have less than 480,000 children in Chicago public schools, and we have more than 48,000 employees. More than one employee for every 10 children. I believe the Chicago Board of Education is the state's number 1 employment agency. We have to get back to the basics in education.



Forget the innovative dreamers and the social planning nomad. The more money that is spent, the less educated the children become. I heard Dr. Cronin refer, in his statement, to many things...the Chicago Board of Education, but what he forgot to neglect to say was that the mandated programs that come down from Superintendent Cronin and the State Board of Education are not financed by the State Board of Education or the state. They come out of the city's funds. I, as a taxpayer, resent this. I would like to read one little paragraph with access to excellence which...of September 12, 1979. 'Excess to excellence'...has the qualities supposedly to strengthen the city. We see how the city has been strengthened by this program. In its first year, I am quoting out of the book here, I am reading out of the book, 'The Board spent 15.1 million to implement desegregation programs.' The same amount of money that my Police Pension Fund had to come up with.' My husband's money and my children's money. 'Most of this money came from local funds.' That's why we don't have school text books, and papers, and pencils in our schools. It says, 'Neither the state nor federal government provided financial assistance for desegregation. This expenditure...' I would like you to listen to this line. 'This expenditure demonstrates the Board's commitment to desegregation. A commitment underscored by the fact that the Board provided these funds in the face of a severe deficit.' Now, I want to know where the bankers and the auditors were then. I won't pay a tax increase."

Speaker Pierce: "I thank you, Mrs. Sullivan. We don't have demonstrations on the floor even by the Members. Representative Skinner...is the...is the only exemption from that. Betty Bonow, Education Chairperson, Parkview Civic Association,...of Chicago."



Bonow: "I am Betty Bonow, Education Chairman for the Parkview Civic Association. I have been involved with the problems of education, desegregation, budgets, and everything, going into my 18th year on a voluntary basis. I don't even qualify for a pension. I am a product of the public school system, my children are, and now my grandchildren, so I do have investments in here. I'm sorry that Springfield is not so close to Chicago so that we could have better input in what's going on in our schools, because what happens down here does make a difference in our schools. I began my presentation on the train. As taxpayers, homeowners, and parents of children in public schools, we're deeply involved and concerned with the educational program of our children as well as the financial obligation incurred by this undertaking. The major point of concern I wish to stress is that of overspending. Overspending, not lack of funds, put Chicago on the edge of bankruptcy. Along with the Chicago Board of Education, deficit spending practices begun in the 1960's despite public objection and protest. Perhaps if we have more accountability, we wouldn't be in the bind that we are in now. A full public disclosure of how and why our budget has depleted must be made. And we wish, people such as myself, wish to cooperate with the special House-Senate Investigating Committee in sighting specifics, specific policies and practices which adversely affected the quality of education as well as the cost factors in problems we are facing. Another point of..."

Speaker Pierce: "Let's give the Lady some order here. It is a little noisy."

Bonow: "Another consideration...another point of concern rather is that of taxation. Any consideration of increasing our property tax, we want put on a referendum vote. In Chicago, this is the only voice we, parents and



taxpayers have. You must remember the Board's budget reflects their philosophy and policy. These are appointed Board Members. Appointed Board Members are not accountable to the people. They have a free hand to do as they please which brings me to the point of this new authority. To whom will the newly created financial authority or the Oversight Committee, whatever you want to call it, be ha...held accountable to? The so-called 'buck must stop someplace.' You can retain a veto, a bottomline, something some vehicle...it has to be established. And we feel it is proper and fitting that the responsibility should lie here in the General Assembly to protect the voter's interest. This new authority has been publicized in the various media as a temporary vehicle to guide its dissolvency. But instead of the 3 to 5 years projected in scanning the Amendment, we see the term 30 years. So if we are going to engage...a service or whatever the authority would be, we have to keep our checks and balances that we are guaranteed under the Democratic process. Other problems loom in Chicago's horizon. We have to contend with the Health...Education Department, the Justice Department, the office of civil rights, as you probaly know they are going to be coming in. Where is the money going to come for the busses in case they do mandate? Is this going to come from the proposed taxes you are going to increase supposedly for bailing us out now? These are the problems...serious honest concerns that we have. We want to know since the budget is the philos... reflects the philosophy of the Board, are you going to continue a social program and cut out the meat of our education program? It is easy for you to say 'We're going to have sex education. We're going to have environmental education. We're going to have... all kinds of programs that are mandated, actually mandated,



but you don't mandate 12 years of English, 2 years of... It gets down to the line of work, right? The meat of our educational program will be sacrificed for social programs and bussing, and we have no one to turn to but you, and you aren't even listening to us. Help us. We agree, we think this temporary Committee coming over with financiers who know and deal with figures every single day is necessary. But I want to know who's side of the fence they are on? If they are holding federal deposits, are they going to be answerable to the federal government. Don't let us get screwed. Help us. It's no fun. You send your kid, and you don't know if he's going to come home or not, or he's going to be put on a bus, and then you find out that you are going to get your taxes increased. Care about us. We voted you in, damn it, we'll vote you out. But we need help, and don't throw us down the river now when we need you most."

Speaker Pierce: "Thank you, Betty Bonow, opponent of the Bills. Patricia Ryan, voter-taxpayer-parent of Chicago public school students, and a taxpayer. Patricia Ryan, 30 West 64th Place, Chicago."

Ryan: "I am speaking as a voting resident, a taxpayer, a parent of the Chicago public student, a mother of 4 children, and a wife of a policeman. I cannot stand silently by while a non-elected, possibly non-resident Committee gets taxing powers over Chicago residents. This is taxation without representation, and everyone knows what's happened before. Every person sitting in this room knows how a governmental Body of this sort created for a specific service grows and grows and clings and clings. Look at H.E.W. An Oversight Committee can be comprised of responsible, local citizens interested and informed parents of Chicago public school students have been excluded from any and all control over our school system for far too long.



This entire Amendment is being unnecessarily pushed through too quickly for any of us in this room to give our full attention to all side issues and ramifications of what is happening here. Where is the statute of limitations that should be written in? Where will this Committee meet? How often will this Committee meet? Will there be public participation meetings? Ladies and Gentlemen, think about what is happening here. Our Chicago school children are a very important part of our state's future. Do not sell them short. They deserve your best."

Speaker Pierce: "Thank you very much. Our next witness is

Mrs. Francine Fatima, West 66th Place, John F. Eberhart PTA President..."

Fatima: "Excuse me... I am Mrs. Francine Fatima. I reside in Chicago. I am the wife of a Chicago police officer, and I have 4 children in the Chicago public schools. One thing that has gotten us to where we are are the threats that we have received from the State Board of Education as well as from H.E.W. and a couple of Chicago school boards. In the Sun Times on January 6, 1980, Governor Thompson asked...he was asked the question if the tax increase for Chicago was inevitable, and the Governor asserted, quote, 'I hope not, but I don't know. It depends on what cuts are made, how deep they are, and on the last analysis what the people of Chicago want for their educational system.' He emphasized, however, that cuts, severe cuts must be made on this plan or it will...it will fail. I totally agree with the idea of severe cuts for the Board of Education, and I do not see any at this writing. I reiterate, I am a Chicago resident. A basic education is a must for the children in Chicago. We are being hit on every side, from within because of policies of the Board of Education, and from without because of pressures on the Board of Education to



become the newest model of innovated education and integration, but really the model we've become is one of financial decay. Numerous such clay models of public education are crumbling across the nation. But realize, 40% of a Chicagoans property tax bill is allotted for the Board of Education. Perhaps this is a lesser amount than the tax rate for some suburban or rural areas, but then to keep in mind, the Board of Education applies for federal aid, and actually federal aid is 13% of the 1.4 billion dollar budget. The amount reserved in our tax bills for the schools should have been enough and should still be enough. You see, there is no growth in Chicago, in our school enrollment. We are losing population with whites flight to suburbia, and we have numerous school facilities already built. The frills are what must go, and if they do, the taxpayers burdens will ease. Perhaps it is hard to believe that a resident of Chicago can feel powerless, but believe me, we feel so. And I mean the taxpaying voter. And therefore, we want the power of referendums that many other school districts in the state have where increased taxes are being sought. I definitely go along with the lid on property taxes as well. The school finance authority, Control Board, Oversight Committee, whatever it is presently being called, must be under the control and scrutiny of this Legislature and should be a very short lived one with a very short term, and I see no termination date in the Bill. I personally feel that you are creating a layer of fat which will perpetuate itself. If this new school finance authority would have the control to insist on a balanced school budget, that is one thing. But, our School Board should already be balanced according to Illinois statute. Do allow us voters the rights to decide whether more of the hard earned money should be spent for Chicago public schools. It has



been practiced to tighten the belt in our home, and that should go for the schools. To me what should have occurred in Chicago's fiscal mess, and remember, I am a mother of 4 children in the Chicago public schools, is that schools should have been closed a month so the dust could have settled. As of now, there are still no guarantees from that School Board that their priority will be a sound education for the children over a frill filled one. If you've seen the cuts the Board is going to make, I sure wish you'd share them with me. I am at that Board every 2 weeks, and they aren't saying anything. So far the bail out has been a hardship on the policemen whose pension has been used whereas the public school employees have made no commitment for a bail out except a token half million dollars from their union. That in itself is inequitable. I would have hoped you would demand up front a clear concise picture of the cuts being made so that I could feel my taxes won't continue to be abused or increased due to the Board of Education's folly. I've come before you from Chicago to make it clear that even though Chicago schools are in a mess, there are numerous... of us who have pleaded for fiscal responsibility. And since we were not listened to, the ship is sinking. You will make a decision, not a hasty one I hope, to bail it out. Just make sure that tax burden isn't on us. Make that School Board shape up and cut itself down to size. Thank you."

Speaker Pierce: "Thank you. We have about 4 more witnesses and then we will have our questions so you'll know our schedule. Have I called Sharon DeBella, Chicago Law and Civic Association? No. You're on now. Sharon DeBella, West 63 Place, Chicago Law and Civic Association. A parent and taxpayer."

DeBella: "Ladies and Gentlemen, my name is Mrs. Sharon

DeBella. I live in Chicago. I am a taxpayer, but



most of all, I am a parent. I am concerned about my children's education. Now that the Chicago Board of Education has gotten in so much debt...but the worst part of this is that this is our money. Our children are being deprived of the basic education that they are desperately in need of. Instead, the Chicago Board of Education has become professional babysitters, cooks, and transportation personnel. They have invested our money in programs that are not essential to the needs of our children to be able to survive in this world which we have made. The School Board has started programs only to satisfy different pressure groups under the cover up word, education. If Chicago schools didn't have the money, then it is time for them to stop wasting it on free schools, free breakfasts and lunches, and bussing. The parent has to take on some responsibility for their children and stop expecting the homeowners to foot the bill. I don't expect to be paying the rest of my life for people who are too lazy to get up out of bed to feed their children or to give them the love and security they need in the pre-school years. The Board's only responsibility is to educate our children between the ages of 6 and 17, and I see that...each...and see that each group...school has the proper books, teachers, and equipment. This will take up most of their time. I, as a taxpayer and a mother, resent the fact that my taxes are being wasted... and a good possibility of our tax increase to further the whims of a few pressure groups. Thank you."

Speaker Pierce: "Thank you, we have about 3 or 4 more witnesses and then we will be to the questions.

Patricia Dunagan, Park Manor Neighbors, of 7318 King Drive. She's an opponent. Reverend George Riddick, Staff Vice President of the Operation Push, East 50th Street, Chicago. Reverend Riddick. Reverend George Riddick."



Riddick: "Thank you, Mr. Chairman, Members of this House.

We want to express appreciation for the opportunity to share our views with you this evening. In a precipitous and ill-considered rush to judgment, the Board of Education of the City of Chicago has been advised to prepare itself for an act of surrender of its controls to a Financial Oversight Committee constructed in large measures to meet the demands of the banking and lending institutions of the City of Chicago and of the nation. The educational needs and interests of nearly 500,000 children and their parents, 80% of whom are black and brown, is being subordinated to the concerns of financial and business interests that have their investments so that their investments will be able to prove safe for the next several years. The education and the children of the public schools of one of the largest systems in the nation is being placed in hostage to those who know very little about the needs, and apart from their investments representing loans at 70% of the prime rate for notes which normally sell at 50% of prime, care very little about the outcome. Operation Push opposes this financial package or bail out plan. The children of Chicago and their parents are being made scapegoats for a system that has been plunged into financial catastrophe by 40 or more years of mismanagement and racial politics. The Chicago Lawyer, a publication of the Chicago Council of Lawyers observed that since 1960, the Board of Education has built more than 140 schools costing the taxpayers some \$400,000,000. It is also estimated that since the 1954 Supreme Court decision, the Board when interest and other costs are calculated, quite likely spent in excess of 1 billion dollars to sustain a dual system of education, one for blacks and browns, and one for whites. Among other things this Legislature should know, is that 104 elementary schools were built, 81, or 78% of



were 90 or more percent black when they opened. Nine were segregated for whites, 3 were majority Hispanic, only 9 of the schools in this grouping could be considered in any sense racially integrated. Of 10 upper grade centers and middle schools, 7 were 100% blacks from the day they opened, and 2 more were segregated Hispanic. On the southwest side of the City of Chicago, there are 14 schools with space for 1,000 or more pupils, but blacks are being bussed eastward to other black schools to prevent them from utilizing that space or occupancy of those eastern empty seats. On the northwest quadron, near Austin, the estimated amount of space is nearly 3,500 seats, but black children are being crammed into crowded rental properties to avoid their appearance on lily white islands. This area, namely Austin, reported the second highest drop out rate of any in the city during the mid-1970's. The Englewood and West Englewood areas, which provide the pupils for southwest sides 'Roster, Earl, and O'Tool' complexes also reported exceedingly high drop out rates. Schools built to replace the desperately overcrowded facilities that house black pupils have an estimated cost of nearly \$8,000,000. When a count is taken of the schools in the northwest quadron, and when the 'Walters' and Near North Career Vocational High Schools or the new 'Coolie' which is equally as segregated and impacted as the old 'Coolie' High at a cost of 7.5 million dollars for it alone, the costs run over \$20,000,000 just for these isolated schools. The policy of building small, impacted, and deliberately underprojected for school pupil attendance population is to contain blacks represents a reason for the financial fiasco enveloping the Board of Education, and we need to discuss this matter. The proposed Control Board structure has all of the skeletal trappings of the New York Municipal



Assistant Corporation, affectionately called 'Big Mac'. The brain child of Felix 'Rohrton' and 'Lasard Ferris', and we are told that the same firm is advising the Governor and Mayor on what is appropriate in the City of Chicago. I would remind you that some 75 schools were closed in the City of New York and over 14,000 teachers were dismissed. But the larger result was to be found in a 45% drop out rate in New York City. Dr. 'Koruso' has tentatively announced cuts extending to the closing of 35 or more schools and amounting to \$94,000,000. Thus, the \$60,000,000 figure that has been batted around at present, must be assessed against an additional 34,000,000 which would be the budgetary deficit should the 60,000,000 be breeched. But what is even more interesting is that for 1981, we learn of \$104,000,000 to \$106,000,000 in cuts that need to be made. Let me just sight the example again of New York, for now New York City wants cuts of 3,000 additional teachers, 45 additional schools at a cost cut of \$114,000,000. When does all of this end, Ladies and Gentlemen of the House? The Board is being forced to submit balanced budgets by reasons of turns of the agreement involving the Control Board, and so the 60,000,000 again in cuts is not representative of what the final bottom line of cuts will be. First we must ask to whom is this Financial Oversight Board or Committee accountable? If it is to be given legitimation by the empowerment of this State Legislature and the City Council of the City of Chicago, are not citizens entitled to know to whom it reports? And what it is required to report? Secondly, who will serve on this Financial Oversight Committee, alias now Financial Authority? Other than persons from the financial community, will there be any public representatives, and if so, will those public representatives equitably represent those who are now providing



the most important resource for the schools? That is those who provide 80% of the children of the public schools of the City of Chicago. Third, when will the public be granted full disclosure with respect to the complicity of the financial community in the Board's current imbroglio. Fourth, but even prior to these questions is the issue of the structure of the Committee itself. Let us remind you that Mr. James 'Rue', Vice President of 'Merrill Lynch' stated that the preference is for a small Committee with uneven number of Members, perhaps as small as 5 persons with staggered terms. The Committee would be in power to compel the Board to establish and maintain a balanced budget. The Board would be required to submit its budget to the Financial Oversight Committee before acting on it. The Board would submit quarterly modifications based upon its assessment of revenue prospects, and the Board would be required to submit monthly expenditures and revenue statements quote 'In a form acceptable to the financial community.'. The Financial Oversight Committee or Authority is in power to approve or disapprove all borrowing undertaken by the Board and to approve or disapprove any labor contracts or contract modifications. It can approve or disapprove any contracts with vendors also that exceed \$25,000. Ladies and Gentlemen, I suggest to you that this is surrender of the powers of the Board of Education. That it is surrender of their ability to significantly determine the direction of education in the city or of educational planning. That it means, in fact, that the Board of Education is reduced to nothing more than a day to day advisory council making periodic reports about its stewardship. As it is evident that some monitoring structure will be empowered, Operation Push contends that the proposals of the black publicly elected officials



and Legislators represent its position. The structure must be limited in powers and should have a definite time limit on its existence. The structure should be required to help raise revenue, and it should be compelled to live by a ceiling on all curtailments and cuts in services that it would make to school children. Push joins those officials in insisting upon built in public accountability within the structure and equitable representation of blacks and browns and other minorities on the structure or authority itself. We seriously question the imposition of a chancellor for the school system, but if the larger... model of New York is any guide, the Deputy Director of Big Mac, you'll remember, took over the position of chancellor in the City of New York. For us this is nothing short of tyranny. We therefore call upon you to reject all punitive measures designed to make Chicago's citizens and their children pay through the nose. Rather we urge this Body to conduct a very thorough investigation of all of the transactions and events that have taken place and to forthwith assess the results of those events caused by action, engineered by past and present Board Members. Not all of them, to be sure, but certainly the current President and Vice President should be subject to scrutinization over their roles, and so also should the past superintendent, Superintendent 'Hanan'. Another matter deserving much scrutiny concerns the failure of the Cook County Assessor's Office to collect taxes due to Cook County. Particularly the corporate personal property tax. This past year, a report of the Civic Federation discloses that some 239,000,000 in taxes has gone uncollected. And over the past decade at least 1.3 billion dollars has remained uncollected. Let me repeat that. And over the past decade, at least 1.3 billion dollars in taxes have remained uncollected. This represents



negligence of the highest order. Nor should we ignore the Board's present 'lease' rental arrangements with occupants, in many instances of prime loot properties and other properties in the City of Chicago. The fact for example, that the Board recently sold a prime piece of loot property to First Federal Savings and Loan for half of its market value...needs to be scrutinized. Or that some loot...lease rentals are as low as \$25,000 for establishments as large as Carson, Pirie, and Scott. Or for example that one firm holds management of 3 Board properties, none of which have rentals of more than \$43,000. We want to thank you for this opportunity. We urge you to think children, but to think all children in the public schools, to think all citizens in the City of Chicago. For if we confine the City of Chicago to nothing, the State of Illinois will be threatened also. Thank you very much."

Speaker Pierce: "Thank you. Our last witness before...unless Mrs. Rohter returns is also an opponent, Dr. John R. Porter, Pastor Christ United Methodist Church and Spokeman for the Black Education Coalition. Dr. Porter."

Porter: "Mr. President, Members of this fine State House, it is a privilege to address you and I would like to call your attention to the fact that the State of Illinois and the County of Cook has many citizens like yourselves who are willing to pay any price and make any sacrifice to make our state and our cities what they ought to be. I have with me as the chosen... one of the spokesman...spokespersons...a busload of folk in your gallery who have gone without food since this morning. And I think...I don't know how you do this...these folks are hungry, and they are anxious to eat. I simply want to give them a round of applause for not only being good citizens, but for staying so long. We, the Representatives of organization, groups, and agencies which cover and reflect the



broadest spectrum of black community life presents the case and the cause of our grievances to the Executive and Legislative Body of the State of Illinois and to the public in general. The occasion of our grievances, our outrage, our moral and righteous indignations is one of immense and farreaching proportions, where inas much as the Governor of our state has engaged on negotiation and has arrived at an apparent solution of the crisis of the public schools in the City of Chicago outside of the usual and Democratic limits of due process which are provided by the Constitution of the State of Illinois and by the Constitution of the United States of America as well. We do proclaim that all executive and legislative procedures on what we determine as the Springfield plan for the Chicago public school system are illegal and should be held in obedience until due, fair and just processes are re-established. We strongly urge all elected Legislators to refrain from participation in all measures which are currently in process to push this plan for financial remedy for Chicago's public schools. We strongly beseech all elected Legislators to cease and desist in all conference and deliberations to hastily approve and pass into law such Bills which have obviously circumvented and bypassed normal and Democratic procedures. We strongly entreat upon the legal and moral consciousness of all elected Legislators for full and open submission of all Bills and all proposals to the proper channels Committee study and appraisal in both the State Senate and the State House of Representatives, whereby the voting communities which are most affected by such precipitous action can lend decent, consent, and recommendations in terms with the final outcome. To do otherwise, my friends, is tantamount to



dicatorial conspiracy on the part of the governing Body of both the state and the City of Chicago. Specifically, we address our grievances and our outrage to the Springfield plan for Chicago public schools from the premise of the following measures which have been forced upon us without adequate time for black elected officials to study and act upon them.

Number one, we opposed the composition and empowering of an Oversight Committee. For such a Committee becomes superordinate to and superimposed over existing structures of schools and school codes, further diminishing correct and smooth operations by the very definition and nature of such a superstructure. The financial mess of the current Chicago's school budget and fiscal arrangements is further compounded by the call for and hasty legitimizations of an Oversight Committee. It is our firm belief and our recommendation that the governing bodies of both the State of Illinois and the City of Chicago..."

Speaker Pierce: "Let's give the Gentleman some attention now. Proceed Reverend."

Porter: "...Can take the time to follow due processes and come up with a satisfactory arrangement that does not smack a political collusion with Wall Street and other high financiers. For perhaps both political and financial gains that may be more visible as time goes by for everyone involved, Governor, Mayor, Legislators, bankers. It would have been even more feasible to solve the current and the future problems of Chicago public schools to procedures that would include those Legislators and those citizens near our leadership who pay the taxes for governmental services and who are most affected. The crisis did not develop overnight. It should not be rushed to solutions overnight. Number 2, we oppose the fact that moneys will be raise which will cause taxation without



fair representation. Incorporated in this grievance is the fact that both the Governor and the Mayor appear strangely content to permit these funds to be raised. Hurriedly and state of panic on the one hand, and to be turned over to the same authorities who are responsible for gruff fiscal mismanagement on the other hand, and without the same manifestations of panic. For indeed, if taxpayers have to be taxed in order to generate the necessary revenue to repay loans, they should be consulted and be Democratically involved in the processes for such taxation. Veer the Legislators and possibly veer the right referendums to the voters. Number 3, we are opposed to any measure which will cause cuts in teachers and other staff personnel of Chicago schools vis-a-vis, these hasty measures to not only resolve the financial dilemma of the moment, but to apparently satisfy some already prepared tip on the back burner plans to either eliminate our general personnel and services in Chicago public schools under the smoke screen of this crisis. In other words, no direct services to children of Chicago public schools should be curtailed or eliminated until all financial and educational factors have been carefully examined. Equally, no further curtailment of personnel should come about until all federal, state, and local laws and codes have been examined and are legally executed. All state officials, the Governor, Legislature should call for a full investigation of Chicago's compliance to federal laws and guidelines which would provide more access to funds for Chicago schools. Inasmuch as over 60% of the Chicago school's population are black children. It was at one time conceivable and now clearly obvious that little emphasis is made on still existing patterns and programs of racial segregation and racial discrimination in the city. Number 4, we called for full investigation



of mismanagement of funds by the Chicago Board, but additionally, and in spite of the fact that such investigation has already been called for, we cast this request in the rim of reality that causes us to demand that at least 3/5ths, that is 60% of investigators be selected from the black community. This request is made in order to guarantee that full disclosure of management is made and at the interest of the majority of the Chicago school's population is represented and preserved. The results of this investigation shall then be made public. Number 5, we ask the Governor and the State Legislators to demand full public hearings on the Chicago school's financial crisis involving both the City of Chicago Legislators and the State of Illinois Legislators. In open confrontation with those officials, those employees most involved in the crisis which has brought everyone to the brink of disaster and to such high levels of stress. Arrangements for these hearings can be worked out by both Legislative Bodies and then be made public known as to time and place. And finally, it must be made abundantly clear that mobilization around this issue shall continue in black communities of Chicago until our grievances are heard, dealt with, and our outrageous rage. Black children will suffer even more as a result of what is taking place at this time. Black economic light, black social and phsycological stability is further impinged upon and further emanated by what is being done at this moment. Enough damage has already occurred and thus, if insensitive and self-serving politicians opt to further concern black children to the obscure side of history. It is mandatory on our part that we guarantee their places in the next century and ultimately their own places in the sun. Toward these ends, we live and work. We will take the case and the cause of our legitimate



grievances to the highest levels of review and justice in the country and in this world, for a world without fairness and justice for all is a world that endangers whatever fairness and justice in accords to a chosen few. Thus, as officers and leaders of the Black Education Coalition, we ask the Legislators for full consideration of measures that beseech and delineate these and all other privileges of liberty. Respectfully submitted by officers, leaders, members of the Black Education Coalition. I should like to read a partial list of those whom I speak for: Chicago Urban League, Chicago N.A.A.C.P., Operation Push, 'Kinwood-Oakland Community Organization', Black Administrator of Chicago schools, Black Educative Association, Black Business Association, Midwest Community Organization, Grand Boulevard Civic Organization, Westside Service League, 'Catanavolon' Community Organization, Parkmana Neighbors, Southend Community Association, Englewood Community Association, Black Women's Auxilary, Palmer Foundation, Second Ward Concerned Citizens, Third Ward Concerned Citizens, Association African Historians, ...to the Powers of Education, Black Teachers Action League, Chicago Assembly for Political Education, 24th Wards Concerned Citizens, ...Southwest Community Improvement Association, West Chathan League of Parents,..., and the many other organizations. Thank you."

Speaker Pierce: "Thank you very much, Dr. Our final witness is a proponent who is to testify in the Senate for the President of the Chicago...Board of Education, Dr... not a Dr, but Mrs. Catherine Rohter. Let's have some attention. The attention began to drift away lately. I know it's been a long day. Will you break it up in the aisles and give President Rohter your attention. Mrs. Catherine Rohter."

Rohter: "Mr. Chairman, Ladies and Gentlemen of the Senate...the



House, excuse me. I thought that everywhere today was the Senate, I'd been there so long. I am pleased to have the opportunity to appear before you today. I know that you've heard the provisions of the Bills, the other parts of the package that were put together in the mansion over the weekend..."

Speaker Pierce: "We can't hear...so we'll clear the aisles, stop the conversation, and the electrician will give Mrs. Rohter a little more power there."

Rohter: "I know that you are anxious to hear what the Chicago Board of Education is going to do for itself. You've heard what the other Members...what the other parties to the agreement made...in the Governor's mansion are going to do. We, of course, will be working with the Control Board cooperatively, and in a spirit of cooperation, will reach the cuts that are necessary for us to continue with an educational program in Chicago. It isn't a question of what programs any more. It is the question of will there be a program. We need immediate relief which is why this emergency legislation is before you. The \$140,000,000 that was put together will be expended by tomorrow if indeed we are able to get the last 25,000,000. That is in jeopardy right now, not because there's any renegeing on the agreement, but because the committment hasn't been turned into cash. We are in that kind of straight. The cuts that we will be considering are going to be painful. They are going to be serious. It is going to be very difficult for the people that will recommend them to us. We are going to make them. On Sunday afternoon I asked the Board Members to recognize that we will be looking for \$60,000,000 in cuts for this school year ending in August. For fiscal '81, it will be necessary for us to reduce another \$106,000,000 in order to operate within revenue. It is going to be a different kind of cutting than has ever happened before in the Chicago



public school system. Heretofore during my 9 years on the Board, there has been cuts charted out, but always at the end of the year there were more employees than when we started and the budget was higher. I pledge to you that the cuts this year will not be that kind of cut but they will be hard money cuts. We are operating at a tremendous deficit. You know that. I want to point out to you that we will be looking for other kinds of help that will not be monetary. We will be looking for help in asking you to review the mandated programs which are not fully funded, which are terribly expensive, and which the children of the City of Chicago must have in order to reach their potential. I specifically speak to the special education program, one of the costliest programs that we must deliver. Those children are least able to defend themselves. We need to have a better cash flow in the fiscal '80 budget. There is a provision for a debt retirement of \$72,000,000 and that is because of the cash flow problems that we have. The superintendent, the interim superintendent has been directed to make these cuts. I think the superintendent has the courage, and if you will, guts, to do it. This will be coming to the Board just as soon as I come back from here. We will affect the majority of those cuts on the first day of the new semester, January 28. I have been asked today in the Senate, 'Has there been any cutting since your financial crisis came to light?' And the answer to that question is yes. Absolutely no purchases have been made, contracts that were agreed to and not signed, and no services or materials received, have been rescinded. We will be looking at the kind of program that will be a base line program. That is what is required by code, what is necessary for accreditation in order to reach state aid. How much does that cost? When we have that figure, we will then see, either other dollars, what are the priorities, interface those



priorities into the base line program, and put those to affect as the dollars became available. It may be that the people of Illinois, City of Chicago, are going to have to make choices. If they want particular programs that are in place now that we can no longer continue, then we will have to look at whether the people want to increase the costs of education and fund those costs. I don't think that it is going to be easy. I think it is going to be difficult. There is going to be hue and a cry. There will be no sacred cows, and that is essentially where we are. I would ask you to look at the very light of public education in Chicago.

Without your help, it will surely die."

Speaker Pierce: "Thank you, President Rohter. We have completed our testimonies from opponents and proponents of the legislation, and now we approach the question period. The Gentleman from Will, Mr. Leinenweber."

Leinenweber: "A question for Mr. D'Esposito. Mr. D'Esposito I have a question for. D'Esposito."

Speaker Pierce: "Julian D'Esposito, Chief of Staff and Counsel to the Governor. Is he here?"

Leinenweber: "Well, is there anyone else familiar with the Bill?"

Speaker Pierce: "Art Quern, right? Okay, he's coming. He's out of breath from the second floor. Okay, the Gentleman from Will, Mr. Leinenweber had a question of you, Julian."

Leinenweber: "Mr. D'Esposito, I have a question on House Bill 1264 and page 19 is the provision that you did not cover in your explanation of the Bill, Section 34-37, a new paragraph which allows the abolition of the working cash funds. And Section 34-38 which allows the recreation of the working cash fund. For what purpose are these 2 provisions in the Bill?"

D'Esposito: "We have spent the last hour trying to get a... an explicit statement of this principle because we are



aware of the concern of the House."

Leinenweber: "I can give you the explicit statement of the principle because the School Board comes down every year and proposes the exact Bill, and every year we have defeated it overwhelmingly. No we didn't. As I understand it, and this was debated at length for the Bill that we had this past year, this would allow the abolition of the working cash fund...the transfer of the monies in that fund, which, as I understand, the Chicago system involves bonds totaling of approximately \$150,000,000 plus whatever they raised for their levy up to a nickel which presumable would be another \$5,000,000. And then there doesn't seem to be any reason why the Board could not, by resolution, turn right around after having abolished working cash funds and recreate it. That's what...I don't live in Chicago so it really doesn't make that much difference to me I guess other than I am afraid of the principle we are setting here that school boards in my area will be coming down here saying Chicago can have it, why can't we. And this would allow an annual creation and abolition of working cash funds which would involve certainly an annual new tax. The..."

D'Esposito: "The explanation that is given to us by the people who inserted this in the Bill, being the School Board and some of their advisors it that the...this will permit the collapsing of the fund itself into the education fund and will not impact the portions of that particular statute which permits the issuance of long term debts for working cash or the 5¢ tax levy."

Leinenweber: "Okay..."

D'Esposito: "That is their explanation..."

Leinenweber: "I can understand that..."

D'Esposito: "I may not...let me finish. I am not convinced of that, and we have asked them to come from whence they are to explain it to Mr. Schwartz and myself



because I am aware of the concern of the House on this point."

Leinenweber: "Well..."

D'Esposito: "And if, in fact, this is anything other than an ability to provide some accounting flexibility, it will come out."

Leinenweber: "Well, it would appear to me just so that the Members from Chicago who will have to face their constituents, it would appear to me what this would permit would be the collapsing certainly of the working cash fund which presumably means that the City of Chicago would no longer need the working cash fund. But then, if that is the case, then it doesn't seem to be any reason at all to permit a recreation of the working cash fund. One of the schools have also..."

D'Esposito: "It has also been represented by the...by one of the Representatives from the School Board, and he has not consulted with his clients, but it is conceivable that the recreation could be stricken."

Leinenweber: "Okay, either that...put something like a 7 year. I think that is what we exacted on 'Triton' College, a 7 year period that they would have to wait before they could recreate it. This would prevent that accounting flexibility as you referred to it. Anyhow, that will be reanalyzed in the Senate. Is that correct?"

D'Esposito: "Yes, this is one of the points that we have risked."

Leinenweber: "Okay, I had another question. That would be on page 27 lines 26... What is the reason for giving the authority the power to purchase real estate?"

D'Esposito: "The Section 201 are general powers typically given to special districts."

Leinenweber: "I don't see..."

D'Esposito: "One of which is typically the power to purchase real and personal property."



Leinenweber: "Why would..."

D'Esposito: "I...dubious that they would exercise that."

Leinenweber: "Well, I am more concerned with what their powers are. Would they then be in a position to go out and buy or build schools, buy land for schools?"

D'Esposito: "No."

Leinenweber: "Why wouldn't they if they are allowed to buy..."

D'Esposito: "They have no power to operate schools."

Leinenweber: "Well, they certainly could buy the real estate. It seems to me that's a power that..."

D'Esposito: "They may buy real estate for its purpose... for its purposes which is not to provide to schools."

Leinenweber: "Well, it is necessary or convenient for it purposes...that seems to me to be a power..."

D'Esposito: "This is not intended to create a building authority for the Chicago school system."

Leinenweber: "Another question I had, which I think has been I'm certain argued over in the Senate, that is elimination of the conflicts of interest. Is there anyone in mind that is going to be on this Board that would have a conflict...specific person, or is this... What is the reason for that?"

D'Esposito: "I am not privy to who is intended to be appointed to this Board by either of the appointers. The purpose of this is to...other than Mr. Van Gorkum whom you have met,...who himself has indicated that he does not have a conflict under this or the other..."

Leinenweber: "Well, what is the reason for eliminating..."

D'Esposito: "The purpose of this is to provide more flexibility than the Corrupt Practices Act currently does. The Corrupt Practices Act prohibits the person from serving if he has an interest. This would permit a person to abstain from voting and would not disqualify him from office. This is a standard that is typically found in other things. The Corrupt Practices Act happens to be more severe."



Leinenweber: "Are you aware of any specific Acts that permits the appointment of people to such a Board with the powers that this Board has that has a similar provision. Is there any other provision in law?"

D'Esposito: "I'm not aware in Illinois of any of any such provision. A similar provision does exist in the New York statute as I recall."

Leinenweber: "Alright, now I'm not sure I'm clear on these. The power to issue bonds...they may issue an amount not to exceed \$500,000,000. Is that correct?"

D'Esposito: "Yes."

Leinenweber: "Now is it contemplated that as these bonds are paid off, that the Board will continue to issue new bonds so that it would be \$500,000,000?"

D'Esposito: "No."

Leinenweber: "Is it within the power of the Board to continue to issue new bonds as they are paid off?"

D'Esposito: "No."

Leinenweber: "Where is that in the Bill? I..."

D'Esposito: "Its absence negatives that."

Leinenweber: "It sounds...well, in other words, they do not have the authority to issue no more than 500,000,000 and once they have reached that, then they may issue no more."

D'Esposito: "Other than refunding."

Leinenweber: "I'm not completely familiar with the bonds. What exactly is refunding?"

D'Esposito: "I'll let Mr. Schwartz do some talking."

Schwartz: "The easiest way to explain it I think is to give an example. If, for instance, they sell the \$500,000,000 this year and the market interest rates are relatively high say they have to pay 8 or 9%, in 4 or 5 years from now, if interest rates drop down to a more traditional historical level, they may be able to sell bonds at 5 or 6%, they would then pay off all the... They would call all the existing bonds, pay them off,



and have a \$500,000,000 bond issuance at lower interest rate...saving money."

Leinenweber: "They could not...they could not buy more than it would be necessary to pay off..."

Schwartz: "No, they could not. They could only..."

Leinenweber: "Would that possibly...well, okay. For my information, it is not in here, but it refers to another Act, the maximum rate of interest on the bonds to be issued is apparently governed by another Act, an Act to authorize public corporations to issue bonds and other evidence of indebtedness. What is the maximum rate under that Act, which apparently is here by reference?"

Schwartz: "I think we just did that last fall when we were restructuring a variety of borrowing mechanisms with the abolition of the personal property replacement tax, and I think the most recent change is the higher of 9% or 70% of the prime rate of the largest commercial bank in Illinois."

Leinenweber: "Alright, on page 42, the authority is authorized to issue renewal notes. What exactly is that?"

Schwartz: "What page is that again?"

Leinenweber: "Page 42, line 34 and 35 of...first 2 words on 43."

Schwartz: "In case the interest rates are so high that they deem it unfeasible to have a long term borrowing to start with, they can issue bond anticipation notes under paragraph C. In fact this whole Section 34A-506 deals with bond anticipation notes. As the bond anticipation notes come do it, they still think that they are doing better to have a very short term note until they finally make their long term notes, they can renew the bond anticipation notes again for a short term."

Leinenweber: "In other words, they can roll over the anticipation, but they can't roll the bonds. Is that correct?"



Schwartz: "It is the bond anticipation notes that they are rolling over because they don't think that it is... that is it...it makes good economic sense to... the only option of..."

Leinenweber: "That is the only obligation that could be rolled over."

Scwartz: "That is correct."

Leinenweber: "Thank you."

Speaker Pierce: "The Gentleman from Cook, Mr. Huff."

Huff: "Thank you, Mr. Speaker. I have a question I think would be more appropriately addressed to Mr. Van Gorkum if he is here."

Speaker Pierce: "Mr. Van Gorkum."

Huff: "Yes."

Speaker Pierce: "He's in my seat. Alright, the Gentleman from Cook, Representative Huff has some questions of Mr. Van Gorkum."

Van Gorkum: "Yes, Sir."

Huff: "Mr. Van Gorkum, in some of your initial remarks you made reference to why you could not allow the schools to close in that it would have a disastrous financial affect on the school as well as the city. Being a businessman yourself, would the...that affect be precipitated by the fact that municipalities like employers now pay into the trust fund, and that if the schools had closed, that would have set in motion some 50,000 employees drawing unemployment checks. Would the City of Chicago or the Board of Education be responsible for the benefit wages paid there, too?"

Van Gorkum: "I'm not sure I understand exactly what the question is. I'm not sure I understand exactly what the question is."

Huff: "Well, we are talking about unemployment insurance, Mr. Van Gorkum..."

Van Gorkum: "I see."

Huff: "And I am trying to find out what would have been the



fiscal impact had the schools closed, and who would have paid the un...the benefit charges paid to those employers...employees then seeking unemployment insurance?"

Van Gorkum: "If the schools were closed?"

Huff: "Yes, Sir."

Van Gorkum: "I understand that the school system is self insured as far as unemployment is concerned, and therefore the school system itself would have to pay the unemployment benefits to the employees. Alright?"

Huff: "Okay, so that would amount to roughly... Do you know what that amount would have been?"

Van Gorkum: "About \$7,000,000 a week I think. Where's Kay Rohter? See if you can get Kay out here. Will you? I was very surprised to find that they were self insured, and I...so the figure sticks in my mind that it is about \$7,000,000 a week of unemployment if the teachers are not employed."

Huff: "Well the reason I'm bringing this up is because I have not heard that computed. And the...that obligation that you...or the debt servicing that you are anticipating with regards to the...just the operation part of the procedure."

Van Gorkum: "No, that's right, because our computations do not assume the schools will be closed, and so we haven't put that into our computation. But we have assumed they'd be opened, and of course, the weekly payroll is about, over \$20,000,000, so it is much more than the \$7,000,000 of unemployment that would be payable if the schools were closed, so we've used the larger figure to come up with our forecast."

Huff: "Well, I think that is figured more accurately with the...around the \$100,000,000 a year. If that...if that had come about...but...slightly put it back to see that the oversight has made an oversight on that. But if...to deal more specifically with where you are now,



what would be the Committee of the Authority's estimate of what this...this cost would be during the cuts that will come after this legislation is enacted?"

Van Gorkum: "The costs of what? The costs of the unemployment?"

Huff: "Yes, Sir."

Van Gorkum: "Now the cost of un... If the schools were to close, the cost of the unemployment would be \$7,000,000 a week. In the course of one year, that would be \$350,000,000."

Huff: "Alright, then my next question would be, which I haven't heard again, what would be...what provision are you making to cover that expenditure?"

Van Gorkum: "Well, we are not making any because we are making provision for a much larger expense. Namely the expense of keeping the schools open. It costs over \$20,000,000 a week in payrolls to keep the schools open, as contrasted to \$7,000,000 a week if they are closed. Actually of course, that comparison is not completely valid because if the schools close, a lot of other bad things happen. First of all the schools start losing their rights to the state aid for every day that they go beyond a certain day that they are closed. In other words they have to be opened a certain number of days in order to get their full sch...state aid. Secondly, you'll get a whole flood of suits from teachers and other people who claim that they have been locked out, to use the common phrase, and therefore they are entitled to get their money and so forth. Closing the schools would bring a whole host of problems. But in our financial forecast, we have assumed the schools would be open, and therefore we have assumed a much larger cost than we would incur if the schools were closed."

Huff: "I understand that, Sir, but given that the schools will be open, and given the testimony that I've heard here



so far, there seems to be a reasonable expectation that your own Committee will be looking forward to budget cuts in personnel...on personnel and the budget overall as to some of the personnel that will be let go. That would then make my question relevant to this phase of the operation whereas I was speaking hypothetically before."

Van Gorkum: "I see what you're saying. In other words, if we were to lay off a certain number of teachers, we would have to pay them unemployment insurance."

Huff: "That is right."

Van Gorkum: "That is correct, and that will have to be covered when we say there has to be \$60,000,000...\$60,000,000 cut out of the budget, that will have to be a net figure, and it will be reduced by whatever the unemployment insurance is. And that's in turn, you'll have to cut salaries exceeding \$60,000,000 in order to get a net of 60 after you pay unemployment insurance to those teachers who are entitled to get it. I understand that we only pay, we only have an obligation to pay unemployment insurance for 26 weeks."

Huff: "I see. Thank you."

Speaker Pierce: "The Gentleman from DeKalb, Mr. Ebbesen."



Ebbesen: "Thank you, Mr. Chairman. I would like to ask a question or 2 of Mr. Perkins. Is he still here?"

Pierce: "Yes, he is here. John Perkins. Representative Ebbesen from DeKalb has not stated his question, but the Gentleman from DeKalb, Representative Ebbesen, former Mayor of the City of DeKalb."

Ebbesen: "Thank you, Mr. Chairman. Mr. Perkins, I would like to say that my questions are really directed to reflect a lot of light and very little heat, and I don't want anything misunderstood, at the outset, but I'd like to know as far as the outstanding bonded indebtedness that exists in the school district in Chicago, what it that in total number now?"

Perkins: "Don't hold me to the exact figures, but I believe it is in the area of 6 to 700,000,000. Is that right? I believe that is about right."

Ebbesen: "Six to seven hundred million dollars? Well, in any event..."

Perkins: "It's very...it's very large, and very widespread, and very widely held throughout the country."

Ebbesen: "Alright, now I would like to ask are most of these bonds held by lending institutions?"

Perkins: "A lot of them are held by banks. The major buyers in the tax exempt market tend to be commercial banks, stock insurance companies have a lot of them, and individuals are the third major category."

Ebbesen: "Maybe you don't have the answer to this question at your command, but I'd like to know if it is 6 to 700,000,000, or whatever it is, what percentage of those bonds are held by Chicago lending institutions as opposed to other than Chicago?"

Perkins: "I really can't answer that, and I wish I could, because that question is frequently asked."

Ebbesen: "Well,..."

Perkins: "The breakdown of what individual institutions hold is not available. The banks for one reason or another



may have had a lot of them at one point, fewer at another point. Tax positions change, and there really is no way of answering that."

Ebbesen: "Well, I'm from the 37th Legislative District from DeKalb, as I have just pointed out to you, and there is a kind of myth that is running through our district that the lion's share of these bonds are held by downstate lending institutions, and I would wonder if you say there's no way to put a handle on this, and we're going to be casting a vote here later tonight or probably tomorrow sometime..."

Perkins: "Right."

Ebbesen: "...On some very important legislation, and I think it is very very important for the record and for the benefit of the people who want to cast an intelligent vote. These outstanding bonds...where they are located... Is there some way that you can get an up an answer through all the sophisticated operation that we have in the lending institutions in this state by tomorrow?"

Perkins: "I really don't believe I can. We've searched widely for that. I think you should realize that the banks in Chicago hold very large amounts of either direct loans or bonds of the various Chicago and Chicago area taxing bodies. And these are very substantial amounts. How it is divided up between the different groups. Who has the position at the moment in the Board of Ed or not. That I'm afraid I can't answer."

Ebbesen: "Well..."

Perkins: "Very sorry."

Ebbesen: "Well, as far as this myth is concerned that I have related to, could you validate or deny that most of the bonds are held by downstate lending institutions?"

Perkins: "My guess would be that that perhaps is a little strong, that a lot of the institutions may hold some, but a lot of the Chicago institutions do. But I think if you looked at it, they're dispersed all over the country."



Ebbesen: "Now, another question, does the Eu... Is it the Continental Bank?"

Perkins: "Continental Illinois Bank, yes Sir."

Ebbesen: "Do you have...your bank...any leases involving School Board property, or are there any trust accounts that have leases?"

Perkins: "I don't want to be categorical because there is always something that turns up. As far as I know, we do not. It may well be, though, that we may have some accounts... Some...somebody for whom we are trustee that does have some property lease from the Board.. To my knowledge, we don't have any, but that...that's the best I can offer."

Ebbesen: "Has your bank ever appeared on behalf of...maybe your own bank, or any of the trust accounts, before the Board of Appeals supporting cutting of corporate personal property taxes in the last 10 years?"

Perkins: "Cutting of corporate personal property taxes... Well, the only thing I can think of is that...the bank itself filed a suit on the replacement tax which was done in a very cooperative effort with the Governor and others as a test case to get it on to the court so we could move ahead with the tax."

Ebbesen: "Alright, I'll repeat my question. Has your bank ever appeared on behalf of your own bank or trust accounts encouraging lowering of corporate personal property taxes on behalf of corporations? Yes or no."

Perkins: "I don't mean to equivocate, but I really can't answer. We may very well have...we may have very well had some position in certain cases where this seemed the proper thing, particularly on trust accounts."

Ebbesen: "If..."

Perkins: "On the other hand, I'd like to say we worked hard to help develop that replacement tax so that we would get the revenue we need."



Ebbesen: "I am very aware of that, and that was a fine effort. Another question is if we find, if we can find that the Chicago banks hold few of the outstanding bonds,... I would like to know at what approximate date that they discontinued looking upon that with favor as a good investment. And I don't expect you to answer that tonight, but I certainly would think that this information should be made available at this General Assembly before we start passing and voting hopefully intelligently on some very important legislation because I go back to October 23 of 1975 when we had a similar situation. I forgot the exact amount of whether it was 75 or 80 million dollars that the school district needed in the City of Chicago, and at that particular time under a different administration, we were faced with a very low income...not income, but bank balance here in the State of Illinois. The school district came down looking for 75 or 80 million dollars. And I asked a question at that time, and I have the... I won't bother to go into this, but specifically, but generally would relate it to the corporate personal property tax. Now historically, historically, that the County of Cook was always very good at collecting real property taxes like the other 101 counties, but when it came to the corporate personal property taxes, their average is probably something 48, 49, 50% of collections of what extended. Now...with you people involved in this legislation and looking for a solution to a problem with the Chicago schools, and it's a state problem, I'll admit that. I don't want to go into all the ramifications and the overlapping; however, I asked a question at that time about what the Board of Education was doing in terms of looking into delinquent corporate personal property taxes that average something 150 million to 200 million dollars annually delinquent. You heard testimony previously. I forgot



what Gentleman expressed it, but it was maybe Operation Push, Representative...whatever it was, but in ten years it is up 1½ billion dollars. Now, have you people, in putting this package together, looked into the possibility of growing out because those corporate personal property taxes go into the general revenue of the county and go back to the school district, looked into the possibility of even collecting 10%, 10% of those delinquent taxes? What are we doing sitting here talking about all of this? If you put that force to work up north, perhaps we wouldn't even be here. But to collect those corporate personal property taxes, 10% would mean millions and millions of dollars to the school district in the City of Chicago. Have you people in your discussions gone into this?"

Perkins: "Recent discussions have been focusing on the financial package per sé, but this is certainly a very germane issue, and in the future the replacement tax should take care of that. Looking back, I would have to look into the specifics of it to see what's there."

Ebbesen: "Well, just in closing, I appreciate your...your... your answers, and I would encourage you, because it seems to me that some of this legislation, and we're under oath here. There is testimony going on, and this more than likely is going to end up in the court for some opinion in the future as I understand it, but it seems to me in just making a statement that when we talk about the school system in the City of Chicago, and I'm a down stater, and I'm not familiar as I should be with that area there, but when we talk about the delinquent corporate personal property taxes coupled with all the real estate that the school district owns, and then you compound that with the possibility of what appears to me to be a little lower rate for taxation as far as their property taxes are concerned. It seems it would appear to me that there are other answers to this. I



would just like to encourage you in whatever capacity you will be working and also this authority if this legislation does pass to put the pressure on the people who are responsible for collecting those delinquent corporate personal property taxes in the County of Cook."

Perkins: "Mr. Ebbesen, that is the State's Attorney of Cook County, and he's not here today."

Ebbesen: "I know he's not here, but we are going to have an authority, and all you people that are up there in the City of Chicago, it's your school system. You can... you were down here facing south and putting the heat on the entire state, all the taxpayers of this state. Why don't you put the heat on the people up there responsible for collecting those taxes, and we wouldn't be sitting here in Session right now."

Speaker Pierce: "Alright, that's the end of the questions, Mr. Ebbesen, but in fairness to the School Board, they do not collect their own taxes. The State's Attorney of Cook County, who is a Republican, Mr. 'Kerry' sues on those taxes and makes the settlements and so on. The Gentleman from Coles, Mr. Stuffle."

Stuffle: "Yes, Mr. Speaker, I would like to direct my questions to Dr. Mandeville."

Speaker Pierce: "Dr. Mandeville..."

Stuffle: "Director Mandeville, a few questions about some of the financial aspects of the overall program we've has unveiled here today. Initially we were given, I think on both sides of the aisle, a memorandum indicating that bond holders or no holders of you will, who had holdings on the issue involved with House Bill 1910, the interim funding the \$225,000,000, would have a call not only on 1981 local tax receipts in Chicago, but also would have a call on state aid in fiscal '81 as of October 1 of 1980. Is it still the case, I am



somewhat confused in reading 34B-10 of the Bill, House Bill 1910, is it still the case that those people will have a call on state aid as of October 1, 1980?"

Mandeville: "Yes."

Stuffle: "If that is the case, what would present a situation where the state might decide to again advance state aid to the Chicago School District to the Board, if you will. What would prevent the advance of state aid, and then the bond holders to come along to the state and ask for their money. There would be 2 calls on that money, wouldn't there?"

Mandeville: "The offset provision currently exists in state law, Chapter 15, 210-05. It is used by state agencies to offset a payment otherwise due to a vendor. That provision as it exists in state law now, and as envisioned in 1910 is identical. But the offset could only be made of money was due and payable to the school district of an education nature. It could be either distributive aid from the general state aid formula, or it could be categorical grant, or any monies that was due to the Chicago School Board."

Stuffle: "So you are saying that...you're saying that the state would be obligated not to advance a payment to the local school district if the bond holder has a call on that state aid."

Mandeville: "I think that's right. If the bond holder had made a call on the state aid. What would happen, let's say there was an advance authorized by the Governor of general state aid. That is the only advance authority in the law."

Stuffle: "Let's say that was before October 1 and after July 1. If that advance were made to the city by the state, and the bond holder came in after October 1, then wouldn't the money already be gone? You have 2 calls on that money."

Mandeville: "Okay, the call is not usable unless there is a



warrant, then payable, or subsequently becomes payable to the School Board or the City of Chicago."

Stuffle: "So you couldn't have 2 calls on the money."

Mandeville: "You could not have. If...if...but...let me follow it up, because it may be a bit more complex. If, for example, there was an advance of the November, the normal distributive aid to the City of Chicago to the School Board, and that advance was made in October, the November advance in October. If that advance, when processed, into a warrant by the Comptroller had not yet been released by him and a call came, even though it was an advance, they would just take down the value of the warrants, pay the note holders, and pay the residue to the school board."

Stuffle: "So if the advance had already been made, then the note holder is going to have to ask for his money on a subsequent month payment. December or January or whatever."

Mandeville: "There could be a cuing line, but there is also other state aid that goes categorical reimbursements for 1980 and so on."

Stuffle: "Then that can't be advanced."

Mandeville: "Well...and also the same offset provision applies to those kind of aids."

Stuffle: "Okay, secondly, the issue came up about the \$500,000,000 allowable bond authority that is added in the other Bill, 1264. Now, we put a float in, as Representative Leinenweber indicated as to what public corporations could...could...the interest rate that they could use which was the function of the prime and a percentage of that. Now as I read the Bill, and as I understand the proposal, 400,000,000 of that ~~3500,000,000~~ will be issued before the end of this fiscal year."

Mandeville: "Before the end of the school year, at least, before



August 31."

Stuffle: "Will the entire \$500,000,000 is it intended that it be issued before the Calendar year?"

Mandeville: "Probably will be because of the need to retire an additional \$96,000,000...then extending short term debt in their next school year but still this Calendar year."

Stuffle: "Then in reality, there is no rate limit on any of that issue. The whole \$500,000,000, there is no rate limit because the Bill says that the rate limit doesn't kick in until after December 31, 1980. So you could issue the whole \$500,000,000 at whatever rate the authority saw fit."

Mandeville: "Well, I am not sure that I ever felt there was a rate limitation on long term bonds in any case. I believe that you're rate limitation appears to G.O. bonds...G.O. notes. And I'm not sure they've ever applied to long term bonds, but I may be wrong on that point."

Stuffle: "I think that's a question too because of the Public Corporation Act covers a lot of instruments as you know, but we'll go on. Some of us have a worksheet that was apparently used to come up with estimates of cash flow, receipts and expenditures by the School District in Chicago for fiscal '80, '81', and '82. In that worksheet there is an estimated amount of state aid going to the Chicago District of an increase amount in f.y. '81, the coming fiscal year of \$22,000,000 in state aid above this year, and then in the subsequent year, f.y. '82, there is an increase of \$50,000,000 in state aid receipts above '81 which would be an increase of \$72,000,000 over the current year. Now my question to you is this, how did you arrive at those figures, as to those estimates? Were they predicated on a) the current school aid formula, what it would generate, or were they predicated on



some assumption we would change the formula giving possibly a greater percentage of the whole pie to the Chicago District?"

Mandeville: "The latter case is not true. That is not the case, the latter situation. The 470 is a simple assumption that about 5% increase would go to Chicago in fiscal year '81. That has been approximately the level of their increase in the last couple of years. In fiscal year '82, it is assumed that in fact you would change the state law to give Chicago less than what will be the case if you do not change it."

Stuffle: "Explain that last statement, would you please?"

Mandeville: "The last statement gets rather complex and Doug Kane seems to know what I am talking about. It has to do with the Corporate Personal Property Tax Replacement and the calculation of state aid under the school aid formula when the equalized assessed valuation drops as a result of dropping the corporate Personal Property Tax assessment amount."

Stuffle: "Okay, we understand that function. We are talking about an offset by way of what they are going to receive. Okay. Explain to me, if you would, the function of bond anticipation notes which are... provided for in 1264."

Mandeville: "The function of any bond anticipation note is to have the ability to bridge a rather small time gap in the event that it takes a while for the bonds to be...to be issued. For example, when we issued bonds for the State of Illinois, we don't use this device by the way. I want to make that clear, but when we issued bonds on Tuesday of this week, the 8th of January, we will not receive the cash until around February 1. There is typically a 3 week closing period before the cash comes in. It may be necessary depending on the timing of the long term issue and the repeat of the actual cash to issue a bond anticipation note to



bridge that small time period until the bonds are issued and the cash received. To my...in my understanding, there is no other intention of bond anticipation notes beyond that point."

Stuffle: "Okay, one last question, and I'll ask it of you, Dr. Mandeville, because I am sure you can answer it as well as anyone. There are legislative findings built into this Bill, 1264, and implied in 1910. Was there ever any discussion in the meetings with the Governor and various people as to placing in this Bill legislative finding and direction to the School Board or the authority that they ought to begin by selling off properties that they own that are non-school on nature so as soon as the leases become due?"

Mandeville: "I...I'm not sure. I was in some discussions during the weekend when the question of the assets of the School Board were discussed. As to mortgages, as to selling property and so on... I am not...I don't recall any particular serious discussion of that as a solution to the long term problem that would have been built into this Bill, if that was your question."

Stuffle: "Last question, was there any consideration given to providing for...given the magnetude of this problem and the authority that is created in the grave nature of the whole situation, providing for something along the lines of Senate confirmation of the Members of the authority?"

Mandeville: "I was not involved in that particular section, so I do not know."

Stuffle: "Okay, thank you."

Speaker Schneider: "Representative Hoffman."

Hoffman: "Thank you very much, Mr. Chairman. I have a few questions for Mr. D'Esposito."

Speaker Schneider: "Julian."

Hoffman: "Looking at...here I am. Over here... Looking at page 17 of the Bill on lines 29-33 and then on to the



top of the next page. How many separate funds do you... did you have in mind establishing with this language?" If you read the language, it says that separate and segregated from all other funds in account of the Board for each issue of outstanding obligation of the Board for the payment for which a separate tax has been or is levied. How many separate funds then are you establishing under this particular Section of the language?"

D'Esposito: "I am not sufficiently familiar with the nature of the existing obligations to answer that. It is multiple though."

Hoffman: "Are these new requirements for funds other than just the funds related to the authority?"

D'Esposito: "These are funds to be created on existing obligations of the School Board for debt service that is issued and outstanding. The basic problem has been that the School Board has not had co-mingled funds. They have not made deposits in escrows which should have been set up."

Hoffman: "Then you are in fact addressing an issue that is not directly related to the tax levies related to the authority. Is that correct? In other words you..."

D'Esposito: "Yes, this relates to the existing debt of the School Board."

Hoffman: "So at least as of this time, you don't know how many separate funds that it is going to affect."

D'Esposito: "No. There are 2 or 3, I think there were 2 or 3 maybe 2 short term. There was a short term obligation created this last week with the state aid. I don't know the number of long term issues that are outdated. That information is in an official statement which I do not have with me, but it is multiple. We are trying to find somebody from the Board."

Hoffman: "Fine, thank you very much. I'd be interested in that. Next question is on page 28..."



Speaker Pierce: "Just one second. Could we give the Membership attention once again. I realize we're going to be here awhile. We've been here a long time... Please give the questioner and the witness a chance to engage in the discussion."

Hoffman: "On page 28, lines 31-33, you have included what amounts to an elastic clause. Why did you find it necessary to do this?"

D'Esposito: "I think the answer to that is that it is when one creates a Body he wants to give it all the powers that are necessary for its basic purpose."

Hoffman: "Would it not have been sufficient to have eliminated all the previous Sections and just have that one Section."

D'Esposito: "You know it's a matter... Mr. Schwartz recites Judge 'Dillan's' Rule which says that need specificity that that end by itself is not sufficient. You must be specific."

Hoffman: "But..."

D'Esposito: "In an absence of A-M would lead at least to the implication you had very serious difficulties about recreating them or legal questions with respect to each of them as to whether each of them was necessary or convenient."

Hoffman: "Thank you very much. On page 48 it talks about the abolition of the authority being abolished after a year after the notes have been paid and discharged. Is there anything in this Bill which indicates the abolition of the authority's... authority, I hate to use a double word, but the authority of this newly created entity to require financial plans and budgets from the Board."

D'Esposito: "This Bill in its present form does not contemplate any automatic abolition of the powers of the Control Board whether they be financing powers or control powers. The financing powers, as a matter of law, would have to continue the debt service powers. It



would have to continue until the debts are paid. Although this statute does not say so, it is possible in my opinion for this General Assembly to abolish the control functions unless there is a specific covenant in the bonds, the \$500,000,000 bonds which say that you will not do that. The legislation does not say that, and it is possible that we would want to put into this particular Bill a specific provision that says that nothing herein shall prohibit the General Assembly from abolishing the control function, but requiring you to preserve the financing functions until the bonds are..."

Hoffman: "But there is nothing in this Bill related to that issue..."

D'Esposito: "That is correct. It would be preferable to say that if that is the ultimate policy, that this Assembly decides on termination. There were obviously other things. You could have an automatic termination. You could have a sunset provision or whatever."

Hoffman: "On the basis of your answer then, Mr. Chairman, I would like to ask Mr. Van Gorkum to take the microphone please."

Speaker Pierce: "Mr. Van Gorkum, are you nearby? There you are. Is that alright for Mr. D'Esposito? Mr. Van Gorkum."

Hoffman: "Thank you very much. I am right over here. In regard to the last response made by the previous speaker, and in light of your comment to our caucus this afternoon in terms of the idea that the authority of the Board, the Oversight Board, would be terminated after 2 years of a balanced budget or 3 years of a balanced budget and then if the balanced budget became unbalanced, they could reinstate that. How does that comment relate to what was just stated by Mr. D'Esposito?"

Van Gorkum: "Wait till I check. The answer is what I told you this afternoon was in the draft that I had read



and they took it out between the time I had talked to you and I mean since the last draft, that has been taken out. So the only termination now is the one that runs beyond the...you know, after the bonds are paid."

Hoffman: "Fine. Thank you very much. That's all my questions, Mr. Chairman."

Speaker Schneider: "Thank you. Representative Schraeder."

Schraeder: "Thank you, Mr. Chairman. I'd like to question the new President of the School Board if I may."

Speaker Schneider: "Mrs. Rohter. Where is she at? Just one second, Fred. She's...here she is. To your right, Schraeder in the blue."

Schraeder: "Thank you. A couple of questions, and I think probably you're the better one to answer me because as I understand it correctly you have served on the Chicago Board for some time."

Rohter: "Nine years."

Schraeder: "Nine years and now you are the new president."

Rohter: "Yes, Sir."

Schraeder: "The present make-up of the Board, are those old Members, or are they basically new Members?"

Rohter: "The most recent appointee took his seat about a month ago, and the others range from 15 years of service to 2 years."

Schraeder: "Alright. Now it appears with that kind of longevity on the Chicago Board, that someone was not fulfilling their obligation, and I want to aim at that particular facet of this legislation. What is your annual budget at the present time?"

Rohter: "I am having difficulty hearing you, but I think you asked me the annual budget figures."

Schraeder: "Yes."

Rohter: "One billion, 300 million dollars."

Schraeder: "Then did I hear you correctly say that between now and the end of the fiscal year, you are going to cut \$60,000,000?"



Rohter: "That is the goal that we have set for ourselves for this fiscal year, and another 106,000,000 for fiscal '81."

Schraeder: "You got my next question. If that is true, then I should ask one more question. You have, I understand, some 600 to 700 million dollars in outstanding bonds. Is this a continuing figure, or is that a new figure? In other words, is 600 or 700 then in affect for 3 or 4 years, or is it just in the last six months of what?"

Rohter: "I think I would be better to refer that question to one of the finance people that are here who have gone over every figure for us."

Speaker Schneider: "Who do you have for that, Mrs. Rohter?"



Speaker Schneider: "Fred, while we hold on that, would you mind asking another question. Well, then...and list the terms. We'll deal with it."

Schraeder: "I understand, from the news media and from conversation I've had since I've been to Springfield these past few days, that there were allocations made...that there illegal transfer of funds from one funding account to another. Is that substantially correct?"

Rohter: "There were transfers of funds from restricted monies for operating costs."

Schraeder: "To other funds, in other words?"

Rohter: "Yes, Sir."

Schraeder: "I also understand that sometime back this information was brought to the attention of the Members of the Board, who advised the administration to stop and cease all illegal transfers. Is that correct?"

Rohter: "No, Sir. That is incorrect. The matter was brought to the attention of the Members of the Finance Committee and was not transmitted to the other Members of the Board."

Schraeder: "Did the administration continue to transfer, in an illegal manner, funds from those categorized accounts?"

Rohter: "To my best knowledge, the answer is 'yes'."

Schraeder: "Would it seem that then the Finance Committee did not fulfill their obligation to the City of Chicago and the citizens of the City of Chicago?"

Rohter: "I would have preferred that the Finance Committee advise the rest of the Board, so that we could have taken action, but we were not apprised of that irregularity."

Schraeder: "May I ask now, the Members of that Finance Committee, are they currently serving as Members of the Board?"

Rohter: "Yes."

Schraeder: "Has there been any attempt to seek their resignation?"



Rohter: "There had been calls for resignation of all the Board ...some of the Board at various times."

Schraeder: "Has there been calls in recent days since this illegal transfer has become common knowledge? And, if so, what has been the viewpoint of those asked to be... to resign?"

Rohter: "Well, there have been no resignations, except for the President on November 30th, and the request for recognition is intermittent and repeated."

Schraeder: "Would you suggest that perhaps we need an elective system of Board Members rather than appointed by the Mayor of the City of Chicago?"

Rohter: "There was a referendum on that matter in 1971, and it failed, and I have no problem with the voters being offered that choice again."

Schraeder: "I understand that you are now being faced with court action by the Department of HEW of the federal government in regards to segregation of students. Is that correct?"

Rohter: "Let me see. I do not believe that the case has been filed. We do have...we are under investigation by HEW."

Schraeder: "And if that mandated program is carried, either through court action or voluntary action of the Board, what type of funding would that require? How many millions of dollars?"

Rohter: "Untold millions with very little educational benefit for that exorbitant expenditure of funds."

Schraeder: "If it is untold millions, and I agree with you, where is the funding coming from that program? Will that be in addition to the money requested of this General Assembly at this time?"

Rohter: "I cannot answer that question. I do not know how much it could possibly cost. We do not have any money from the federal government or the State of Illinois"



or from anyone else for the voluntary desegregation programs we currently have at the Chicago Board of Education."

Schraeder: "Then are you saying, and I hope I'm understanding your answer, that then you would be required to come up with X number of millions of dollars, probably hundreds of millions of dollars, in assistance from some other governmental agency to fund the programs that are being mandated by HEW?"

Rohter: "I would hope that any agency of government that would impose those mandates on us would send us the money to implement those mandates."

Schraeder: "I think maybe you're dreaming on that one."

Rohter: "I beg your pardon."

Schraeder: "I think maybe you're dreaming on that one."

Rohter: "Well, it's an idea whose time is long gone..."

Unknown: "I agree with you."

Rohter: "Only bureaucrats want it."

Unknown: "No Freudian psychology today."

Schraeder: "Now, as I understand it, there had been a substantial drop in enrollment in the entire country... State of Illinois, and in particular, in Chicago. And then in addition to that you said in your opening statement that employment went up during this same period of time."

Rohter: "I'm sorry, I didn't hear that."

Speaker Schneider: "Once again, we please ask the Membership to be attentive...at least to give the witness a chance to hear the questions, so she can respond."

Schraeder: "It is quite common knowledge that enrollments in the country, and in the state, and, in particular, in Chicago have declined in a drastic manner. And, in your statement you said that the employment within the Chicago Board of Education germane increased: Why was the...that situation allowed to develop by the Board



of Education, and, if so, what have they done in the last year to correct it?"

Rohter: "The explanation given to me each time I questioned the increase in the number of employees in the face of a declining enrollment was this, our children in Chicago have very unique needs and require additional instruction personnel. The second part of your question, 'What have we done in the last year?'...we haven't done anything about it in the last year. We will...in this part of this year, we will address that question as soon as we have a meeting to analyze the recommendations of the interim superintendent for reduction of expenditures."

Schraeder: "What is the ratio of teachers per pupil presently in the city?"

Rohter: "The contract with the Chicago Teachers Union uses about 28 students for every teacher. However, I pointed out earlier that we have some 50,000 employees, fewer than a half a million children, and the ratio for personnel is 1 to ten."

Schraeder: "All right. That..."

Rohter: "Now, there's some serious problems in who's doing what. We need a body audit of persons employed, how many are there, what are they paid, and what are they doing."

Schraeder: "All right. That brings my next question. You... how many administrators do you have out of your total employee population? Do you have any percentages on that?"

Rohter: "I can't give you the kind of answer I would like, which would be one that's definitive, because the problem is no one wishes to be classified as an administrator when we're talking about cuts, so we need to have a very clear definition of who is an administrator and what does that person do."

Schraeder: "Well, I might suggest that an administrator is



one who is not in a teaching profession, and I think most people understand what that is. Thank you."

Rohter: "Well, but that creates a problem, Sir, if I may.

There are a number of people who are teacher certificated, who are directors, consultants, coordinators, etc., etc. They don't have children in front of them everyday."

Speaker Schneider: "Representative Schraeder, your other person is here if you'd like to advance that question. Thank you."

Schraeder: "Okay."

Speaker Schneider: "Would you come in and just indicate who... your name...by name, you are? I'd like to point out that the lights indeed are on. It does look like a stage set for Close Encounters up here, so you have to be patient. We're going to be here a while, and if all the individuals who request to be recognized are indeed recognized...there are many lights on...we'll just have to be patient."

Schraeder: "I'll stop after this one question. It'll be very brief. As I understand it, there are now outstanding ...in a neighborhood of 600 to 700 million dollars in bonds. Is that correct?"

Unknown: "Approximately."

Schraeder: "If we go to a mandated program of...as advocated by HEW, the federal government, that will cost X number of dollars. Do you know how...approximately how much that would cost?"

Unknown: "No, I'm afraid I don't."

Schraeder: "The past speaker said that that would cost substantial millions of dollars. Is this additional cost, in any way, covered by the request as pertained in this piece of legislation? And, if so, why not?"

Unknown: "I'm afraid I can't speak to that. I'm familiar with the program and the funding requirements."



Speaker Schneider: "All right, Fred. Okay. Thank you. Representative Wikoff. I will again try to just continue the procedure going back and forth. Democrat, Republican. Democrat, Republican. Mr. Wikoff."

Wikoff: "Thank you, Mr. Speaker. I have one question or a couple of questions from Mrs. Rohter, if I may."

Speaker Schneider: "Proceed."

Wikoff: "Thank you, Mrs. Rohter. And...prior to my question, I do not envy you in your position, either here this evening or in the job you have, but I guess that's..."

Rohter: "The heat in the kitchen."

Wikoff: "Yeah, that's right. There's been a lot of comment made that there's going to have to be substantial cuts made within or by the School Board within the next year or so. Some 60 million dollars this year and 106 the next year, I believe, and more than likely the only way that can be done is by eliminating some positions and ...I don't know whether any salary cuts are contemplated or not, but I have a letter from the Chicago Teachers Union which was sent to all Legislators which said basically the official policy of the Chicago Teachers Union is to support the necessary legislation to re-establish the short- and long-term credit by the following guiding principles. And then it says...the first one and this is signed by Robert Healey, 'The Control Board shall not be authorized nor permitted to impair existing contractual obligations.' How are you going to cut any employment with such a stipulation from the Teachers Union?"

Rohter: "Well, I wasn't under the impression that Mr. was going to write the position for the Control Board, and I understand that you will be voting on that, and I can understand his position that..."

Wikoff: "Well, I can understand his position, but what is going to be the School Board's position if you decide



you're going to cut some positions, and he says, 'No, you're not.'?"

Rohter: "Ah, but he hasn't said that, Sir. What he said was, in his letter to me to which I responded, that we would indeed review the contract, that he wanted to know specifically what were the areas that we wished to renegotiate, and he has stated publicly for the record that he understands reductions will be forthcoming and must be expected. It's unrealistic to think otherwise, but the proviso was that classroom teachers not bear the burden of the full reduction."

Wikoff: "Well, all I'm doing is quoting from the letter that he sent to all Legislators, and it said, 'Shall not be permitted to impair existing contractual obligations', and that, to me, means that none of those can be changed. All right, I'll accept your answer on that. An article that was in the Chicago Tribune the other day, and I realize that the newspapers do err occasionally, that it was relating to a study released by Pierre 'De Vici', or 'Vici', or 'Vice', whatever his name is from the University of Illinois, where he compared the 10 largest school systems. It showed that you have the highest cost per pupil of some \$2,000 per pupil in excess of that highest state aid level per pupil along with the second highest debt per pupil only behind Cleveland, which is not a very good recommendation, but the thing ...or the one that I question here and you made some reference to it a little while ago with the previous questioner, Mr. Schraeder, and according to the survey taken, you have the third lowest pupil-teacher ratio of 16.6 pupils per teacher. And, as I remember, you had...you mentioned something around 25...what...where's the difference come, I guess?"

Rohter: "I do not know what the source was for those figures presented by Mr. 'Vice'."



Speaker Schneider: "Mrs. Rohter, would you hold on a second?"

Rohter: "I can understand how one might arrive at that figure if one took special ed classes, which by law are as low as 8 and 12 students to a teacher. If you put those all together, you may come up with something much lower than we have in a regular class. I would have to ask him how he arrived at those figures."

Wikoff: "That's all I have. Thank you."



Speaker Schneider: "Thank you, Representative Wikoff.

Representative Henry. Again we encourage the Membership not to talk if they can control themselves... Do you have anyone you would like to address your question to? Silence please, I can't hear Mr. Henry at all. Representative Henry."

Henry: "Thank you, Mr. Chairman. Yes, Mrs. Rohter. If Mrs. Rohter...I have a few questions on...concern with the budget cut. Now I think I heard you say that the first year...excuse me...that the first year that would be \$60,000,000 reduction, and the second year, 106,000,000. Now, are you saying in 2 years you will reduce the budget by \$166,000,000?"

Rohter: "Those are the figures that we are looking for in reductions."

Henry: "Okay, now will these...cut in the budget operating, will they start from the top and go to the bottom, or will they start from the bottom and go to the top?"

Rohter: "I can't tell you what will comprise those figures. I do want to make this clear. All those reductions will not necessarily represent positions. We spend millions, and millions, and millions of dollars for purchases of supplies and materials, for instance, we spend \$38,000,000 for transportation. It is my guess that some of that transportation will have to go. We had a school last week that I questioned receiving 25 colored television sets. I think that kind of thing will have to go. All the cuts will not be in personnel."

Henry: "The..."

Rohter: "Of course, most of them will be there because that makes up the larger part of our budget."

Henry: "The criteria for the closing of the schools...I've heard some talk of schools being closed. What criteria will you use to close those schools?"

Rohter: "I do not know which schools will be closed, but I do



know that it is necessary to have a formula. Heretofore we have not had a formula that could be applied equally in all situations. That is one of the things that we must have."

Henry: "Mr. Chairman, could you ask the House to just give the Lady some courtesy? I can't hear her answers, either."

Speaker Schneider: "If the Membership would please be attentive. Those of you who are not interested, might want to retire to dinner and come back for the results, but there are Members who are concerned and serious about the matter. It is tough to conduct business. If Mr. Henry can't hear the answer, it does us no good. So, please, once again, be..."

Henry: "Thank you, Mr. Chairman. Mrs. Rohter, on the special education program, the food services, health services, and the clinical services, the computer and the instructional lab for the special reading classes, the Head Start Program, how much effect, or how much cut do you think you will direct in that area?"

Rohter: "Well, those that are categorical aid will not have cuts, because, of course, we cannot use that money for other purposes."

Henry: "Now, changing over to the employment situation...the employees..."

Speaker Schneider: "Dinner is being served at the State House Inn for those who are not interested. For the second time, for Mr. Henry's benefit and for the witness, please restrain yourselves. Mr. Henry."

Henry: "Thank you, again, Mr. Chairman. Mrs. Rohter, going to the employees. Now, it is my understanding that the employees employed by the Chicago Board of Education... is to serve and educate. I also understand that there will be some definite cuts according to the newspapers in the last 2 or 3 weeks of thousands and thousands of employees. Is that a fact?"



Rohter: "I am unable to tell you how the newspapers arrived at their figures. I did say the other day when I was asked 'Is it conceivable that there will be between 700 and 2,000 cuts in teaching positions?'. I said that if they would amend it to say positions of all kinds and all classifications, that I could agree with those figures."

Henry: "Okay, one last question, and...I'm very involved in the education facilities over on the west side in the high poverty area. My concern...I keep hearing for the last 3 weeks of the crisis, that it seems to be all talk about funds, priority #1, and cut, #2. Very seldom am I hearing educating. It seems as though the priority here is educating, #3. Does that seem to fit into the scenario of what we are hearing here from the newly-constructed authors of the plan?"

Rohter: "I've heard that over my 9 years on the Board, but you only think about numbers, dollars, not sensitive to needs, and all the other rhet...rhetoric that accompanies that kind of thinking. However, without dollars, no child can be educated. You can't have any kind of program. It isn't the question of education being third, but education being first and seeking the dollars to have a viable program. What will it prove if we have all kinds of programs and no money to operate? I can't agree with that premise at all."

Henry: "I'm glad to hear that, Mrs. Rohter, because I can agree with you on moving toward quality education for all the kids in the City of Chicago. Thank you very much."

Speaker Schneider: "Thank you, Mr. Henry. Now, Representative Borchers is promised one question."

Borchers: "How do you know I'm going to keep my word?"

Speaker Schneider: "Well, that's true. I've been with you a long time, but I trust you."

Borchers: "I have a question...I have a question of the Presi-



dent of the School Board."

Speaker Schneider: "I don't believe...is he here?"

Borchers: "I was curious...I was curious as to whether any money or loan has been offered by the Teachers Union for the use of the School Board and the schools of Chicago. Have they given any money to protect their own jobs, you might say? Has there been any offer from them?"

Rohter: "Yes, Sir. Twenty-five million dollars of the monies on the initial phase is, in fact, from unions and union pension funds, 25 million dollars from the police pension fund, another...15 million dollars, excuse me, from the police pension fund, and 10 additional millions from various unions, the Teamsters Union, Mr. Lee's Chicago Federation of Labor. The Chicago Teachers Union is indeed a part of the package. That makes up the second 50 million dollars."

Borchers: "Well, just...what...then the teachers, themselves, their union and the teachers, they are contributing to the relief of the school district of Chicago?"

Rohter: "Their contribution has been very significant during this crisis. I think that you may know that our employees worked through the whole month of December with no payday. That was a contribution in and of itself, but the monetary contribution, absolutely. Twenty-five million dollars from unions in Chicago and acrossed the Midwest."

Borchers: "Thank you."

Speaker Schneider: "Thank you, Webber. Representative Bowman. Bow person. Bowman. Are you on?"

Bowman: "As soon as everyone kind of clears away. I'd like to direct my questions to Mr. Van Gorkum."

Speaker Schneider: "We still have quite a few questioners lights that are lit up. I recognize Mr. Preston, Mr. Bullock, Mr. Simms, and...all, Mr. Jones, Mr. Kane, Mr. Dunn. It's an honor roll of questioners. Now,



Mr. Van Gorkum, to the right...to your right. Mr. Van Gorkum. Mr. Van Gorkum. Oh. There he is."

Bowman: "First of all, I want to commend the fine work that, you know, you and your people have...have done in putting together the legislation under difficult circumstances. I presume that there has been some cash flow analysis that...that has been done, too."

Van Gorkum: "It's been exceedingly difficult to do any meaningful cash forecast for the simple reason that they keep their books on the accrual basis, and I'm not sure they ever made a cash flow, but that's what's taken so much time, as a matter of fact, to try and reconstruct this whole thing on a cash basis."

Bowman: "I'm sure. Is there...is there a consensus among those who have studied the books concerning the amount of the deficit that must be wiped out or financed?"

Van Gorkum: "Well, when you say, deficit, you're talking purely on a cash basis now. Starting on September 1 of the current school year, they had at that time, as far as we can determine, a deficit of 131 million dollars, which they had taken from these various restricted funds. And, you have seen this figure, 458 million dollars, probably. It was publicized widely. That's made up of this 131 million dollars, which will have to be restored to those funds as a part of this total package. That's why the numbers are so big. Secondly, they...our analysis of the budget that they had adopted indicated they would have a further 94 million dollar deficit in the course of the current year. As has been stated, they expect to cut that by 60 million dollars as a result of the things they're going to do now. In addition to that they found themselves forced to pay off 234 million dollars worth of indebtedness that was coming due during that year, and, of course, with no ability to borrow they had to pay that out of the operating



cash. All of those three numbers add up to 500...458 ...459 million dollars, and that is the estimated cash deficit for the total operating year, assuming nothing was done, but that the bond funds, the restrictive funds, were restored."

Bowman: "I gather those numbers...I have in front of me the Arthur Anderson report dated December 10th."

Van Gorkum: "Right."

Bowman: "And the numbers that you've given me are very, very close, and there was only one little difference."

Van Gorkum: "244 instead of 234?"

Bowman: "Precisely."

Van Gorkum: "Yeah, well, that's...there's an explanation for that which escapes me at the moment."

Bowman: "Okay, well, the rest of it's being auditioned. We'll work with the rest of it. In addition, the year ending August 31, 1981, it appears that the accumulated cash ...or the cash operating deficit for that year will be 125 million. Is that correct?"

Van Gorkum: "Which year is this?"

Bowman: "I'm sorry. The year ending August 31, '81."

Van Gorkum: "Yeah, that, of course, to be honest with you, they wanted a two-year forecast, and Arthur Anderson did it. But, for the second year they didn't have nearly as much pertinent data. They made some broad assumptions in order to arrive at that. One of them was that the cost would go up 8%, and the revenues would go up 3%, so you had practically a built-in deficit. The...so, I mean, we don't attach a great deal to previous of that. It indicates what...now the 8% makes a lot of sense because they've got an 8% increase in the teachers' wages under the contract, which is presently in existence with the Chicago Teachers Union, so borrowing some renegotiation of that contract, we know teachers' salaries, which is by far the biggest



part of the total budget...will go up by 8%. The 3% increase in the revenues may be a little conservative, but, of course, we feel at this point conservatism is called for."

Bowman: "I understand. Is that...however, is that your personal feeling?"

Van Gorkum: "I'd have to say at this moment I do not have an informed personal opinion, and I don't believe in making statements that isn't based on some kind of evidence. I...to put it honestly with you, I was just talking to the Arthur Anderson people and talking to some of my friends, telling them that for the next 60 days they've got to supply us with an army of people to try and make a really meaningful forecast up through the end of this calendar year at least, so that we can have some idea of how we're going to work out...how our cash flow will actually occur given the approval of this program, but you see the School Board has to have a modified and adjusted budget for this year by the first of February, which is only three weeks away, then they have to have a three-year financial plan one month later, and then I have to come back here on the first of April and tell you what I think about all of this, so we've got so much work to do it's going to be a long, hard struggle. Given the fact that we do not have a chief financial officer, and I would say the School Board's counting system, data processing, and so forth is not what you would call a model of perfection."

Bowman: "Well, very well. I can appreciate if there might be some misgivings about the...the '81 number. There is consensus on the '80 number?"

Van Gorkum: "I beg your pardon."

Bowman: "I gather, however, by implication there is...thank you. By...by implication can I infer from your remarks that there is consensus on the amount of the cash



operating deficit for the year ending August 31, 1980 of 94 million dollars."

Van Gorkum: "We feel that's a pretty good figure."

Bowman: "Okay. Now, and you indicated that the Board was preparing to make cuts in its operating budget of 60 million dollars, so that there would still be an operating deficit of 34 million for that year. Now, as to the ...the figure...the much more conjectural figure of 125 million dollar deficit for fiscal...or for their fiscal year '81. They were planning in that year, as I understand, to make cuts of 106 million dollars, was it?"

Van Gorkum: "That's the figure I've heard thrown around. I don't know really exactly what the source of that figure is."

Bowman: "That's equally conjectural then, is that correct?"

Van Gorkum: "Well, I think some people have arrived at that through some mathematical process, but I don't know what it is."

Bowman: "Okay, well, let me...let me ask then if...if you could, just give me your personal opinion, and I trust yours to be as informed as anyone about whether...to what extent the budget cuts for that year will equal or exceed or be less than the operating cash deficit for that year?"

Van Gorkum: "Equal to or less than what?"

Bowman: "Or...or exceeding the operating cash deficit for that year."

Van Gorkum: "The 125 million?"

Bowman: "Yes."

Van Gorkum: "Well, we can't accept a budget that has 125 million deficit, and I'll tell you that right now. They under this legislation, they have to give me a budget forecast about the 18th of July for the year starting next September 1."

Bowman: "Okay."



Van Gorkum: "If it's not a balanced budget, I won't accept it, and if I don't accept it, they got to go back to the drawing board."

Bowman: "Right. Now, incidentally when you...when you do talk about a balanced budget, we talk about the balanced budget here on the floor of the Illinois House, and sometimes it gets...that concept gets used in different ways by different people. How are you counting proceeds from bond sales and things of that nature?"

Van Gorkum: "What we will do is determine what we think is their reasonably anticipated revenues for the year. That's the starting point. Maybe I should tell you how they done their budgeting in the past, and you'll understand the difference."

Speaker Schneider: "Hold on for a second. This is an important pronouncement. Let's...this is how the budget was done in the past."

Bowman: "Yes, I think we're all eager to know how the budget was done in the past. Please proceed."

Van Gorkum: "First they would add up all of the revenues. Sometimes they'd be optimistic about it. Then they would add up all of the expenditures for the year, and if the expenditures were more than the revenues, they had an item they put into the expenditure column called prorata, which was a negative figure, and it was whatever number was necessary to make the two columns balance. In the last budget, which was approved by the School Board, that number was 115 million dollars."

Bowman: "No, this is school aid formula, right?"

Van Gorkum: "Which meant, in essence, that they were saying there had to be prorata cuts in all of the expenditure items sufficient to equal to 115 million dollars. What we will do is start from the other end and say, 'We believe that you can reasonably expect to receive X dollars in the course of this year for your operations.'



from whatever source that we think they can obtain it, and you cannot have expenditures that exceed that amount. We will not take the responsibility of determining where cuts should be made, what programs should be substituted for others, and so forth. They will have to do that."

Bowman: "I see. So...but...so you have confidence then that the cuts will...will at least equal the cash operating deficit..."

Van Gorkum: "Well, I'm not going to approach it on the grounds of cuts. What I am going to say is, 'Here much...much money you have to spend. If you have to make cuts from what you anticipated, that's up to you. You can't spend anymore money than you're going to get.'"

Bowman: "Okay, fine. Now, let me...let me turn...excuse me. I'd like to ask now about the...the bonds...the long term solution, if you will. As I understand it, the plan is to market 400 million fairly soon and then the additional 100 million sometime within their fiscal '81. Right? Have...I presume there have been cash flow projections on that or there have been some idea...ideas before as to what the interest rate would be and what the debt service would be. Can you tell me what the... the cash flow looks like for retiring those bonds?"

Van Gorkum: "Well, it is generally considered that the amount of money necessary to serve us 500 million dollars would be 50 million dollars a year, and that's the source of this..."

Bowman: "Excuse me a second. Over what...the time period are they going to be issued? What's the maturity?"

Van Gorkum: "Over the...well, 25 years, I think, is what they're talking about."

Bowman: "Twenty-five years -- Okay. I'm sorry, proceed."

Van Gorkum: "And that's the source of this 50 cent taxing power that's being taken away from the School Board. It is estimated that a 50 cent tax rate on the assessed



valuation of approximately 10 billion dollars will give them the 50 million dollars a year that they need to service those bonds and ultimately retire them."

Bowman: "All right. Now, it seems to me that the...the demands on the Chicago School Board are going to be pretty intense. Now, let...let me see if I have this...this correct. In order to prevent cash deficits from occurring in the future, they will have to somehow reduce spending below what might be called a trend line, by 60 million this coming year...the current year, rather, and call it roughly a hundred million the following year. In addition, on top of that, they're going to have to service the debt."

Van Gorkum: "The new debt, you mean?"

Bowman: "The new debt. Now, for the purpose of servicing the new debt, the Board...excuse me, the authority...the finance authority will be given 50 cents..."

Van Gorkum: "Of their taxing power."

Bowman: "That's right. The taxing power right off the top."

Van Gorkum: "All right."

Bowman: "That means the Board then, the Board of Education, now has to work under that ceiling...the new lower ceiling, and..."

Van Gorkum: "A dollar sixty-one."

Bowman: "Right. And, at the same time, come up with, in effect, cuts or call them what you will of 60 million dollars in '80 and roughly 100 million dollars in '81. Is that correct?"

Van Gorkum: "Yeah. Yeah, but there's a great tendency to misunderstand the seriousness of this. The school... the school...no, and my point is the School Board already has that problem. You see, the only reason they don't...they were going to borrow 260 million dollars this year on tax anticipation notes. The only reason they haven't is because nobody will buy them."



Bowman: "So..."

Van Gorkum: "Well, all these long-term bonds are going to do is merely replace, to a large extent, short-term notes they would've had anyway. This is not piling a lot of additional debt on the school system in any way. What it is is substituting long-term debt for short-term and to the extent that there's a difference in rate. That's the only extra burden. There is one extra burden they'll be carrying. Up until now they've been borrowing this 131 million dollars from the restricted funds and are apparently paying little or nothing on it. Now, they're going to have to restore that money to the extent that the long-term bonds, the 400 million dollars, a part is used to restore the...the proper level of these restricted funds. That will be an additional expense, I believe, to the School Board, but you can't say that the interest on the whole...and the debt service on the whole 400 million is new, because it's replacing a lot of short-term debt."

Bowman: "Okay, could you...could you give me in...in cash flow terms roughly then what the difference would be?"

Van Gorkum: "No, I can't. I'd have to just tell you off the top of my head that maybe it's 20 million dollars."

Bowman: "It's 20 million dollars per year. '80 and '81..."

Van Gorkum: "And I want to tell you that's off the top of my head, because we have not had the time to really construct this on a sound basis, but I think it is important to get acrossed to you, and Bob Mandeville can do this better than I can, that this 50 million dollars does not represent a new and hitherto unheard of burden on the school system. That burden has been there all along, because they've had a lot of borrowing only we're going to substitute long-term borrowing for short-term."

Bowman: "Okay, I would accept that with...with just one, and



I'm about ready to wrap it up. Okay?"

Speaker Schneider: "Thank you, Mr. Bowman."

Bowman: "Okay. But, I would accept that with...with just one observation. It seems like there has been a very sudden recent increase, and I'm wondering what the causes of that were."

Van Gorkum: "Recent increase in what?"

Bowman: "Well...well, in the short-term borrowing, not only in the market but also from the funds...the other funds."

Van Gorkum: "No, I don't think so. They've always been very heavy borrowers. In fact, they never could get through any year with...and this year, a fairly normal year, they were going to borrow 260 million dollars, and they would have, but they fell out of bed. So, I mean, borrowing and having a lot of borrowing is not new to the School Board. They've been doing it since 1926."

Bowman: "No, but the deficit in their operating fund, I think, has jumped this year. The deficit in their operating fund has jumped, which has to be covered from either their..."

Van Gorkum: "No, I don't...well, I can ask the Arthur Anderson people, but I don't think the borrowing this year would have been materially beyond what it was last year."

Bowman: "Okay, let...to wrap up let me just ask to what extent do you think the School Board is going to be able to meet those kinds of demands within the framework of existing resources, such as the existing school aid formula and the existing tax rate? Do you think that there may be a need for increasing those resources?"

Van Gorkum: "I can't answer that question without making a judgment upon the propriety of the present level of expenditures. I'm sure you'll find plenty of people in Chicago who feel that they should have more money, that the programs are inadequate, and so forth. I feel



that if...that they can cut the budget sufficiently to live within their means that they will have. I cannot say, however, that that will not require such serious reductions in their operation as to imperil the quality of their education. I cannot answer that question. I have no informed opinion as to whether that's true or not, and I'm sure you'll get some people who say that that is true, but if it is true...if it...if it impacts them so strongly that they fear the loss of accreditation of their system then, of course, I assume they'll be down here in a hurry looking for more money."

Bowman: "You would not rule out the possibility then?"

Van Gorkum: "Oh, I certainly would not."

Bowman: "...of either changing the state aid formula or increasing property tax?"

Speaker Schneider: "Mr. Bowman, really the time is very expensive. Would the Membership object...would the Membership object to a five-minute timer? Automatic five minutes, set the clock, and let it roll? Any objection to that? That idea. First chance...first person with a five-minute limit is Mr. Simms. Timer's on."

Simms: "I'd like to ask the previous speaker..."

Speaker Schneider: "Is Mr. Van Gorkum here?"

Simms: "Mr. Van Gorkum, did he...still here?"

Speaker Schneider: "Hold on a second. Now, Mr. Kane, in the interim while Mr. Van Gorkum makes his way for the award."

Kane: "Well, I would suggest the same as you suggested earlier. If people don't want to listen, they can go eat their dinner."

Speaker Schneider: "That's correct. For those of you who may be confused there is information...there will be information available. I know there's extensive written materials. We are not going to vote, as I'm sure you're



all aware, and I respect your interest in the matter. It is our obligation. However, if you choose not to listen, please don't talk. The five minute timer is on.

Simms: "Thank you, Mr. Chairman."

Speaker Schneider: "I'm sorry, Tim. If you will hold on a second."

Simms: "Oh, okay."

Speaker Schneider: "Mr. Dunn on the matter of the timer."

Dunn: "Mr. Chairman, we've been going here a long time. A lot of us have been waiting patiently to ask questions. I... most of us, and I think including myself, won't take longer than five minutes, but for the very reason that you have been pointing out, that others are free to leave and the complexity of this matter and the nature of the subject matter, I see no reason to cut off any questioning if it takes all night to go through the deliberations on this Bill."

Speaker Schneider: "Would you mind five minutes with the Chairman's discretion to allow some range, like if I were to make that decision unilaterally?"

Dunn: "I just don't want to be cut off, and I don't want anybody to be cut off on this Bill."

Speaker Schneider: "Well, I'll just withdraw it, and we'll go on with the time. I don't want to incite the Membership on a matter that doesn't need that kind of discussion, but we'll proceed then with allowing us to go on at any rate. Mr. Simms for Mr. Van Gorkum."

Simms: "I have a question on page 39 of the Bill. Do you have a copy of the Bill. Well, it..."

Speaker Schneider: "Hold on, Tim. He doesn't...Mr. Van Gorkum does not have a copy of the Bill."

Simms: "Page 39"

Van Gorkum: "What line?"

Simms: "Line 25, dealing with bonds. It indicates that bonds or notes issued prior to December 31, 1980 shall bear



interest at such rate or rates, and that such price or prices as the authority may approve. Bonds or notes issued after that date shall bear an interest at a rate not to exceed the maximum annual provided for a Section which we...I'll not go on any farther...which we enacted last fall. What is...what is the necessity of placing no limitation on your initial one-year bonding authority as far as interest rates?"

Speaker Schneider: "All right. Now, Mr. Van Gorkum needs to..."

Van Gorkum: "I'd like to get Mr. D'Esposito to answer that."

Speaker Schneider: "I think he's..."

Van Gorkum: "It was a provision provided, I'm sure, by the financial community. They are not...they were not sure under this very volatile market in which we operate that they could sell them at the limited rate of 70% of the prime or whatever it is."

Simms: "Well, is it conceivable that 400 million dollars worth of bonds could be sold at 15%?"

Van Gorkum: "I suppose that's conceivable, but I don't...we would never issue long-term bonds at 15%."

Simms: "Well, let's take short...short-term."

Van Gorkum: "Well, that would be...and somebody has asked about that. One of the reasons we have the ability to sell bond anticipation notes is that very reason. If, 90 days from now when these notes...bonds probably were ready to be sold, the interest rate has gone to such a wild level that 15% tax-free is required, we would, unless everybody wanted to call off the whole thing, in which case the schools would close, we would sell short-term bond anticipation notes at whatever rate was necessary and then when the rates came down we'd issue the long-term bonds. But, that is a...my understanding is that's the reason we have this disparity in here, is because everybody knows we have to have the money, and they're afraid if put in an interest limita-



tion rate, they'll have to come back here and there won't be time to do that and get the bonds out. That's what..."

Simms: "Well, my concern is that..."

Van Gorkum: "I can understand what your concern is. You don't want to give somebody a blank check, and I wouldn't want to do that either."

Simms: "Well, looking at this concern of the blank check and having the right to renegotiate or resell bonds. Is it not probable that the interest on those bonds...very loan is just going to add to the present financial dilemma of the school system. God, it just..."

Van Gorkum: "No, it..."

Simms: "...it just gets farther and farther...farther and farther into the hole."

Van Gorkum: "No, that's what I got through telling this other Gentleman over here. They're already in the hole."

Simms: "Well, I know that."

Van Gorkum: "And, my point is that these bonds will not be in addition to the borrowing. They have a lot of...this long-term borrowing is very largely going to replace short-term borrowing that they're doing now, and the problem is they have dug a hole for themselves, and they're going to die if they don't get some short-term relief. In other words, the short-term debt is coming too rapidly. They've already mortgaged all of their tax income out through into next year, and consequently we have to give them relief in the sense of taking that big load off so that they can get back to normal operations and space that debt payment out beyond. There is some increase in their total burden to the extent that they are using part of the long-term funds to restore the restricted funds, which is probably a borrowing, I don't believe on which they paid interest in the past. I can't say that absolutely, but I don't think they



did. So, that to the extent they're now going to be paying interest on approximately 130 million dollars, that does represent the interest...represents a new expense to them."

Simms: "Well, this...this provision in the Bill, which is in essence...to a certain degree, a blank check for the first year on the issuance of bonds. Can you conceivably see where the authority might have to go as high as 15% to sell the bonds on a short-term basis?"

Van Gorkum: "If these bonds got to be 15%, we would have an absolutely catastrophic period in our whole financial community here."

Simms: "How high do you...how high would you estimate that they could conceivably go?"

Van Gorkum: "I can't...I'm not an investment banker. We have some here, and maybe..."

Simms: "12%?"

Van Gorkum: "Hmmm?"

Simms: "At...at 400 million dollars at 12% you're talking about approximately 60 million dollars worth of interest a year just in the short-term bond."

Van Gorkum: "On 500 million dollars."

Simms: "500 million. I'm sorry."

Van Gorkum: "Well, even at 10½ you're talking about 50 million dollars. I mean, the difference isn't all that great. It's certainly not a delightful thing, but we live in a time...we have...that's the whole problem. This whole authority...this whole Bill is based on the fact that we have a school system which has lost us total credibility in a time when interest rates tends to be very volatile. You can find people who will say long-term interest rates are coming down. You can also find those who will say they're not coming down."

Simms: "My last question, and I thank you for being very candid about it, do you think these bonds are going to



that marketable?"

Van Gorkum: "The bonds of the new entity...the new authority?"

Simms: "Yeah."

Van Gorkum: "Yeah, I just talked to the people this afternoon again to refresh my feeling about it. Our goal would be an 'A' rating, and I think that the people, who are much more authoritative in this area and experienced than I am, tell me we should get an 'A' rating. After all, we have an entity here, which will have no...the problem with the School Board is they lost their credibility, because when they got money they didn't necessarily spend it for the...this entity will have no function except to sell long-term bonds, give the money to the School Board, and then collect money to pay the bondholders. We...there's...we can't use the money for anything else except to pay the bondholders. In fact, we won't even get the money. The money is going to go into the hands of a trustee...a bank...some third party who will hold the money for the bondholders. With all of those safeguards these bonds should sell at a reasonable rating."

Simms: "Okay, thank you very much."

Van Gorkum: "You're welcome."

Speaker Schneider: "Thank you, Representative Simms. And now, Mrs. Satterthwaite. Which person would you like to direct your questions to? Maybe we should give Mr. Van Gorkum a break."

Satterthwaite: "Well, as a matter of fact, I was hoping that I could address part of them..."

Speaker Schneider: "All right."

Satterthwaite: "...at least to Mr. Van Gorkum."

Speaker Schneider: "...this is his easiest day over the next three months. Proceed."

Satterthwaite: "Mr. Van Gorkum, in earlier discussions there was some concern expressed among Members of the Legis-



lature about the impact of the quantity of bonds that this will put on the bond market. Do you see any appreciable problem in disposing of that quantity of bonds along with the other types of bonding that will need to go on concurrently?"

Van Gorkum: "You mean from the School Board, or the city, and so forth; or where do you mean?"

Satterthwaite: "From everybody state-wide. You know, state bonds, city bonds, everybody. Can the bonding market easily absorb this additional bonding purchase?"

Van Gorkum: "Well, the people that are going to sell them tell me they can, but that has been one of their primary concerns in structuring this legislation...to create a bonding authority that would have nation-wide credibility, not one that would just confine to the local market. They have all felt that this bond...these bonds were large enough in total to have to be sold outside of the state, far beyond it, and for that reason a good part of time and effort has gone into this struc...into this total package in order to provide a bonding authority that would have a marketable security that could sell nation-wide."

Satterthwaite: "And it is not anticipated then that this additional quantity of bonds on the market will have an appreciable impact on the kind of interest that can be obtained?"

Van Gorkum: "Will it have a critical impact on what?"

Satterthwaite: "On the interest rate."

Van Gorkum: "No, I don't think there's so many bonds in this case that it would drive the interest rate up. I don't think that's...but wait just a minute. No, my brains back here tells me that's not likely to happen."

Satterthwaite: "We're talking about this bonds...these bonds being issued over a 25-year period...being paid back over a 25-year period, and we're saying...we're saying



we would have a 50 million dollar a year pool, so to speak, from which to make those payments. That means then if my calculations are right that over that period of 25 years you will, in fact, be paying back $2\frac{1}{2}$ times the original value of the bonds."

Van Gorkum: "Yeah, that's right. In other words, the 50 million a year is called debt service."

Satterthwaite: "Right."

Van Gorkum: "It's not...it's...that includes the interest plus the principal, and you have correctly stated the interest over that 25-year period, if it's 25 years, would be 750 million dollars as contrasted to 500 million of principal."

Satterthwaite: "There was some concern in our party caucus earlier that, in fact, 50 million dollars might not even cover the debt service for the first year let alone paying off any of the principal, so to speak."

Van Gorkum: "Well, at anytime you have...anytime you have a level payment of a huge debt like this, the early payments are 90 to 95% interest and very little principal. It's just like your home mortgage if you've ever had one."

Satterthwaite: "I realize that. The concern was that the first year's payment might be 110% of the interest."

Van Gorkum: "Oh, no."

Satterthwaite: "I mean, that 110% of the 50 million dollars that you would have..."

Van Gorkum: "Would be interest?"

Satterthwaite: "...to pay the interest."

Van Gorkum: "No, that's not the..."

Satterthwaite: "You're anticipating that the early years will be covered by a 50 million dollar pool from which to draw."

Van Gorkum: "That's our estimate based on the current market today. That's right."



Satterthwaite: "If you still have your copy of the Amendment there for the long-term investments, on page 17 the payment of the expenditures of the authority itself are to come from the state distributive aid formula payment to the school district."

Van Gorkum: "Is that on page 17? Where do you...what line is that?"

Satterthwaite: "At the very beginning. The underlined Section starting there at the top of the page."

Van Gorkum: "Oh, yes. It's right there."

Satterthwaite: "On page...line 3."

Van Gorkum: "Yeah. All right. I've got it. Okay."

Satterthwaite: "The state aid otherwise payable to the Chicago School District will first have to pay the operating expenditures for the authority itself. In that Section I see no limitation on the amount of money that the authority will have at its disposal to administer this plan."

Van Gorkum: "Yeah."

Satterthwaite: "Coming from a downstate area it's been my experience that we have frequently given Chicago groups too much authority in terms of what they are permitted to do assuming that they would be reasonable, and rational, and, to some extent, penny-pinching knowing the dire straits in which we all are and not wanting to overtax people."

Van Gorkum: "Well, I..."

Satterthwaite: "Would it be amenable to you or others that have been involved in working out this program to set some top limitation on an annual basis for what the authority would have at its disposal?"

Van Gorkum: "We spend hours trying to solve this problem. The first request to me was they wanted to put in a specific number in there, and they said to me, frankly, 'How much is it going to cost to run this thing?', and



I have to say to you and to them, 'I haven't got the slightest idea.' We've never had an entity of this type. I've never run one before, and I'm not, you know, I don't want to be in this position where I appear again to have another blank check, but we are unable...they have a percent in there for a while...the percent of the school aid revenues or something like that, and we have arrived at this only because what I do have to do is certified to this authority that what my expenses will be for each year, and obviously if I certify 10 million dollars and last year I only spent 625,000, I don't think that...after all, I can be fired at the whim of either the Mayor or the Governor, so I think...I wouldn't say that we're completely out of control here. But, I just don't have a clear-cut answer. I mean, a better answer for you. I don't know what the costs are going to be, and my own opinion is very clear about this, the cost in the first year will probably be much greater than they are in years subsequent to that assuming no unusual change of events. In the first year we have to sell around 400 million dollars worth of bonds. Now, if you're not familiar with the process of doing that, that is a very, very large undertaking. I'm going to have to have some very expensive lawyers, very expensive investment bankers, a great deal of accounting work done, and so forth in order to produce statements that I can present and the problem of setting up...the five members of this...the five directors, I think you understand, serve without compensation, so that...and I have purposely asked that that be the case, because I don't want this to be an attractive job on a financial basis. I don't want to attract a lot of big spenders. On the other hand...and when I first started this, I had no idea it was going to mushroom into this kind of authority that is now being considered by this Legislature. I



had envisioned something small as an oversight proof that would use other consultants and so forth and other bodies to do most of our leg work, but I'm afraid the way this thing is structured now, the responsibility we're going to have, we are going to have to spend substantial amounts of money, and I do not know how much that's going to be. I...it is my desire and intention to run this thing on as small a budget as possible. I'm very conscious, and I'm a big taxpayer, as most taxpayers are that we have too much bureaucracy and all that sort of thing, but the reason this is stated in such loose language is because I, frankly, don't have a number that I can use. If you want to impose some limitation and as long as it's...I think I can live within it, it's fine with me."

Satterthwaite: "Well, let me just reiterate that I think, particularly for those of us from downstate, it would be a far more acceptable proposal if we felt that there were a limitation and certainly at any time that that limitation seemed not to be practical, you would have the opportunity to come back for a legislative change. But, giving, as you call it, a blank check both in terms of what the authority would be able to expend and in terms of what it will have for taxing authority if they find that the 50 million dollars a year is not sufficient to cover the debt service, a blank check in terms of the ability to rent or buy property to house your own functions, All of these seem to be a little extraordinary for us to give, as a blank check, knowing some of the experiences of the past, and I don't mean in any way to be critical of you or your intent, but simply as a realist to approach the fact that frequently these things get out of hand in spite of good intentions. I don't know for who..."

Speaker Schneider: "Any further questions?"



Satterthwaite: "There is one more question, and I don't know who the appropriate person would be to answer that relating to the working cash fund."

Van Gorkum: "That's not...that is not I."

Speaker Schneider: "Mr. Van Gorkum takes a pass. Anybody want to volunteer for the working cash fund Section? Going once. Do we have any other volunteers? Can you hold that question? We may get...where's Bob? Who will? All right. Mr. Leinenweber will talk individually and personally with Representative Satterthwaite. That may not satisfy you, but right now no one else willing...is willing to take the shot. Representative Skinner...and if that's not satisfactory, Helen, I'll come back to you and maybe the BOB shows up."

Skinner: "It may be of interest to people to know that they've agreed to take out that part about the recreation of the working cash fund, which would just give to Chicago the same atrocious authority that downstate school districts now have."

Speaker Schneider: "All right. If you'll hold a minute, Cal, there's a question from Satterthwaite. Mrs. Satterthwaite."

Satterthwaite: "Well, I'm appreciative of Representative Leinenweber's earlier questions in that regard. My questions do not relate to the recreation of a portion of that but rather to the current situation on..."

Speaker Schneider: "Okay. Hold the dialog. We've got an answer man. It's Mr..."

Satterthwaite: "Okay...okay."

Speaker Schneider: "Would you rephrase...no...restate the question? That's right."

Satterthwaite: "As...as I understand it from staff, the Chicago School District now has some 208 million dollars in working cash bonds outstanding. Is that accurate?"

Mandeville (not announced): "I've gotten the same figure."

Satterthwaite: "All right. And they also have the authority



to issue some 30 million additional bonds."

Mandeville: "Yes, ma'am."

Satterthwaite: "What are they currently collecting in a tax rate to pay off those outstanding bonds?"

Mandeville: "I don't know."

Speaker Schneider: "How's that?"

Satterthwaite: "If...if these Bills pass and we use this Section allowing for the new working cash fund system here, would it be anticipated that the additional 30 some million dollars of bonding for working cash be issued and how much additional cost is that going to be to repay those bonds? And then, as I understand it, there is a 5c limitation on the working cash fund. Is that an annual rate or is that a one-time rate?"

Mandeville: "I think we could spend hours figuring it all out, and I'm just now beginning to understand it some myself, but there...upon discussion with the various draftsmen who have been involved, we are thinking of making a number of changes in this. I think it'll help if I tell them now to understand what it is we're looking at. All of the existing bonded indebtedness... whatever the rate is that's necessary to pay them off will continue to be...is required by all standard bonding requirements, and that will continue to be so so that you can pay off all of those existing bonds."

Satterthwaite: "I...I'm simply trying to designate..."

Mandeville: "...Let...let me continue."

Satterthwaite: "...how much..."

Speaker Schneider: "Please don't..."

Satterthwaite: "...is being paid in working cash funds."

Mandeville: "Okay. I don't..."

Speaker Schneider: "Give a complete answer..."

Mandeville: "...I don't know the rate. The abolition and ability to recreate would appear to allow for a possible 5c additional tax rate, and this Bill was not intended



to be a tax rate increase. We are going to eliminate the recreation power while doing the abolition which, apparently for technical reasons, will help collapse the two funds into one and allow for a simpler operation by the Board. We'll allow only one additional recreation of working cash funds and that is the 30 million previously existing authority which has never been issued by the Board. That 30 million, when the Board at some future date will be in the market, they could then issue as a working case fund, and it would be paid off as the other 208 million are with whatever is the requirement. However, that's way down the line. We just don't want to eliminate existing statutory authority for working cash fund bonds, but we will not allow the abolition and recreation to get the additional nickel by mistake or even by design. That we are not intending to do, and so we are going to...to eliminate the recrea...the abolition, recreation on an annual basis."

Speaker Schneider: "All right. Further questions?"

Satterthwaite: "So that all of the working cash fund would be as a result of the issuance of bonds, not as any direct tax rate for creating a cash fund?"

Mandeville: "Try that one again."

Satterthwaite: "Well, as I understand it, there are two routes now. One, you can impose a five cent levy and get yourself a pot of money to use as a working cash fund. The other route is the bonding to get a working cash fund, so you're saying..."

Mandeville: "The abolition is permissive."

Satterthwaite: "...they would rely only on the bonding."

Mandeville: "The abolition is...is permissive, so they don't have to abolish it. That's the first thing. Secondly, the...the nickel annual rate is subject to diminution if the bonds outstanding, which will use up more than the nickel rate. So long as they have this large



amount of bonds outstanding, they will never be able to use the nickel rate. If they ultimately pay off all their working cash bonds that are now outstanding and if they do not abolish the working cash fund, they would then have a nickel annual rate that they could use, but that's all existing law."

Satterthwaite: "Thank you."

Speaker Schneider: "Now, Mr. Skinner. Name your poison."

Skinner: "I would like to know if we may have the copies of the management letters from Arthur Anderson for the last 10 years?"

Speaker Schneider: "Who are we talking to?"

Skinner: "By tomorrow."

Speaker Schneider: "Cal, who would you like to address? To me? I can't answer that."

Skinner: "Well, I don't know. Whoever thinks they're in the driver's seat."

Speaker Schneider: "Well, give me a chance. I've got the mic, but I can't get you those. The last 10 years?"

Skinner: "Yep."

Speaker Schneider: "If Representative Bowman has them, would he cough them up at the appropriate time, which is tomorrow? Further questions? Cal..."

Skinner: "Well, I asked Jim Edgar yesterday if the Governor could get them, and apparently the Governor doesn't have that much power over the Chicago School Board."

Speaker Schneider: "Or Jim Edgar for that matter."

Skinner: "That was two days' notice."

Speaker Schneider: "Here comes Mr. Schwartz on the question."

Schwartz: "Can you wait a minute and a half so we can give you an answer? We're checking it out right now."

Skinner: "I'm willing to wait about 24 hours."

Schwartz: "But we got the Membership."

Speaker Schneider: "What else, Cal? Anyone else?"

Skinner: "The second question is whether the...how many



schools can be closed in Chicago if Chicago operates under a year round school system similar to the Bolingbrook?"

Speaker Schneider: "To whom would you like to direct that?"

I have no one in front of me. Chalkie, maybe, but..."

Skinner: "Well, he probably knows more than...well, never mind. Is...I don't know. Somebody from the School... does anybody know..."

Speaker Schneider: "Mrs. Rohter."

Skinner: "...anything about...someone who knows something about the Chicago school system."

Speaker Schneider: "Now, that's a challenge. That's a different question. Does anybody know Mrs. Rohter? When you see her, if you do, direct her to the podium."

Skinner: "Well, I asked her that question..."

Speaker Schneider: "No one's here. I...I'm..."

Skinner: "I asked her that question out in the hall."

Speaker Schneider: "She's tied up at the moment, too. Will arrive shortly. Can you think of a question for Lee?"

Skinner: "Lee, how's downstate getting ripped-off?"

Schwartz: "I'm happy to answer that question, Mr. Skinner. Downstate is not being ripped-off at all in any way in this Bill. Thank you."

Speaker Schneider: "That was too easy. Any other? Cal, we got a lot of people."

Skinner: "No, I think it's fairly...fairly important to know what the Arthur Anderson Company has been recommending over the years, and it seems to me that it's probably important enough to even find a plane coming to Springfield from Chicago tomorrow morning to get them here, unless somebody has something to hide that they don't want anybody to know until we after we vote for the Bill. Those are my only questions, Glen."

Speaker Schneider: "All right. Lee has indicated to me that Mrs. Rohter's on the phone, and as soon as she is



available, which we think will be shortly, would be glad to answer the questions if you want to delay your questioning."

Skinner: "Sure. I'll pass."

Speaker Schneider: "All right. Emil, you want to try? Emil Jones. Representative Jones."

Jones: "Thank you, Mr. Speaker. I do have some questions I want to ask, but in view of the fact that the proponents of this legislation does not see fit to be out here where the Membership can ask them questions, we have been here a long time as well as they have, but this is a very important piece of legislation, and I would suggest to you, Mr. Speaker, to instruct the witnesses to come out where we can ask the questions. I do have some questions, but I don't see anyone here."

Speaker Schneider: "Well, I think that's very reasonable, and I do also think that those witnesses are being unaccustomed to eating on the run as we do so often. Who would you like to...direct yourself..."

Jones: "Three of the witnesses. You can start with Mr. Van Gorkum first. I want to talk to Mrs. Kate Rohter as well as..."

Speaker Schneider: "Mr. Van Gorkum."

Jones: "Yes."

Speaker Schneider: "Who else? Art Quern is here."

Jones: "He can't answer the question."

Speaker Schneider: "He doesn't want to. Oh, no. You're not...you want Mr. Van Gorkum."

Jones: "Van Gorkum or maybe Lee can answer the question. One...here's a thing that concerns me with the legislation. I've noticed that there is no requirement for residency on this legislation. None of the Board Members will have to be...reside within the City of Chicago. Even the State of Illinois as far as that matter is concerned, and how come you omitted this



particular very important aspect of the legislation?"

Speaker Schneider: "Mr. Schwartz."

Schwartz: "The question of residency was raised in the drafting.

It was decided by the draftsmen that that was a kind of a question that the Legislature should determine, and we're open to whatever it is the Legislature decides on it. The draft just doesn't have it. If it's put in, I don't think that any of the draftsmen will let it in anyway..."

Jones: "Well..."

Schwartz: "...it would denigrate the validity of the Act."

Jones: "Well, Mr. Van Gorkum could answer the question,

because it is very important because this new financial authority will have taxing powers. They will have control...line item control over the budget, which in turn becomes a policy making power, so maybe Mr. Van Gorkum can answer the question. Mr. Van Gorkum."

Schwartz: "I'm not sure it's a question other than that the draftsmen, as it approached 4 in the morning or 7 this morning as we reread what we had done by 4 in the morning, simply said we've got to get a document to the Legislature. The document happened to be in...excuse me...in this form at that time, and as I suggested, the draftmen felt that it was a question for the Legislature to decide. If they wish to add residency, I...I don't know that there is a..."

Jones: "Well, I see that you don't want to answer the question, Mr. Schwartz. Maybe Mr. Van Gorkum will deal with this."

Speaker Schneider: "Mr. Van Gorkum on residency."

Van Gorkum: "What is exactly the question?"

Jones: "I noticed in the draft of the legislation that there is no requirement that the Board Members be a resident of the City of Chicago, County of Cook, State of Illinois. Now...now, it is conceivable according to this legis-



lation that we could have someone from New York, Washington, or Missouri on this Board the way this legislation is drafted. Am I correct?"

Van Gorkum: "If that's what it says, you must be correct."

Jones: "That is correct, so let me ask you..."

Van Gorkum: "I'm..."

Jones: "Let me ask you this, according to Section 34A 201, this is the general powers of the Board. You will have line item veto over the budget. Am I correct? For the Chicago School Board, so with line item authority of the budget you, in turn, will be..."

Van Gorkum: "Now, wait...wait a minute. I don't have line by line veto power. I only have the right to approve or disapprove the budget in total. I don't...in fact, I refuse to accept line by line veto power."

Jones: "Well, it says right here you have the power to purchase and sell real estate property to foreign offices, agents, and employees, to lend and transfer money of the Board, that you do have line item veto."

Van Gorkum: "No, no, no, no. That only has to do with the operation of the authority. I can't do any of those things for the School Board. The School Board's operation will remain exactly as it is now insofar as the educational process is concerned. We will have no right to hire, fire teachers, advance programs, cancel programs, or do anything in that area."

Jones: "I know you don't have that right direct, but you have an indirect..."

Van Gorkum: "We have a what?"

Jones: "It will be indirect."

Van Gorkum: "Well, only in this sense. You use the word, line by line, and that's very important. They wanted... somewhere along the line there was a thought of this, but I... that my authority will extend only to saying the toughest thing we can do to get down to nitty gritty



is say you can only spend so much money next year. Now, if they had intended to spend more, that will cause them to have to reduce their total expenditure, but we're not going to tell them how to do that. We're not going to say you should eliminate the bilingual program in order to have more school lunches or something like that. We're not going to do that."

Jones: "Okay. Does the new Board have the power to recommend to the Chicago Board that they should increase their tax levy?"

Van Gorkum: "Increase their tax levy?"

Jones: "Do you have taxing authority?"

Van Gorkum: "No. Well, we have taxing authority, but only to the extent of selling these 500 million dollars worth of bonds. We have no taxing authority beyond that."

Jones: "Well, in view of the fact that you do have taxing authority on the 500 million dollars of bonds, don't you think that it's conceivable that the Members of the Chicago City Council and the Members of the General Assembly should approve the appointment of the Board Members?"

Van Gorkum: "I don't have an opinion about that. That's what this Legislature..."

Jones: "Would you recommend to the drafters that this be included in the language that the Senate shall approve the Members appointed by the Governor..."

Van Gorkum: "No, I..."

Jones: "...and the Chicago City Council shall approve the Members appointed by the Mayor?"

Van Gorkum: "I wouldn't take a position on that. That is not my function. That's your function."

Jones: "Well, you have so indicated, Mr. Van Gorkum, that you expect to be appointed Chairman of this particular authority, so I'm quite certain that you have this legislation drafted to your liking, more or less."



Van Gorkum: "Well, let me put it this way. I know there's been a great fear on the part of some...the people in Chicago particularly that this new authority would become a school czar and would be running the school system. That is totally wrong, and for that reason... that's one of the reasons they have not been concerned about the residency requirement. The School Board has residency requirements, because it is felt, I assume, that they want the people on the School Board to be sympathetic and sensitive to the school needs of the children of Chicago, and they have that function to serve. This new authority will be a financial authority only. It will not operate in what you would call, sensitive areas. Therefore, I, frankly, think the more important, if you want my honest opinion...if you want to put in a residency requirement that you have to live in the City of Chicago, I would probably be delighted to have you do so, because then it would mean I couldn't serve. I am offering my services, because I think this is a vital program that needs to be gotten underway if the schools are going to stay open."

Jones: "Well, I'm not...I'm not questioning your ability..."

Van Gorkum: "I know that."

Jones: "...or your nature. The only thing that I'm saying is that when you're talking about revenue, you're talking about taxpayers in the City of Chicago, and they are the ones that are going to have to foot the bill but yet and still they may not have any say so, and this is what I'm trying to get at."

Speaker Schneider: "It appears that we've reached impasse on that one. As Emil, you want to go to another question?"

Jones: "Yes, I'll go to another question."

Speaker Schneider: "Okay, Representative Jones."

Jones: "On Section 34-74 wherein the City Treasurer will not..."

Van Gorkum: "What page? What page is that?"



Jones: "Well, anyway, this is a synopsis of it. I don't know what page, but Section 34-74 wherein the City Treasurer will not have custodies of monies raised for the payment of bonds, and what was the reason for that?"

Van Gorkum: "I think Mr. D'Esposito can answer that better than I."

Jones: "Yes."

D'Esposito: "The purpose of that Section simply is to say that the funds held by the authority should...will not be deposited with the City Treasurer."

Jones: "I know what it says. Why?"

D'Esposito: "Why? There is no need to do that."

Jones: "Well, what would happen to the funds? Who..."

D'Esposito: "What would happen to the funds if they were deposited with the City Treasurer?"

Jones: "No, if they were...just...they aren't going to be deposited according to this legislation, who will deposit the funds? Who will hold...have custody of the funds?"

D'Esposito: "The funds will be received...will be held by the authority."

Jones: "You know, currently the City Treasurer...Treasurer deposits funds in the banks in the City of Chicago, and you have some minority banks wherein he will deposit funds that will enable those banks to make short-term loans to the people in the area. Now, this the reason why the residency law comes up and it's very important, because the way the legislation is drafted, you can take the monies and deposit them in some bank in Michigan."

D'Esposito: "The provisions with respect to deposit of funds by the authority are found on page 29."

Jones: "I see you're not quite familiar with that as well, see."

D'Esposito: "Pardon."



Speaker Schneider: "What is the question?"

Jones: "No, he's already answered the question, but I just want to know why that provision was there? I see how the School Board..."

D'Esposito: "Well..."

Jones: "Go ahead."

D'Esposito: "The reason we decided not to deposit the money with the City Treasury...City Treasurer is because this is not a school district. It's other than a school district. We see no need to do that. The money can be deposited and invested by the School Bo...the School Finance Authority. As a separate unit of local government, it need not rely upon the city in that regard."

Jones: "Okay, thank you."

Speaker Schneider: "All right. Mrs. Rohter has returned. Emil, is that...?"

Jones: "Just a couple of short questions for..."

Speaker Schneider: "To Mrs. Rohter. Representative Jones is directly down the aisle. All right. Proceed."

Jones: "Yeah, Mrs. Rohter, you indicated in your statement earlier that you have served on the Board for 9 years."

Rohter: "Yes, Sir."

Jones: "And many other Members on the Board have served anywhere from 2 years to 15 years, except for the latest appointee. When this crisis came about...became evident to the public, I read some news accounts and listened to you on radio and television...you indicated at that time that you didn't know anything of this nature existed with the Board."

Rohter: "No, I'm afraid that you've been misinformed. What I said was that I did not know what was being done with the raid of funds. There was no way I could've known that."

Jones: "Well, evidently then some School Board Members...all the School Board Members as far as that's concerned



didn't know what was happening with the financial aspects of the Chicago School Board. Am I correct?"

Rohter: "No, that's not quite right. There were Members of the School Board who were, in fact, apprised about the inter-fund loans by the attorney in 1976. But, those letters were sent only to the Finance Committee and were not shared with the other Board Members."

Jones: "That's very strange that it happened. The reason why I posed that question, because if you didn't have any knowledge as to what was going on with the School Board, I'm quite..."

Rohter: "I never said that, Sir."

Jones: "No, I mean knowledge concerning its financial picture."

Rohter: "I'm sorry."

Jones: "Knowledge concerning the financial picture of the Chicago School Board."

Rohter: "Yeah, I...I really can't hear you because of the noise around me. Could I ask you to please say it one more time?"

Jones: "I said, did you have any knowledge concerning the financial picture of the Chicago School Board as to the problems that we are now faced with?"

Rohter: "Well, I certainly knew there were problems, and I continued to address those problems. What I did not know was that there were inter-fund borrowings of restricted cash that was not to be considered available for those purposes."

Jones: "Just one other short question. I...at your recent School Board meeting you indicated that the...the poor student in the Chicago school system is making the other students poor. Could you elaborate on that and tell me what you meant by that statement?"

Rohter: "No, I wasn't talking about students being made poor. What I said was that the poor student cost and the absentee of 17% of the students everyday was making the



rest of us so poor that we would no longer be able to finance the education of the poor about whom we have so much concern."

Jones: "You said the poor student cost. Do you realize that the state aid to the Chicago public school system is more than...for the poor student, is far greater than that for the student who is not poor? And I can't conceivably see how a poor student would bring about a higher cost of education when we, in the State of Illinois, send additional monies to the Chicago public schools to educate those children."

Rohter: "Well, I don't think that that's quite the way it was said. I think that what I was talking about was the fact that the cost of educating children that are disadvantaged is considerably higher than it is for those who are not disadvantaged of whom there are so few. The majority of our school system is now classified as disadvantaged, and there are additional costs. If there are not additional costs for educating the disadvantaged, why then would there be money that is considered for that purpose? You can't have it both ways."

Jones: "I know you can't have it both ways. I know you cannot have that both ways, Mrs. Rohter. This is the reason why I went up here before the Chicago School Board more than 2 years ago and testified that the funds for the disadvantaged students should be spent on the disadvantaged student, but you say fit, as a Board Member, to take those funds and use them as general state aid, and then when we changed the law just recently, you still see fit to take the money from the poor students, but you stand before this Body now to give us the impression that you are so concerned about the poor student, but your record on the Board in the past has not indicated such."



Rohter: "I think that the money was, in fact, credited to the general fund. You remember that there was discussion about whether or not that was not where it belonged."

Speaker Schneider: "Further questions?"

Jones: "The only thing I'm saying to you, Mrs. Rohter, that for every dollar we send to the Chicago public school system, we send \$1.65 to the school system for the poor children, and it would be who...you, as the President of the Chicago School Board, to see that those poor children receive those funds for their educational need. That's all I'm saying."

Rohter: "It has never been proven that those children do not receive that money, Sir. Never has that been proven."

Jones: "It has been proven, because I can remember I had to..."

Rohter: ~~"No, Sir."~~

Speaker Schneider: "Could we...could we avoid the..."

Rohter: "No, Sir."

Speaker Schneider: "...confirming or not confirming kind of debate? Any other questions, Emil?"

Jones: "No further questions."



Speaker Schneider : "Thank you very much. Representative Skinner, now Mrs. Rohter is here."

Skinner: "I am still looking for the management letters. Did you find...?"

Speaker Schneider: "She's on the phone."

Skinner: "Did you find a courier to bring them down?"

Rohter: "Mr. Skinner, you have an exaggerated idea of what we are able to do. A courier for the Chicago Board of Education? One can hardly find a clerk to go and get something."

Skinner: "Yes, well I know the ..."

Rohter: "I have..."

Skinner: "...Department of Transportation has a number of planes which we consistently buy them, and I'm sure that there are planes going between Springfield and Chicago before we vote on this tomorrow. We'll bond a courier."

Rohter: "Ten minutes ago out in the hall you gave me your card with a note on it which said, 'May I have the management letters for the last 10 years, the past ten years by tomorrow?'"

Skinner: "Right."

Rohter: "And I said to you that I didn't know how that could be possible. I would be more than pleased to dig out my copies of the management letters and send them to you. That was 10 minutes ago, and I'm still here in this building, and when I get home, I should be more than pleased to send you those letters and any other information that is required by any Member of this Body so that I can cooperate fully with you. I cannot do it tomorrow."

Skinner: "Well, I would suggest that someone in the Thompson administration can, and if you will, if you can have someone in your...that knows your files well enough to pull them out, I am sure that someone in John Kramer's shop can get a plane up there and back."

Rohter: "The files that I have are in my home."



Skinner: "Is your husband home?"

Rohter: "My husband is not my secretary."

Skinner: "Is he home?"

Speaker Schneider: "Not at current rates, anyhow. Mr. Skinner, she will try to get her copies to you, and maybe Mr..."

Skinner: "Well, with all..."

Speaker Schneider: "We can't resolve the problem tonight, Cal. We've got the request. If there are people who can answer to that..."

Skinner: "I thought the management letters were a better way, a better thing to ask for than Arthur Anderson's head on a pike. And they told me that the letters exist, and if...from what I have been reading in the papers, the footnôte,...the footnote in the audit could not be seen by the Chicago School Board. It was a very small footnote that indicated that there were interfund transfers. But the auditor in the back-room suggested to me, on the other hand, that the management letters from 1975 were extremely explicit in their warnings about various financial shenanigans by your staff. I think they're a relevant part of the discussion, and I disagree with the Leadership of both sides of the aisle and both Houses that we ought to investigate this after we bail you out. I think we ought to investigate it before we bail you out."

Speaker Schneider: "Alright, there's a quick conference by the podium."

Skinner: "Anyway, I'll get them sometime after the Bill passes. My second question is how many schools are going to be closed?"

Rohter: "That figure is not known. The newspapers in Chicago indicated that it was possibly 35, but one of those newspapers also said Dewey was president at one time. So I really don't know how many."

Skinner: "Well one of your superintendents, Mr. 'Hanan', by name,



said 2 years ago, I believe, that 50 to 100 schools should be closed. And I don't know how many have been closed in the last 2 years."

Rohter: "Nowhere near that amount. I am quite certain."

Skinner: "Have you considered going to year-round schools so that you could, and I don't mean, ... I mean you would keep the schools in operation all year-round. The kids would only go 180 days, so that the schools you had would have an increased capacity by 1/3 so that you could cut the fixed costs of your plants substantially."

Rohter: "You know, I'm sure, that there was a program of that kind in Romeo, Illinois."

Skinner: "Yes, I do."

Rohter: "And we went there and examined that, and along about 1972, we in fact went to the extended school year. And it was proposed that that would save money. But it did not. It didn't save one penny in Chicago. It increased the costs of operating schools, and subsequently we closed the schools that were operating on year-round and returned to the standard school year of 39 weeks."

Skinner: "Well I also know that the first question that was asked to my constituent, Mrs. 'Leedman', when she made a presentation presumably... I presume to some group of school administrators, including people from Chicago, the question was, 'When do we clean the Venetian blinds?', which blew her mind because banks seem to clean Venetian blinds even though they are opened year-round. Now common logic would tell you that if you operate a school 12 months instead of 9 months, you will have greater utilization. Logic will also tell you, at least tell me... You shake your head no. If you shake your head no, you know I am wondering whether you are competent to be in the job that you are in."

Rohter: "I'm sorry, that you have that doubt. I don't have any doubt about that at all."



Skinner: "That's quite obvious, but beggars can't always be choosers."

Rohter: "I'm not a beggar."

Skinner: "Well it appears to me that the Chicago school system is a beggar here today, and if they aren't, they ought to be."

Rohter: "Well, I will respectfully disagree with you, Sir. But I will tell you why it costs more in Chicago if you will allow me that courtesy."

Skinner: "Please."

Rohter: "The original plan was that the children would go for the prescribed number of weeks, each one group for that number, and by keeping open that we could serve the additional children. What happened was everyone opted to go in for tutoring, so every one of those children was in fact going the whole year, and it did not serve the purpose for which it was intended."

Skinner: "Well why can't you say they can only go 9 months a year then?"

Rohter: "I beg your pardon."

Skinner: "Why can't you force them to take a vacation...one of the quarters off?"

Rohter: "I don't know that we couldn't. I think that there were parents' parental considerations and concerns that were adraft, and there were children in the same families that were going on a different schedule and because so many of the parents were disadvantaged and worked. There were a whole host of reasons why, but it did, in fact, in Chicago cost more money, and that can be documented."

Skinner: "Well, it would seem to me that if one were able to close 100-to-150 schools, one would be able to lay off I don't know how many janitors you have per school, but the janitors for those 100-150 schools and the principals for those 100-150 schools and the other non-teachers who don't want to be called administrators and save money. And it's...you know, you are going to have a hard time finding the money that



you have to save, and I think that with some restructuring of the idea, that it can be made to work. Because people...you know, school kids just do not have to have the summer off to throw hay up on wagons any more. We're in the 20th century now, not the 19th century, and I think it is time to move beyond the agricultural school calendar into an urban school calendar."

Rohrer: "I know that we have given some thought to adjusting the school calendar so that we would be closed during that terribly cold period of time when the heat costs are exorbitant, but I do want to suggest something else to you. If we close schools in some areas and makes a distance between schools, that far that it will require transportation, I think that there will be a problem there." We currently spend \$38,000,000 on transportation now."

Skinner: "Well, I may have been misinformed, but I have been told that 96% of the population of the City of Chicago is within 3 or 4 blocks of the CTA line, and I don't know why,...I mean, if my district were that well served, my Catholic schools would not be going up for grabs over Bills like Senate Bill 101."

Rohrer: "Well, I think part of it is that so many of the children in our system are impoverished and do, in fact, receive transportation costs, courtesy of the taxpayer."

Skinner: "Well they get bus fares now, so that means 30¢ each way, 60¢ a day, and if they're that impoverished, give them the 60¢."

Rohrer: "All those 60¢ add up. That's part of our problem."

Skinner: "Well I...it seems to me that when...if one did a cost-benefit analysis, that one would find that the cost of those 60¢'s would be cheaper than the cost of keeping the extra schools open. And..."

Rohrer: "I have no problem with what you're saying about reducing cost, but I think that one has to be very careful about making precipitous judgments on how to do that."



One of the things that we want to do is make cost cutting that will produce dollars. And there is some question about closing some schools. What will we do with them? There isn't a market for them. They're a single purpose building. Then we have vandalism costs. No one in the City of Chicago has offered to buy any of the buildings that we have closed. They're sitting vacant. They are an attractive nuisance. They're targets for vandalism. All those concerns have to be considered."

Skinner: "Well..."

Speaker Schneider: "Any further...?"

Skinner: "...If your schools are as old as the one that has been turned into an apartment building in Huntley and if...or if your schools are as new as the ones in Elmhurst, 1/4 of which were closed by a superintendent that has just taken over the Carpentersville school district, I think one can be creative. I would suggest that there are Members of the General Assembly, and I'm perhaps only the loudest or the one here on the microphone right now, who would like some indication that you're...that you really are going to do some cutting. And if we are being asked tomorrow to make a precipitous decision, I mean it is really precipitous, I mean, I'm I'm almost to the point where I'm ready to introduce a Constitutional Amendment to abolish the Legislative Branch, because we serve no useful function in this state. All the decisions are made without us, and all we have to do is come up with the money or the legislation to ratify what the power of the elite of the State of Illinois decides what we ought to do. And perhaps precipitous suggestions on how you can cut your budget by \$60,000,000 might be appreciated by some...some of the Members."

Rohter: "...Mr. Skinner, I did not say that we weren't going to close any schools. I said I didn't know how many



schools nor where at this time."

Skinner: "Well, could you ask your staff...at the School Board to determine how many schools could be closed if you went to year-round schools?"

Rohter: "I would be pleased to relay that question to them on your behalf."

Skinner: "Thank you."

Speaker Schneider: "Okay, thank you. Representative Kane, for Mrs. Rohter or others?"

Kane: "Is Dr. Mandeville still around?"

Speaker Schneider: "Dr. Mandeville. Is that where we send the state troopers?"

Kane: "Send the state troopers."

Speaker Schneider: "He's estimating '82 revenues. He'll be back...favorable...'82."

Kane: "Maybe if Dr. Man...how about Dr. Cronin?..."

Speaker Schneider: "He's right behind you or next to you. Joe, would you like to see if you can respond to these?"

Kane: "I'd like to talk to Dr. Mandeville when he gets here if he's still here."

Speaker Schneider: "Proceed."

Kane: "Dr. Cronin, we understand that there are some 48,000 employees in the Chicago school system for about 412,000 students. Is that a reasonable ratio? And how would that compare to the ratio of employees to students in the rest of the state?"

Cronin: "There's about 20 thou...27,000 teachers and 21,000 noninstructional employees. I think the number of students is higher than the number you use. I think it's in the vicinity of 450 to 460,000 students this year. Even so, with a decline of more than 75,000 students there has not been a decrease in the number of teachers for the past 6 years, which is the time when the enrollment decline has taken place."

Kane: "Well, when you're talking about 27,000 teachers, how



many of those certified teachers are actually teaching in the classroom?"

Cronin: "They let...they...6% of that number would be administrative personnel in the Chicago schools, and I would say almost all of the others are teaching. There are some assigned on special projects. There are some assigned to the offices of district superintendents. In my mind, there can be reductions made, administrative support a civil service staff, and to the teaching staff without the quality suffering."

Kane: "How many employees are presently in the central office?"

Cronin: "I believe it's about 3,000 if you include central office and district staff."

Kane: "Could that be cut substantially?"

Cronin: "Yes."

Kane: "...about noncertified personnel. As I understand, there's about one noncertified personnel for every 30 students, which is about 50% higher than the rest of the state average."

Cronin: "Yes."

Kane: "All of the talk that we've heard so far has been cutting in teachers. What would be your reaction to cuts made in the Chicago School District if the cuts are made in ...in teacher personnel?"

Cronin: "I'd say about 50% of the cuts could be made in other than the teaching personnel."

Kane: "Would you make that a strong recommendation, or if you saw that programs...teaching programs were being cut unnecessarily, would you make that known and your strong opposition known?"

Cronin: "Yes."

Kane: "What would be the...how many schools could you close when there's...there's been a reduction of some 70,000 students?"

Cronin: "I think it would be possible to close as many as



50 or 60. Perhaps, in terms of this spring, something of the order of 30 or 40 schools would be reasonable, but there's about 5 or 6 years of...of past decisions that have been deferred until this time, so perhaps 30 right now and another 20 or 30 in the next 18-months."

Kane: "Okay. What you're saying then is that there are cuts... there are a lot of cuts that could be made in terms of nonteaching programs in noncertified personnel in the central office district that can be made without cutting down teacher loads?"

Cronin: "Yes, these are, of course, local Board of Education decisions, although this School Finance Authority will be pressing them in terms of balancing the budget to make...make reductions. And, I'm making these observations, both in terms of what we're seeing smaller cities in Illinois do and also my most recent check to see how did New York City make the cuts and did they come exclusively out of teaching positions, or did they come out of the nonteaching, and they came heavily from administrative and from nonteaching positions."

Kane: "I guess what we would like to see is some strong statements from the Office of Education when those cuts are made by the City of Chicago School Board on what is happening, and how it's going to affect programs, and where other cuts possibly could be made."

Cronin: "That would be part of our ordinary monitoring procedure, so we will do that."

Kane: "Thank you. Is Dr. Mandeville here?"

Speaker Schneider: "Pardon me, Doug."

Kane: "Dr. Mandeville."

Speaker Schneider: "Oh, Director Mandeville."

Mandeville: "Yes, Sir."

Kane: "Bob, you had a sheet of paper that you took out of your inside coat pocket. I think it resembles this."

Mandeville: "Very closely."



Kane: "Cash flow."

Mandeville: "Yes."

Kane: "Where it...there's a number of numbers that talk about receipts, and it gets down to other receipts."

Mandeville: "Yes."

Kane: "What's included in that?"

Mandeville: "Okay, that would be the...that would be the categoricals."

Kane: "How much of that would be categorical?"

Mandeville: "Boy, I'm not sure exactly. I could get you the details, Representative Kane. I don't have it here with me."

Kane: "What else would be in there?"

Mandeville: "It would be any other receipts that they would get of their own...from their own sources other than state aid."

Kane: "And what about corporate personal property tax replacement? Is that included in there?"

Mandeville: "That would be in the other. Yes."

Kane: "That's in...that's in the other also?"

Mandeville: "Right."

Kane: "Okay. When it goes up from 199 million in fiscal '80 to 100...to 232 million in fiscal '81, well, what's... what's...where does the increase come?"

Mandeville: "Okay, those I'm going to have to look at. Those were Arthur Anderson numbers for the most part that did that."

Kane: "Okay."

Mandeville: "I can get you the detail. I do not have it here with me now."

Kane: "Okay. How much of that would be increased in state aid?"

Mandeville: "None."

Kane: "That 33 million?"

Mandeville: "None of that."



Kane: "None of that?"

Mandeville: "No, the increase in state aid is under the..."

Kane: "No, no, no, no, no. Increase in state dollars."

Mandeville: "Oh..."

Kane: "But you said categoricalals were in there. I would...I would include categoricalals as state aid. How much of that 33 million is...is increased state dollars?"

Mandeville: "I'm not sure. I'll have to get you the numbers. I don't have them with me."

Kane: "Would...would you guess?"

Mandeville: "I really would prefer not to, because I'm just not certain of how much is the...is the state aid. For example, would you include in there the property tax replacement or exclusive of that?"

Kane: "Exclusive, because that's basically local."

Mandeville: "Okay, then I would say...guessing I would say less than half, but it's strictly a guess, because I believe that the personal property tax replacement will go up significantly on a fiscal year basis. In other words, in fiscal year '80 they will not get a full year...a full annualized year's receipt of that replacement tax. It doesn't begin until this month. The first distribution."

Kane: "Okay. Could you tell us then how much of an increase in dollars that the state is planning to put into elementary and secondary education for your fiscal '81 budget?"

Mandeville: "No."

Kane: "Why not?"

Mandeville: "It's not March 5th."

Kane: "I...I realize that, but you're making some assumptions of the...how much of an increase in state aid is going to Chicago."

Mandeville: "Okay."

Kane: "Now, if you are willing to make that assumption, how



about making the similar assumption for the whole state and letting us know how all of us are going to fare?"

Mandeville: "The...the assumption here on general state aid, if that's your question?"

Kane: "Yes."

Mandeville: "On general state aid."

Kane: "Yes. Well, both."

Mandeville: "Well, on general state aid it's a 5% increase and is approximately what has been given in the last couple of years. That is how it was derived. Chicago has received about a 20...22 million increase each of the last couple of years, and it's derived in..."

Kane: "So, what...so what...if you're making that assumption then that you would...what you're saying is that you would give approximately 75 million additional dollars to general state aid this next year?"

Mandeville: "No, I will not make that statement. That decision has not been made. Five percent of 1.4 is about 70... 75 million."

Kane: "So that you're basically underwriting that?"

Mandeville: "I'm...I'm assuming that the increase in the state aid formula funding by the General Assembly will be about 5%. I could be off."

Kane: "And then you go into fiscal '82..."

Mandeville: "Yes."

Kane: "...and you have a 50 million increase. Are you...are... are you saying that that the Governor is going to be earmarking some 175 million in additional dollars to the general aid formula..."

Mandeville: "No."

Kane: "...in 19...in fiscal '82?"

Mandeville: "No."

Kane: "Are you then saying that Chicago is going to get a much larger share than...of the increase that it...than it has in the last several years?"



Mandeville: "That is possible if you do not change the formula. They will get much more than this increase if you do not change the formula."

Kane: "Well, these figures you are assuming..."

Speaker Schneider: "Just one second. We're winning the battle of attrition, but the noise level is creeping back up. This is an important exchange. It does deal with school aid, and the categorical portion, and estimates are always part of our unending pleasure. Would you restate the question, and...?"

Kane: "Well, this cash flow, which is the basis of this plan and this is the only way that it's going to work, assumes that Chicago is going to get an additional 50 million in state aid in fiscal '82."

Mandeville: "Uh-uh."

Kane: "We have made the determination in the General Assembly in the last three years or so that Chicago will get 30% of each new dollar, which means that if the Governor is assuming that Chicago is going to get 50 million in additional dollars, then either he is assuming that the total increase in state aid is going to be in the neighborhood of 175 million dollars into the formula or he is saying that Chicago is going to get a much larger share of school aid in fiscal '82 than has been the case in the past."

Mandeville: "Neither of..."

Kane: "Well, which one is he saying?"

Mandeville: "Neither are necessarily correct. There..."

Kane: "You've got to go one way or the other, Bob."

Mandeville: "No, Sir. I beg to differ with you. There are at least two other options that are possible, and if you look at the chart, which was a working sheet not meant to be final absolute numbers by any means, there are at least two other possibilities. One, the School Board cannot have a 70 million increase in operation as is



indicated up above. That's one option if Chicago does not receive that amount of increase in state aid. Another possibility, certainly, is that the EAB will grow in the next year or two like it grew in the last year. In which case the very modest increase to 316 in total property tax collected would be considerably higher at the given tax rate. If you want to look at the aggregate numbers, I would feel more comfortable about those. Alternatively you can cut the balance down to zero if you wish."

Kane: "Okay, as long..."

Mandeville: "There..."

Kane: "No, no, no, no, no. I'm not talking about the bottom line figure. I'm talking about the assumption of the 520 million in state aid, which is a figure that I was told that the Bureau of the Budget signed off on. Now, that the..."

Mandeville: "I don't know who told you that, but we signed off on, what I personally felt, was the numbers to look at...were the aggregate numbers of expenditures and the aggregate number of revenues. If you wish to...if you wish to make an assumption about the 50, then the assumption that follows on the 50 is that you change the formula in a way that it will benefit downstate more than it will if you do not change it because of the mechanism of the corporate personal property tax replacement and its effect on the formula."

Kane: "The Governor has said repeatedly that this plan will not take dollars out of suburban and downstate schools. There is now a cash flow chart which makes the assumption that Chicago is going to get 50 million additional dollars in general state aid in fiscal '82. Now, if Chicago does not...if that money is not taken out of other school districts, what they would otherwise get and given to Chicago, then the assumption behind this



has to be that there's going to be a total increase state-wide in general state aid in fiscal '82 of something like 175 million dollars, which is about 3 times what has happened historically. Now, either this chart doesn't make any sense or dollars are going to come out of downstate and suburban schools."

Mandeville: "Or they cannot grow by 70 million, or equalized assessed valuation will grow, or the ending available..."

Kane: "No."

Mandeville: "...balance will be less. Yes, Sir. Would you like me to construct another cash flow with the same net result making different assumptions?"

Kane: ~~"I'm just talking about the assumption of increased state aid."~~

Mandeville: "The assumption of increased state aid was made on the premise that this Body would, in fact, change the school aid formula at least partly. If they do not, the 520 will be much higher at the...at the current rate of increase from year to year."

Kane: "If the 50 million is higher and Chicago doesn't get any more than it...than the share that we have agreed that Chicago should get, then the total number of state dollars going to the general education fund is going... is also going to have to...have to go up."

Mandeville: "Well, I'm...I'm not..."

Kane: "In which case the Governor is putting himself in the position of saying that state aid to education is going to increase something like 200 million dollars in fiscal '82."

Mandeville: "Yeah. I'm not sure that what that agreement was...I'm not sure you can commit future General Assemblies. I think you are free to set that rate of increase and the formula changes any way you choose."

Kane: "On page 48 of the Bill it gives the state the authority to purchase the bonds of the...of the authority."



Mandeville: "48?"

Kane: "Page 48. The state has the authority to purchase these bonds. Why...why is that in there? Is there any... any intent by the state to purchase the bonds issued by this authority?"

Mandeville: "Pardon me, Doug. What line is that?"

Kane: "Line..."

Mandeville: "Page 48. Page 48...what...what line is that? I'm sorry. Line 28 says authorize. I think he's saying the state..."

Kane: "Now, let's see. Starting on page...line 10. The obligations are hereby made securities in which all public officers and Bodies of this state and all political subdivisions of the state, etcetera, etcetera, etcetera, are now or may hereafter be authorized to invest in the bonds."

Mandeville: "Right. I...I don't think that represents any change. It's the current existing authority of the Treasurer to invest in municipal bonds. There's... there's no...there's no change in that...in that, except that it applies to these bonds as...as it would to any other municipal bond."

Kane: "Okay. Thank you. Could I ask Mr. Schwartz a couple of questions?"

Schwartz: "Mr. Kane, do you mind if I bring my lawyer, Mr. D'Esposito, along?"

Kane: "Only if he agreed. On page 28 on lines 12 and 13 gives this authority the right to purchase obligations by the city. Why is the city included as well as the School Board?"

Schwartz: "One of the intentions is that the bridge loan amounts may be paid off by the issuance of these general obligation notes and make them the long-term obligations that we hope..."

Kane: "But it's not..."



Schwartz: "However...however, I agree with you that it is not limited and in our technical redraft it should be limited to that, and the point was made at some outrageous hour last night that it should have been. It slipped through the cracks, and an Amendment will be offered to limit it only to those bridge notes."

Kane: "Thank you. On page 29, lines 9 through 17."

Schwartz: "What...what page?"

Kane: "29."

Schwartz: "Thank you."

Kane: "Lines 9 through 17."

Schwartz: "Uh-uh."

Kane: "What does that paragraph mean?"

Schwartz: "There is a \$40,000 limit to the federal insurance.

What you want to provide is that if the...if the authority has more than \$40,000 and puts it into the bank, that in case there's a bank failure, there is something to make sure that there is no loss of money by the authority and to protect it you are collateralizing the amount above the \$40,000 insurance, so that the bank is required to show collateral to...to guarantee the payment in case the bank wants it. It is a fairly standard provision to protect governmental entities where they are depositing large amounts of money."

Kane: "Is there any requirement that the authority, when its investing its funds or putting it into banks, checking accounts and so forth or short-term investments, that...that they...well, it...it limits purchase only to investments...any cash that they don't need...is there any requirement that cash deposited in banks receives some kind of interest?"

Schwartz: "In chapter 85 on...applicable to all special districts, does provide, I believe, that for all of them that money must be invested at interest, except for monies which are required to be used within, I believe,



it's 30 days or 90. I forget which. Two days it is now? Okay. That it be invested at interest and, therefore, that would apply to this unit as a special district, unless there's some specific provision otherwise in this Bill, and I don't know of any."

Kane: "Thank you."

Speaker Schneider: "The Gentleman from Cook, Mr. Piel. Who would you like to question, Sir?"

Piel: "President Rohter, please. President Catherine Rohter of the Chicago Board of Education. Is she about?"

Speaker Schneider: "The Gentleman from Cook, the tall, handsome, blonde fellow, Mr. Piel."

Piel: "Thank you, Mr. Chairman. Mrs. Rohter, just a couple quick questions. Nothing personal at all. I realize that you're in one heck of a position, only being in

about a month and a half and sort of taking the ball as the presidency under such trying circumstances.

Can I ask how many parcels of land, and I'm talking about not a specific, you know, lumping them together, but how many parcels of land does the Chicago Board own? Do you have a ball park figure? I won't hold you to the exact figure, but a ball park figure, please?"

Rohter: "You know, I don't really have it in my mind, and I did not bring that file with me today. I did announce, either in this House or in the Senate, that there will be a meeting of the Real Estate Committee on the 16th for an update of all the property owned by us, its current value, and whatever kinds of monies we are recei...realizing from their rent."

Piel: "Do you have an idea of approximately, comparing the school property to other property, and I'm speaking about property that buildings are not on, school buildings, per se, or school grounds that are not on, what the percentages are of the two?"

Rohter: "Oh, the property that's not used for school purposes



is not anywhere near the 600 facilities that we own.
Nowhere near that."

Piel: "Do you have...I...can you give us an idea of where some of the larger parcels of property that are not used for, say 2 or 3 larger parcels of property in Chicago, that are used for something other than school purposes that school buildings are not on?"

Rohter: "Probably the best know is Midway Airport on the south side of Chicago. There's also some farm land in a suburban area. Orland Park, I believe. There are some buildings in the Loop that we own. I understand that we own the land on which the Holiday Inn is located on the near west side."

Piel: "The what was located? I'm sorry. I didn't hear. The what was located?"

Rohter: "The Holiday Inn..."

Piel: "Oh, yes. Uh-uh."

Rohter: "...on the near west side. There are some school... former school buildings that we now use for administrative offices."

Piel: "That...that's just...I just was curious about the top 2 or 3."

Rohter: "Okay."

Piel: "Can you tell me how many of these parcels are being leased right now? I mean, are the majority of your parcels that are not school property being leased?"

Rohter: "I don't know of anything that is vacant, and everything is under lease. One of the problems that we encounter is that many of those leases were entered into many, many years ago when, in fact, the agreed price was acceptable. It's only in light of today's outrageous inflation that they look as bad as they do."

Piel: "That was my next question about what type of breaks they were in on these tax exempt parcels?"

Rohter: "Yes."



Piel: "They are tax exempt. Basically, I...I will get down to the last point. I won't take a lot of time like the rest of the people have. Why hasn't that when the Board saw the financial problems they were having... let's say like the farm land in Orland, which is a prime area right now in...in the southwest suburban area as far as purchase of property...why haven't they sold some of these parcels that were not under lease to gather money? This is the thing that sort of...I just heard about this morning that parcels, you know, other than school property were owned, and I, you know, it sort of seemed like this would be a natural, especially like the Orland Park property would be a natural position to really get out of a financial dilemma."

Rohrer: "Well, my position has always been that it is a very imprudent practice to dispose of capital assets in order to gain operating expenses. I do, however, feel that we should not be in the real estate business as well as those others that I mentioned, transportation, restaurant business, recreation business, but I do object to disposing of capital assets in order to gain operating expense money."

Piel: "Yes, but...you know, what I'm trying to think of is... all right, the Chicago School Board, you know, is obviously in the City of Chicago. Like you go out to Orland, and you buy property, obviously is as an investment...investment to gain money to, you know, either for capitol improvements for the district for later on or for a, you know, paying off bonds or one thing or another. And, this, to me, you know, especially when the Board seemed like they were getting into such financial difficulties, and I, I don't see like anybody that runs into financial states. If I'm on the verge of bankruptcy, I don't wake up one morning all of a sudden and, holy mackerel, I'm going to go bank-



rupt today, you know. This is the thing why I can't figure out why they didn't do it."

Rohter: "I think that I agree with your position about selling capital assets to improve capital assets. I wouldn't have any problem with that at all."

Piel: "Thank you very much."

Rohter: "Uh-uh."

Speaker Schneider: "The Gentleman from Cook, Mr. Preston. You don't have to ask any questions, but you're welcome to."

Preston: "Thank you very much, Mr. Speaker. I'd like to ask a question of Mr. John Perkins if he's still in the chamber."

Speaker Schneider: "We still have about ten lights on, and you know there'll be debate tomorrow on...if we come to a motion to concur or not concur. Mr. Preston."

Preston: "Mr. Perkins..."

Perkins: "Yes."

Preston: "Mr. Van Gorkum indicated that he could not at this time estimate what the cost of the authority would be...the cost of running the authority both in terms of legal fees, and accounting fees, and so on."

Perkins: "Right."

Preston: "Because there'd be great costs initially during the beginning period as far as floating the bond issue and so on. Has there been any estimate of what the cost of the authority...the operating cost of the authority would be during subsequent years...during the second year and the third year?"

Perkins: "No, I don't think I could elaborate on what Mr. Van Gorkum said. It would seem to me the presumption would be it would be a lean and streamlined operation, and I would certainly hope that the overhead could be kept at a minimum but still do the job that has to be done, and certainly after it gets established and going



the operating costs ought to be rather...rather modest in relation to the size of the whole operation."

Preston: "Well, just to give me some idea of the figures that you consider modest, are...are we talking about a half-million annual budget for the authority or a million-dollar annual budget for the authority or something far less or more than that?"

Perkins: "I...I really would hate to speculate on that, because, frankly, I have not done any homework on it myself. I assume Mr. Van Gorkum has done some thinking about it and others have."

Preston: "All right. Mr. Perkins, has any consideration been given during the deliberations at the Governor's Mansion and before or after those deliberations to replacing the School Board made up today of lay people

with a professional Board made up of Members of the financial, and the legal, and the accounting community?"

Perkins: "Senator (sic), there has been considerable talk, as you can well imagine and as I'm sure you've seen, about the question of the composition of the School Board, but as far as the charge to our group was, and particularly those of us on the financial side, was to try to work to develop a program to get at this problem right now and build a solid long...longer-term financial base. Speaking as an individual, I would certainly think that that would be part of what the... of what you and the Legislature and others here in Springfield would be taking a look at if you look at the broader problem once we get over this hump."

Preston: "Well, considering that many present Members of the Chicago School Board were also Members during the time the present crisis was building up and coming to fruition, don't you think it would be somewhat irresponsible to have that School Board...the same parties making up that School Board, remain in office in the future?"



Perkins: "Well, it seems to me that that is a subject that certainly is in the purview of you Gentlemen to address, and certainly is not my...I wouldn't think would be my responsibility...or it would be a little impertinent of me to tell you how you should structure the School Board."

Preston: "Well, do you...do you have an opinion that you could give us on..."

Perkins: "My opinion would be that this may be a good opportunity to take a look at the duties and the structure of the Board and give a lot of thought to this subject...a very germane subject."

Preston: "Could you tell us if the Continental Bank is presently holding any Chicago School Board bonds or short-term notes?"

Perkins: "Yes, they have some."

Preston: "And in approximately what amounts?"

Perkins: "We have not...we have not had a policy of disclosure on...on individual items in the account, and I think I'd just as soon keep it that way. We...we tend to be in and out. We're underwriters; we're investors. It varies with our tax position and other considerations."

Preston: "All right. Mr. Perkins, under the terms of this proposed legislation, do I understand that the Board of Education could not enter into contracts unless those contracts were first approved by the authority?"

Perkins: "I would really bow to Mr. D'Esposito and some of the others who have been the technical details, but I know that it is not Mr. Van Gorkum's intent...intention or the others to have a situation where the Board takes action and then there has to be a 30- or a 60-day review by the...the authority. This would obviously be impossible as a way to operate. Rather the procedure would be that...that, as I understand it, the Board acts. It makes his decisions, and the authority reviews it and sees fit to question or ask or see if



it's within the purview of the budget, they...they take that initiative, but it's not a question of having a check and double check and second guessing."

Preston: "Well, then what is...what would the mechanism be for the...if the Board saw fit to let the contracts, what would the mechanism be to apprise the authority that the Board hasn't, in fact, letted that contract?"

Perkins: "Well, I would assume if it's within the guidelines in the budget that have been agreed upon, they'd move ahead, but I think that's something that I would really prefer to defer to those who have read in the technical... technical sides of that part. I consider that an operating problem, and obviously needs to be handled in a very smooth way to avoid delays."

Preston: "Okay. Could...could I ask a question of Mr. Van Gorkum if he's..."

Speaker Scheider: "Sure."

Preston: "...still here?" Thank you, Mr. Perkins."

Speaker Schneider: "Mr. Van Gorkum:"

Unknown: "He just wan...oh, Jerry?"

Preston: "Mr. Van Gorkum?"

Unknown: "Right here:"

Van Gorkum: "Yes, Sir."

Preston: "Thank you very much. Before asking the question I'd just like to make the comment that I...I greatly appreciate the expertise and the time that you've... you've given this Body, and..."

Van Gorkum: "Thank you."

Preston: "...both today and previous..."

Speaker Schneider: "Excuse me. For what purpose does the

Gentleman from Kankakee rise? Mr. Ryan.

Ryan: "Mr. Speaker, if I could have your attention for a minute. I wonder if since the hour is now 11:30...all of the witnesses are volunteers in this program, and I think they've been abused long enough for one period,



today at least...that we could maybe cut the debate back to three minutes instead of five. I think that's a reasonable request."

Speaker Schneider: "Well, there seems to be some objection on the Republican side there."

Ryan: "Well...well, I'm just trying to be reasonable about it, Mr. Speaker."

Speaker Schneider: "All right. We'll try to hold it down..."

Ryan: "These folks are tired, and some of them haven't eaten, and I just think it's very unfair for us to...to continue in this...in this vein. Some of these questions have been asked 14 times."

Speaker Schneider: "Well, I think the Gentleman makes a good point, but Mr. Preston has the floor now with Mr. Van Gorkum, and I...I agree with the Minority Leader at this point."

Preston: "I will try to be brief, Mr. Speaker. Mr. Van Gorkum, the provisions of this proposed legislation indicate, to they not, that the Board of Education cannot let contracts without the approval of the authority. Is that correct?"

Van Gorkum: "No, that is not correct."

Preston: "And then what will the oversight of the authority be to contracts that the Board makes?"

Van Gorkum: "The School Board must prepare a budget. They cannot then execute any contracts that are in violation of that budget. To give you the simplest example, if they give us a budget on July 18th, 45 days before the start of the new school year, that has in it an estimate of 8 million...800 million dollars for teacher salaries and three months later they sign a union contract for... on the basis of which they will have 900 million dollars worth of teacher salaries, that contract cannot be reinforced unless they then submit a modified budget showing the 900 million dollars and taking the 100 million dollars some...out of something else."



Preston: "But what will the oversight of the authority be?

What will the procedure be for the Board letting a contract? How will...how will the authority be notified that, in fact, they have entered into a contract and have the authority, at the same time, be able to examine what the terms of that contract are...say 'no' if it's going to go outside the budgetary considerations?"

Van Gorkum: "We do have the right if we want to, under this legislation, to list certain contracts which cannot be signed without our approval. I expect to use that rather sparingly, because I do not want to set up a huge bureaucracy to review all the contracts that they want to sign. I think those that can be really important and meaningful in the budget process can be determined rather quickly, certainly by the end of this school year."

Preston: "Mr. Van Gorkum, in light of the fact that many of the School Board Members are the same people who were on the School Board at the time that the current crisis was coming to fruition, do you not think that it is irresponsible to have the School Board still composed of these identical Members?"

Van Gorkum: "Well, I have no authority to change the Membership of the School Board, nor would I seek that. If other people think that they should be changed, that's up to them. I'm not going to recommend that."

Preston: "Do you have an opinion, Sir, that you can show me?"

Van Gorkum: "I am...I'm supposed to function given whatever the nature of the School Board is."

Preston: "And you said that you estimate with any accuracy the expense, the cost that the School...that the authority would have during the initial period. Has there been any estimate of the continuing operational cost of the authority?"

Van Gorkum: "No."



Preston: "...for the second year and the third year and so on?"

Van Gorkum: "No, there haven't, because I have to...I have the problem of setting this entity up, and I really, at this point, do not know how many people it's going to take. You mentioned one, for example, about contracts. If we really want to get actively involved in reviewing contracts...they entered into hundreds of contracts every year, I could have a huge staff. I don't want that. I want to get by with the minimum that I can, but...and still do an effective job, and I don't know that much about the character of the job."

Preston: "Well, the...the problem that I foresee is that the same people, who are responsible or had a position of responsibility in the past for this crisis, are going to be the same people, who are without this oversight going to be entering into contracts and making decisions."

Van Gorkum: "No, there's one basic difference. There's going to be a new chief financial officer, and that chief financial officer cannot be hired without the approval of the Oversight Committee, as you call it, and that's a very important statement. If we had had a truly competent chief financial officer for the last four years, the Board would probably not be in the situation it is. At least, it would have known what it was doing and could not now plead ignorance."

Preston: "Thank you very much, Sir."

Speaker Schneider: "The Gentleman from Lake, Mr. Deuster, who is going to try to confine himself to his Leader's two minutes, because he shook his hands..."

Deuster: "Mr. Chairman, is Mr. D'Esposito around? I have a question to direct to him, and possibly Mr. Van Gorkum might want to comment on it. The central question is here, is there any control on the control authority, or have we established another entity that's not accountable to anybody? I want...and I want to elaborate



by saying this, whenever you give a group of human beings some money they might mismanage it. So, we have the Chicago School Board that apparently has mismanaged some money, so now we're going to control... create a control authority to look over them and, as I read through this Bill, the only accountability I see anywhere with respect to the General Assembly making sure that the control authority does what we have confidence and hope that they will do, is on page 47. They are going to give us a report. Now, to further expand on my question as I pose it to you, the Mayor and the Governor appoint this five-Member Board without any confirmation by the Senate... any involvement by the General Assembly. We have no way of removing them.

All we're going to do is get a report from them, and although I have high confidence in the good work done so far, they're going to last for maybe 30 years or a long time. What are we in the General Assembly do? What accountability do we have over their performance?"

D'Esposito: "There are, it seems to me, two things. First of all, there is the power of the General Assembly to amend the law. Secondly, there is the power of the Auditor General to audit the operations of the authority."

Deuster: "I'll direct your attention to page 44 with reference to your suggestion that we can amend the law. You'll find on page 44 in line 28 the same provision we put in the RTA Act that says the State of Illinois pledges to the bondholders that we will not limit or alter the rights and powers vested in the authority of this Act."

D'Esposito: "We...right. So as to...it..."

Deuster: "So, we have a...kind of powerless...to even amend the Act once we create this..."

D'Esposito: "That..."

Deuster: "That's true for now..."

D'Esposito: "That point was made earlier by another Representa..."



tive. I made the...I made the distinction between the power of the General Assembly to abolish the financial portions during the outstanding term of the bonds, which you cannot do, and the power of the General Assembly to alter the control functions in anyway, something that I think you can do, and I think the statutes should say so specifically. In addition, the...the statute does give the Auditor General the power to audit the operation of this authority just as he audits the operations of any other state agency."

Deuster: "Thank you very much."

Speaker Schneider: "The Gentleman from Cook, Mr. Ewell, for a question."

Ewell: "Yeah, Mrs. Rohter."

Speaker Schneider: "I want to remind the Members as well that the witnesses have been up late every night working on these matters and have been before the Senate today and the caucuses in the Senate and the House Republican caucus, and these witnesses had a very, very long week and days, and Lee Schwartz has worked late at night, and I think, really it's 20 after 11. Mrs. Rohter:

Ewell: "Well, if somebody else is up there first, I have just a couple of questions."

Speaker Schneider: "She's" coming."

Ewell: "I'm going to be brief. You can give me Van Gorkum first."

Speaker Schneider: "No, that wasn't aimed at you, Mr. Ewell. I was just..."

Ewell: "No, no, no. Well, I'll take Van Gorkum first. He's

Speaker Schneider: "No, Mrs. Rohter is here. Representative Raymond Ewell."

Ewell: "Mrs. Rohter, you were a Member of an audit Committee for how long before you became at your present position? Audit Committee."



Rohter: "The Audit Committee was constituted about 2½ years ago."

Ewell: "And in that 2½ years, what did you audit?"

Rohter: "I think that I explained either here or in the Senate today that the time of the Audit Committee, which is part of the Management Committee, was taken up primarily with trying to put in place a policy manual for a billion dollar entity that never should have operated without one."

Ewell: "Would...?"

Rohter: "In the last year, 1979, most of our time on weekly meetings went into putting together a performance contract for the superintendency."

Ewell: "Would the answer be that you audited nothing?"

Rohter: "I beg your pardon."

Ewell: "Would it be correct to say that you audited nothing?"

Rohter: "Oh, the Audit Committee does not audit..."

Ewell: "Well, what...?"

Rohter: "...The Audit Comm..."

Ewell: "What would you tell me and this Body...?"

Rohter: "Do you want me to finish the answer?"

Ewell: "...what does an Audit Committee do if they don't audit?"

Rohter: "An Audit Committee receives audits from the outside auditors."

Ewell: "I know...I understand that you pay people to do it... but once you receive these...how...would you tell the Com...the Body here approximately how many audit reports you receive for outside help and tell us about how much you paid for them, too, you know?"

Rohter: "I can't tell you what the fees are."

Ewell: "Okay. I..."

Rohter: "I can't remember."

Ewell: "All right. Then how many reports did you receive in this 2 years that you were on this Committee?"

Rohter: "Maybe 2."

Ewell: "Okay. Now, I happen to have had the good fortune of



hearing the testimony in the Senate, and I listened very carefully to all of it. Would you...well, let me just save that for tomorrow. But, let me ask a couple of questions. How many businesses is the Board of Education in besides education? Approximately. Just tell us."

Rohter: "Real estate, restaurant, transportation, recreation, health."

Ewell: "Now, as I understood your testimony from the Senate side, that you were, to a great degree, responsible for the selection of Mrs. 'Crusoe' as the now acting superintendent of public schools. Is that correct?"

Rohter: "I said and say now that she was my choice and my recommendation."

Ewell: "And you...well, in the Senate you elaborated a little bit. You told us that you went in and you had the conversation with the Mayor and you made the recommendation when the Mayor asked you, 'Who would you like?', and you said, 'I'd like Mrs. Rohter...I mean, Mrs. 'Crusoe'."

Rohter: "Mr. Chew did not allow me to finish, and if you would allow me to finish, I'd be more than happy to tell you how that happened."

Ewell: "Delighted."

Rohter: "Okay. I went to see the Mayor. She asked me what we were doing about an interim superintendent, and I said we were considering it. She said, 'Who's the candidate?' I said everybody has a candidate, and she said, 'Do you have one?', and I said, yes. 'Who is it?'. Dr. 'Crusoe'. 'Do I know her?'. I don't know. Would you like to meet her? Yes, the next time you're here bring her over, and I'd like to see her."

Ewell: "And the...the then acting superintendent was Manford Bird, or the then assistant to Dr. Hanner was the Manford Bird. Is that correct?"



Rohter: "No, there wasn't anyone acting in that capacity at that time. There were several deputy superintendents, one of whom was Dr. Bird."

Ewell: "All right. We won't argue the point. We heard some testimony, or at least I heard in the Senate, that out of 48,000 employees, it was my understanding that somewhere 21,000 were in-classroom teachers. Is that correct?"

Rohter: "Someone made that statement, but it was not I. All I said was that we had about 27,000 teachers. I did not know how many..."

Ewell: "All right."

Rohter: "...were actually in a classroom."

Ewell: "Well, someone did make the statement that there were about 20,000 in-class... do you recall who made that statement, so I could have them...? Oh, Dr. Cronin. Thank you. Oh, all right. I'll ask him. The...well, Mrs. Rohter, you've had a very difficult day, and I'm... I would ask that if I could now talk to Mr. Van Gorkum..."

Rohter: "Thank you."

Ewell: "Thank you very kindly."

Speaker Schneider: "Thank...thank you. Mr. Ewell has asked for Mr. Van Gorkum."

Ewell: "Mr. Van Gorkum, when I was present in the Senate, was I correct when I heard you state that you had been the tentative selection of the Governor and the Mayor to head this Committee, and that was your understanding?"

Van Gorkum: "Yes, I think that's correct."

Ewell: "All right."

Van Gorkum: "It sounds kind of, you know..."

Ewell: "I understand how..."

Van Gorkum: "Yes..."

Ewell: "...it came out, but we just like to make the record..."

Van Gorkum: "Right..."

Ewell: "...clear. Now, Dr. Van Gorkum, of the people..."



Van Gorkum: "I'm not a doctor."

Ewell: "Oh, I'm...everybody on the Board of Education is a doctor."

Speaker-Schneider: "No, he's a lawyer like you and a CPA Chairman of the company and all that."

Ewell: "Well, Dr. Van Gorkum, one of the other problems that we had in the selection of this financial problem with the schools, it's...I understand that you would not comment on who the Board ought to be or whether it's wise to make a new Board or anything of that fashion. But, while you were selecting advice and consideration upon the problems of the financing of the school system, which as I understand it is approximately 80% black and Latino, did you have the occasion to talk to any of the blacks who might have been well-informed in terms of finances?"

Van Gorkum: "I couldn't hear all of that. It's kind of noisy in here."

Ewell: "Well, one of the things that occurs to me is that we had a past Comptroller of the city by the name of Burriss. We had a Comptroller of the state by the name of Burriss. We had a City Treasurer by the name of Mr. Partee. We even had an ex-Chairman of Appropriation here by Mr. Barnes who's now Chairman of the CTA. At any point were any blacks brought into this discussion as to how we should attempt to solve this tremendous financial problem?"

Van Gorkum: "No..."

Ewell: "To your knowledge."

Van Gorkum: "Nobody was brought into the...you're talking about the conferences we had last year...last week at the Governor's Mansion and all of..."

Ewell: "No...yes, the conferences that you had ever since this class has..."

Van Gorkum: "Well, the answer to that is nobody was brought..."



into the discussions because he was black. There did happen to be one of the people from Merrill Lynch. We chose people because of their technical talents. We had lawyers, we had accountants, and we had financial people from the financial community. One of those happened to be black. He's from Merrill Lynch. Wait...Merrill...no...yeah. Laissez faire, but he's here because he's from Laissez faire and not because he's black."

Ewell: "Excellent. In order to brief, could I ask Mr. John Perkins a question?"

Speaker Schneider: "Yes, Mr. Van Gorkum's excused. Mr. Perkins. Representative Ewell from the County of Cook. He hasn't asked the question yet."

Ewell: "Mr. Perkins, as President of the Continental Bank, I assume that you are...in fact, I know that you are very knowledgeable about tax matters and money matters and the like. Without a tax increase, would you recommend that these bonds that we anticipate selling would be a good investment?"

Perkins: "The bonds, as they are structured, will be a good investment. The..."

Ewell: "For who?"

Perkins: "Hmmm?"

Ewell: "For who? I mean, would you recommend them to your clients, your bank...investment?"

Perkins: "A good investment for the investor, whether it's a bank, an individual, or what. They are structured in such a way that they are very sound investments. Now, the question of whether or not a tax increase is there has been explained a number of times. The program is to get hold of the expenditure side, and we'll see how the deviations..."

Ewell: "All right. Now, Mr. Perkins, in your business as President of Continental Bank, undoubtedly you've come into contact with businesses that have been failing,



where there's been mismanagement, malfeasance, nonfeasance, no feasance, and all kinds of problems. Is it your general practice where this type of thing has occurred that wouldn't you ordinarily recommend a change in the personnel of the people who had been running the business?"

Perkins: "I think you have to be careful about generalizing there, because a lot of it...you throw together malfeasance, misfeasance, or perhaps problems of a market going wrong and other things. You also generalize in the sense that you're talking about people in a very broad way. In situations like that, we...where we're involved we obviously look very carefully and we look at it individually, we look at the circumstances, and we use our best judgment at the time. A number of those cases would involve recommending, if it didn't happen already, that perhaps there be some changes."

Ewell: "Would you look as snide at an Audit Commission who only audited two things in 2½ years?"

Perkins: "Would I what?"

Ewell: "Would you look asunder at an Audit Committee that only audited two things with a budget the size of the Chicago Board of Education in two years?"

Perkins: "Well, I'm not quite sure exactly what what was meant by what was said. The Audit Committee, as you know, does not make audits. It reviews the audits in the practices of the...of the Public Auditor, it directs them to do certain things, there are programs that are agreed upon by the Committee, and I'm just not familiar with the practices in the...in the municipal area in that much detail. Some of our technicians are. I know the practices of Audit Committees and private corporations, but we're dealing with apples and oranges."

Ewell: "All right. Thank you. Would Mr. Dr. Mandeville... have one question?"

Speaker Schneider: "Dr. Mandeville. Repre...Representative



Raymond Ewell."

Mandeville: "Yes, Sir."

Ewell: "As...I've heard the other answers and to a number of Mr. Kane's questions...a number of the others, but when you are computing the formula for state aid...in other words, when the formula for state aid is computed, does downstate include for that purpose the cost of their transportation in the computation of the amount of aid that they receive?"

Mandeville: "Uh..."

Ewell: "Present."

Mandeville: "I'm not...I'm not sure that trans...downstate transportation..."

Ewell: "...costs are..."

Mandeville: "Yeah."

Ewell: "...included as one of the..."

Mandeville: "...of the..."

Ewell: "...costs of...it's used in computing the amount of money that they receive in school aid."

Mandeville: "No. They...no, I think the answer is that the tax rate is included in the tax rate to determine whether or not the school district has full access to the formula...under the old formula."

Ewell: "Well..."

Mandeville: "That may become irrelevant under the new formula."

Ewell: "Well, under the...under the old formula, and I think if you check with Mr. Stuffle and some people who keep a close idea on it, that the cost of transportation is included in figuring the amount of aid to the downstate School Boards. Is that correct?"

Mandeville: "Yeah, it is included."

Ewell: "Yes, it is included."

Mandeville: "Now, now, wait." Would Mr. Ewell...

Mandeville: "All right, and now..."

Mandeville: "No."



Ewell: "Hmmm?"

Mandeville: "No."

Speaker Schneider: "Representative Ewell, let him answer the question, please."

Mandeville: "Let me answer it. The transportat...the regular transportation tax rate is part of the tax rate included for purposes of determining state aid. However, the current formula allowing full access without the same minimum qualifying tax rate may make that an irrelevant question. I don't know where you're leading to."

Ewell: "Well, the...the relevancy is that Chicago does not get a comparable deduction for the cost of transportation."

Mandeville: "But...okay. Yeah, they were primarily..."

Ewell: "In other words, Chicago gets a little shortchanged simply because you include the cost of transportation downstate in figuring the amount of aid that they receive."

Mandeville: "That may be true, but it is also irrelevant. The...the...while Chicago does not share heavily in the regular transportation, they have a playground tax rate, they also have a textbook tax rate, and all of it is irrelevant, because the tax...the remaining tax rate for Chicago, even after the reduction proposed in this Bill, is more than enough to meet the minifying...qualifying under full access."

Ewell: "Now, the final question. When you take a tax rate of \$2.11 and allocate 50¢ for the purpose of retiring bonds, how much money approximately or what percent would that constitute that the Board of Education no longer has to spend on educational purposes?"

Mandeville: "That's a...that's a fairly complex question, but let me attempt to answer it this way. For each one percent of taxing power that you take away from the School Board, you lose over \$110 million in tax revenue. So a 50 percent reduction results in 50 million less property tax



revenue. That is roughly 4% of the current operating budget exclusive of debt consideration...debt service, but I think it is...it is not, therefore, correct to conclude that they lose that amount for educational purposes, because the 50¢ is subsequently used to leverage long-term debt which is used precisely for the School Board."

Ewell: "All right. Well, finally I...there are other people... just as Mr...or Attorney Esposito (sic)..."

Mandeville: "D'Esposito."

D'Esposito: "Yes, Sir."

Ewell: "I know tomorrow when this Bill comes through that we won't be allowed to make Amendments from the floor, because the Senate has already spoken, but to your knowledge how many technical Amendments has...have such people as 'Chapin and Gohr' decided that we need in order to make this Bill acceptable for the bondholders? In other words, we know that tomorrow we're going to come up with a number of Amendments that say, well, the council for 'Chapin and Gohr' say that these bonds are not salable unless we put X language in, A provision, B subparagraph. How many at this time do you have? Just if you can tell the Body."

D'Esposito: "I don't know, Representative. The..."

Ewell: "There are some, though, aren't there?"

D'Esposito: "It is anticipated that there will be some technical Amendments offered in the Senate."

Ewell: "So, in other words, the Bill will be amended tomorrow but..."

D'Esposito: "Well, whether it will be amended or not is up to the Senate. I..."

Ewell: "Do you know the number, sir?"

D'Esposito: "There will be some..."

Ewell: "...that might be participating?"

D'Esposito: "I do not."



Ewell: "All right. And the final question, is it not true that once this Board is in place it's got to stay in place for 27 years, approximately, or at least 2 years after the bonds have been retired?"

D'Esposito: "With respect to its debt service requirements that's correct. I have...I have..."

Ewell: "We are..."

D'Esposito: "...made the point previously, though, that it is ...it is possible that the control function of the Board could be abolished by the General Assembly."

Ewell: "I understand that, and so...but they could be worth..."

D'Esposito: "And it still may...and they'll probably be solidified."

Ewell: "We're putting a 27-year proposition into place in one day. I think that's great of us, and I think it's a wonderful thing for this Body to be capable of acting so swiftly and concisely. The final question is, I know that since you're with the legal staff at all, did they...do you have an opinion as to how many votes might be required to make this law?"

D'Esposito: "I believe that's a question for the Chair, and I'll let them respond to it."

Speaker Pierce: "Yeah, I don't want executive branch people telling us how to run our Legislature, Mr. Ewell."

Ewell: "Mr. Pierce, we should have thought about that a few days ago. They've already told us. Thank you. I have no further questions."

Speaker Pierce: "I think we can top that, though. The Gentleman from Cook, Mr. Gaines...speaking of top, Mr. Ewell."

Gaines: "Since Mr. Ewell and I come from the same district, it's just a continuation of the same line of question."

Speaker Pierce: "We don't have to repeat every question, though, Chuck."

Gaines: "A continuation, not repeat."



Speaker Pierce: "All right. Who would you like on the firing line?"

Gaines: "Mr. Quern, Mr. D'Esposito, and Catherine Rohter."

Speaker Pierce: "Who...okay. Mr. Quern."

Gaines: "Mr. Quern, the residents of my district have basically been asking me about the conference that blew up this item that we're supposed to accept. Did the Governor choose everyone who attended the meeting or did the Mayor have a voice in determining who attended?"

Quern: "Representative, we turned to the various groups that had been involved in the discussions over the financing and operations of the schools that we had been working with since mid-November when the School Board came to us. So, we turned to the School Board, to the Mayor, to the Union, to the Treasurer, to the State Superintendent of Education, and to the two financial institutions that we had been working with who had contacted us and asked them to send somebody to Springfield. This was after weeks of trying to resolve this question, trying to get people to agree, to cooperate in some fashion which assured that risk would be shared equally or similiarly with the state if a solution involves state action. The focus of the conference was on education...excuse me, it was on financing education and it was on the emergency situation. That's why we worked with those people who are most involved with the operations and the financing of the Chicago Board of Education."

Gaines: "Well, that still doesn't answer my question. Well... you're saying that the Mayor did have a voice in who attended?"

Quern: "Representative Gaines, I said we invited each of those parties, so the Mayor determined who was to represent her. He don't have the right every question."

Gaines: "Oh, well, the question she didn't have was voice in it. Were...why were the City Comptroller and State



Treasurer invited, and the State Comptroller and City Treasurer not invited?"

Quern: "The State Comptroller was...I'm not sure if he was invited there, but we had discussions with him by...on the phone."

Gaines: "He was not invited."

Quern: "He was not...in all of the plans that were discussed at that time, he was not involved. We turned, primarily, to those who had financial resources to invest in the schools."

Gaines: "What about the City Treasurer? He's the custodian to all the...all the funds."

Quern: "We turned to the Mayor from the beginning and determined from her who she wanted to represent the city."

Gaines: "Were any blacks considered when the list of invitees were considered?"

Quern: "No one was invited on the basis of anything other than their financial expertise or their expertise in the operations and administration of the Chicago schools."

Gaines: "Did it ever occur to the persons doing the inviting that blacks should be included in the solving of the Chicago school mess when 60% of the students were black?"

Quern: "There was no attempt to solve the problem over the weekend in the Mansion. The attempt was to find a financing arrangement which would enable the schools to stay open. If we didn't keep the schools open, there never would be an opportunity to sit down and deal with the educational issues."

Gaines: "Well, the black community is quite concerned that while we appear to want to do things for us like they did in slavery instead of with us, and the 50c diverted to pay the bondholders taken from the funds to be used to pay the educational needs of the children?"



Quern: "The levy?"

Gaines: "Yes, the 50¢ levy. Is that taken out of the part that used to go for education?"

Quern: "It isn't. Yes, it is reduced from that part of the levy which has been used for the operations of the schools."

Gaines: "Well, I thought you said you weren't involved in education. Now, you're taking money away from education. You've reduced education."

Quern: "Again, that was a financing problem, because there was no money for education."

Gaines: "You..."

Quern: "If we didn't find a way to lend...to enter into an arrangement which would allow the schools to borrow money, there would be no education. The educational fund, indeed, was bankrupt."

Gaines: "But, it is being reduced. Is that correct?"

Quern: "The levy...if this plan were enacted, the levy would be reduced, but the funds would still be available for education purposes."

Gaines: "But, less than what they would be if it had not been reduced."

Quern: "But, they would be available at a time to keep the schools open rather than later in the future when the schools might have closed."

Gaines: "Does this not mean that the Chicago school children have less of a tax base for educational services than downstate school children?"

Quern: "No."

Gaines: "Well, why doesn't it?"

Quern: "There is no..."

Gaines: "They don't have 50¢ taken off the top."

Quern: "The levy that is determined by the locality and

approved by the legislature and the State Board of Education.

This levy was altered in a way to arrange long-term



bonds, which would provide monies to be used for education...operations of education."

Gaines: "But, a smaller percentage of the...of the tax money will be available for education than there was previously. Is that correct?"

Quern: "No, Sir. If you realize that the monies that will be produced by the 50¢ reduction will produce borrowings of 500 million, which in turn will be used for the education of children, you will see that there is no reduction in the amount overall that will end up serving the purpose of education. What has changed here is that, at the moment that we met, the schools had no money. Without this kind of arrangement, they would continue to have no money. There would be no education at all. This provides a hope for getting money in there and keeping the schools open."

Gaines: "Well, 10 years ago they had a higher percentage going for education. Is that correct?"

Quern: "A higher percentage of...?"

Gaines: "Of the tax levy."

Quern: "I don't know, Representative."

Gaines: "Before, tax levy was used for education 10 years ago, and now 50¢ is taken off for a debt service. Do the people who stayed all night and all day at the Governor's Mansion in these various conferences...do they honestly feel that the Chicago schools can run without the cooperation of the black community?"

Quern: "Of course not, Representative, and as I've sta..."

Gaines: "Well, what...?"

Quern: "...and as I've said a number of times today and I said in my opening remarks our desire was to keep the schools open at this point of crisis and that there would be time enough to deal with what had happened and who was responsible, and that the only way we could deal with what needed to be done to keep the schools open



was to provide for emergency action at this time. The desire to work out a means of enabling public education in Chicago to continue is a desire to provide stabilization now and an opportunity for everybody in the community to help settle that. The School Board will continue to play the significant and central role in making those education decisions. The control Board will be a Board that will look at the financing, and that is a bottom line look at the financing of education."

Gaines: "Why weren't minority banks included?"

Quern: "Time and again, the Governor has said in public statements, in many, in many, many comments that he was willing to participate in a program of investing state...having the Treasurer invest state funds in state aid certificates if the banks of the City of Chicago were to come forward. We know of no other banks stepping forward. We do know that the two major banks came to us at the first sign of the crisis and began working with us as representatives of the financial community who had been working with the School Board for years."



Gaines: "Well thank you, Mr. Quern. May I speak to either Mr. D'Esposito or Ms. Rohter."

Speaker Schneider: "Mr. D'Esposito is here. Keep on the case, Charlie."

Gaines: "Mr. D'Esposito, on Section 34 (a) 503, it says that the Control Board...or whatever Authority has a right to demand and direct the City Council to pass an ordinance for...levy collection of the taxes on all taxable property located within the school district. The City Council is an elected Body, how can this Authority direct them to do anything?"

D'Esposito: "Representative, I believe if you read the current provisions with respect to the tax levy of the Board of Education of the City of Chicago you will see similar language. The Board of Education as an appointed Body is not authorized to levy an ad valorem property tax under the 1870 Constitution. And some lawyers think that prohibition remains and so it is required that an appointed Body have the elected Body levy the tax."

Gaines: "What happens if the City Council refuses to enact such an ordinance?"

D'Esposito: "They may be directed to do so...and that may be enforced in a court."

Gaines: "So in other words, they are exercising legislative powers then?"

D'Esposito: "No, the Legislature exercise...the Legislature..."

Gaines: "No, you're saying that they have a right to make the City Council levy a tax."

D'Esposito: "That's correct."

Gaines: "Well then they, in fact, are exercising legislative powers?"

D'Esposito: "You're...someone on the other side answered the question by saying that you are exercising legislative powers by authorizing the Board of



Direction...the Board of Directors to authorize...
to direct the City Council to levy the tax."

Gaines: "Will a referendum be required?"

D'Esposito: "A referendum is not required for the issuance
of the five hundred million dollars in this particular
Amendment."

Gaines: "Do you mean to say you are going to tax my folks
and not have a referendum?"

D'Esposito: "That's what this Bill provides."

Gaines: "So, in other words, we're providing a tax raise
without referendum in this Bill."

D'Esposito: "We are providing... Representative Gaines, under
the construction of this Bill, the tax rate levied
by the Control Board together with the tax rate of
the Board of Education is equal to the tax rate
currently levied by the Board of Education for
operating purposes."

Gaines: "But authorizing them to..."

D'Esposito: "There is no referendum requirement."

Gaines: "But authorizes them to raise it, does it not...
without a referendum?"

D'Esposito: "It authorizes them to levy a tax for so much
as it's necessary to retire the principle and interest
on the bonds."

Gaines: "Without referendum?"

D'Esposito: "Without referendum."

Gaines: "On Section 34 (a), 510, the state agrees that the
state will not limit or alter the rights and powers
vested in the authority by this Act so as to impair
the items of any contract made by the authority. Now
who is to determine the possible impact of any future
administrative action?"

D'Esposito: "I'm not sure I understand the question,
Representative."

Gaines: "Well, suppose two years from now we decide that the



School Board or whoever the authority, needs to issue some additional bonds. Now would our...authorizing them to flow some additional bonds be construed as impairing the security of other bond holders?"

D'Esposito: "No."

Gaines: "Would this say that we could not abolish them or change their structure?"

D'Esposito: "I've answered that question on a couple of occasions by saying that this would prohibit the Legislature from abolishing the School Finance Authority in its financing aspects until the bond holders...the bonds have been retired. I do not believe there is any such prohibition against changing the control structure of the board and the Amendments offered tomorrow, I believe, will make that explicit."

Gaines: "It says, 'Authorities shall public hearings as it may be appropriate. Does not the open meetings that comply...and every meeting of public...'"

D'Esposito: "The...with...there are two separate provisions. There is a provision early in the Bill which makes explicit that meetings of this Authority are subject to the Open Meetings Act. In addition to that, Section 601, encourages the Authority to hold public hearings to receive input in developing its responsibilities."

Gaines: "So they can't hold secret hearings?"

D'Esposito: "They may hold secret hearings as any other municipal corporation may hold secret hearings under the terms of the Open Meetings Act. The same ~~exclusions from the requirements from open meetings~~ that apply to all local governments would apply to this Authority, yes."

Gaines: "By Section 34 A-604, Abolition of Authority. Abolished...as his obligations shall be fully paid."



Is this a self-perpetuating clause? Can't they continually make new obligations so that they will be...a...a...imperpetuity?"

D'Esposito: "No, presumably at the outside, the Board will exist...the Authority will exist for no more than thirty years."

Gaines: "Well what will stop them from making a new obligation?"

D'Esposito: "They only have the authority to issue up to five hundred million dollars worth of bonds. And they may not..."

Gaines: "When...what, the bonds?"

D'Esposito: "They may not be reissued."

Gaines: "Would they all become due at the same time?"

D'Esposito: "That depends upon how they are issued."

Gaines: "If they are issued in such a staggered manner, like most of them are, some will become due before others."

D'Esposito: "All right."

Gaines: "Then when the first batch is paid off, then they would have the authority to issue some more?"

D'Esposito: "No."

Gaines: "Why not?"

D'Esposito: "Because the Illinois law, unless explicitly authorizing people to issue upon retirement of principle, does not so permit."

Gaines: "So, they would not be able to encourage any other obligations? What about other obligations, such as Bills?"

D'Esposito: "Such as what?"

Gaines: "Such as bills. They buy something and...on credit...then an obligation..."

D'Esposito: "They are required, like every other local government, to spend money only to the extent that they have adopted in the budget and have funds available for that purpose. So they are not permitted to engage..."



in installment purchases, to the best of my knowledge."

Gaines: "Well what about real estate, would you put a mortgage on it?"

D'Esposito: "The law would permit them to mortgage real estate to the extent that they own it, yes."

Gaines: "Well then couldn't they, half way through their existence, put a mortgage on for thirty years and extend their existence fifteen more years?"

D'Esposito: "They...mortgage is not a defined obligation."

Gaines: "You just said it was."

D'Esposito: "No. The word obligation is capitalized and is specifically defined in the definition section of the Bill to include bonds and notes of the Authority."

Gaines: "Now how many lawyers have drawn this up and how many lawyers went to that meeting last night? And how many are going to be there tonight?"

D'Esposito: "In response to that question in the Senate, I said I thought there were from twenty-five to thirty people in the meeting. I'm not certain how many of them have law degrees."

Gaines: "How many that you know are lawyers?"

D'Esposito: "I didn't make a count, Representative."

Gaines: "About how many?"

D'Esposito: "There were lawyers representing the parties in the meeting, which included Representatives of this Chamber."

Gaines: "Who are paying these lawyers?"

D'Esposito: "Presumably the people from the lawyer's work."

Gaines: "Are they charging the state?"

D'Esposito: "Are they charging the state?"

Gaines: "Yes, is the state hiring any lawyers?"

D'Esposito: "The state has retained a law firm to assist us in this work, yes."

Gaines: "Why didn't they use the Attorney General's office."

The statute says the Attorney General shall be a



lawyer for all state officials."

D'Esposito: "The Attorney General is busy."

Gaines: "His office isn't. His office isn't. I can talk with him, why can't you? He'll answer you. If you can't call him, I can and will. What I'm saying is that you have all these lawyers drawing these Bills up and advising you as to what is and what isn't. So why don't give the rest of us time to take it to our lawyers? I know some good lawyers."

D'Esposito: "Your lawyers had the Bill last evening, Representative Gaines."

Gaines: "But yours had all the time. Mine is in Chicago."

D'Esposito: "All right."

Gaines: "So I didn't have time to go back. But anyway..."

Speaker Schneider: "Do you have any more questions, Charlie?"

Gaines: "Yes. I want to know why they come up with this Philadelphia lawyer...obligation and want us to take it all in one night. All right. May I speak to the Lady, Ms. Rohter."

Speaker Schneider: "Ms. Rohter. If Ms. Rohter is in the sound of the Chair...and she is. Representative Gaines."

Gaines: "Ms. Rohter, do you serve without pay?"

Rohter: "Yes, Sir."

Gaines: "Do you have another job?"

Rohter: "No, Sir."

Gaines: "And how are you supported?"

Speaker Schneider: "Charlie, really, I mean, the bonding is one thing...personal finances is another."

Gaines: "No, it isn't. If she were employed, you would expect her to answer that, you'd want to know where she's coming from."

Speaker Schneider: "Mr. Conti."

Conti: "Mr. Speaker, I think this is entirely out of order. Now it's getting late and now if we're going to get



foolish about this... It's none of our business how she earns her living or what her husband does or what she does. The problem here tonight is the school crisis in Chicago. And I think we are getting a little bit out of line now. I've sat here for four hours and listened to this nonsense. I refuse to listen to anymore of this."

Speaker Schneider: "Well, Representative Gaines, if you just would, you know, get directly to the question without the rhetorical notions I think we would be far more advanced."

Gaines: "Well, the people in my district want to know the background of these people who drew up this Bill. And they want to know who are they responsible to and who are they responsible to. Now, Ms. Rohter, do you know what amount of bonds that Mr. Perkins' bank holds?"

Rohter: "I'm sorry, I didn't hear you."

Gaines: "Do you know what amount of bonds that Mr. Perkins' bank holds?"

Rohter: "Do I know what kind of bonds..."

Gaines: "The amount. You were on the Board at the time that Mr. Perkins' bank, as I understand it, was given an opportunity to purchase...the only bank given the opportunity to purchase a series of bonds ..."

Speaker Schneider: "Are those school bonds?"

Gaines: "School bonds, yes."

Speaker Schneider: "School bonds. The answer is no."

Rohter: "I can't recall."

Gaines: "You can't recall. Is there a Gentleman on the Board from Mr. Perkins' bank?"

Rohter: "Is..."

Gaines: "Is there a Gentleman on the Board from Mr. Perkins' bank?"



Rohter: "There is a colleague on the Board who is employed by the Continental Illinois National Bank and Trust Company."

Gaines: "And they ended up with the bonds. Thank you."

Speaker Schneider: "All right. Thank you, Representative Gaines. Now Representative Bullock."

Rohter: "Mr. Speaker..."

Speaker Schneider: "I'm sorry. Would you like to..."

Rohter: "I think that it's instructive and useful for me to indicate to the Members of the House that in every issue relating to that kind of a vote, my colleague abstained on the grounds that he might very well have a conflict of interest."

Speaker Schneider: "Thank you. Now, Representative Bullock."

Bullock: "Thank you, Mr. Speaker and Ladies and Gentlemen of the House..."

Speaker Schneider: "Who would you like to direct your questions to? Which of the various Members..."

Bullock: "Well, I understand the little interpretation of that, Mr. Speaker."

Speaker Schneider: "Pardon."

Bullock: "I understand the little interpretation of who I would like to speak to. I was merely addressing the Chair."

Speaker Schneider: "Oh, all right. Proceed."

Bullock: "Perfunctorily. I would like to ask the President of the Chicago School Board, Ms. Rohter, is she might step back for just two questions."

Speaker Schneider: "Thanks, Larry, I would appreciate that."

Rohter: "Yes, Sir."

Bullock: "Unfortunately, time does not permit, at least I think the hour is going high and most of us would like leave, so time really does not permit me to ask all of the questions that I would like answered. I did opportunity earlier to speak with Mr. Perkins"



outside and most of my financial questions were answered. So the two questions that I'm concerned about relate more to Board policy and how the Board conducts its business, particularly through the office of its President. Earlier this evening, in response to the Representative from Peoria's question, as it relates to the lack of funds coming to the Chicago Board as a result of possible federal litigation and a desegregation suit. The question was asked, and if I have my notes correctly, I think part of your response was that you did not discern any appreciable benefit to the school system from such a policy being pursued, i.e., the desegregation suit.

Now I wish if you might perhaps explain to us, is that a statement of policy of the Board or is that a personal observation that you are making at this time?"

Rohrer: "I think that what I said was, very little educational benefits."

Bullock: "Could you embellish upon that, Ms. Rohrer?"

Rohrer: "Well, I don't know exactly what you would like to hear from me. But the question, as I remember, was, 'What would it cost?' And I said, 'Untold millions, with very little educational benefit.' There is nothing to prove that sending anyone anywhere does anything for them except to increase the transportation appropriation in the Chicago School Board budget."

Bullock: "Then does the statement necessarily follow, and your obviously an excellent user of the English language. I've observed this evening, does the statement necessarily follow that integration, public schooled integration, does not necessarily enhance the quality of education. Is that the position you are spousing?"



Rohter: "Integration, per se', I don't believe it does anything for educating. I think educating does something for children. But I don't know that anyone can prove that who sits next to whom has any bearing on what learns."

Bullock: "Well, unfortunately, Mrs. Rohter, I'm from the Southern part of the United States and I am a product of that system of integration. And I think quite highly of it. I think that certainly minorities benefit from that and I hope that one of these days that representatives of the majority viewpoint will also accept that position. But that's not for our discussion here this evening. Also I understand recently that either the Board, and or the Mayor, has retained counsel for this new Authority, general counsel and bond counsel. Is that a statement of fact?"

Rohter: "For the new Authority?"

Bullock: "Yes."

Rohter: "I couldn't speak to that, Sir."

Bullock: "Has the Board of Education contracted the services or has the City of Chicago contracted the services of a law firm of which Mr. Don Rueben is part of?"

Rohter: "I couldn't speak to that, Sir. The law firm engaged by the Chicago Board of Education for this particular issue is Isham, Lincoln and Beele."

Bullock: "Has there been any affiliation at this point with the Chapman and Culter firm?"

Rohter: "With the Board of Education in this issue?"

Bullock: "Or the City of Chicago, involving the financial bail-out proposal?"

Rohter: "Well I would not characterize it as a bail-out. But in this financial crisis, Chapman and Culter has not been in touch with the Chicago Board of Education."



I can't say as to whether Chapman and Culter has been in touch with any of the other principles."

Bullock: "Okay. My last question, Ms. Rohter. When the first reduction occurred in the Board's bond rating, what action was taken by the Board at that point?"
Or was there action taken?"

Rohter: "I do not recall any specific action that was taken at that time."

Bullock: "Thank you, Ms. Rohter and Mr. Chairman."

Speaker Schneider: "Representative Huskey."

Huskey: "Well thank you, Mr. Speaker."

Speaker Schneider: "Just one second, Herb. Representative Huskey."

~~Huskey: "Well thank you. If Ms. Rohter would stay there~~
I'll save her a couple of steps back."

Speaker Schneider: "Ms. Rohter, you're back."

Huskey: "Thank you, Ms. Rohter. You're a very courageous lady and I am sure this is a night that you will long remember. But...but...and thank you, Mr. Speaker. I was beginning to think maybe you were having a little eyesight problem in your left eye. But getting back to..."

Speaker Schneider: "Never in my left eye."

Huskey: "Ms. Rohter, Doctor Cronin testified that you had a reduction of some seventy-five thousand students out of a possible four hundred and fifty-two thousand or was that from...or was that the amount that's left in students in Chicago?"

Rohter: "I don't...not hearing you too clearly. Are you asking about the enrollment in the Chicago schools?"

~~Huskey: "Yes, Mr. Speaker."~~

Rohter: "Right now, I believe, it's at about four hundred and seventy-five thousand."

Huskey: "Four how many?"

Rohter: "Four hundred and seventy-five thousand."



Huskey: "Four hundred and seventy-five, and is that a reduction from five hundred and fifty thousand?"

At what point did you have a five hundred and fifty thousand enrollment?"

Rohrer: "Well over the last few years it's gone down about fifteen thousand per year. So if I use that figure, it would have been five years ago."

Huskey: "Was the Board aware or had they been...had you been posted on the enrollment of the...of the decline in the enrollment from the administration?"

Rohrer: "Yes, every year in the fall there is a report given on the student enrollment."

Huskey: "Well, did the Board make any effort to try to reduce the amount of personnel in reduction and...close the school rooms of the...of the reduction of the enrollment?"

Rohrer: "Earlier this evening I was asked that same question. And the answer given to me when I addressed it to the administration was that it is not possible to reduce the number of employees because the enrollment reduction does not happen in groups. But here and there and it does not significantly effect one classroom."

Huskey: "Do you feel now that you maybe can find a method of reducing that...the classrooms and the personnel that...that...to go along with the decrease in the enrollment? Do you feel that the Board can do that now without maybe finding extra excuses?"

Rohrer: "I think that the Board will have to do it. There will have to be things that heretofore the schools' administration thought unthinkable to recommend to the Board. But in the face of no program at all, it will have to take some things that were very difficult to do and do them."

Huskey: "Well that...thank you very much, Mrs. Ross. I mean,



Ms. Rohter. As I said before, you are a very courageous lady. And I would like to have Doctor Cronin step up, if I could, for just a moment."

Rohter: "Thank you."

Speaker Schneider: "Dick, do you have a...yeah, well see, I have...the lights that remain are Braun, Mautino and Dunn on the Democratic side. I believe, Johnson, Vinson...All right. Mr. Huskey directed to Doctor Cronin."

Huskey: "Excuse me, my light was up. Doctor Cronin, am I correct in your statement that there are seventy-five thousand fewer school children in Chicago in last ...how long of time?"

Cronin: "Five or six years. Ms. Rohter just verified that figure."

Huskey: "Is that correct."

Cronin: "Yes."

Huskey: "Doctor, are you...are you in power to audit the Chicago school system?"

Cronin: "No."

Huskey: "Do you receive an annual report of the audit of the Chicago school system?"

Cronin: "Yes."

Huskey: "Do you study it carefully?"

Cronin: "Yes."

Huskey: "Were you aware of the failure of the financial plight of the Chicago school system?"

Cronin: "We just went over the last two audit reports very, very carefully to see what kind of red lights, what kind of warning signals were there. There was some language in two or three sections in the notes for the company of the audit saying that there were some practices that were not according to general accounting principles. But the immediate supervisory authority for enforcing the...the audits is first of



all with the Chicago Board of Education and secondly with the Mayor and City Council, who are mentioned in the statute as getting the audits before they come to the County Superintendent and they are simply filed with the State Education Office."

Huskey: "So you have no jurisdiction in that other than to just review it. Is that right?"

Cronin: "Yes. The only jurisdiction I have is to review federal programs and to audit those, which we do very carefully. And also to audit the flow of state monies in the Chicago schools, which we do each year, and when we find discrepancies we deduct the monies or make the adjustments necessary. We do not have the overall audit responsibilities."

Huskey: "Well, Doctor, do you feel that if you had an article...going by an article in the Chicago Sun Times by Royko, do you feel that according to Royko, that if we had a board...and elected board of education in the City of Chicago that this would have never happened?"

Cronin: "Well the Cleveland Board of Education has an elected board and it's in a very similar jam. I'm not sure that either method would guarantee a bankrupt proof city school system."

Huskey: "Would you favor an elected board...versus an appointed board?"

Cronin: "I think that's a decision for either the people of Chicago or the General Assembly to make."

Huskey: "All right, that's all...Mr...Doctor Cronin. Thank you very much."



Speaker Schneider: "Representative Braun. Time is up. Who would you like to address your comments to?"

Braun: "Mrs. Rohter, please."

Speaker Schneider: "Mrs. Rohter. Anyone else be of help to you? I think we're going to...she'll be along... show a movie."

Braun: "She's not here?"

Speaker Schneider: "Why don't you sit down, Mr. Walsh, instead of arising. Very shortly. She's on the phone. Would you like to ask another of the witnesses a question?"

Braun: "Well, yes, Mr. Van Gorkum, please."

Speaker Schneider: "We will get Mr. Van Gorkum."

Van Gorkum: "Yes, Ma'am."

Braun: "Yes, Mr. Van Gorkum, I know you are tired and I only have a couple of questions."

Van Gorkum: "Okay."

Braun: "In your opinion, Sir, should not the present School Board resign?"

Van Gorkum: "I have no opinion on that."

Braun: "Is it not normal practice in a reorganization of this sort that the management team be responsible or at least nominally responsible for management if called upon to resign?"

Van Gorkum: "Well, if I...it seems to me that that's a decision to be made by the people of Chicago. The School Board directs their school system. If the people of Chicago feel they are incompetent then they should call for their resignation. I have...I am not in the school system and I'm not that well acquainted with what kind of a job they've done. I really feel that people like you know much better than I do how well or badly they perform...because you're looking at the quality of education."

Braun: "That's correct, Sir."



Van Gorkum: "And I am not. I'm looking at...have they got enough money to keep the schools open. So I really have not concerned myself with, nor am I qualified to pass on, the quality of the schools."

Braun: "Mr. Van Gorkum, are you confident that the present Board is capable of making management decisions consistent with the mission given you in this legislation?"

Van Gorkum: "In the financial area, we are going to leave very little to their discretion. Our authority extends to imposing on them, if necessary, given Mrs. Rohter's cooperation, I don't expect it to be necessary, but if so we will see to it very promptly that accounting systems and other reporting devices, including data processing reports, are put into place so that for six to eight months from now we will be able to monitor what they do so carefully that they will find it very difficult to mislead us if they wanted to."

Braun: "Mr. Van Gorkum, you stated earlier in...stated in an earlier testimony that you came into the situation because of your concern about the school. That being the case, and in light of the abysmal track record of this present Board, do you not think, Sir, that it would be appropriate for you to reach some conclusion regarding the competence and the ability of this present Board to continue?"

Van Gorkum: "Well I have a...I have an opinion about, let's say, the total educational structure from a financial view point. But I feel that you're...you're asking me to form judgment as to the quality of the educational product that they have produced. That's where I don't have any competence. I would...I have no authority to change the School Board's structure. Let me say just a little bit about this. People are



always amazed how this happened. There are a few systemic problems involved in the School Board. The School Board is selected...nobody on the School Board is selected for his financial acumen. He's selected because he either represents a group, a fairly substantial group such as labor or something else, or because he represents citizens who represent the children in the schools. I can well understand, for example, the Blacks interest in having a...Black people on the School Board because it's their children who are in the schools. So the people that are on the School Board are always going to be selected for reasons other than their financial ability. Secondly, the Superintendent will also always be chosen because he does not...because he's an educator. Hopefully, he's the kind of educator you would like to have. But whether he is or not, he's an educator, he's not a financial man. Thirdly, you have an accounting system that the School Board uses and all School Boards use which is very complicated. It's more complicated than the accounting system I use in my business to run a worldwide operation. You give all these things, and I have to start from the beginning no matter how we restructure the School Board, I'm still, from a financial viewpoint, never going to have on the School Board or in the Superintendent's office somebody who is going to be very helpful to the financial situation. That's why the office of...the Chief Financial Officer assumes paramount importance, and why the one power that we have obtained and insisted on is the power to make sure that we can determine who is the Chief Financial Officer. So, from a financial viewpoint, I don't think that if were to throw out the present School Board and have one elected or have one



reappointed, let's say, that we could expect that their financial abilities would be any better. And I want to emphasize, I don't say that critically. The School Board's job is to run the schools. You can't get perhaps both sensitivity to educational needs and financial talent."

Braun: "Mr. Van Gorkum, were you aware that the former Superintendent of Schools, Mr. Hannon, had proposed to the Board of Education specific cuts that they did not carry out?"

Van Gorkum: "No, I'm not aware of that. I am also aware, however, that Mr. Hannon...I've never met Mr. Hannon, I have no opinion about him at all. But I'm also aware he proposed to the Board and had passed a budget that contained in it a hundred and fifteen million dollar deficit."

Braun: "Mr. Van Gorkum, if I told you that Mr. Hannon had proposed specific cuts in the budget that would have brought it more in line with the financial realities of the...of the resources available to the School Board and that the School Board had turned its back on those proposals, would you then have an opinion whether the School Board should resign?"

Van Gorkum: "No. I would not. Again, you're talking about...I don't know what influenced them in making that decision. I start with the premise, in other words, that we will not have in the School Board and cannot expect, given the other things that we really want them to do, that we will ever have a group of broadly based businessmen sitting on that Board who understand the financing of a school system. So, I don't see any reason for you and I to bandy words around. I assume you're dissatisfied with the quality of the schools, most Blacks are that I know."

Braun: "Well, apparently, Blacks and Whites today. We had a..."



Speaker Schneider: "All right, let's give the Membership ...I mean the question, your attention as well as the response."

Braun: "I would dare say, everyone who is a...most people who are consumers of the product produced by this particular Board of Education are dissatisfied with it. But let me ask you this question, Mr. Van Gorkum, under what circumstances would you suggest that a Board of Education, that the Board itself, would be accountable for decision making...that fluidness represented gross mismanagement of the finances of the...of the system?"

Van Gorkum: "Well, I suppose those people...it would...let's put it this way. That's the judgment the people of Chicago has to make about their school system. If they feel that the...let's put it...the school system has not been well managed from a fiscal viewpoint. If you think that is grounds for dismissal, then I think you should try to get them dismissed."

Speaker Schneider: "Further questions?"

Braun: "One last...well...I'm tempted to ask you, Mr. Van Gorkum, if they were indicted would you think they ought to resign?"

Van Gorkum: "No, I probably wouldn't. I'm...this job is going to be hard enough, Ma'am. And I'm not going to crawl out on a limb and try to decide who did what in this particular case because I don't think I'm ever going to have enough facts to make that decision. And I try not to make decisions without facts."

Braun: ~~"Mr. Van Gorkum, I'm going to let you go on this one."~~
I'm just...I'm not going to pursue it any further.

All right, let me ask you this question. Under the plan that is worked out, if the 50%...if the 50 cents property tax is not enough to meet the debt service,



then what? There is no limit, as I understand it, in this legislation on the amount of the property tax levy available to the authority."

Van Gorkum: "That is correct. It's limited, however, by the fact that we can only limit...only issue five hundred million dollars. So we can only tax enough to finance five hundred million dollars. And the 50 cents was arrived at on the assumption that 50 cents would be about enough. They didn't know if it would be 48 or 52 or somewhere in that area. That's where the 50 cents arrived at. But you're correct. They're taking an absolute 50 cents away from the School Board and they're giving to the new authority the taxing authority necessary to fund five hundred million dollars. If that's less or more than 50 cents, they still...they have that much power."

Braun: "So we could ostensibly go into a situation in which either the tax base in the city shrunk sufficiently or the interest requirements for the bonds went up sufficiently in which we would be paying even greater amounts just to retire the debt service without concomitant results in the providing of education services."

Van Gorkum: "If it costs 53 cents to fund these bonds as a tax rate then we would give up 50 cents and get 53, so to that extent there would be an increase."

Braun: "All right. Thank you very much then, Sir."

Van Gorkum: "All right."

Speaker Schneider: "All right. And now, let's see..."

Braun: "Ms. Rohter, I have other questions."

Speaker Schneider: "Oh, I'm sorry, Ms. Rohter."

Braun: "Ms. Rohter, why have you not resigned from the Board of Education?"

Rohter: "Why should I?"

Braun: "Pardon."



Rohter: "Why should I?"

Braun: "Well, for the reason that...I don't think that is a matter of debate. In light of the present financial crisis of the Chicago schools, I ask you, why have you not resigned from the Board?"

Rohter: "I am not a part of the financial problem."

Braun: "Are you suggesting then, Ma'am, that as a member of the Board of Education you had no responsibility for the financial mismanagement of that system?"

Rohter: "As a Board member I have responsibility for everything that goes on there, but I prefer to view myself as part of the solution and not part of the problem."

Braun: "How long have you been a member of the Board?"

Rohter: "I've completed nine years."

Braun: "Then you were certainly there during the nine years in which this problem developed?"

Rohter: "Yes, I was there for nine years calling attention to the problems that were being created by the overspending and the overstatement of anticipated resources, each and every year."

Braun: "Which gets me to my next question. You are a member of the Audit and Management Committee, is that correct?"

Rohter: "Yes."

Braun: "And for how long were you a member of that Committee?"

Rohter: "Since its conception, about two, two and a half years ago."

Braun: "And what were the responsibilities of that Committee?"

Rohter: "To review the management of the system and the audit reports."

Braun: "And specifically what did you do as a member of that Committee?"

Rohter: "Now, let's see. The same thing that I answered all of the other questions about that. And that was



to try to put into place a policy manual for a billion dollar entity that was operating without one. And for the most part of 1979, we spent time every single week coming together to put together a performance contract for the superintendency."

Braun: "And so other than those two very specific tasks, the Management and Audit Committee undertook no management audits."

Rohter: "No, that's not quite true. I said that was the bulk of our time. There were a number of other things that we did."

Braun: "Would you describe them please?"

Rohter: "Oh, let me see. We wanted to jack up the secretary's office. I thought that the Chairman of the Instruction Committee would do well to call a meeting which hadn't been called for two years to review the audit exceptions or the program audits of the instruction program in the Chicago public schools. There were a number of management things. I don't have them all in my mind at this moment."

Braun: "Did the Committee issue reports concerning the management and administration of the school system?"

Rohter: "Yes when there were reasons to apprise the full membership we issued reports to them."

Braun: "Were internal reports generated within the Committee for use of the Committee membership?"

Rohter: "For just the Committee membership?"

Braun: "Yes."

Rohter: "No."

Braun: "Memoranda?"

Rohter: "No."

Braun: "Letters?"

Rohter: "No."

Braun: "Opinions?"

Rohter: "No."



Braun: "How many such reports were issued to the full Board?"

Rohter: "Well I would have to refer to the record for that, but each of them that was given to the full Board is a part of the official record."

Braun: "How many would you estimate in the two years that you were on the Committee were issued?"

Rohter: "Oh, I really wouldn't want to hazard a guess."

Braun: "Try, please."

Rohter: "I beg your pardon."

Braun: "Try, if you will."

Rohter: "No I won't try when I can't give you what I think would be an accurate figure and I really can't recall at this point. And I am not accustomed to giving figures when I don't know what I am talking about."

Braun: "All right. It seems you didn't pay much attention to figures at all. How often were...?"

Rohter: "I'm sorry. You're quite wrong about that."

Braun: "I'm sorry, I did not mean to badger the witness, as we say. How often were reports issued?"

Rohter: "I beg your pardon."

Braun: "How often were these reports issued?"

Rohter: "Which reports?"

Braun: "Reports by the...by the Committee to the full Board."

Rohter: "Whenever there was a matter that needed to come before the full Board."

Braun: "And how often was that? Only in crises or on a regular basis?"

Rohter: "I think you just asked me that, and I told you that I could not give you a figure."

Braun: "Well, I'm looking for a periodic description of the times at which reports were issued. No, okay. Were you aware, Mrs. Rohter, of the...that the ratio of administrative personnel to the students was abnormally low?"



Rohter: "The ratio of..."

Braun: "Of administration to students in the school system. Were you aware of that ratio? We've been talking earlier about the number of administrative personnel in this system versus the number of students in the system."

Rohter: "Well, I think I called it to the attention of the full Board on a regular basis."

Braun: "Okay. You answered my next question, which was what...what did you do when that came to your attention. Were you aware that the leasing in property holding practices of the system...of the Board did not comport with sound business practices?"

Rohter: "Well, that's a matter of opinion. And, as I ~~stated earlier, the leases can only be judged if~~

one bases them on the facts available at the time. Many of those leases today look very, very bad but at the time could have looked very, very good. It's like saying a house that you bought in 1952 was a steal. When in fact it wasn't then but is in the light of today's real estate market."

Braun: "What, if anything, did you do with regard to those leases? Did you...did you every suggest renegotiation of any of them? Did you every suggest that the contract be reopened? Did you ever suggest that some other policies be undertaken with regard to present leases?"

Rohter: "What we did was review them and we engaged a real estate research corporation to give us a full report. But a lease is a lease is a lease and people who have one, are not really too anxious to renegotiate them. And in fact, there were some people who came in and offered to renegotiate them on their own."

Braun: "Did you, other than authorizing a study regarding the leases or consultants to look at these leases, did you undertake any initiatives within the Board to



correct the problems that you saw?"

Rohter: "Well it's a question of renegotiating a lease and there were sometimes when leases...predated, indicated that there was a time for reevaluation. And when that happened, of course, we did and some of those were increased. But more often than not, what happened was that the lease arrangement decreased because they were in an area that was now blighted so we lost more money."

Braun: "Okay."

Speaker Schneider: "All right. We would like to give Mrs.

Braun the benefit of the answers if we would just quiet down just a little bit. It is twelve thirty.

~~Carol, there will be, I think, a Resolution introduced~~

to do the kinds of investigative work that I think you are driving at. I'm not going to cut you short. I'm just saying that I think there's going to be another arena for that, and you will be able to participate there, I presume."

Braun: "Mr. Chairman, these questions go not...I mean, I am not attempting here to undertake an investigation of this mess of the school system. What I am undertaking is to...is to satisfy in my own mind what role this witness, this proponent of the legislation, had as a member, as a nine year member, of the school board in precipitating the problems that we are now attempting to correct by virtue of passage of this Bill. So I am going to do the best I can to shorten my questions. I'm sorry."

Speaker Schneider: "All right. Thank you. And will Members please give their attention. There has been a resurgence of the population, I don't know what's happened here. Mrs. Braun."

Braun: "Ms. Rohter, were you aware that some of the vending contracts led by the Board were abnormally expensive?"



Rohter: "Well, yes, but when I was I want to make it perfectly clear to you that in those instances I voted no. And that was not unusual."

Braun: "Okay. What did you...did you do anything to correct the abuses of those vending contracts?"

Rohter: "Well what is open to one Board member to do is to call it to the attention of the Body, state your objection, see if there is support for it. And if there is, of course, it's either withdrawn or deferred. But when the majority of the Board finds it acceptable, of course, the majority rules and your objections are noted but they don't have any real effect."

Braun: "~~Certainly. Were you aware that restricted funds~~ were used for purposes other than their proper use?"

Rohter: "When I read it in the Tribune."

Braun: "And you were not previously aware?"

Rohter: "No, that correspondence was sent to the Finance Committee which was not shared with the membership."

Braun: "Which was...pardon?"

Rohter: "Which was not shared with the full membership."

Braun: "Whose responsibility was it to monitor the transfer of funds?"

Rohter: "Monitor, if we use it in the term that I think it's being used, it would be the responsibility of the Finance Committee. But implementation of a Board policy of course would be the administrative responsibility."

Braun: "I'm not sure I understand your answer. Are you suggesting that the Board itself had no responsibility with regard to monitoring the transfer of funds?"

Rohter: "No. As a matter of fact, what I just said was, monitoring I would view as a responsibility of the Finance Committee. But the implementation of a Board policy, of course, is the responsibility of



staff. That's what staff is there to do."

Speaker Schneider: "One more delay. There's been a request from Mr. Collins to be recognized...and for what purpose?"

Collins: "Mr. Chairman, we are here to consider legislation in the Committee of the Whole. And so much of this questioning is irrelevant. We're getting into an investigation of past practices of the School Board which we will be doing by a special Committee if we adopt a Resolution. I think we could dispense with a lot of this questioning and stick to the legislation that we're here to consider."

Speaker Schneider: "Carol, I would try to encourage you to ~~do that. I know you have a response. I know you've~~ waited a long time and you are entitled to that questioning, but if you could just kind of address the Bill as we always try to do in Committee."

Braun: "Mr. Chairman, let me say in the first instance that we are sitting as a Committee of the Whole primarily ...solely because this legislation has avoided the normal legislative process which allows for public review and comments on the substance of legislation. Therefore, in order to satisfy my own mind, and I am representing my constituency, I feel it is necessary to at least have these questions answered to my satisfaction...at least have an opportunity to have them put. We are having one crack at this Bill. We will be given opportunity only to vote it up or down. We will not have an opportunity to amend it. We will not have an opportunity to have it heard. And I think that any questions that anybody asks at this point in time would be appropriate given the extraordinary nature of the procedure employed here."

Speaker Schneider: "Only to add to that, in all honesty as a Chairman, you know in Committee we do not direct



ourselves...other than the nature of the Bill. I realize your concern and I know that it is important to you. I would just encourage you to try to work to the Bill. So you've done a lot of the interrogation already and if you would just do the Bill I would appreciate it."

Braun: "Well...all right. Ms. Rohter, I have one irrelevant question and one relevant question to ask you. The irrelevant question is, with regard to an answer that you gave to a previous question, are you not aware of or have you not read the decision of the Supreme Court in Brown verses Board of Education which found, as a matter of fact, that desegregation does have demonstrable affect on the quality of education that is provided?"

Rohter: "No, I was asked an earlier question...the point that I made, wanted to make and have made many times on the Board floor, is that it doesn't really make any difference where a child goes to school, where he sits in relation to anyone else, what kind of books there are, what kind of equipment there is, what kind of teacher there is if, indeed, he is absent more than he is present. And that doesn't make any difference whether it's this kind of a child or that kind of a child. Attendance in school is absolutely necessary. That's the point that I made."

Braun: "But with regard to children that attend school, Ms. Rohter, the Supreme Court found that desegregation does have appreciable and demonstrable affect on the quality of education."

Rohter: "That may be but it's never been proven to me. The court may find whatever it wishes. And I have great respect for the court as I do any agency of government, however, that doesn't mean that it's necessarily true."



And I have never known it to be so. No one has given..."

Braun: "Mrs. Rohter, the Supreme Court decides what the law of the land is. Never mind. Its...if...that's."

Rohter: "But you didn't ask me to comment on the law."

Braun: "I did. I ask you whether you were familiar with that fission which is the law."

Rohter: "No, no, you asked me if I had read it."

Braun: "I asked you whether you were aware of or if you had read the decision and its findings."

Rohter: "And I said it's never been proven to me, and I would have to stand by that respectfully."

Braun: "Well, let me ask you, would you please answer the first question? Have you read the decision ever?"

Rohter: "Yes, I have read excerpts of it. It has been presented to us, of course, by our law department."

Braun: "But you have never read the findings of...of the decision entirely."

Rohter: "I have just said they have been made available to me."

Braun: "Mrs. Rohter, my final question to you is, in your opinion, can the same Board that presided over this debacle inspire confidence in the financial community sufficient to allow the appropriate cuts to be made and sufficient to allow the continuous survival of the school systems?"

Rohter: "Well, I must first say to you that, of course, there have been changes on the Board. We had one resignation. There is a new Member on the Board, and I would guess that even the sitting Members with seniority will view things differently from the way they have in the past."

Braun: "So your answer is that now that the Board found religion, the financial community can take it easy."

Rohter: "No ma'am. That is the way you phrase it. That's not the way I phrased it."



Speaker Schneider: "Okay."

Braun: "Alright, no further questions."

Speaker Schneider: "Thank you. Representative Mautino, the Gentleman from Bureau. And according...Bower, what are you doing turning on your light? We presume then that Representative Mautino is the last person. ...Turn off your light."

Mautino: "It's been a long night. Thank you very much. I would like to have...I believe, Mr. D'Esposito. I use to play for the Black Hawks, I know. Mr. D'Esposito..."

Speaker Schneider: "D'Esposito."

Mautino: "I'm sorry, Sir. I'd like to..."

Speaker Schneider: "Mautino, how come you couldn't say that?"

Mautino: "It's been a long night, Glen. Page 47...I don't happen to be an attorney, Section 34 (a) 603, concerning the guarantors of this proposal. It is a new area. It has not been touched on. I'd like to have someone explain it to me. Because as I read it, and correct me if I'm wrong, it says that if there is no liability to the Board, the state or the City, in this case, it is specifically spelled out and brought back in. And my question to you is, are we, the State of Illinois, the guarantors of this whole program by virtue of line 26, I believe, because the background of the whole program is based on a state-aid funding and the funds pledged for the payment of this program? Would you please explain that Section to me?"

D'Esposito: "Section 603 is a clear statement that the State, the City and the Board are not liable in any way for the long-term five hundred million dollar bonds which are being issued under Article 5 of this particular Bill."

Mautino: "This is a very unique position for a bonding



authority authorization to take. I find it very interesting that no one is responsible in lieu of a possible default. Who is responsible since that paragraph is written that way?"

D'Esposito: "The Authority."

Mautino: "The Authority has no powers other than vested or given to it by this General Assembly. They have no taxing powers above and beyond the fifty cent portion of the tax rate. They have no additional taxing powers. So, therefore, how can they be held responsible and how can they possibly pay off in lieu of default on that Section?"

D'Esposito: "Well if there is a default by the Authority the State is not responsible and that's purposeful."

Mautino: "Well you've got to explain to me..."

D'Esposito: "However, the Authority is given...the Authority is given power to levy a property tax to pay the debt. If that is insufficient..."

Mautino: "Then will you please address..."

D'Esposito: "...it is default."

Mautino: "Yes, if there's default. What I am getting to ...what I am getting to is that it says no one is responsible. But in line 26 it says, and I quote, 'All obligations issued by the Authority pursuant to the provisions of this Article are payable and shall state that they are payable solely from the funds pledged for their payment in accordance with the Resolution authorizing their issuance.' Which is basically the State-Aid Formula."

D'Esposito: "No, Sir. The long-term bonds have nothing to do with state-aid. They are payable out of the property tax levy being issued for that purpose. The only..."

Mautino: "And no one..."

D'Esposito: "The only issue that the state-aid involvement



comes in with the bridge notes on House Bill 1910."

Mautino: "Yeah, it's tied in. But I...the Resolution, on line 28, the Resolution authorizing their issuance."

D'Esposito: "Their issuance being the issuance of the long-term bonds, the five hundred million dollar bonds."

Mautino: "And you're telling me that this says that there is no one responsible as grantors of the program and that would make those bonds or obligations marketable?"

D'Esposito: "Yes, Sir. This is a typical provision. The State of Illinois is not responsible for debts issued by other local governments. The State of Illinois is not responsible for debts issued by some of its special authorities."

Mautino: "Then why, Sir, do we leave the provision in this legislation that was addressed to by Mr. Schwartz on page 28 that we can redeem obligations in the purchase of notes or bonds of the Board, which is the Board of Education, or the notes, bonds or obligations of the City. I would assume that with that provision in this piece of legislation that someone is responsible and is grantor, that being the State of Illinois."

D'Esposito: "No, Sir. I can't say much more than that."

Mautino: "One final question. It probably could be answered yes or no. Since the initial part of the program is designed and monies have been extended to the system, I'm wondering...I'm wondering that the major portion of the formula is a state-aid in the original form of what we're doing. The second part is the monies coming to the Board which will pledged from the 211 down to 161. Okay, that comes from the property tax. But the performance of the whole program is based on a state-aid formula and money going back to the school district. Is that



not correct; yes or no?"

D'Esposito: "No, Sir."

Mautino: "It is not correct. Okay, I stand corrected. Then this final question is, if in fact this doesn't go and the two hundred and forty-four million dollars that I heard earlier had to be addressed by that school board, how do they get the money to do that if this proposal isn't in? There are banks and financial institutions I would presume that are holding those bonds that are due, I think, March 1st. What happens, Don? What happens then?"

D'Esposito: "If a Bill such as this which is intended to provide excess to the credit markets do not...does not pass, the Board of Education will be unable to borrow and will be unable to meet its expenses and obligations as they become due."

Mautino: "And on March...on March 1st, if that happens to be the date, that two forty-four that is due now, will be due and what do those financial institutionsor how do they sit with that particular situation? And how are those bonds that are outstanding, how are they secured?"

D'Esposito: "They will not be paid....to some degree."

Mautino: "And then...pardon."

D'Esposito: "First of all, I'm not sure that there are two hundred and forty-four millions dollars of notes due...March...in March of this year. I don't recall what the number is."

Mautino: "I think Mr. Mandeville said that originally...that that was about the figures: But if that is the figure, what are they...what are those notes secured by that are due whatever the number happens to be?"

D'Esposito: "They are secured by property taxes."

Mautino: "Okay, that..."

Speaker Schneider: "Fine. Director Mandeville to the rescue."



Mautino: "Would you please...let me know what you two are discussing as far as an answered is concerned."

D'Esposito: "The number...Doctor Mandeville indicated two forty-four is the annual amount of borrowing against the property tax, fifty-seven million of that is due in March."

Mautino: "Okay, and what is that secured by?"

D'Esposito: "The property tax levy, I think, of either 1977 or 1978."

Mautino: "No existing property owned by the Board, but strictly to taxes right?"

D'Esposito: "Right."

Mautino: "Is that right?"

D'Esposito: "Right."

Mautino: "Okay, thank you."

Speaker Schneider: "Thank you. Now I think that ends all of the...Dan, why did you put your light on here? All right. Would someone turn off Representative O'Brien's button in case...unless he's really serious. Now, Mr. Dunn, who would you like to address your comments to or questions?"

Dunn: "I'm not fussy. Whoever wants to tell me if the Authority can...can approve a deficit budget or a budget that is not balanced?"

Speaker Schneider: "Anyone on that one? Mr. Schwartz."

Schwartz: "Because it will take a finite amount of time in order to reach the balanced budget provision set forth in this Bill, they can approve one for the remainder of this fiscal year. They can approve one for the next fiscal year, but not for subsequent fiscal years. However, when we say its an unbalanced budget there will be something to balance what is otherwise an unbalanced budget and that is the various kinds of notes that have provided..which would make up what would otherwise be another deficit."



Dunn: "The Bill does provide, I'm not sure I can find exactly where it says this right now, but I believe it provides that any deficit in a year occurring after 1980 shall be budgeted as an expense in the succeeding year. Which leads me to believe that there is a vehicle to continue deficit budgeting. And is that possible under this plan?"

Schwartz: "The way...we're trying to figure out if this is an accounting statement or substantive statement. But Mr...Doctor Mandeville would like to respond."

Mandeville: "That provision has to, I think, be taken in connection with the other provision that requires a balanced budget to be submitted each year...and substantial progress toward a balanced budget in 1980. It is entirely reasonable to assume that the Board would submit a balanced budget in 1980. But, nevertheless, it may turn out to be somewhat of a deficit at the end of the year. If that should occur, just like state government, any deficit incurred this year must be considered a current expense in the following year unless they're financed out of new revenues. I don't see any difference between that and the way a state government would operate."

Dunn: "Is there any...perhaps you can answer this question also which is my last question. Is there any provision for recall or removal of either anyone on the Chicago Board of Education or anyone appointed by the Governor and Mayor of the City of Chicago to the Authority created by the proposed legislation?"

Mandeville: "With respect to the Authority, members are removable for cause by the appointing individual."

Dunn: "What about the Chicago Board of Education?"

Mandeville: "I cannot respond at this point to the power of the Mayor to remove members of the Board of



Education."

Dunn: "Is there anyone who can?"

Mandeville: "I don't think so at this point."

Schneider: "All right. One of those answers we can get to you...back to you, I guess. Any others, John? Is that it?"

Dunn: "That's it."

Speaker Schneider: "All right. Representative Pierce."

Pierce: "Mr. Speaker...Mr. Chairman, I now move you...that the Committee of the Whole arise."

Speaker Schneider: "All right. Have you heard the motion?"

All in favor say 'aye'. Any opposed? There are none. ~~The Committee has now arisen. We are in~~ Session. There are some propositions to consider...Resolutions, I do believe. Stand by for Mr. Madigan. Committee Reports, Mr. Clerk."

Clerk O'Brien: "Committee Reports. Representative Katz, Co-chairman of the Committee on Rules, to which the following Resolutions were referred. Action taken January 10, 1980, reported the same back with the following recommendation: Be adopted House Resolution 563 and 568."

Speaker Madigan: "Mr. Katz, for an announcement."

Pierce: "Congratulations to Shirley Madigan."

Katz: "Yes, Mr. Speaker, Ladies and Gentlemen of the House, there will be a meeting of the House Rules Committee in the Speaker's office immediately upon adjournment. They will be considering Senate Bill 1292 and other matters that can appropriately be before the Rules Committee."

Speaker Madigan: "Are there any further announcements? Mr. Friedrich."

Friedrich: "Mr. Speaker, I want a clarification. Wasn't 562 one of the Resolutions that was voted out of the Rules Committee today?"

Speaker Madigan: "Mr. Clerk."



Clerk O'Brien: "House Resolution 562 and 568."

Friedrich: "I'm sorry, I didn't hear the numbers correctly. 562 I knew should have been reported. Thank you very much."

Speaker Madigan: "Are there any other announcements? Mr. Giorgi for the recess motion. Mr. Giorgi."

Giorgi: "Mr. Speaker, I move that we recess until noon today...noon today."

Speaker Madigan: "The motion is that we recess until noon today. All those in favor signify by saying 'aye', all those opposed by saying 'no'. The 'ayes' have it. We shall stand in recess until twelve, noon."

