

81ST GENERAL ASSEMBLY

REGULAR SESSION

JANUARY 10, 1980

*Committee
of the Whole
HB 1264
1-10-80*

1. PRESIDENT:

2. The hour of one, having come and gone, for which the
3. Chair apologizes, the Senate will please come to order. Will
4. those not entitled to the Floor please vacate. Will our guests
5. in the Gallery please rise. Prayer this afternoon by the
6. Reverend Anthony Tzortis, St. Anthony's Hellenic Orthodox Church,
7. Springfield, Illinois. Father.

8. REVEREND ANTHONY TZORTIS:

9. (Prayer given by Reverend Tzortis)

10. PRESIDENT:

11. Thank you, Father. Reading of the Journal. Senator Johns.

12. SENATOR JOHNS:

13. Mr. President, I move that reading and approval of the
14. Journal of Wednesday, January the 9th in the year 1980, be post-
15. poned pending arrival of the printed Journal.

16. PRESIDENT:

17. You have heard the motion. All in favor signify by saying
18. Aye. All opposed. The Ayes have it. So ordered. Senator
19. Savickas, for what purpose do you rise?

20. SENATOR SAVICKAS:

21. Well, Mr. President, I move that the Senate now resolve it-
22. self into a Committee of the Whole for the purpose of considering
23. House Bills 1264, 1910 and any amendments thereof.

24. PRESIDENT:

25. You have heard the motion. Is there any discussion? If not,
26. all in favor signify by saying Aye. All opposed. The Ayes have
27. it. So ordered. Mr. Clerk, there are two requests, I understand,
28. that have been filed. Will you read those into the record?

29. SECRETARY:

30. Request for State Debt Impact Note: Pursuant to Public
31. Act 81-0615, Senate Bill 799, I request that a State Debt Impact
32. Note be prepared with respect to House Bill 1264 and any amendments
33. offered thereto. Signed, Senator Dawn Clark Netsch. Request

1. for State Debt Impact Note: Pursuant to Public Act 81-015...
2. 615, Senate Bill 799, I request that a State Debt Impact Note
3. be prepared with respect to House Bill 1910 and any amendments
4. offered thereto. Signed, Senator Dawn Clark Netsch.

5. PRESIDENT:

6. Those will be Journalized. Channels 2, 5 and 7 and 9 have
7. asked leave of the Body to shoot film. Is leave granted? Leave
8. is granted. So ordered. Pursuant to the prevailing of...Senator
9. Netsch, for what purpose do you arise?

10. SENATOR NETSCH:

11. If I might just ask a question. You said that the motions
12. will be Journalized. I assume they will also be complied with,
13. as required by Statute.

14. PRESIDENT:

15. Yes...oh, no...unquestionably.

16. SENATOR NETSCH:

17. Thank you.

18. PRESIDENT:

19. Pursuant to the prevailing of Senator Savickas' motion, the
20. Body has now resolved itself into a Committee of the Whole. The
21. Presiding Officer under that procedure will designate Senator
22. Arthur Berman as the Chairman of our Elementary and Secondary
23. Education Committee to act as Chairman for the purpose of this
24. committee. Senator Berman, please.

25. CHAIRMAN: (SENATOR BERMAN)

26. The Committee of the Whole is in Session and the Chair
27. recognizes Senator Rock.

28. SENATOR ROCK:

29. Thank you, Mr. Chairman. In conversations with the House
30. and Senate Leadership in the Governor's Office...since we are,
31. this afternoon, to find out what, in fact, transpired over the
32. weekend with respect to the proposed legislation to save the City
33. of Chicago Schools, we have a list of witnesses which I have

1. caused to be distributed, commencing with Mr. Arthur Quern, who
2. is from the Governor's Office. There are seven witnesses who
3. were privy to the weekend session and I would suggest and would
4. request of the membership that we hear all the witnesses first
5. and then they have suggested and we have suggested to them that
6. they remain available for questions, but I think, in order to
7. have a deliberate and orderly procedure, we would be better
8. advised to allow all seven of them to testify, since they will
9. be testifying to the same agreement or to the same proposal, but
10. from a little different view point. If that...I would ask leave
11. for that procedure, Mr. Chairman.

12. CHAIRMAN: (SENATOR BERMAN)

13. You have heard the request of Senator Rock. Is leave
14. granted? Granted. The Chair now recognizes Arthur Quern.

15. ARTHUR QUERN:

16. Thank you, Mr. Chairman. We are here today to submit for
17. your consideration and to seek your support for a program to
18. keep the schools of the City of Chicago open. This program
19. reflects a delicate and complex agreement, hammered out in long
20. and hard hours and days of negotiations. It was an agreement
21. hammered out within some very important perimeters. First, a
22. primary concern at all times, was the goal of keeping the schools
23. open. This goal is essential. It is essential to the nearly
24. five hundred thousand children and their families who depend on the
25. education system of the City of Chicago to provide basic education
26. for the children. It was essential to keep these schools open
27. from the point of view of the teachers and all others in the
28. education system. It was essential to the entire Chicago com-
29. munity that the education system of that community continue to
30. operate and not allow a crisis to shut it down. And finally, it
31. was essential to all of us in this State who are involved with
32. or concerned over the education of this State's children. It
33. was determined early that the urgency of this problem and the

1. immediacy of the crisis which faced us required us to focus our
2. attention and our energies on restoring stability to the City's
3. schools and to enabling accountability. It was our judgment that
4. there would be time enough to find out what went wrong and who
5. was responsible, but the mission now was to keep the schools open,
6. let education continue. When the crisis was first brought to the
7. Governor's attention in mid-November, he made it very clear that
8. any solution which was put forward must have a set of basic
9. elements in it if he were to support it and carry out his
10. responsibilities as Chief Executive of this State. First of all,
11. it was determined and stated time and again that any solution put
12. forward must require that all parties participate in the resolution
13. of the problem at the same time and at the same risk. Secondly,
14. it was determined that at this time, there could be no commitment,
15. there could be no action aimed at providing additional revenues
16. to the schools of Chicago, either State or local revenues. It
17. was judged that the Board of Education must begin immediately to
18. reduce its operating costs to enable it to live within its
19. resources, that action in that direction was imperative if the
20. State was to take any action toward assisting in the resolution
21. of this problem. It was determined that whatever was done, must
22. not endanger the State's fiscal condition nor it's financial
23. standing, a condition hard won, a condition essential to all the
24. taxpayers of this State, wherever they reside, and finally, it
25. was determined that whatever was done in this crisis, must be
26. done in a fashion to set a response that would be available to
27. any other school district, from any other part of the State, which
28. found itself in similar circumstances. Two meetings were held
29. in the weeks of December between the Governor and Legislative
30. leaders and at each of those meetings, these points were reviewed
31. and the Leadership indicate its...indicated its general con-
32. firmation of the importance of all of these points. As we pro-
33. ceeded to seek a resolution, the problem became more and more

1. critical. Action became more and more essential. Last week the
2. Governor called to Springfield representatives of the major
3. institutions and groups involved in the financing and adminis-
4. tration of education in this State, called together representatives
5. of the City and the State to Springfield to meet at the Mansion
6. to work out a program that would, indeed, keep the schools open
7. and yet meet all of these other important requirements. It was
8. a meeting held at a time when the schools were in crisis, when
9. the teachers went without a paycheck. It was a meeting in which
10. all of the groups represented had to work long and hard to find
11. a means of coming to an agreement which would, indeed, enable
12. education to continue. That meeting produced the agreement
13. embodied in the bills before you. We are here today to attempt
14. to explain and answer any questions you might have at this time.
15. The agreement, we believe, sets the stage for enabling us at the
16. State level to determine whether or not the Chicago School Board
17. is, indeed, prepared to put its house in order. It is an agree-
18. ment that places most of the burden on the community, the Chicago
19. community, for meeting this immediate crisis. It is an agree-
20. ment, most importantly, which keeps the schools open at no extra
21. additional cost to the State and with no additional taxes on our...
22. on our citizens. Action now is imperative. The agreement had
23. a three phase element. The first phase was aimed at providing
24. one hundred and fifty million dollars of much needed cash to
25. the schools to enable them to pay the teachers and other staff
26. and enable them to keep open. That hundred and fifty million
27. dollars of investments, loans and advances came from a variety
28. of sources and it has, indeed, enabled the schools to stay
29. open, but that hundred and fifty million dollars will almost
30. entirely be exhausted by tomorrow. The program has two other
31. phases. The final phase is a long-term bonding provision to
32. produce out of...the existing tax base and the existing levies
33. some five hundred million dollars of bonding authority which

1. will be given to a new control board, a control board respon-
2. sible for and empowered to see that the School Board of the
3. City of Chicago, indeed, lives within its resources. The
4. legislation before you spells out the authorities, responsi-
5. bilities and powers of that control board and details the
6. financing mechanism by which the five hundred million dollars
7. is produced...five hundred million dollars of long-term bonding
8. power is produced out of the existing revenue base. Since this
9. stage, the final stage of this plan, is sure to be tested
10. in the courts, indeed, it requires a test to enable it to do
11. effectively what it is aimed at doing, there...it was necessary
12. to provide an interim element to this program, a bridge, if
13. you will, which produced cash for the school board for the
14. intervening months while Phase III , the long-term bonding
15. issue and the control board were tested. The legislation
16. before you takes both the question of the long-term control
17. board and its bonding authority and its powers and the interim
18. solution of two hundred and twenty-five million dollars of
19. cash and spells out the means by which both of those will
20. effectively operate in the coming months. Without the legislation
21. before you, the schools will again face closing next week. We
22. have with us today a number of people who want to testify
23. before you to describe their view of this plan, their attitude
24. and support of its purposes and answer any questions you might
25. have about its details. We will try to be quick with our
26. presentation and we will try to answer all of your questions.
27. We hope today that in the interests of enabling education to
28. continue for the nearly five hundred thousand kids in Chicago
29. you will be able to support this legislation. I would like
30. to present next Mr. Julian D'Esposito, who is the General Counsel
31. to the Governor, who has been working on this legislation almost
32. around the clock for the last few days and will attempt to
33. outline for you its basic elements and its most essential parts.

CHAIRMAN: (SENATOR BERMAN)

1. Mr. D'Esposito. Would you...would you, for the record,
2. indicate your name and title.

3. MR. D'ESPOSITO:

4. Mr. President, Ladies and Gentlemen of the Senate, my name
5. is Julian D'Esposito. I am counsel to Governor Thompson. The
6. purpose of my testimony today will be to give a brief outline
7. of the bill which is on your desk and an even briefer outline
8. of the bill which is in the process of being printed and pre-
9. sumably will arrive sometime during the course of this. There
10. are two...in fact, two bills which are proposed for your
11. attention. The first is House Bill 1264 and the second is
12. House Bill 1910. You do have a complete copy of the proposed
13. amendment to House Bill 1264, although I understand you were
14. missing page 45 at one point. You may now have it. It contains
15. no secrets. House Bill 1264 contains the essential powers of
16. what is called the School Finance Authority. It also contains
17. a number of amendments to the School Code which make the School
18. Code conform to the powers being granted to the School Finance
19. Authority. The meat of the bill begins someplace in the middle.
20. Page 23 is where the control board begins. There are two
21. essential kinds of powers which are granted to the School Finance
22. Authority. The first is to control the financial practices
23. of the Chicago Board of Education and the second is to provide
24. a means of financing the debt requirements of the Chicago Board
25. so it may continue its operations. The separate bill which is
26. being delivered, House Bill 1910, will be a piece of legislation
27. granting...the power to the City of Chicago to issue notes
28. secured by the existing tax levy of the Chicago Board of
29. Education with the right in the noteholders to get their hands
30. on...a felicitous expression, the State aid when and if it is
31. duing to the...and at the time it is duing to the Chicago Board
32. at the election of the noteholders. The...the School Finance
33. Authority is a body politic unit of local government, a special

1. district. It will contain five members of a board of directors,
2. two appointed by the Governor, two appointed by the Mayor of
3. the City of Chicago, the chairman appointed by both. These
4. directors receive no compensation other than for their expenses.
5. They serve three year staggered terms and there are no restric-
6. tions on...or no qualifications for office other than the typical
7. constitutional qualifications. The School Finance Authority is
8. given general powers similar to the powers given to all special
9. districts such as the power to sue and be sued, execute contracts,
10. purchase real property, manage its affairs, hire employees and
11. pay them, etc.

12. CHAIRMAN: (SENATOR BERMAN)

13. Senator Newhouse, for what purpose do you arise?

14. SENATOR NEWHOUSE:

15. I wonder if the speaker would be good enough to give us
16. a notion what pages you are referring to as you go along. That
17. will be helpful. Thank you.

18. MR. D'ESPOSITO:

19. Fine. No problem. I am...

20. CHAIRMAN: (SENATOR BERMAN)

21. Suggestion is well-taken.

22. MR. D'ESPOSITO:

23. I am on House Bill 1264, starting in the middle for this
24. purpose. Page 23 is where the School Finance Authority is
25. created. A new article added to the School Code, Article 34A.
26. After the purpose language and the definition language, the
27. general powers are found on page 27 and those are standard. The
28. creation of the board of directors is found on page 29. The
29. terms, vacancies and removals at the bottom of that page and the
30. top of page 30. There is a standard provision with respect to
31. conflicts of interest with respect to those directors. On
32. page 31, there is a provision for State agencies and other units
33. of local government and school districts to provide assistance,

1. loan personnel and other things. This may be particularly im-
2. portant at the commencement of this particular School Finance
3. Authority. The next section specifies that no compensation is
4. paid. The next section, at the bottom of page 31, deals with...
5. in our standard provisions relating to meetings, one particular
6. point that's this...the School Finance Authority will obviously
7. be subject to the Open Meetings Act. Page 32 is the key portion
8. of the bill with respect to the powers, the control powers of the
9. School Finance Authority. Sections 401 through the end of the
10. four hundreds provide the mechanism for bringing fiscal respon-
11. sibility to the Chicago Board of Education. Section 304A-402
12. in the middle of page 32 supplies the immediate target which is
13. a balanced budget in the budget presented for Fiscal Year ending
14. 1982. In other words, the budget commencing September 1st, 1981,
15. must achieve a balance and subsequent years must...likewise be
16. balanced. The...the general outline of the powers is found in...
17. at the top of page 32, Section 34A-401 and where it says that
18. the School Finance Authority has the power to approve or to reject
19. the financial plans, budgets and contracts of the board. Now, there
20. are some specific things...points that should be made with respect
21. to that. This is a power that is to be exercised in the aggregate.
22. It is not a power which permits the School Finance Authority to
23. impair existing contracts. This...the Board of Education is
24. required to submit for this calendar year a financial plan
25. showing the balance of this School Fiscal Year plus the subse-
26. quent two...School Fiscal Years. That must be submitted to the
27. Authority by March 1st, 1980. Prior to that, the school board
28. must submit to the Authority a budget for the balance of this
29. School Fiscal Year ending August 31st. The Authority then must
30. approve or reject that particular plan in its entirety. They
31. may not say this portion or that portion of the plan is to be
32. stricken. The same with respect to the budget. Thereafter, in
33. subsequent years, the Authority...I'm sorry, the board is to

1. present to the Authority a budget and a fiscal...financial
2. plan forty-five days before the end of the School Fiscal
3. Year which will be July 15th, 19...whatever and the Board
4. of Education...I'm sorry, the Authority must then, within a
5. thirty day period, approve or reject the financial plan and
6. the budget. You will find the specific powers with respect
7. to the financial plan in 34A-403 on page 32 with respect to the
8. budget on 34A-404 on page 34 and with respect to contracts on
9. page 34A-405. Let me reiterate particularly with respect to
10. contracts that it is the intention of this particular legislation
11. that the School Finance Authority, when a contract is submitted
12. to it, may say this contract is unacceptable. The standards
13. for making that determination are found at the bottom of page
14. 36 in subsection D and it is put in the affirmative with
15. respect to the power of the Authority. The Authority must
16. approve or shall approve the contract if, in it's judgment,
17. the information required to be submitted is complete and the
18. contract or other obligation is consistent with the budget
19. and financial plan in effect. Again, there is not the ability,
20. bottom of page 36, subsection D, there is no power to say this
21. portion of the contract must be revised. One has decided to
22. spend too much money on this program rather than another program.
23. It is the purpose of the control board to deal with aggregates
24. and to require that the board live within it's financial plan
25. and it's budget. The standards by which a contract is judged are,
26. in fact, the budget and the...and the financial plan previously
27. presented and approved, adopted by the board and approved by
28. the School Finance Authority. Subsequent sections of the bill
29. provide for typical powers of...if you'll excuse me...the bottom
30. of page 37 and the top of page 38...typical powers with respect
31. to the handling...strike that. Let me start over again. The
32. Section 409...permits the Authority to require the Board of
33. Education to establish separate bank accounts, one of the things

1. which is a problem in the current system is that has not been
2. done. Subsection B permits the Authority to, in fact, take over
3. those bank accounts, if necessary. Subsection...Section 410...
4. in the middle of page 38 provides the Authority with the ability
5. to reorganize the Board of Education under existing law. They
6. are not permitted to...to contradict any Statutory power that
7. may be granted to the Board of Education as to it's management,
8. but...unless otherwise provided in this bill, but they are
9. permitted to direct the Authority to undertake and revise its
10. management practices, its purchasing practices, its real
11. estate practices, etc. Section...the five hundred sections are
12. what has been referred to as Phase III of this plan, the
13. long-term bonding power. What is intended is to provide the
14. Authority with the ability to issue full faith and credit
15. general obligation bonds in the amount of five hundred thousand
16. dollars of the Authority. These are not obligations of the
17. State, the City of Chicago or...

18. CHAIRMAN: (SENATOR BERMAN)

19. Five hundred thousand or five hundred million?

20. MR. D'ESPOSITO:

21. Five hundred million. It wouldn't be much of a long-term.
22. That particular debt will be financed by a tax which the School
23. Finance Authority will direct the City Council of the City of
24. Chicago to levy on taxable property within the City of Chicago
25. in an amount necessary to service the debt. 34A...the middle
26. of page 400, Senator Netsch...40. Now, the other key in this,
27. if you return to page 21 of the bill, page 21. It's Section
28. 34-53 of the bill. It's up on page 21. The key to this long-
29. term financing structure at this point is to insure that the
30. tax powers in the aggregate of the School Finance Authority and
31. the Chicago Board of Education are equal to the current operating
32. tax powers of the Chicago Board of Education. That is accomplished
33. by reducing, on page 21, the operating tax rate of the City of

1. Chicago for educational purposes from two eleven to a dollar
2. sixty-one. The debt service required to fund the five hundred
3. million dollars of bonds on an annual basis will approximate
4. the difference between one dollar and sixty-one cents and two
5. dollars and eleven cents or, in other words, fifty cents.
6. Fifty cents per hundred dollars of assessed valuation has been
7. pulled from the operating tax rate of the Chicago Board and
8. given to the School Finance Authority to levy...to retire its
9. debts. All of the proceeds of the bond issue are paid over
10. for the operations of the Chicago School Board. One other point
11. which should be made that is in the...on page 17 of the bill
12. with respect to the operations of the School Finance Authority.
13. It will be funded...it will be required to adopt a budget
14. which it will submit to the...to the Superintendent of Education
15. to the State Board of Education. The State Board will then pay
16. to...will deduct from monies owing to the Chicago Board of
17. Education under General State Aid an amount equal to fund the
18. operating budget of the control...School Finance Authority. All
19. other State aid will continue to be paid to the Chicago School
20. Board. The School Finance Authority will be required to report
21. to the General Assembly on May 1st, I believe...April 1st, I'm
22. sorry. The initial report of the Directors of the School
23. Finance Authority...this is page 49, must be submitted to this
24. Body on or before April 1st. Presumably, the purpose of that
25. will be to report on the initial budget and financial plan and
26. to give you findings on what not only has been going on, but to
27. what direction the School Finance Authority and its Board of
28. Education, the Chicago Board of Education, will take to provide
29. essential educational services in subsequent years. The
30. Auditor General is given the power to audit the operating budget
31. of the School Finance Authority. Returning to page 45, the
32. six hundreds are general powers, miscellaneous provisions given
33. to the School Finance Authority, including the requirement that

1. it provide for public participation in reviewing the school
2. financial policies. Some technical legal matters concerning
3. the life of causes of action, the ability of the Authority to
4. indemnify it's officers and directors under limited conditions,
5. standard provision on page 47 that these long-term bonds and
6. any other debts are not debts of the State, the city or the
7. Board of Education and at the end a series of direct requirements
8. on the Board of Education to comply with the Statutory powers
9. granted not only to it, but also the powers granted to the
10. School Finance Authority. That is the outline...a very rough
11. outline and I'm available at the end of the testimony to answer
12. questions which I'm sure you will have. Thank you, Mr. President.

13. CHAIRMAN: (SENATOR BERMAN)

14. All right. Although we don't have copies yet and they
15. are being prepared of 1910, at this point, with Mr. D'Esposito
16. at the microphone, we'll ask him to give an outline of 1910.
17. Hopefully, the bill itself, the amendment, will be in our hands
18. before the conclusion of the witnesses so that questions con-
19. cerning the 1910 can also be directed at that time. Mr. D'Esposito,
20. regarding 1910.

21. MR. D'ESPOSITO:

22. House Bill...the amendment which will be proposed to House
23. Bill 1910 creates the bridge. If you will recall, five hundred
24. million dollars of bonds will have to be issued to provide long-
25. term financing. That will require not only some time and effort
26. to get those to market, but also a court test before those bonds
27. will be sold. Between now, when the board has run out of money
28. or will shortly do so and the time that the court finally approves
29. the creation of the control...the School Finance Authority and
30. it's bonding power, we would need some money to continue the
31. operations of the Chicago Board. That is the purpose of what
32. we affectionately refer to as the Bridge Note Statute. The
33. purpose of the Bridge Note Statute is to provide access on a

1. short term basis to the Chicago Board of Education. If you will
2. recall, the Chicago Board went to market in November to sell its
3. regular general obligation notes in anticipation of tax levies
4. made in 1979 to be collected in Calendar Year 1981. They were
5. unable to sell those notes and that is why we are all here today.
6. The purpose of this particular Statute is to provide access to
7. the market for those debt obligations that is secure. That is
8. done by transferring the power to sell those obligations to the
9. City of Chicago. The City of Chicago will repay those obligations
10. with the tax it levies on behalf of the Board of Education which
11. is the same tax that the Board of Education would have levied on
12. its own behalf if it had been able to accomplish this back in
13. November. In addition to that, the holders of these notes, as
14. additional security, will be given the power to require the
15. State Comptroller to pay when and if there is State Aid Funds
16. paid to the Chicago Board of Education on or after October 1st,
17. 1980. This is an incomplete description of the complexities of
18. this particular instrument. The purpose is for additional
19. security. That security is money which the Chicago Board of
20. Education typically receives and if, to the extent that this
21. Assembly does appropriate that fund and a noteholder chooses,
22. he may notify the Comptroller and receive payment of his note
23. from State Aid as opposed to waiting until the note becomes
24. due in either April or I think October of 1981. This, in one
25. sense, is an extension of the power of the Board of Education
26. to borrow in anticipation of State Aid. That is not legally
27. precise, but it is the...if you will recall, this Body passed
28. House Bill 2730 which permitted the...all school boards to
29. borrow in anticipation of State Aid through August of this
30. Calendar Year. This permits receipts of State Funds to be
31. anticipated by borrowing. It is a secondary source of payment
32. for the noteholders, although, in fact, the noteholder may claim
33. it in advance of the due date of the note. That is a rough

1. description of the amendment...which will be coming to House Bill
2. 1910.

3. CHAIRMAN: (SENATOR BERMAN)

4. Okay. The...the next witness is Dr. Robert Mandeville.

5. DR. MANDEVILLE:

6. Thank you for the honor of being able to say a few remarks.
7. I would like to make my remarks within the context of the
8. financial aspects...

9. CHAIRMAN: (SENATOR BERMAN)

10. Excuse me, Dr. Would you indicate your name and title for
11. the record.

12. DR. MANDEVILLE:

13. Robert Mandeville, Director, Illinois State Bureau of the
14. Budget. I'd like to make my...my comments in the context of
15. the financial aspects. I would generally characterize the
16. settlement as a good financial settlement and as it refers to
17. the State position, an excellent settlement. In my opinion,
18. the State is not at risk at all in this settlement. When we
19. went to New York to talk to the rating services, we agreed...
20. committed to two...two conditions. One, the State would not
21. guarantee any of the debt being issued and two, there would be
22. no new State money being given to the school board under this
23. settlement. Both of those conditions were met. In no way is
24. the State guaranteeing any of the debt being issued under this
25. settlement. The initial one hundred and fifty million that has
26. basically been implemented at this point, contains the fifty million
27. of purchase by the State of State anticipation notes authorized
28. under House Bill 2730, already enacted into law. They are se-
29. cured by State Aid payments that will be made between now and
30. June 20th of this year and are, in that sense, self-liquidating.
31. The second portion of two hundred and twenty-five million has
32. no State guarantee or put or take out involved in the second
33. issue. The involvement of the State is limited to the routine

1. offset provision that is currently in the Comptroller's Act,
2. 21005, where if any vendor owes the State money, the Comptroller
3. is authorized by law to deduct that amount from any warrant
4. that might otherwise go to that vendor and pay their vendor the
5. difference. This extends this only to the noteholders of this issue
6. of the two hundred and twenty-five million. They have the same
7. right of offset against any educational funds that would other-
8. wise be paid to the City of Chicago or school board if they
9. choose to exercise that option. In the long-term bonds, they
10. are funded debt in that there is a...dedicated property tax
11. revenue that is escrowed and set aside solely for the purpose
12. of retiring the five hundred million in long-term debts. In
13. general and I think as evidenced by the...our sale on Tuesday
14. of this week of a hundred and fifty million in State general
15. obligation bonds, we had a good sale. From the State view,
16. an excellent sale, seventy basis points below the bond buyer
17. index which was about the same as we did in June of 1979, clear
18. evidence that the State was not at risk in their part of the
19. settlement. Thank you.

20. CHAIRMAN: (SENATOR BERMAN)

21. Next witness, Dr. Joseph Cronin. Please indicate your name
22. and title for the record.

23. DR. CRONIN:

24. Joseph M. Cronin, State Superintendent of Education and with
25. me is Carol Johnston, who is the Vice-Chairman of the State Board
26. of Education and who chairs the Legislative Committee of the
27. State Board. Four points, the legislation proposed is tough
28. medicine. It's tough on the existing Chicago Board of Education
29. for letting deficits go on and on for a number of years and
30. for not watching closely enough the interfund transfers. The
31. remedies are tough, but they are appropriate and they parallel
32. action taken on municipalities or boards of education elsewhere
33. in the country under certain circumstances. The provision for

1. an escrow account or a debt service fund is absolutely nec-
2. essary to restore the financial integrity and creditability
3. of the Chicago Board of Education during the 1980's. The
4. establishment of a School Finance Authority is a device to
5. enforce a balanced budget and the matching of revenues and expen-
6. ditures in the years to come and is...is a device which will,
7. again, assist in terms of restoring local control to a board
8. of education and the dedication of existing educational funds
9. to pay back notes, again, vital for the Chicago Board of
10. Education as it is assurance to those who from time to time
11. agree to purchase notes or...or bonds. I know that many leg-
12. islators have already expressed to me the concern that there
13. will be reductions made in the Chicago Education Budget, as
14. have been done in downstate communities in many of the cities,
15. Springfield, Rockford, many dozens of others. You will hear from
16. the President of the Chicago Board of Education later. I have become
17. assured that those cuts, in fact, have been in the preparation
18. stage for the past two or three weeks, will surface very soon.
19. There will be a reduction in staff and there will be reductions
20. in other aspects, not to cut out the core of the program. Not
21. to cut out essentials. Not to cut out required educational
22. programs, but to make the kind of...eventually eight to ten
23. percent reduction which will bring it into line. This can
24. happen. This will happen. The Governor has insisted on it.
25. I have spoken publicly and said it must happen, if we are to
26. live within the concept of a balanced budget in our school dis-
27. tricts. There will be no negative impact on downstate schools.
28. Again, many school boards have raised this question as to
29. whether or not the measures taken already or the measures
30. proposed will delay or further pro rate any existing State
31. Aid to school districts and it will not. This is essentially
32. a self-help program built in to make sure that Chicago pays
33. and pays back the money, be it in bonds or notes. There will

1. be no reduction in the aid to school districts elsewhere in
2. the State. There will be no delay. In fact, so far, in the
3. first six or seven weeks, the measures taken by the Governor,
4. the Treasurer, the Comptroller and by myself, on behalf of
5. the State Board of Education have helped the other thousand
6. eleven school districts all of whom have received their State
7. Aid several weeks earlier for the last two months than they
8. would have. The Peoria Board of Education reported that on
9. the first speed up of General State Aid that they made seventy-
10. five hundred dollars by investing the money. Other school
11. districts have reported to me that they were able to use the
12. funds to cut down the amount of money they would have had to
13. borrow at this time of year...to a number of people, it's the
14. equivalent of one person sneezing and giving out handkerchiefs
15. to everyone. So far, downstate school districts have benefited
16. from this measure. The final point, this issue needs to be
17. resolved quickly. A number of people have raised the question
18. of whether or not there are some long-term measures or some
19. structural changes that could be made or that should be debated
20. at some length. That is quite likely, but I would urge the
21. General Assembly and in particular, the Senate, to resolve
22. these emergency issues quickly. If not, the...all school boards'
23. notes and the ability of all school boards in the State to borrow
24. money could wind up costing more because of an uncertainty
25. factor. All vendors who do business with schools and many of
26. the vendors who do business with the Chicago Board of Education
27. do so in suburban districts and some in rural districts as well.
28. All of those will in subsequent bids want to put in for a risk
29. factor or an uncertainty factor if we, the public officials of
30. Illinois, do not move with some dispatch on these emergency
31. items. I think there will be time during the Spring Session to
32. take a look at other measures which could be enacted into law
33. and the Finance Authority, I'm sure, will come up with several

1. ideas. The State Board of Education has a subcommittee to
2. look at those measures which Chicago needs and by the way, to
3. find out which remedies or measures could also help downstate
4. schools in terms reducing their need to borrow in the future
5. or speeding up the flow of money whether it be from Property
6. Taxes or from the State and your committees will be considering
7. other proposals, I'm sure, to work out some long term remedies,
8. but these emergency...solutions are needed right now. Thank
9. you.

10. CHAIRMAN: (SENATOR BERMAN)

11. The next witness will be Mr. John Perkins. Mr. Perkins,
12. please indicate your name and title.

13. MR. PERKINS:

14. Thank you. I'm John Perkins, President of the Continental
15. Illinois National Bank of Chicago. I'm delighted to be here and
16. have this opportunity to address the Senate. I'd like to say
17. first and emphasize that there is a crisis and it is urgent. The
18. school board, as a practical matter, is completely...has no
19. access to the markets and is out of funds. There is a danger,
20. as Dr. Cronin has stated, that if we do not resolve this quickly
21. and on a basis that can be a longer term solution to our problem,
22. it will have an impact on all of the school districts' financing in the
23. State, as well as other governmental bodies, particularly in the Chicago
24. area. Back in 1976, the trends on the Board of Education budget
25. were becoming very adverse and the deficits were growing, the
26. amount of short-term financing was increasing. It was clear that
27. we could be leading toward a very serious financial crisis. The
28. board acted at that time to get hold of that budget, to turn it
29. around and start moving it in the right direction and, indeed,
30. it did move in the right direction, albeit still with a deficit
31. for a couple of years. However, in the past year, it swung the
32. other way with a vengeance. This was the result of the ever-in-
33. creasing costs with inflation, unchanged revenue since 1971,

1. because of property values in certain parts of Chicago, no
2. increase in the tax base and a series of mandated programs that
3. were not funded properly in one way or another from a budget
4. standpoint. We have lived then with bandaids and then depleted
5. reserve funds which you have heard about and now a hundred
6. million dollar deficit and seemingly, no immediate solution.
7. When the market...when this was disclosed to the market in
8. November in connection with a forthcoming issue, the rating was
9. immediately dropped to double B because the issue was simply
10. to repay debt, not to borrow temporarily for operating purposes
11. in anticipation of tax needs. The funds needed then were to
12. provide relief from operations temporarily, but we had no
13. access to the market. We have no relief until the taxes come
14. in and when they do, there will be accumulated bills and debt
15. to pay without operating funds. The solution that has been
16. developed over the last six weeks by many parties working
17. around the clock has developed what I believe is a satisfactory,
18. more than satisfactory...a true solution in both the long run
19. and the short-term..in the short run sense. There have been
20. many saying why can't we just solve the problem for the next...
21. the next week or something like that and then we will do something
22. else. As a practical matter, this is no solution. It only
23. gets us in deeper and deeper to the point where the ultimate
24. solution and the long run solution to meet the educational needs
25. of our children will be difficult if not impossible without a
26. real collapse. In...in addition to these problems that we have,
27. we have some very special problems from a financial standpoint
28. that perhaps have been difficult to get the kind of understanding
29. that we need in order to understand the magnitude of this
30. problem. We have a very serious legal problem. Banks and other
31. fiduciaries and trust companies and investors can only invest
32. in investment grade securities. Banks cannot just go ahead
33. without an overall plan and some visible means of repayment. To

1. do that with...with...in any case, but to do it particularly
2. with securities that are related...that are rated almost
3. doubtful quality for repayment would bring both criminal
4. penalties under the Banking Statutes so there are very special
5. legal problems, not only for bankers, but the whole area of
6. municipal finance so fraught with legal technicalities. The
7. Comptroller of the Currency in Washington, the Federal regulators,
8. the Securities Exchange Commission are all looking at this right
9. at this right now. The liability of the lenders,
10. legally and criminally, is very great. The second point that
11. needs understanding and I think, perhaps, has not been com-
12. municated as well as it should until recently, is that we must
13. be able to sell these securities on a nationwide basis to
14. nationwide financial markets. This is not a question of the
15. Chicago banks. The size, the magnitudes of this program and
16. the needs are so great that we must be able to...to devise
17. securities that can be sold in the national financial markets,
18. bringing in partners from throughout the United States along
19. with the Chicago banks and other financial institutions to
20. generate the total funds that are needed and we believe this
21. new proposed program before you today does that. There is still
22. a massive job ahead. This program, though, will give us the
23. tools to develop and implement this program over the months
24. ahead through the spring and early summer. The control author-
25. ity is a key feature of the legislation and looking at it from
26. a financial standpoint and the needs of financial markets, it
27. is clearly an absolute must if the program is going to have the
28. credibility to succeed, the believability to pass the snicker
29. test with the investors. The technical features, which were
30. what Mr. D'Esposito outlined are complicated, but nevertheless,
31. they are all needed. These are such things as the third party
32. payments, the setoff rights, the State Aid...State Aid pay-
33. ments and this type of thing. These things may seem complicated,

1. cumbersome and, indeed, even unnecessary, but given the state
2. of the markets we are in, given the double C rating, given the
3. situation as viewed, particularly from outside Chicago, but,
4. indeed, within our own community in Illinois, these kind of features
5. are an absolute necessity to meet our goals of having legally
6. valid securities that can appeal to national markets and get
7. the financing done, both long and short-term to meet the needs...
8. to meet the needs and move ahead and get our children educated.
9. Conclusion then, the program is urgent. Next week the board is
10. out of money again, as Mrs. Rohter will tell you. The program
11. is sound. It faces the issues. It has a visible means of
12. repayment through the long-term Phase III part of the program,
13. a bridge in Phase II. It is complicated, but that is necessary
14. to address all of the major problems and develop the market
15. credibility so that we have paper that can tap these national
16. resources on a proper legal and bonafide basis. Finally, we,
17. in the banking community, certainly in Chicago, pledge our
18. wholehearted support and constant work in the months ahead to
19. make this program a reality on the basis of what you Gentlemen
20. and Ladies decide to do here today. Thank you.

21. CHAIRMAN: (SENATOR BERMAN)

22. Next witness will be Miss Catherine Rohter.

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24. (End of Reel #1)
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Please indicate your name and title for the record.

MRS. ROHTER:

Mr. President, and Ladies and Gentlemen of the Senate. I'm Kay Rohter, President of the Chicago School Board. The speakers before me have outlined the plans to resolve on a long term basis the problems of the Chicago Board of Education. They've described things that we did together in the Governor's Mansion over the last weekend. I feel that the thing for me to do at this point is tell you what the Board of Education of the City of Chicago is doing for itself. First I want to tell you that we have in place, the board, a definite plan to produce the kind of cuts that will be necessary for us to live within revenues. On Sunday at the board meeting, I indicated to the board members, and the interim Superintendent that we were looking for sixty million dollars by the end of this school year, Fiscal '80, and another hundred and six million for Fiscal '81. It'll be painful, I understand that, there'll be a lot of weeping, and wailing and gnashing of teeth, but without that kind of a cut, the very life of public education in Chicago is dead. So, when people say we cannot do this, and we cannot do that, I say well fine, you'll have a lot of time to think about it because there won't be any program. It is not a question of selecting programs, it's will there be a program at all. We will, by tomorrow, have exhausted the funds from the first amount of money. Yesterday was touch and go, we did get the money in place. We need that bridge money that we've talked about here today to get us through the next few months. In February alone, twenty-nine day month, there's a hundred and twenty-six million dollars of payroll alone. One of the things that I want you to know, we will be addressing, is the fifty thousand, more or less, employees of the Board of Education, which has as its prime purpose, teaching children, yet only about twenty-seven thousand of those employees are teachers and many of those not in the classroom. That comes out to a one to

1. ten ratio for a system with almost a half a million children, but
2. that is not a classroom ratio. We will very definitely be looking
3. at those and making cuts of that nature. I would also say to you
4. that we're going to be looking and asking you to help us with those
5. mandated programs. Mandates without money are one of the reasons
6. that we are where we are today. That's not to say that those programs
7. are not necessary and required, but some of them are going to
8. have to be cut right now. Our cash flow problem needs to be resolved,
9. we have seventy-two million dollars in the current budget, appropriated
10. for debt retirement. We have a ninety-four million dollar short
11. fall. If you take the seventy-two away from the ninety-four you
12. wouldn't have the kind of differential that couldn't be addressed
13. in a way that wouldn't do violence to the system. I understand,
14. and sympathize because I've had the same problem, your difficulty
15. in getting precise, accurate information from the Chicago Board
16. of Education, I pledge to you that those days are over, we will
17. insist on getting the kind of information we need, and sharing it
18. with you. We collect a tremendous amount of information, retrieval
19. and dissemination are unknown. You will not experience that
20. in this next term. I would ask you to look favorably upon the
21. emergency legislation before you today, it is absolutely critical
22. that it be approved so that we will not lose public education in
23. Chicago. Thank you.

24. CHAIRMAN: (SENATOR BERMAN)

25. The next witness, is Jerome VanGorkom. Please indicate
26. your name and title.

27. MR. VANGORKOM:

28. I'm Jerry VanGorkom, and I understand that if this bill is
29. passed that I am to become the Chairman of the Authority as it's
30. now named in the bill, and you've heard a whole list of witnesses,
31. I did not have the opportunity to hear what they said, so I assume
32. that they have...since there were a large of them, and they're well
33. informed, that they have pretty well told you what the basic legis-
lation is, and I will only dwell for a few minutes on who I am since

1. I am slated to head this thing. My name is Jerry VanGorkom, I
2. live in Lake Forest, Illinois, and I'm a businessman. I run a
3. company that does about nine hundred million dollars a year and
4. makes sixty million dollars, has fourteen thousand employees, and
5. operates all over the world, so it's a fairly substantial operation.
6. I got into it rather indirectly, the Mayor called me down to her
7. office and asked me about five weeks ago if I would head a Financial
8. Oversight Board, and since I knew absolutely nothing about the
9. school board's problems I told her I'd have to have some time. So,
10. I went to Arthur Anderson and Company who are at the time engaged
11. in a frenzied effort to try and determine what the cash problems
12. of the school board were, worked very closely with them for
13. two days, and realized that the problems of the school were absolutely
14. enormous, and that the schools were in very serious condition and
15. likely to close for a long term unless some help was forthcoming.
16. So, I agreed to serve on this committee, but we knew at the time,
17. of course, that the Mayor had no authority to give me in this area,
18. and I have no authority to this date, but for the last four or
19. five weeks I have spent an enormous amount of time trying to
20. familiarize myself with the problem, working with the State and
21. with the City and with the School Board, and with the financial
22. community. The legislation which you have before you is designed
23. to create a new authority, and basically that new authority will have
24. two basic functions. First of all it will create an entity which
25. does have credibility in the financial world. An entity that will be
26. able to borrow money that can be given to the school board in order
27. for it to carry on its operations, and secondly, it will have the
28. authority to make certain that the school board lives within its
29. means in the years to come, and that second function, of course,
30. will be much more difficult, and much more time consuming. I would
31. emphasize from the very beginning, that this new authority will not
32. run the school system. It will not make basic decisions with regard
33. to programs, those to be added, those to be dropped, or any...per

1. anything with regard to the normal operations of the school board.
2. In essence what is being done here, is simply to leave the teaching
3. function and operation in the hands of the school board, and to
4. put the financial operation of the school board in the hands of
5. a separate authority, solely because we have to have an authority
6. that has credence in the financial community. This control function
7. of the...of the Authority incidently is probably just as important
8. as its power to borrow. It will not have acceptability in the
9. community, it will not have the power to borrow five hundred
10. million dollars, which is to be given to the school board by the
11. Authority, unless it also has the power to make certain that the
12. financial activities of the school board in the future are carried
13. on in a sound way. Now it is perfectly true that the...one of the
14. important things that the Authority will do is to determine what the
15. maximum amount of money that the school board can spend at any
16. particular period. Now, if that is less than the amount of money
17. the school board would like to spend, then the school board will have
18. the responsibility for making such changes as are necessary to
19. live within its budget as given by the Authority, but the Authority
20. will not involve itself in making basic educational decisions.
21. I have nothing further to say, I'd be glad to answer any questions
22. that anyone may have that I can answer.

23. CHAIRMAN: (SENATOR BERMAN)

24. All right, Mr. VanGorkom, if you'll just step back for a minute,
25. we've asked the other six witness who have testified so far to come
26. back out on the Floor and in accordance with Senator Rock's previous
27. motion, questions will now be entertained from the Senators. You
28. may indicate whether they are directed to any single witness or
29. whether it's up to the witnesses to provide you the best answer.
30. Senator Chew.

31. SENATOR CHEW:

32. This question is directed to Mr. VanGorkom. You said in your
33. statement that the Mayor of the City of Chicago called you into

1. her office and I assume asked you to take this position. You
2. further refer to it that you would be the Chairman of this thing.
3. I was under an impression according to the proposed legislation that
4. we have, or the printout that the Chairman would be selected by
5. the Governor and the Mayor. Now, am I to understand that you have
6. already been selected before the legislation has been passed, or is
7. this a built in chairmanship that is designed for you?

8. MR. VANGORKOM:

9. No, you're absolutely correct. After the legislation is passed
10. as presently drafted, the Mayor, and as far as the chairman
11. is concerned, the Mayor and the Governor will combine to...
12. appoint that person. They have indicated to me that I will be
13. the chairman, that's the only reason I've spent the last five weeks
14. working so hard on this thing, if they decide not to appoint me,
15. that's perfectly acceptable to me.

16. SENATOR CHEW:

17. The other question to you Sir, insomuch as this is a Chicago,
18. in-city problem, the school system, and the financial crisis in
19. which it's in, by selecting you living in...River Forest, one could
20. assume that Chicago doesn't..posses the talents that's equal to
21. yours otherwise it seems to me that anyone that's going to hold
22. a position, at least, ought to live within the City of Chicago.
23. The problem we've had with school board members, they do live in
24. Chicago presumably, but there's been a lack of participation of
25. their children in the schools, consequently it appears to me that
26. they could not have manifested enough interest in the school system
27. because they had no interest in it from having children that were
28. products of the school, and now you living in River Forest and
29. you're going to be the chairman of this thing, it seems to me that
30. it's...it's a built in thing and it just doesn't set too well on my
31. stomach. I think the person who...who heads this, or who is on the
32. committee ought to, at least, live in the City of Chicago, within
33. the city limits. What is your comment on that?

1. MR. VANGORKOM:

2. I can well understand that you would feel that way, Sir,
3. and when the Mayor first broached to me I told her, I said you
4. should understand I don't live in the City of Chicago. I can
5. only say this, I have a very deep and abiding concern about the
6. continued existence of the Chicago School System. One of the
7. reasons I...if I have any qualifications for this job, it is
8. that. Now, you may say since I have no children in the system
9. how can I possibly feel that way. I can only say I have spent
10. the last five weeks probably ninety percent of my time, even
11. though I have another job, working on this only because I feel
12. that since I was asked to help in this problem, and since I am
13. both an attorney, and a certified public accountant, and have the
14. necessary background for the job, that I should take it if I am
15. asked. If I am not asked to take it, I will not, but the fact that
16. I am here, since I have absolutely no political ambitions, no ax
17. to grind, no interest whatsoever except in the continued existence
18. of the school. Now, I would add to that, the job that I will have,
19. and the other members of this Authority will have, is a financial
20. job. They will not be involved in positions where their sensitivity,
21. for example, to the school system will really be at issue. Those
22. sensitivities and qualifications will still lie with the school
23. board, and I agree with you completely that members of the school
24. board should be perhaps different than the people on the Authority.
25. They need to be sensitive to the needs of the Chicago school children.
26. I can only say that you can search my background from top to
27. bottom and it's obvious that I have no reason whatsoever to take
28. this job other than my desire to be helpful to see that the
29. Chicago School System remains in existence.

30. SENATOR CHEW:

31. My last question, Mr. Chairman. You put emphasis on the last
32. five weeks. What has happened where you were concerned in the last
33. five years where the Chicago School System is concerned, insomuch

1. as you're going to chair this, obviously you're going to chair
2. it you know it already. What has been your interest, or your
3. contribution to the Chicago School System in the last five years
4. not five weeks?

5. MR. VANGORKOM:

6. I'd have to say in honesty, my...my function in this, I
7. continue to repeat, and it's very important to remember, is going
8. to be financial. Until five weeks ago I didn't realize that the
9. Chicago School System was in the financial shape that it's in, I
10. just didn't know that.

11. SENATOR CHEW:

12. I have no further questions of you, you admit that.

13. CHAIRMAN: (SENATOR BERMAN)

14. Senator Maragos.

15. SENATOR MARAGOS:

16. I would like to ask a question of Mr. Perkins, please.

17. CHAIRMAN: (SENATOR BERMAN)

18. Mr. Perkins. He'll be back, Senator Maragos, would you hold
19. your question?

20. SENATOR MARAGOS:

21. All right, I'll hold my question till he returns.

22. CHAIRMAN: (SENATOR BERMAN)

23. Okay, he's coming back. Senator Netsch.

24. SENATOR NETSCH:

25. Thank you. I think my first question probably would be directed
26. to Mr. Quern and Doctor Mandeville. Are all the members of the
27. panel available?

28. MR. QUERN:

29. They're...they will be made available. Most are here, some
30. are in other meetings at this time answering other questions of
31. individuals but they will be made available if they're not immediately
32. here, they'll be gotten here. Mr. D'Esposito and I, Doctor Cronin
33. are here. Mr...Doctor Mandeville can come right back, he is in another

1. meeting on another issue at this moment.

2. SENATOR NETSCH:

3. Well...

4. MR. QUERN:

5. I can...Doctor Mandeville will...will come up now if you would

6. like to...

7. SENATOR NETSCH:

8. Yes, I think probably some of these...a few questions may

9. involve him. Let me pose the first question and if you want to

10. comment on it you may, but I think he should also.

11. CHAIRMAN: (SENATOR BERMAN)

12. Do you want to hold your question for a minute, and we'll call

13. on another Senator and come back to you, Senator Netsch?

14. SENATOR NETSCH:

15. Well, I think it would be helpful to all of us, if all of the

16. people could be available, because some of the questions we may not

17. be sure who the answerer or answerers should be.

18. CHAIRMAN: (SENATOR BERMAN)

19. Why don't you hold your question for a second ...

20. MR. QUERN:

21. Doctor Mandeville assured me he'd come right back and he's...

22. CHAIRMAN: (SENATOR BERMAN)

23. Mr. D'Esposito is on the phone, and he'll get...why don't we

24. hold. I've got...I'll get back to you immediately Senator.

25. SENATOR NETSCH:

26. I have several questions.

27. CHAIRMAN: (SENATOR BERMAN)

28. That can be answered by the people present here?

29. SENATOR NETSCH:

30. Yes, let me try a couple of them, and if they cannot be then

31. we'll wait till the others arrive. My first question was, is it

32. a fact that for the first time that we know of in the history of

33. the State of Illinois, the...we are being asked by...as the State

1. Legislature to authorize the issuance of long term debt to pay
2. for operations of an agency of the State.

3. MR. QUERN:

4. I would...on questions of debt...and we will have Doctor
5. Mandeville addressed especially on question like that on the history
6. of the State. I would prefer that he answer so there'd be no
7. mistake at all.

8. SENATOR NETSCH:

9. All right, then I will hold that question. My second question
10. is, can someone give us the total cost of the several phases of
11. borrowing that are involved in this three phase package.

12. MR. QUERN:

13. Again, are you talking about the cost in terms of the interest,
14. or are you talking about what are the packages? The elements of
15. the package, the first phase was a hundred and fifty million dollars
16. approximately. Fifty million dollars of that was the purchase by
17. the State Treasurer, investment by the State Treasurer, in School
18. Aid Certificates. The approximate interest rate on that was about
19. ten percent.

20. SENATOR NETSCH:

21. About ten percent.

22. MR. QUERN:

23. About ten percent.

24. SENATOR NETSCH:

25. Right.

26. MR. QUERN:

27. That will be...it will be secured by future State Aid Payments,
28. it is operative under House Bill 2730 that was passed this past
29. year. The...in addition, the city, using fifty million dollars which
30. has been loaned to it by the banks and by labor unions, will purchase
31. fifty million dollars of State Aid Certificates at the same interest
32. rate. The rest of that hundred and fifty million dollars is...
33. approximately twenty-five of that is categorical aid, State payments

1. which would have gone to the school district anyway, which are
2. being moved there earlier. The school board had approximately
3. twenty million dollars on hand, and the remainder was made up
4. of Federal Aid, that was in the process, and on its way.

5. CHAIRMAN: (SENATOR BERMAN)

6. Excuse me, Doctor Mandeville is back. Do you want to let
7. him step up to the rostrum.

8. DOCTOR MANDEVILLE:

9. Phase II, two hundred and twenty-five million in short term
10. borrowing, probably retired within a few months, but certainly within
11. a year. It is in the nature of tax anticipation notes, pledging
12. future property tax receipts to retire the notes during 1981. A
13. secondary security on the part of the note buyers, is their ability
14. to come to the Comptroller of the State of Illinois, and ask that
15. any payment that otherwise would be given to the school board or
16. City of Chicago on any education funding, General State Aid or
17. categorical, they have a claim against that in the same way the
18. State agencies now have an offset claim against any vendor that
19. owes the State money. They may exercise that option at any point
20. after October 1st, 1980 if they choose to do so. If they do not
21. so choose they keep the notes to maturity and redeem them at that
22. time, is my understanding that when the long term bonds are issued
23. by the Control Board, the Control Authority they have unlimited
24. call rights, they can retire their short term position of anyone
25. who holds the interim notes. Relative to Phase III, the five
26. hundred million dollar bond issue, these are in the nature of
27. funding bonds, not uncommon when a given entity is in short term
28. problems and has the long term capability of pulling themselves
29. out, a funding bond approach is not unusual. The basic concept
30. is that if you are in over your head in short term note, the family
31. situation could be used here. You do have the option of going to
32. a bank or a finance company and ask in effect that they refinance
33. that debt for a longer period of time so that your current flow of

1. revenues are sufficient to keep you afloat until the debt is...
2. having been refinanced is totally paid off. The security for
3. the long term bonds, the funding bonds is a fifty cent, or unlimited
4. if necessary, but basically a fifty cent tax rate against the
5. equalized assessed valuation of the City of Chicago which is co-
6. terminous with the school district. As a rule of thumb you can
7. think of one cent of tax rate equaling one million of tax revenue.
8. The property tax base exclusive of the Corporate Personal Property
9. Tax, which is no longer there, is about ten billion dollars so
10. that one cent of tax will bringing one million of property tax
11. revenue. Fifty cents of taxing authority on the part of the control
12. authority will generate, at least, fifty million per year to debt
13. service up to five hundred million in long term bonds. That is
14. adequate future stream of revenues that will be escrowed and set
15. aside only for that purpose to retire up to five hundred million
16. of funding bonds once issued.

17. CHAIRMAN: (SENATOR BERMAN)

18. Senator Netsch.

19. SENATOR NETSCH:

20. If I may go back to my original question then. The first one,
21. this is then, at least, with respect to the five hundred million
22. dollars worth of bonds, which, as I understand it, can be issued for
23. twenty five years. Is that correct, by the way?

24. DOCTOR MANDEVILLE:

25. Yes.

26. SENATOR NETSCH:

27. It is then, the first time that we have specifically authorized
28. the issuance of long term debt to pay for what amounts to operations
29. of an agency created by the State of Illinois?

30. DOCTOR MANDEVILLE:

31. To my knowledge that...that is probably correct, in the sense
32. that a...of an operating entity such as a school district. Certainly
33. in the case of IDA it is common practice for a short term position to

1. be taken out by a long term bonds. It is also that way with...

2. SENATOR NETSCH:

3. But IDA is a revenue bonding agency.

4. DOCTOR MANDEVILLE:

5. They are revenue bonding...

6. SENATOR NETSCH:

7. Chicago School District is not a revenue bonding agency.

8. DOCTOR MANDEVILLE:

9. It is not, however,...

10. SENATOR NETSCH:

11. Nor is this new entity that we're creating.

12. DOCTOR MANDEVILLE:

13. No, that is correct, it is I guess technically called an

14. unlimited advalorem property tax bond issue. But, it is in the

15. nature, I mean...I think you could think of it as somewhat like

16. a revenue bond, in that, that fifty cents is totally dedicated

17. for that purpose only, but I agree, technically it is not a

18. revenue bond. To my knowledge, Senator, this has not been used

19. for this kind of purpose in the State of Illinois. It has been

20. used elsewhere.

21. SENATOR NETSCH:

22. I call attention to that only because it is a very disturbing

23. concept for many of us. As I think a lot of people know, one of

24. the several factors that set New York City and the State of New York

25. off on the wrong road was when they began to use debt financing

26. to pay for operations, and this is a matter of some concern. I call

27. attention to it not to suggest that it is not necessary in this

28. context, but that it is a radical departure from past practices and

29. a very disturbing one.

30. DOCTOR MANDEVILLE:

31. Could I just comment on that, Senator?

32. SENATOR NETSCH:

33. You may.

1. DOCTOR MANDEVILLE:

2. There is one aspect here that I think I should emphasize, and
3. no additional taxes are anticipated under this settlement. The...
4. the means to finance the long term debt will be obtained by taking
5. away from the Chicago School Board a portion of their current taxing
6. authority. So, you are not creating a new debt source to finance the
7. long term debt, as long as that portion is withheld from the
8. school board the money will be there to finance the long term debt.

9. SENATOR NETSCH:

10. We'll come to that, I've got a question on that also. The...
11. the second question which I had posed was, what is the total cost
12. and ultimately it will be to the Chicago School District, of the several
13. phases of borrowing starting with that which has already taken place
14. at the ten percent interest, and again the reason why this is a
15. fairly crucial factor, is that in addition to all of the other built
16. in fiscal problems of the Chicago School District right now, it seems
17. to me that we are adding another element of cost to its cost of doing
18. business, which is the payment of substantial interest costs.
19. Can we be told what that cost is?

20. DOCTOR MANDEVILLE:

21. I...I can compute the actual number if you wish, I don't have
22. it here, but assuming a given interest rate, but I can...I can
23. pretty well define for you what the cost will be. First of all,
24. the initial stage involves one hundred million of State anticipation
25. notes. It's my understanding that House Bill 2730 puts a maximum
26. interest rate that a school district may pay on these notes and
27. I believe it's seventy percent of the prime interest rate. That
28. comes out to be roughly 10.6, 10.7 percent. I do not believe it
29. is appropriate to consider that an added cost, because if they did
30. not borrow money that way they would have borrowed money anyway in
31. the short term market at a rate that high or close to it. So, you
32. have to compare it to what their interest cost would have been
33. had they been able to have continued access to the...to the money

1. market, they do not. I believe that interest cost is neutral.
2. In the second part of this, the two hundred and twenty-five, I
3. would say that is of the same nature.

4. SENATOR NETSCH:

5. Wait a minute. May I interrupt there just a second. You're
6. saying that if the original bond sale, which was rejected, that
7. is for which there were not buyers several months ago, had been
8. purchased, that is if things had not fallen apart at that point,
9. that the interest cost there also would have been in excess of ten
10. percent?

11. DOCTOR MANDEVILLE:

12. I'm not sure of the exact number. I...I believe the law is
13. nine percent, someone else knows that number. That the maximum
14. interest rate that can be paid currently by general obligation
15. notes on the part of the school board. It's nine percent, so
16. there is that differential between nine and 10.6.

17. SENATOR NETSCH:

18. All right, what about the second two phases of the bonding
19. program to tied Chicago over.

20. DOCTOR MANDEVILLE:

21. All right, I...I should also mention...

22. SENATOR NETSCH:

23. Again the interest costs if you will.

24. DOCTOR MANDEVILLE:

25. The...if I could make just one more comment on Phase I.
26. The duration of the borrowing will be no later than June 20th, 1980,
27. on Phase I, because those State anticipation certificates self-
28. destruct as the State Aid Payment is made to the school board. So,
29. by June 20th there is no outstanding debt on the part of the school
30. board from Phase I. The other fifty million in Phase I was
31. just expedited school payments to the school board to allow them
32. to meet the payroll.

33. SENATOR NETSCH:

I understand that.

1. DOCTOR MANDEVILLE:

2. On...on Phase II, the...the anticipated borrowing on the
3. part of the school board, was two hundred and sixty million of
4. these kind of short term borrowings. Additional revenue that
5. they would not otherwise have received from other sources
6. like State Aid or Property Tax. In lieu of that ability to borrow
7. two hundred and sixty million, they are borrowing two hundred and
8. twenty-five million through Phase II device. I do not know what
9. the interest rate will be on the two hundred and twenty-five, I assume
10. it will be what the market can bear, or will bear at that time.
11. Again I do not think that should be considered as increase interest
12. cost to the school board. They would have had to have paid interest
13. on the hundred and twenty-four million that they planned to borrow
14. in November of 1979, and would, in fact, been paying interest during
15. this period of time. In lieu of that the State did advance them
16. and downstate districts as well, twice the general State aid. So,
17. that in a sense they saved interest through that device, but I think
18. at best it's an offset, but I can give you the actual numbers to
19. confirm that.

20. SENATOR NETSCH:

21. If you would, and on the five hundred million.

22. DOCTOR MANDEVILLE:

23. On the five hundred million it is not a cost to the school
24. board at all, it is a function of the Control Authority dedicated
25. with Property Tax receipts. It is...

26. SENATOR NETSCH:

27. But Property Tax receipts coming out of what would have been
28. the Chicago Board's operating tax rate.

29. DOCTOR MANDEVILLE:

30. Yes, that is...

31. SENATOR NETSCH:

32. Except for this program.

33. DOCTOR MANDEVILLE:

1. Yes, that is correct, and again I can work out the numbers
2. making assumptions on what the long term interest rate will be
3. depending on the rating that the bond folks give the...the new
4. Control Authority. You could expect interest rates considerably
5. below the short term borrowing cost if they were to go short term.
6. I think basically their options are to continue a stream, I mean
7. if they had access to the market at all, a stream of short term
8. borrowings at a lower rate or the funding bonds to take them out
9. of their short term position and I have to think that the long
10. term interest rates will be less than the cost to borrow short.
11. I mean that's typically the case.

12. SENATOR NETSCH:

13. May we have those figures?

14. DOCTOR MANDEVILLE:

15. Yes.

16. SENATOR NETSCH:

17. Because it...however you want to describe it, as a washout
18. in the case of the first two phases or otherwise it is still an
19. additional cost which is going to have to be absorbed basically
20. out of revenues that would otherwise be available to the Chicago
21. School Board.

22. DOCTOR MANDEVILLE:

23. No, Mam, I do not agree with that, and the reason I do not
24. is that if you agree that you do not want to close down the school
25. district, they had to have cash to operate. There's only one way
26. to get cash if the State doesn't give it to them, and if they
27. don't get it from Property Tax or other revenues, and that way
28. is to borrow. They were in the borrowing mode, whether or not
29. Phase II were in existence. They would have had to have borrowed.
30. We may be talking about the differential between what they could
31. have borrowed for had they not been denied access to the market
32. and what they are now going to pay. I'll have to make some assumptions
33. on Phase II because neither you nor I know at this point what
that cost would be.

1. SENATOR NETSCH:
2. All right, plus the...
3. DOCTOR MANDEVILLE:
4. But I'll do that.
5. SENATOR NETSCH:
6. Plus Phase III.
7. DOCTOR MANDEVILLE:
8. Yes, Mam.
9. SENATOR NETSCH:
10. Right. My...may I continue with a couple of more questions,
11. or am I...
12. CHAIRMAN: (SENATOR BERMAN)
13. Use your best judgment, Senator.
14. SENATOR NETSCH:
15. All right. Then I will continue, of course. The third
16. question, and I don't know whether to whom this ought to be
17. addressed, I think probably not to you Doctor Mandeville at the
18. moment, but stay handy.
19. CHAIRMAN: (SENATOR BERMAN)
20. Senator Shapiro, for what purpose do you arise? Senator Shapiro.
21. SENATOR SHAPIRO:
22. A point of order, Mr. Chairman.
23. CHAIRMAN: (SENATOR BERMAN)
24. State your point.
25. SENATOR SHAPIRO:
26. It was my understanding when we started this that all of the
27. witnesses who appeared on the list would be heard first and then
28. questioned. Has the list be completed?
29. CHAIRMAN: (SENATOR BERMAN)
30. The...the list...there was a list indicating seven names and
31. you've heard from those seven witnesses. There are other witnesses
32. some proponents some opponents who are also waiting to be heard
33. as witnesses. We have opened up the questions that in line with

1. Senator Rock's motion because these are...these seven were the
2. people that are most familiar with either the negotiations, the
3. legislation or the problems.

4. SENATOR SHAPIRO:

5. My list has nine names on it.

6. CHAIRMAN: (SENATOR BERMAN)

7. It was the intention of the Chair to get to the other two
8. names, as a matter of fact there's a third name that's now
9. on there, as soon as the questions of these first seven are...have
10. been completed. The Chair wants to indicate that we have...that
11. I have the following Senators on the list: Senator Maragos who
12. had...who held it for Doctor Mandeville to return, Senator Schaffer,
13. Geo-Karis, Newhouse, Wooten, Collins, D'Arco, Johns, and Regner,
14. Grotberg, and Berning. I hear you Senator Chew. Senator Netsch
15. you want...want to finish up your questions.

16. SENATOR NETSCH:

17. Yes, let me just take two more questions then I'll allow
18. some others to get in. The...perhaps, Mr. D'Esposito, this question
19. should be addressed to you. The suggestion has been made that
20. in House Bill 1910, which, of course, we have not be privileged
21. to see yet, that there is a provision of sort of a supplementary
22. protection for the noteholders. That is they may present their
23. obligations to the Comptroller for direct payment by the Comptroller
24. up to a certain date, is that correct?

25. MR. D'ESPOSITO:

26. That's correct.

27. SENATOR NETSCH:

28. And as I understood it, you were suggesting that that somehow
29. does not involve an obligation of the State, that it's just a routine
30. thing that any vendor, for example, to the Chicago Board of Education,
31. could even now present their claim for payment to the Comptroller for
32. direct payment out of the State Aid claims that are due the Chicago
33. School District without going directly to the Chicago School District

1. first.

2. MR. D'ESPOSITO:

3. No, the purpose is not to bypass the Board of Education and
4. permit all vendors and noteholders to come to the State for...and
5. to attach whatever State revenues are being passed to the Chicago
6. Board. The purpose is, with respect to only the two hundred and
7. twenty-five million dollars of bridge financing. If this General
8. Assembly decides to appropriate State revenues to the Chicago
9. School Board next year, and if on a date certain there is money
10. available, only the noteholders may come and claim that money
11. to the extent it is available. No creditor may do that, no other
12. vendor creditor other than the holder of the note.

13. SENATOR NETSCH:

14. All right, so this is unique and it does involve...

15. MR. D'ESPOSITO:

16. Oh yes, no question but this is an additional security supplied
17. to...to make the short term bridge notes marketable. That is its
18. function.

19. SENATOR NETSCH:

20. And it does involve an indirect guarantee by the State that
21. those noteholders...

22. MR. D'ESPOSITO:

23. No, it does not.

24. SENATOR NETSCH:

25. Why not?

26. MR. D'ESPOSITO:

27. I presume you're speaking in a technical sense. It does not
28. involve an indirect payment, because it is not unconditional. It
29. is if the General Assembly does not appropriate State Aid to the
30. City of Chicago, there is no obligation of the State Government.

31. SENATOR NETSCH:

32. Then why would the bond holders find this an additional source
33. of security if they do not believe that the General Assembly is
going to appropriate State Aid Claims to begin with. I mean how

1. would...how's it going to both make the notes more marketable and
2. at the same time not constitute an indirect obligation by the
3. State?

4. MR. D'ESPOSITO:

5. Well, one must talk in terms of the legal nature of this
6. mechanism and its psychological perception. Legally it is not
7. an obligation of the State, perceptually the noteholders when
8. one takes risks, when one buys notes, one takes a fair risk
9. that this General Assembly will appropriate State Aid to the
10. City of Chicago next year, and on October 1st there may be some
11. money there, but that is not a legal obligation of the Board...
12. I'm sorry, of this State to do.

13. SENATOR NETSCH:

14. I understand the distinction that you are trying to make, and
15. I understand why you are trying to make that distinction, and I
16. will...I assume we'll argue the point later that I think it is not
17. a valid distinction and that, in fact, it is an indirect obligation
18. by the State. The...I'll let that drop at the moment. The one
19. other question I would like to get in, on the long term debt, and
20. perhaps this question is directed to you also, if not you may turn
21. it over to someone else. If the fifty cent tax rate is not enough
22. to meet the debt service on the larger long term bond issue, then
23. where do those people turn for satisfaction of those obligations?

24. MR. D'ESPOSITO:

25. If you look at the particular section that refers to the
26. ...the tax levy to support the bonds, you will not see the number
27. fifty cents, you will see an unconditional obligation of the City
28. Council to levy on behalf of the Control Board in a amount sufficient
29. to retire the principal interest due on an annual basis. The effective
30. limit on that amount is the amount of principal and interest that
31. is...that needs to be retired, and we calculate that to be ap-
32. proximately fifty cents.

33. SENATOR NETSCH:

1. And if fifty cents should not be enough then it would...

2. MR. D'ESPOSITO:

3. If fifty cents is not enough, then like in every other general...

4. SENATOR NETSCH:

5. It would go up higher.

6. MR. D'ESPOSITO:

7. ...obligation bond of a district the Legislative Body must
8. levy whatever rate is necessary to retire those debts on it...in
9. it...on an annual basis.

10. SENATOR NETSCH:

11. And whatever amount that is, whether it takes fifty cents or
12. something additional of the tax levy that would otherwise be
13. available for operations of the Chicago School District, by that
14. amount, the Chicago School District is going to have to cut its
15. operations.

16. MR. D'ESPOSITO:

17. No.

18. SENATOR NETSCH:

19. All right. Explain why not.

20. MR. D'ESPOSITO:

21. The Chicago School District levy remains fixed at one dollar
22. and sixty-one cents. That's what the Statute says.

23. SENATOR NETSCH:

24. Well, but one dollar and sixty-one cents...all right, one
25. dollar and sixty-one cents which is fifty cents less than its current
26. operating rate, so, at least, that much is going to have to be cut
27. out of the Chicago school operations or this whole package does
28. not work. If more than fifty cents is necessary to meet the debt
29. service, then there will be an additional tax levy, and therefore
30. an increase in Property Taxes. Is that a fair characterization?

31. MR. D'ESPOSITO:

32. Yes, but not...but legally that is correct, but not a...a reduction
33. in board operating tax rates.

1. SENATOR NETSCH:

2. Right, the one sixty-one remains the...which is already
3. fifty cents less than their current operating authorized levy.

4. MR. D'ESPOSITO:

5. That's correct. Now, one thing one must...take into
6. account. In what circumstances would fifty cents not be sufficient.
7. Presumably only in the event that the Chicago Property Tax base
8. declined. Which is what...which is why you would require a levy
9. larger than fifty cents.

10. SENATOR NETSCH:

11. Or if the interest rate should come out higher than anyone
12. hopes it might.

13. MR. D'ESPOSITO:

14. It would have to come out like double, I think...substantially
15. higher for that...for the fifty cents rate not to effective.

16. SENATOR NETSCH:

17. So, the obligation then in...within this package, that the
18. Chicago School Board is assuming, is in effect to reduce its
19. cost of operations by fifty cents of their current authorized
20. tax levy.

21. MR. D'ESPOSITO:

22. Fifty million dollars.

23. SENATOR NETSCH:

24. Right. Okay.

25. MR. D'ESPOSITO:

26. Give or take. All right.

27. CHAIRMAN: (SENATOR BERMAN)

28. Senator Maragos.

29. SENATOR MARAGOS:

30. Is then, Mr. Perkins back in the room?

31. CHAIRMAN: (SENATOR BERMAN)

32. He's here.

33. SENATOR MARAGOS:

1. Yes I wanted to ask...Mr. Perkins, in your testimony I believe you
2. said that the Board of Education was unable to obtain any financing
3. last Fall, November, because they were trying to repay a debt and
4. not borrow against operating needs, and that's why the financial
5. community did not give them the money that they needed at that
6. time. Is that a correct summary of your statement?

7. MR. PERKINS:

8. Yes, that was the statement made by the rating agency. On
9. the other hand they looked at the broad spectrum in relation to the
10. disclosure that was made at that time, and they stated that as a
11. principal reason, but that the board had no source of revenue other
12. than reborrowing to pay debt as opposed to operations.

13. SENATOR MARAGOS:

14. Was that the first time that condition existed as far as the
15. Board of Education of Chicago...that prompted the rating agencies to
16. reduce the...

17. MR. PERKINS:

18. Typically, the board has borrowed money for operations in
19. anticipation of the flow of tax revenues, which is levied in one
20. year and repayable in the Spring and Fall of the next year. That's
21. the operating side, and out of that is...levies have come, many to
22. build reserves for debt repayment. Those reserves were gone and
23. this repayment in effect was to repay the debt.

24. SENATOR MARAGOS:

25. So, that was the first time it became apparent that those
26. reserves were gone in the history of the board in the last ten
27. decades or so.

28. MR. PERKINS:

29. I believe that is correct the way you stated it. That is what
30. the rating agency said. Yes, Sir.

31. SENATOR MARAGOS:

32. And that's what prompted the financial community to withdraw
33. any loaning to the board at that time.

1. MR. PERKINS:

2. The rating agencies reduced their rating to a level where
3. they were no longer considered investment grade securities.

4. SENATOR MARAGOS:

5. I have a question regarding the authority that's going to
6. be created under this Act. If you want to answer it or Mr.
7. VanGorkom, either one, but maybe you could answer it and simplify
8. the time. It states that the...this board...I mean this Authority
9. will be extinguished or abolished one year after the obligation
10. of this, evidently Phase III liability is completely exhausted.
11. however, if I read the...in the short time I've had to study this
12. bill. I state however, this...this is really not an obligation
13. of this Authority per se because it's more primarily a super-
14. visory authority. Is the Authority going to continue until the
15. twenty-five year notes or whatever the bonds are going to be
16. extinguished or are they going to be out of business within a normal
17. time once the board gets back on its feet financially?

18. MR. PERKINS:

19. I think it would be more appropriate if I confine myself to
20. the financial affairs and refer that to either Mr. VanGorkom or
21. perhaps...

22. SENATOR MARAGOS:

23. D'Esposito, either one I don't care, I just want some
24. answers.

25. MR. PERKINS:

26. Senator, Mr. D'Esposito is...is not available, just for a moment.
27. He'll be right back.

28. SENATOR MARAGOS:

29. Well, can anyone else answer the question...

30. MR. PERKINS:

31. He can answer that question.

32. SENATOR MARAGOS:

33. ...if it isn't Mr. D'Esposito, can anybody else answer?

1. me that question?

2. CHAIRMAN: (SENATOR BERMAN)

3. The Chair will try to answer the question.

4. MR. PERKINS:

5. We will get an answer for you Senator. I'm not able to do
6. that myself.

7. CHAIRMAN: (SENATOR BERMAN)

8. In the bill as it stands now, Senator Maragos, there is no
9. provision for a phase-out or a phase-in of the Authority. There
10. has been discussions regarding that aspect in the final draft as
11. presented to you, there is no phasing-out, that provision was
12. deleted in the early hours of negotiations this morning. That
13. is an item that is still being discussed, however.

14. SENATOR MARAGOS:

15. All right, well...but there's something...certain language
16. says the abolition of the board, is that...is that phase going to
17. be taken out. Is that what you're saying, Mr. Chairman, at this time?

18. CHAIRMAN: (SENATOR BERMAN)

19. Here comes Mr. D'Esposito, we'll let him address that.

20. What language are you referring to, Senator?

21. SENATOR MARAGOS:

22. On Section...on page 48, Section 34A-604, it said the abolition
23. of Authority. I just wanted to know, Mr. D'Esposito, you were not
24. here when I asked the question, whether the...according to this
25. particular section, the Authority is going to continue until one
26. year after the "obligations" are extinguished.

27. MR. D'ESPOSITO:

28. Correct.

29. SENATOR MARAGOS:

30. All right. Now, it also, if I read this bill correctly, these
31. amendments correctly, it states that the board itself does not
32. have this obligation, whose obligation are we talking about? Is
33. that the... who's going to be guaranteed for the revenue of the

1. board itself, or the board's obligation? or is it...in other words
2. is this Authority going to continue for twenty-five years or what-
3. ever the term of the bonds are going to be or is it going to go out
4. of business when the board is back on its feet. That's what I
5. wanted to ask you.

6. MR. D'ESPOSITO:

7. The Statute as presently drafted requires that the Authority
8. continue in existence until the bonds are retired. Now, there
9. is a question as to whether that includes the requirement...I'll
10. put it another way. Whether that would prohibit the General
11. Assembly from abolishing the control aspect.

12. SENATOR MARAGOS:

13. Well, that's the next question I was going to come to you...
14. what's the answer to that...

15. MR. D'ESPOSITO:

16. Unless there is a specific conenant in my opinion and the Statute
17. probably should be amended to say that, the General Assembly may
18. abolish the control aspects of this Authority, however, to do so
19. it has to be done to take into account what that does to the
20. ..the security of the finance.

21. SENATOR MARAGOS:

22. Well, the reason why I'm asking these questions, will we have the
23. same problem that we had with the Illinois Building Authority
24. when we wanted it to come out with the Capital Development Board
25. when we had to because the bond holders were concerned that if we
26. did abolish it we may have questions of legality whether those
27. bonds would be existence or not, that's why I'm asking this.

28. MR. D'ESPOSITO:

29. To the extent of servicing the debt, yes, I think you probably
30. will have similar questions. To the extent of the control aspects
31. ...to the extent of the control aspects of the Authority I think
32. those can be eliminated and the Statute probably should say that.

33. SENATOR MARAGOS:

1. All right, well they should be put in there now explicitly,
2. is that correct?
3. MR. D'ESPOSITO:
4. Yes.
5. SENATOR MARAGOS:
6. All right, thank you. I have no further questions, Mr.
7. Chairman.
8. CHAIRMAN: (SENATOR BERMAN)
9. Senator Schaffer.
10. SENATOR SCHAFFER:
11. I have a couple of questions. One, and I may have missed
12. it in the information provided to us, but has anybody given us
13. a clear figure as to what the deficit of the Chicago School System
14. was as of January 1 of this year? Also, are there any projections
15. as to what, without reductions in spending or increases in taxation,
16. which is highly unlikely in the later part, how much expenses will
17. exceed revenues by the end of this school year? I get a couple
18. of answers to that one, I have another more theoretical question
19. to toss, I guess at Mr....I'm not sure who to toss it at.
20. CHAIRMAN: (SENATOR BERMAN)
21. All right, Mrs. Rohter.
22. SENATOR SCHAFFER:
23. Julian, you may be the logical target though.
24. CHAIRMAN: (SENATOR BERMAN)
25. Did you hear Senator Schaffer's question? Yes, you want to
26. come up and use the mike please? Mrs. Rohter.
27. MRS. ROHTER:
28. Senator Schaffer, in order to answer your question I must
29. first tell you that it depends on which day you asked, who you
30. asked, and that's the way the information came to us. When we
31. came into the year, we were given one figure, and that was because
32. of a treatment for revenues that would not be realized within that
33. fiscal year. So, the deficit appeared to be much smaller than it was.

1. At one time we said we ended up with a forty-three million
2. dollar deficit. When we corrected some of the errors, that deficit
3. was increased by some sixty million dollars. Now, you had
4. a second question. Will you repeat that for me?

5. SENATOR SCHAFFER:

6. Well, let me...if I understand the first question. Let's
7. say that I'm asking you here today, right now, what the deficit
8. was today and if...are you telling me basically we're at
9. a hundred and three million dollar deficit?

10. MRS. ROHTER:

11. Yes.

12. SENATOR SCHAFFER:

13. Okay, the second part of the question was, assuming that
14. there is no reduction in spending or increase in revenue, I don't
15. know how we increase revenues other than borrowing, obviously
16. which is not an increase in revenues. What is the projected
17. deficit at the end of this school year?

18. MRS, ROHTER:

19. Ninety-four million dollars. That's with no changes in procedures,
20. without cuts, and without increased revenues.

21. SENATOR SCHAFFER:

22. Ninetyfour, so that if we did, in fact, succeed in a approximate
23. sixty million dollar cut that we would still be talking about
24. running at a thirty million dollar deficit at the end of the
25. school year?

26. MRS. ROHTER:

27. Unless we can do some magic, I think I have to agree with that
28. figure.

29. SENATOR SCHAFFER:

30. Well, I haven't got much faith in magic. Let me ask...

31. MRS. ROHTER:

32. Well, I...I think that I too would agree that magic isn't the
33. way to operate a school system, but with the kind of cuts that we're

1. anticipating, it is very likely that we can go under that amount.

2. SENATOR SCHAFFER:

3. Well, I sincerely hope that it'll be closer. What will be
4. the per child cost of the financing of this package? Does anyone
5. know?

6. MRS. ROHTER:

7. I don't know that it's been broken...

8. SENATOR SCHAFFER:

9. Per child, per year, has it been broken down that way?

10. MRS. ROHTER:

11. I don't believe it's been broken down that way.

12. SENATOR SCHAFFER:

13. Well, let me ask a theoretical question, and I guess I'm going
14. to toss this more at Julian, but anyone that can give me an answer.
15. We have had a series of court decisions in this country starting,
16. I believe, in California with the Seronto Decision, about equal
17. educational opportunities. Is it fair to assume that the cost
18. of education per year per child, that say a district in, I'll just
19. say Cary, Illinois, which is where I happen to live, that there
20. might be a cost of twenty or thirty dollars a year for that student
21. for debt service or as it appears to me that the cost per year per
22. student in the City of Chicago could be tenfold that. Are we leaving
23. ourselves open, or should we reasonably expect the possibility
24. of a lawsuit on the basis of non-equal educational opportunities
25. because the actual money spent on...on what I'll call frontline costs
26. of educating a student, will vary dramatically between school
27. districts, because of what is starting to look like a very heavy
28. debt service cost, and I know that's a difficult question, and I
29. can't answer it.

30. CHAIRMAN: (SENATOR BERMAN)

31. Mr. D'Esposito.

32. MR. D'ESPOSITO:

33. Neither can I...I will not put anything beyond the ability of

1. a lawyer to create a complaint, file a plea making that argument.
2. To the best of my knowledge the theories advanced in the California
3. litigation to which you refer, have not been applied in Illinois,
4. and so we...we'd have to cross that precedent first, and then
5. determine whether or not that is applicable on a debt basis as
6. well, and I...at this point it doesn't seem that there's any clear
7. precedent in Illinois to that effect.

8. SENATOR SCHAFFER:

9. I'm a little concerned down the road. Also, Mrs. Rohter
10. when do we start making the sixty million dollars in cuts?

11. MRS. ROHTER:

12. Staff at the Board of Education has been fast at work on
13. making those cuts. The first phase would have been ready for
14. us to look at, had there not been the necessity for us to be in
15. Springfield today. My guess is, that if we're able to get back
16. we will see the first of them on Friday afternoon.

17. SENATOR SCHAFFER:

18. A week from tomorrow?

19. MRS. ROHTER:

20. No, Sir. No, Sir, tomorrow.

21. SENATOR SCHAFFER:

22. Tomorrow, thank you.

23. CHAIRMAN: (SENATOR BERMAN)

24. Senator Geo-Karis.

25. SENATOR GEO-KARIS:

26. Mrs. Rohter, I do have a few questions. How...have...I understand
27. you've been on the school board now about ten years, is that right Mam?

28. MRS. ROHTER:

29. Yes, I just started my tenth year.

30. SENATOR GEO-KARIS:

31. And you...are serving as President for the last three or four
32. months.

33. MRS. ROHTER:

1. I beg your pardon.

2. SENATOR GEO-KARIS:

3. You are serving as President for the last three or four

4. months, is that right.

5. MRS. ROHTER:

6. I think only a month.

7. SENATOR GEO-KARIS:

8. Oh. Does your school board have a Finance Committee?

9. MRS. ROHTER:

10. Yes.

11. SENATOR GEO-KARIS:

12. Well, can you tell me who the members of that Finance Committee

13. are and who the Chairman of that Finance Committee is?

14.

15.

16.

17.

18.

19. (END OF REEL)

20.

21.

22.

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24.

25.

26.

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33.

1. MRS. ROHTER:
2. Currently...
3. SENATOR GEO-KARIS:
4. Speak a little louder, please.
5. MRS. ROHTER:
6. I don't know how to describe that to you. The Finance Committee
7. has not met in a couple of years.
8. SENATOR GEO-KARIS:
9. Who is the chairman of that committee?
10. MRS. ROHTER:
11. Mrs. Carrie B. Preston and the Vice-Chairman, Mrs. Louise
12. Mallis. You know it hasn't met in so long, I forget who they
13. are. I am not a member of that committee.
14. SENATOR GEO-KARIS:
15. Have you...you've got a finance background, have you not, Mrs.
16. Rohter?
17. MRS. ROHTER:
18. Yes.
19. SENATOR GEO-KARIS:
20. Have you ever asked to be on that Finance Committee?
21. MRS. ROHTER:
22. Yes, repeatedly.
23. SENATOR GEO-KARIS:
24. And were you accepted?
25. MRS. ROHTER:
26. Never.
27. SENATOR GEO-KARIS:
28. ...in the...who was the prior chairman to Mrs. Carrie B.
29. Preston? Do you know? Of the Finance Committee?
30. MRS. ROHTER:
31. I...Warren Bacon, Warren H. Bacon.
32. SENATOR GEO-KARIS:
33. And...Mrs. Rohter, when you're...going to make cuts...in order

1. to accommodate the recommendations made by your meetings with
2. the Governor and the Mayor's representatives, are you going to
3. look into the fact that most school districts are top heavy with
4. principals, assistant principals and what have you, and maybe
5. we are top heavy with top administrators and that is one of
6. the complaints that teachers are making?

7. MRS. ROHTER:

8. I think that the teachers make a valid complaint. Our
9. reason for being is to educate children and the truth of the
10. matter is that the classroom teachers do not comprise the entire
11. group of the twenty-seven thousand generally known as teachers.
12. And our first concern has to be the classroom teachers. The
13. other people we will be looking at and it's either back to the
14. classroom, and most of those people were superior teachers in
15. the first place, so I look at that as a plus.

16. SENATOR GEO-KARIS:

17. In the last ten years that you've been sitting on this
18. board, has the Finance Committee of your Board ever alerted
19. your school board that perhaps the school board was spending
20. a...far more money than was taken in and probably not very
21. wisely.

22. MRS. ROHTER:

23. Well, as a member of the board, I have repeatedly talked
24. about overstating anticipated resources, carrying monies that
25. are not collectable...

26. CHAIRMAN: (SENATOR BERMAN)

27. Please give the...

28. MRS. ROHTER:

29. ...appropriating against them.

30. CHAIRMAN: (SENATOR BERMAN)

31. ...witness your attention. I'm sorry, go ahead Mrs. Rohter.

32. MRS. ROHTER:

33. And a...we have discussed it, yes.

1. SENATOR GEO-KARIS:
2. And on this Finance Committee, were there members of the
3. minorities represented?
4. MRS. ROHTER:
5. Yes.
6. SENATOR GEO-KARIS:
7. And on the school board, are there members of the minorities
8. represented?
9. MRS. ROHTER:
10. Oh yes.
11. SENATOR GEO-KARIS:
12. I'm not too well acquainted because I come from Lake County,
13. Illinois which is not in your district.
14. MRS. ROHTER:
15. Yes.
16. SENATOR GEO-KARIS:
17. You've a...are you satisfied with the...proposed arrangement
18. that's recommended this assembly to help save the life for your
19. school district?
20. MRS. ROHTER:
21. Are you speaking...specifically to the...
22. SENATOR GEO-KARIS:
23. Two bills in mind.
24. MRS. ROHTER:
25. Yes, yes I am. I think that they will do what needs to
26. be done. If it's implemented, I think that the financial...authority
27. being created in the bills that are proposed to you will go a long
28. way in bringing back fiscal integrity to the Chicago Public School System.
29. SENATOR GEO-KARIS:
30. Prior to about August, 1977, which I understand was the last
31. meeting that the Finance Committee of your school board held. Can
32. you tell me when the prior meeting of the school...the School Finance
33. Committee was?

1/10/80
J. H. ...

1. MRS. ROHTER:

2. No...I...I really can't tell you that. I attend so many
3. committee meetings that I would have to refer to a calendar to
4. tell you specifically.

5. SENATOR GEO-KARIS:

6. Was there any report made to your school board by the Finance
7. Committee in the last two years?

8. MRS. ROHTER:

9. Well, it...I read in the Chicago Tribune that there had
10. been some letters given to the Finance Committee relating to the
11. interfund borrowing and the rating of funds as we now recognize.
12. But those letters were not distributed...

13. SENATOR GEO-KARIS:

14. Were they ever given to any of your school board members?

15. MRS. ROHTER:

16. Well now, I couldn't say if they were ever given to anyone.

17. SENATOR GEO-KARIS:

18. Were any given to you?

19. MRS. ROHTER:

20. No, I never saw them.

21. SENATOR GEO-KARIS:

22. So, you never received any as a school board member, did you?

23. MRS. ROHTER:

24. No, I read them in the Tribune.

25. SENATOR GEO-KARIS:

26. Thank you.

27. CHAIRMAN: (SENATOR BERMAN)

28. Senator Newhouse.

29. SENATOR NEWHOUSE:

30. Thank you, Mr. President. I was just intrigued by that
31. interchange and I'd like to get some more information on it if
32. I could.

33. CHAIRMAN: (SENATOR BERMAN)

1. Do you want Mrs. Rohter back?

2. SENATOR NEWHOUSE:

3. Well, Mr. President, I...I got a problem because I want to
4. ask everyone of those members a question and rather than have
5. them parade back and forth, it seemed to me we might exhaust them
6. one at a time, but the Chair is going to run the show, I'm not
7. going to ask that. First, I have a universal question for each
8. one of them and that is whether any of them have ever had any
9. children in the Chicago Public Schools. And I think everyone of
10. them ought to answer that question and then I'd like to proceed from
11. that.

12. CHAIRMAN: (SENATOR BERMAN)

13. Why don't we do this. Mrs. Rohter is at the microphone.
14. Senator, direct the questions that you have to Mrs. Rohter and then
15. we'll move on. You can indicate who you want next.

16. SENATOR NEWHOUSE:

17. My first question.

18. MRS. ROHTER:

19. Senator...Senator Newhouse, I'm delighted to tell you that
20. my husband and I, each of my four children, some of whom were
21. Phi Beta Kappa, Magna Cum Laude graduates who speak seven languages,
22. among which are Chinese, Russian, Portuguese, Spanish and French,
23. were all educated in the Chicago Public School System where they
24. had nearly perfect attendance every day.

25. SENATOR NEWHOUSE:

26. Very good. Thank you very much. I'm...I'm curious about the
27. Finance Committee.

28. MRS. ROHTER:

29. Yes, sir.

30. SENATOR NEWHOUSE:

31. Could you name me, seriatim, the Finance Committee Chairmen
32. for the last ten years?

33. MRS. ROHTER:

34. Well, I have to say to you that I've never been chairman of
35. that committee, although I've heard it repeatedly and I...

1. SENATOR NEWHOUSE:

2. Were you ever a member?

3. MRS. ROHTER:

4. Of the Finance Committee, no. I've always wanted to be
5. chairman of that committee, but that was never possible.

6. SENATOR NEWHOUSE:

7. Yes, could you name me the Presidents please.

8. MRS. ROHTER:

9. The previous chairman, Carrie B. Preston. Before that the
10. committee had a different...composition and the chairman of that
11. committee was...Warren H. Bacon. Before that, with a different
12. name, that committee was...chairman was, I believe Louise Mallis
13. and I think before that Margaret Wild. I...I'm sure that probably
14. goes back the full decade.

15. SENATOR NEWHOUSE:

16. Now, how is that...how is the chairman of that committee
17. determined and how is the membership determined?

18. MRS. ROHTER:

19. The...chair of each committee is appointed by the board
20. president and each of those persons was appointed by...Jack
21. Carey, the former president of the board, with probably
22. the exception of Margaret Wild, who was, I would guess, appointed
23. by Frank Weston.

24. SENATOR NEWHOUSE:

25. Was Mr. Carey invited to be present today?

26. MRS. ROHTER:

27. I do not know that, Sir.

28. SENATOR NEWHOUSE:

29. I think there was a request made that he be present. I just
30. wondered if anyone had invited him.

31. CHAIRMAN: (SENATOR BERMAN)

32. Senator, I was advised by the President to whom that request
33. was made, that he extended an invitation to everyone that was...that

1. you had indicated an invitation be extended to.

2. SENATOR NEWHOUSE:

3. Thank you. Could you tell me something about the Audit
4. Management Committee.

5. MRS. ROHTER:

6. Yes. The Audit Management Committee is a new committee
7. of the board, probably three years...of age. That committee
8. has five members, Herbert Johnson, the Chairman, I was the
9. Vice Chairman, Henry McGee, I believe, was a member of that
10. committee and Tom Nader, Carmen Baloskus:

11. SENATOR NEWHOUSE:

12. What was that committee's function?

13. MRS. ROHTER:

14. I beg your pardon.

15. SENATOR NEWHOUSE:

16. What was it's function?

17. MRS. ROHTER:

18. Well, the committee function was to review management
19. practices and we have spent the majority of our time during
20. the life of the committee trying to have for the Board of Education
21. a policy manual, which believe it or not, did not exist. It's
22. difficult, I know, to think of a billion dollar entity operating
23. without a policy manual, but they did not. In addition to that,
24. we spent a good part of last...year, yes, '79, working on a
25. performance contract to be used in engaging Superintendents
26. for the Chicago Public School System. In addition to that, we
27. concentrated on trying to have, in place, at full strength, an
28. Internal Audit Committee of the...board looking at the internal
29. audit function which reported to the Superintendent instead of
30. the Audit Management Committee.

31. SENATOR NEWHOUSE:

32. The question that I'd like to get to is a question that's
33. on everyone's mind and that is how in the world did we get into

1. this situation and who was minding the store. Now, it seems to
2. me that the two committees we just talked about, should have had
3. some handle on the...the debt that this City was in...the board
4. was in sometime back. Am I...am I to understand that the
5. administration was lying to you and to your committee and to
6. the board?

7. MRS. ROHTER:

8. I find it very...uncomfortable to have to say that anyone
9. lied, but when I became President of the School Board, I indicated
10. full and honest disclosure. Obviously, I have to answer that
11. question affirmatively.

12. SENATOR NEWHOUSE:

13. Then you, as president, are able to give us some information
14. now that previous presidents either could not or would not give
15. to us. Is that correct?

16. MRS. ROHTER:

17. Yes, I would not withhold any information that indicated
18. there was an illegal, improper, transfer of funds. I would
19. want to make that public. I would want to share with the tax-
20. payers of the City of Chicago how the funds were being spent.
21. I do think it's our money and we are entitled to know fully
22. what was going on, but then I have the advantage of being a
23. full-time president.

24. SENATOR NEWHOUSE:

25. Then let me ask you this question. As long as a year ago
26. there was a controversy over Title I Funds when it was obvious
27. that Title I Funds were going into the General Funds of the
28. City of...of the school board. Was that not the point at which
29. someone should have checked the books?

30. MRS. ROHTER:

31. Senator, I will take you back even beyond that point. About
32. 1972, I made a motion on the board floor which unfortunately failed
33. for a second, that we get accurate information as to what kind of

1. money, by that I meant Federal, State, local, private grants,
2. any kind of money was being spent in every school in the City
3. of Chicago. If we'd had that kind of information in place, we
4. could not have had the kind of controversy that came about in seeking
5. accurate information relating to the Title I Funds.

6. SENATOR NEWHOUSE:

7. How vigorously, then, does the board intend to pursue it's
8. own investigation to find out what has happened and who is culpable?

9. MRS. ROHTER:

10. I think that I would point out to you that we are anxiously
11. awaiting passage of this legislation, and I look at it optimistically
12. because I know that you realize that it is essential to the very
13. life of education in Chicago, that legislation will allow the
14. board to continue to function. We will be looking for and will
15. have in place, a top finance officer who has the proper academic
16. preparation to manage a system of our size, the experience, the
17. integrity. Currently, we don't have anyone in our top finance
18. positions.

19. CHAIRMAN: (SENATOR BERMAN)

20. Would...would the conversations please get off the Floor
21. so that we can hear the questions and hear the responses by the
22. witnesses.

23. SENATOR NEWHOUSE:

24. Then let me ask you this one last question that...I was trying
25. to wait, but. The last question is this. We're going to have, if
26. this legislation passes, a super board to whom I suppose everybody's
27. responsible in the world, for the next twenty-five to thirty years.
28. Are you concerned about the prerogative, your prerogatives in
29. decision making for the education...of our children. A...a...a...and
30. I notice that was noticeably absent from any of the conversation
31. up to this point. Are you concerned about how those prerogatives
32. might be infringed upon simply by the manipulated of the dollars?

33. MRS. ROHTER:

1. I think that everyone that has asked me that question has
2. a very valid and real concern for the education of the children
3. of the City of Chicago. However, without the kind of...restraint
4. that the Board of Education should have had. We'll not be able to
5. educate anyone. I don't look at it as infringing upon my
6. prerogatives as a board member. What I do see, is, having limits
7. set, there are X dollars, you know and I know, can't continue to
8. spend dollars that are not there, it is not in the best advantage
9. of the children. No, I don't look at them in any way as infringing
10. upon it, but making it possible for us to deliver the kind of
11. education that children should receive, without the threat of
12. schools closing, without personnel in the classroom who do not
13. know from week to week whether or not they will be paid. Yesterday
14. was the third time since I've been president of the board that I
15. had to go out the last moment and tell people whether they would
16. or would not be paid. I see that as a thing of the past.

17. SENATOR NEWHOUSE:

18. Thank you. I do have some other questions, but I don't want
19. to infringe on other people's time. I wonder if...

20. CHAIRMAN: (SENATOR BERMAN)

21. Senator Newhouse, who's your next...witness that you wish
22. to question?

23. SENATOR NEWHOUSE:

24. The first witness, Arthur Quern, please.

25. CHAIRMAN: (SENATOR BERMAN)

26. Mr. Quern.

27. MR. QUERN:

28. Yes, Senator.

29. SENATOR NEWHOUSE:

30. Yes, Mr. Quern, do you now have or have you ever had any
31. children in the Chicago Public Schools?

32. MR. QUERN:

33. I do not. My...my children..my daughter attends the Springfield

1. Public Schools.

2. SENATOR NEWHOUSE:

3. But not the Chicago Public Schools?

4. MR. QUERN:

5. That's correct, Senator.

6. SENATOR NEWHOUSE:

7. Thank you. Let me ask you this, there's...there's...there's

8. one question that I think troubles a lot of people and that is

9. this, Director. I assume that you were instrumental in calling

10. these meetings initially and...is that correct?

11. MR. QUERN:

12. In what, Senator?

13. SENATOR NEWHOUSE:

14. In calling these meetings and putting the package together

15. and talking to the various people who put...who made this package

16. possible. Is that correct?

17. MR. QUERN:

18. Yes, sir.

19. SENATOR NEWHOUSE:

20. I have a great deal of concern, and now let me expose it

21. to you and to the remainder of the committee and it is this. As

22. Vice Chairman of the Education Committee, I would assume that at

23. some point, those of us who are in Education would be called

24. upon for whatever purposes because we do have some ideas about what

25. we'd like to see in the package. And I was very much...disturbed

26. when I called the black board members and they had not been consulted

27. either. Then I called the black State Board Members and they had

28. not been consulted and we finally got down to the wire and there

29. was a leadership hearing and lo and behold my leader, Kenneth Hall,

30. wasn't consulted. Now, I think you're aware that probably sixty

31. percent of the children in the Chicago Public Schools are black

32. children and between the black and Hispanic mixed, that's eighty

33. percent of the total population of that city of the school system.

1. It seems to me unbelievable, unbelievable, that when I looked
2. at the complexion of the people who sat in on those conferences,
3. it would seem to me that at some point somebody would say that
4. the children in this city ought to be represented by somebody.
5. And I'm really distressed and disappointed that that did not
6. happen. You have a reaction?

7. MR. QUERN:

8. Senator, our desire was, as I said in my opening statement,
9. to keep the schools open. There was a financing problem, it
10. was a problem that we had to move quickly on, a problem which
11. we had to involve quite a number of parties. We met at one
12. time with eight or nine groups in the same building. To have
13. those there we went to the principals, for instance, of the
14. State Board of Education. The superintendent was there of the
15. City Board of Education. Mrs. Rohter was present. For the
16. treasurer, the treasurer himself was present. For the unions,
17. the President of the Teacher's Union was present with two of
18. his representatives. For the financial community, two leading
19. banks were represented. For this...for the...the State itself,
20. myself, Mr. D'Esposito and Doctor Mandeville were present. The
21. attempt was to put together as quickly as possible a sound and
22. responsible package which would keep the schools open which
23. would not address the educational questions at this time. Financing
24. was critical, keeping the schools open, getting the money there.
25. That was the focus, that was the emphasis, there's now time, if
26. we enact this legislation to look thoroughly at the education questions
27. to involve all representatives in the full range of questions and
28. I think that's our intention. But we operated in what was an
29. emergency climate, a climate that was up against deadlines, facing
30. closings of schools...facing absence of paychecks and our desire
31. was to get the money there. Our focus was on financing questions.

32. SENATOR NEWHOUSE:

33. Then let me tell you what you will possibly hear from my

1. community and that is this. That we've got a school system right
2. now that is sick. We have people in my community leaving a
3. public school system, financing private schools which they cannot
4. afford, who are trying to look for a quality education package and
5. what you are saying to us in this legislation, I believe, and
6. correct me if I'm wrong, that we're going to cure that by cutting
7. back substantially the service delivered to children.

8. MR. QUERN:

9. Senator...

10. SENATOR NEWHOUSE:

11. It seems to me that someone should have been in there to
12. say hold the phone, are there some other alternatives, can we
13. explore them.

14. MR. QUERN:

15. Senator, first of all, this is not a cure, it's a stability
16. factor. It's an attempt to keep the schools open, to start to
17. put the house in order, to start to straighten things out. That's
18. what it is, that's what we hope to achieve right now in this
19. emergency climate.

20. SENATOR NEWHOUSE:

21. Tell me what your plan is for preserving the integrity of
22. the present school board to make the decisions they need to make.

23. MR. QUERN:

24. The legislation itself will show to you that both the
25. control mechanism and all other aspects of the powers and duties
26. established in the legislation are aimed at bottom line review,
27. financial review, not as direct or involvement in educational
28. decisions. The school board will still have to put together an
29. education plan, we'll still have to put together all of its
30. programs, the school board itself will put together these programs
31. and plans within its budget. A control board will then review the
32. plan from a financial point of view, whether or not the cost of the
33. operations proposed can be paid for within the revenues available.

1. If the...the balance is not there, it is the intention of this
2. legislation to simply have the control authority return the
3. plan to the school board and ask the school board to rewrite the
4. plan so that it does balance.

5. SENATOR NEWHOUSE:

6. Could you tell me how many lawyers, the number of lawyers
7. that were involved in putting this package together?

8. MR. QUERN:

9. I could not tell you.

10. SENATOR NEWHOUSE:

11. Can you tell me how many financial people involved in putting
12. this package together? Approximate twenty-five, fifty, ten, three.

13. MR. QUERN:

14. Over the...Senator, for...for weeks we've...involved in this
15. and there've been a variety of people, I would say...

16. SENATOR NEWHOUSE:

17. I understand that, I'm not going to read it and vote it in
18. only eight hours, I'd like to know how many people put this
19. together.

20. MR. QUERN:

21. I think the...over...over the last thirty-six hours, about
22. fifteen or twenty people have been drafting this legislation,
23. including representatives of the...of the House and the Senate.

24. SENATOR NEWHOUSE:

25. ...But you've been at it for five weeks, right?

26. MR. QUERN:

27. We have been dealing with the questions for five weeks, but
28. until the Governor called the conference and brought everybody...

29. SENATOR NEWHOUSE:

30. Ballpark figure, how many? Fifty, a hundred, thirty-six?

31. MR. QUERN:

32. Of total people involved, Senator?

33. SENATOR NEWHOUSE:

1. Yes.

2. MR. QUERN:

3. Probably twenty-five or thirty people who are technical
4. people...from all different aspects.

5. SENATOR NEWHOUSE:

6. Thank you, sir. I...I'd...I'd like to have Mr. D'Esposito
7. at this time. Would you answer the standard question please, Mr.
8. D'Esposito?

9. MR. D'ESPOSITO:

10. I have a five month old daughter who's not eligible for
11. school and I live in Springfield.

12. SENATOR NEWHOUSE:

13. So you never have had any children in Chicago's Public
14. Schools?

15. MR. D'ESPOSITO:

16. No, sir.

17. SENATOR NEWHOUSE:

18. You did help put this...could you tell me how many lawyers
19. were involved in putting this package together?

20. MR. D'ESPOSITO:

21. Lawyers have ways of being invisible as well as visable. I
22. have seen, over the last forty-eight hours, lawyers representing the
23. State, two banks, the City of Chicago has been involved, not
24. necessarily by a lawyer. The unions and the school board, each
25. of whom have individual lawyers who have represented them in
26. the drafting plus presumably resources to assist those individuals.
27. And I'm not...I don't know what additional resources were utilized,
28. as well as lawyers representing the House and the Senate or
29. individuals representing the House and the Senate from both sides
30. of the aisle.

31. SENATOR NEWHOUSE:

32. That's a...

33. MR. D'ESPOSITO:

1. ...there were twenty-five people in the room until four
2. o'clock last night. I...aware of other people working, I can't
3. tell you.

4. SENATOR NEWHOUSE:
5. Thank you. Doctor Mandeville.

6. DOCTOR MANDEVILLE:
7. Yes, sir.

8. SENATOR NEWHOUSE:
9. Do you have any children in the Chicago Public Schools or
10. ever have had any children in the Chicago Public Schools?

11. DOCTOR MANDEVILLE:
12. I'm Catholic, so I have children, I have eight, They go
13. to a parochial school. I've never lived in Chicago.

14. SENATOR NEWHOUSE:
15. So you've never had any children in Chicago's Public Schools,
16. that's the answer?

17. DOCTOR MANDEVILLE:
18. That's correct.

19. SENATOR NEWHOUSE:
20. Thank you. We're talking about a package which provides
21. for a levy on property in the City of Chicago, is that correct?
22. What do you see...

23. DOCTOR MANDEVILLE:
24. Pardon me, sir, but you...I don't think that is correct.
25. Could you repeat the question...or statement?

26. SENATOR NEWHOUSE:
27. We're talking about a package that is relying upon a levy
28. on the property in the City of Chicago. Is that correct?

29. DOCTOR MANDEVILLE:
30. No, sir, I don't think so. But I think maybe a lawyer
31. should answer that. I don't think that's correct.

32. MR. D'ESPOSITO:
33. Would you repeat the question Senator, I'm sorry.

34. SENATOR NEWHOUSE:

1. Yes, isn't the guts of this package a...a...a levy on tax...on
2. ...property tax levy in the City of Chicago?

3. MR. D'ESPOSITO:

4. The...Senator...taxes are levied by the city council on
5. behalf of the Board of Education on property...real property located
6. within the City of Chicago presently and that practice will continue
7. under this package.

8. SENATOR NEWHOUSE:

9. What is the debt service coming from, does it come from
10. that?

11. MR. D'ESPOSITO:

12. Yes, sir.

13. SENATOR NEWHOUSE:

14. All right. That's...question I asked.

15. MR. D'ESPOSITO:

16. Well, it...it is...it's real...on...it is property within
17. the jurisdiction of the City of Chicago, which also happens to
18. be the jurisdiction of the school board. Yes. City...residents
19. ...Doctor Mandeville is being subtle. Residents of the City of
20. Chicago will pay the taxes to fund the city, fund the Board of
21. Education as they do now.

22. SENATOR NEWHOUSE:

23. Yes, I want to ask...I want to ask Doctor Mandeville a
24. couple questions as a fiscal expert.

25. DOCTOR MANDEVILLE:

26. Thank you.

27. SENATOR NEWHOUSE:

28. Can you give me an idea...I...I...I hear all kinds of
29. predictions of what 1980 is going to look like and that the
30. gloom and doom and all the rest of it. Do you have available to
31. you now some projection on what's going to happen in the real
32. estate picture?

1. DOCTOR MANDEVILLE:
2. No.
3. SENATOR NEWHOUSE:
4. Now, if I understood the previous testimony...and if there
5. is a decline in that base, then we will have to go to the citizens
6. of Chicago for an increase in property taxes, is that correct?
7. DOCTOR MANDEVILLE:
8. If there's a decline in what base, Senator?
9. SENATOR NEWHOUSE:
10. In the property tax base.
11. DOCTOR MANDEVILLE:
12. You mean the equalized assessed valuation?
13. SENATOR NEWHOUSE:
14. Yes...yes...yes.
15. DOCTOR MANDEVILLE:
16. I think the answer would be yes, if that...if that were
17. to happen.
18. SENATOR NEWHOUSE:
19. Now, do you predict a jolly future for '80 and there...
20. and thereafter?
21. DOCTOR MANDEVILLE:
22. I would not predict a decrease in the...equalized assessed
23. valuation, if that's your question.
24. SENATOR NEWHOUSE:
25. Would you predict a decrease in property values?
26. DOCTOR MANDEVILLE:
27. In property values?
28. SENATOR NEWHOUSE:
29. Yes.
30. DOCTOR MANDEVILLE:
31. Nominal values, I don't know.
32. SENATOR NEWHOUSE:
33. I thank you.

1. CHAIRMAN: (SENATOR BERMAN)
2. Senator Newhouse, to try to save some time, the Chair has
3. polled and neither Mr. Perkins, Doctor Cronin or Mr. VanGorkom
4. have or have had children in the Chicago Public Schools.
5. SENATOR NEWHOUSE:
6. So we have one Aye vote out of the whole crew, is that
7. correct?
8. CHAIRMAN: (SENATOR BERMAN)
9. Of the witnesses you've heard so far, yes. Who would you
10. like to hear from next?
11. SENATOR NEWHOUSE:
12. Mr. Perkins, please.
13. CHAIRMAN: (SENATOR BERMAN)
14. Mr. Perkins.
15. SENATOR NEWHOUSE:
16. Mr. Perkins, we can eliminate the standard question. Let me
17. ask you this, as a banker. I understand that one of the persons
18. who was on that Finance Committee was a banker.
19. MR. PERKINS:
20. Yes, sir.
21. SENATOR NEWHOUSE:
22. Can you give me...
23. MR. PERKINS:
24. Well not...not on the Finance Committee, no. I don't believe
25. that's correct. Mrs. Rohter just said no.
26. SENATOR NEWHOUSE:
27. What committee was Herbert Johnson a member of? Is that the
28. Audit Committee?
29. MR. PERKINS:
30. Management Committee, yes. I believe that's right. Is that
31. right Mrs. Rohter? Yes.
32. SENATOR NEWHOUSE:
33. Could you give us as a banker, some...some predictions of
34. what the economy is going to look like over the next ten years,
35. the next two years, the next five years?

1. MR. PERKINS:

2. Senator, the years have gone by and I've learned not to
3. even have the temerity to try that. There are those who predict
4. that the '80's will be more difficult than some other periods, but
5. I have no way of knowing and I have seen, in my lifetime, economic
6. forecasts go wrong so often that I wouldn't dare do it.

7. SENATOR NEWHOUSE:

8. As my personal consultant and banker, would you advise me
9. to load up on school bonds supported by a tax levy in the City
10. of Chicago?

11. MR. PERKINS:

12. It depends on the specific issue and the structure of the
13. issue, the coverage and all of the technical features. As I...

14. SENATOR NEWHOUSE:

15. I think you answered my question and it's no.

16. MR. PERKINS:

17. As I view the...the features of the proposed securities that...
18. out of this package, I think they would be a fine investment with
19. an attractive rate of return.

20. SENATOR NEWHOUSE:

21. Let me share with you a remark that was made in...in confidence
22. in a caucus the other day and that was this. That if Jesse James
23. were alive today, he wouldn't be robbing banks, he'd be forming
24. school districts. Let me ask you one last question.

25. MR. PERKINS:

26. Yes, sir.

27. SENATOR NEWHOUSE:

28. The finance in...the financial institutions in the City of
29. Chicago have professed a deep interest in the Chicago schools
30. for a number of years now. Was there not at any time, some indication
31. to the financial community that all was not well in the school board
32. financing picture?

33. MR. PERKINS:

1. I think that needs some very specific questions and answers
2. to get at. Overall, there certainly has been concern about the
3. budget picture and the cash flow and the other problems because
4. of the fact that the costs have been going up without a commen-
5. surate rise in revenues.

6. SENATOR NEWHOUSE:

7. Do you have concern...about the future of a school system
8. that is going to undergo substantial cut backs...the...the...the
9. magnitude of which we do not even know as yet. When you talk in
10. terms of...on a business level, for example, of the future employees
11. of Continental Bank, the future employees of other businesses
12. in this city what do you see, given those kind of cut backs
13. as the future of education in this city?

14. MR. PERKINS:

15. I believe that to answer that question in a general way
16. would be an error. For years we have all tried to participate
17. heavily in the school problems and in trying to get at the...the
18. different questions. There has been some question as to whether
19. funding is the whole answer to the question and I would like to
20. see the specific programs that are developed by the school board
21. and the others before I really would be...feel I could answer
22. that question in relation to the, I guess what you would...to wit,
23. the quality of education.

24. SENATOR NEWHOUSE:

25. All right, thank you, Mr. Perkins. Mr. Vangorkom. I think
26. you have twice answered the standard question so we won't deal
27. with that. Let me ask you this. You acknowledged a great deal
28. of interest in the public school system in your previous testimony
29. and I'd just like to go to the nature of that interest for a
30. moment. What is it?

31. MR. VANGORKOM:

32. I'm a citizen of the State of Illinois and of the United
33. States. I have a company who has moved several hundred employees

1. in the City of Chicago. To put four hundred and seventy-five
2. thousand students out on the street by closing the school system
3. would do nobody any good, including me, even though I live quite
4. a ways from the City of Chicago. I...in regard to something you
5. said earlier, let's accept the fact that you say that the School
6. System of Chicago is sick. The problem that I'm involved in is
7. not whether we have a sick school system or a well school system,
8. but whether we have a sick school system or no school system at
9. all. That's really what I'm concerned about. We will not solve
10. the sickness of the school system as you perceive it. Our job
11. here is to keep it alive so that you can then direct your attention
12. to making it well again.

13. SENATOR NEWHOUSE:

14. Let me ask you this question then. Given that as your
15. focus, we are being asked to make a trade-off. The trade-off
16. is...to prevent the schools from closing down for however short
17. a period...by providing a mortgage for the next twenty-five or
18. thirty years...to an entity whose powers we do not presently
19. know, I read this, but you know, I...I tried to find out how
20. many lawyers put it together in order to figure out how much
21. time I'd have to spend as a lawyer to try to understand it.
22. And I'm going to have to vote on this tomorrow. The time table
23. has been pressed upon us with the threat of closing the school
24. system down if this bill isn't passed tomorrow. So that's a...a
25. knotty question and that's a pretty tough question to ask.
26. The options are these, that if we do not shut the school
27. system down for two days, ten days, three months, six months,
28. several thousand employees who will draw a check on the eighteenth
29. may never draw another one in life. That's one set of options.
30. The second set of options is, that given the powers of this
31. board, which we do not know and do not understand, we may have given
32. away control of our system for the next twenty-five years to
33. somebody in New York. Now, how do you come down on that?

1. MR. VANGORKOM:

2. I can come on very easily on it. It's true that if you
3. do not pass this bill, in all probability, almost certainly the
4. schools will close for some periods of time. And I don't know
5. how you weigh that as a factor in this total problem. I have
6. felt from the beginning, maybe mistakenly so, that it would
7. be tragic to close the school system for ninety days until we
8. can get long term financing and until time can be taken to do
9. these things. I can speak on behalf of all the people who have
10. labored so hard to bring this legislation before you to say that
11. they have not wanted to create an emergency of time. They had
12. not wanted to bring you in here and hold a gun to your head, if
13. you want to put it that way, and say you've got to pass this.
14. This has been created for them by circumstances beyond the control
15. certainly of me and of most of the people who are involved in
16. this. We regret the necessity of doing this in such a forced
17. atmosphere as much as you do, but we're faced with the fact that
18. if we don't do it this time, the schools will close. Now, if
19. the Legislature decides that that is not as important as taking
20. more time to consider the bill, I...I have no opinion on that.

21. CHAIRMAN: (SENATOR BERMAN).

22. Any further questions, Senator Newhouse?

23. SENATOR NEWHOUSE:

24. No, I pass. Thank you.

25. CHAIRMAN: (SENATOR BERMAN).

26. Senator...the Chair would like to call the attention of the
27. Senate to the fact that it is now 4:25 p. m. That I have a long
28. list of Senators who have indicated a request to ask questions
29. and it is the intention of the Chair to honor that request. We
30. also have other witnesses, pro and con, who wish to testify. I
31. wish to point out that as far as the schedule of the General
32. Assembly in general, the House was to convene a similar Joint
33. Committee of the Whole Session at 4:00 p. m. The purpose of this,

1. these remarks, is merely to ask that those Senators who wish
2. to ask questions, please if your question has been asked, do not
3. repeat it and try to reevaluate your questions before you ask
4. them so we can get through everyone who has come down to testify.
5. Senator...Wooten.

6. SENATOR WOOTEN:

7. Mr. Quern, I guess would be the logical one. Why is Section
8. 34A-303 on page 30 in this bill?

9. MR. QUERN:

10. Senator, I will have to yield to Mr. D'Esposito, who is the
11. logical one on that.

12. SENATOR WOOTEN:

13. All right, fine.

14. CHAIRMAN: (SENATOR BERMAN)

15. What was the Section, Senator Wooten, that you had reference
16. to?

17. SENATOR WOOTEN:

18. Page 30, Section 34A-303. I have some acquaintance with
19. this because this is something we put in a year or two ago because
20. we were told that sometimes on city councils and school boards
21. you have a guy who owns a hardware store and he's the only
22. hardware store in town and you somehow got to be able to buy
23. hardware and so we had to create this loop hole. What it's
24. doing in this bill, I can't imagine.

25. MR. D'ESPOSITO:

26. The...the purpose of this section is to...there is...there
27. is a general Statute which applies to all public officials called
28. the Corrupt Practices Act...

29. SENATOR WOOTEN:

30. That's why I...

31. MR. D'ESPOSITO:

32. ...which is also applicable in this circumstance. However,
33. this...that Statute would prohibit a member from serving. And...

1. CHAIRMAN: (SENATOR BERMAN)

2. Excuse me, Senator Grotberg, on a point of order.

3. SENATOR GROTBORG:

4. On a point of order. It's been brought to my attention
5. and, pardon me, Senator Wooten, have these...this amendment
6. been offered and seconded? And is it a proper matter for debate
7. at this time? Has anybody made the basic move?

8. CHAIRMAN: (SENATOR BERMAN)

9. No, we have the Committee of the Whole and there will be
10. no offering of the...no motions...it's a committee hearing
11. tomorrow and on the Floor...the amendment will be...

12. SENATOR GROTBORG:

13. But we are in order?

14. CHAIRMAN: (SENATOR BERMAN)

15. Oh, the question is in order, yes. That's...the question
16. is in order.

17. SENATOR GROTBORG:

18. Because sooner or later these things are going to go to
19. the Supreme Court and it might be nice if they were spoken to
20. with somebody making a motion from time to time to put them on
21. the Floor.

22. CHAIRMAN: (SENATOR BERMAN)

23. All right. Senator...I think Mr. D'Esposito, you were in
24. the middle.

25. MR. D'ESPOSITO:

26. The...section of the Corrupt Practices Act in 303 must
27. be read together, my reading of those together would...would
28. permit a member who had a conflict of interest to continue
29. serving which the Corrupt Practice would not unless it was the
30. kind of interest such as the hardware store or employment at
31. the telephone company.

32. SENATOR WOOTEN:

33. Well, I...I fail to understand why this is in here. We

1. are setting up an authority, which is called a unit of local
2. government at some point in this...amendment, five people. And
3. we're saying that if some one of those five people has a direct
4. or indirect interest in the sale of these bonds, for example,
5. all he has to do is declare that interest and not vote. Now
6. the reason that is the difficulty is because back here on page
7. 39, you say prior to the end of this year you can set that interest
8. at any level. And in the amendment to the other bill, you make
9. it clear that all limitations on interest go by the board as
10. far as this unit is concerned. It seems to me, you would not
11. want to put the members of this Authority in that position. Where
12. the suspicion would be that if you have people on there from the
13. financial community who might have an interest, direct or indirect,
14. in a financial institution, what's to keep them from kiting
15. the interest up as high as they want to go as long as there are
16. no practical limits on the interest?

17. MR. D'ESPOSITO:

18. Presumably the integrity of the other members, and they
19. are not permitted to vote. This is not an atypical provision
20. that one...one disclose and disqualify himself from voting.

21. SENATOR WOOTEN:

22. I submit to you sir, it is absolutely out of order in this
23. Authority. I would also like to ask...I believe, I cannot recall
24. the Governor's exact words, but he said something to the effect
25. that the same kind of cure would be available to all of us, but
26. I see that this is limited to the City of Chicago.

27. MR. D'ESPOSITO:

28. As a technical matter, that is correct, Senator, because
29. it is necessary for drafting purposes to do that.

30. SENATOR WOOTEN:

31. Are you not offering similar language for downstate school
32. districts?

33. MR. D'ESPOSITO:

1. ...It is...is a question of a limited number of bills that
2. are available. No other, to the best of our knowledge at this
3. point, district has requested this kind of assistance. If they
4. were to do...do that, we would be perfectly willing to produce
5. a bill modeled to that particular district and offer it to
6. this assembly. The problem, quite frankly is, that we have
7. a district that is coterminous with a...corporate limits of a
8. city and drafting a document which makes it available to all
9. districts and...which appointments are available for mayors. It does
10. not necessarily fit all districts. It's a...it's a technical
11. matter, but as a matter of principle and policy, the Governor
12. said he is willing and remains willing to make this available
13. upon request and members of the General Assembly are perfectly
14. ...are...are able to pass another bill, making this available
15. to...to all districts if they so wish, in this Session.

16. SENATOR WOOTEN:

17. Well, it just seems to me that we could easily have
18. followed the Pennsylvania Plan, which I don't believe is
19. considered. I think if we had a little time to work on this
20. we might want to come to something like that, which has general
21. application throughout the State. That's very nice to hear,
22. that you'd be willing to consider something if we got into
23. trouble, but, you know, my school district is in trouble all
24. the time, the one I live in. We're closing three schools, we're
25. going to devastate the population in a part of our area.

26. MR. D'ESPOSITO:

27. It...it...it's a question of access to the market, Senator,
28. and to the best of our knowledge, we've not had people approach
29. us and say that they cannot obtain credit.

30. SENATOR WOOTEN:

31. Well, then, we take it then that we're perfectly willing
32. to provide this or a similar cure for downstate districts, even
33. though it's not offered in this legislation?

1. MR. D'ESPOSITO:

2. The...the Governor stands ready to sign such a bill if it
3. were to pass, yes.

4. SENATOR WOOTEN:

5. Why is this...was the, for example, the Pennsylvania
6. approach considered?

7. MR. D'ESPOSITO:

8. The Pennsylvania approach was not considered by myself
9. because we needed to draft a bill that incorporated the agree-
10. ment of the week-end, namely, that the Mayor would...would name
11. two and the Governor would name two and they would jointly name
12. the fifth and that is impossible to do to draft a document that
13. is applicable to all districts. You will find the School Code
14. is...makes those distinctions between districts that were five
15. hundred thousand in the balance of the State.

16. SENATOR WOOTEN:

17. Why is it more important to get the agreement of the
18. Governor and the Mayor than of the Legislature?

19. MR. D'ESPOSITO:

20. It is not.

21. SENATOR WOOTEN:

22. Well...it would seem to me...

23. MR. D'ESPOSITO:

24. They...they are all preconditions of...the Governor and
25. the Legislature are preconditions of passage of this bill.

26. SENATOR WOOTEN:

27. Mr. D'Esposito, this involvement is an afterthought almost.

28. MR. D'ESPOSITO:

29. That is not correct, Senator. The...the leadership of both
30. Houses were consulted throughout these discussions and the leadership
31. through their representatives were involved in the drafting.

32. SENATOR WOOTEN:

33. That...that can be more properly addressed when we talk to our

1. leadership in caucuses, but I say to you that legislative involve-
2. ment, the proper legislative involvement is largely an afterthought.
3. I would like just to ask a question of someone from the Chicago
4. School Board.

5. CHAIRMAN: (SENATOR BERMAN)

6. Mrs. Rohter is listening.

7. SENATOR WOOTEN:

8. All right, fine.

9. MRS. ROHTER:

10. Yes, sir.

11. SENATOR WOOTEN:

12. When will you ask for an adjustment in State aid to
13. the Chicago School District?

14. MRS. ROHTER:

15. I think that we will not asking for anything until we have
16. the cuts before the Board of Education and that depends on what
17. happens here. No adjustments are going to be contemplated until
18. we know more about where we are.

19. SENATOR WOOTEN:

20. Probably this spring, then?

21. MRS. ROHTER:

22. Well, the Board, the Chicago School Board and the financial
23. authority will be asked to report back to the Legislature and the
24. Governor.

25. SENATOR WOOTEN:

26. Would it not seem a more rational approach, maybe not from
27. your point of view, but perhaps from ours for us to provide some
28. kind of bridge financing, as it's called, and then hold off on
29. the half billion dollars in bonding authority, which is really
30. going to be a stone you'll have to carry for many years, until
31. we get some idea of what those cuts are going to be, until we
32. have a clear picture of just how...deeply in the hole the School
33. Board is and then we can consider together maybe those requests

1. you would like for an increase in school aid and the half billion
2. dollars in bonding. Would that not more properly be the subject
3. for discussion and decision sometime in the spring?

4. MRS. ROHTER:

5. Well, the bridge, two hundred and twenty-five million
6. dollars, is, in fact, a part of the five hundred million. It's
7. not in addition to.

8. SENATOR WOOTEN:

9. Can it not be segregated from that?

10. MRS. ROHTER:

11. Well, that's a technical question that I would have to refer
12. to experts as to whether that would be advisable, if indeed it
13. could be done. I do know that we do not have the luxury of any
14. kind of delay at this moment, today, on Wednesday. We do not have
15. available the funds to meet a commitment to pay retroactive pay
16. on Friday of this week. Unless material changes are made in our
17. status, I will again be forced to go out on television, on WBEZ,
18. our radio station, and say, cannot pay you again today.

19. SENATOR WOOTEN:

20. The...the fact that we were late in two pay periods, did
21. that force a closing of the school?

22. MRS. ROHTER:

23. No, sir. The commitment of the Chicago Board of Education
24. Employees and their concern for the education...

25. CHAIRMAN: (SENATOR BERMAN)

26. Excuse me, Mrs. Rohter. Will those people who are not
27. listening to the questions or the answers, either remove them-
28. selves from the Floor or stop their discussions. Now, this is
29. an important subject matter, either pay attention or leave the
30. Floor. Proceed, Mrs. Rohter.

31. MRS. ROHTER:

32. You asked if the schools were closed. My answer was, no
33. Sir, our schools did not close. The commitment of our employees,
34. the business community in Chicago, kept those schools open.
35. Teachers, other employees, missed a pay period and then another

1. pay period and did not stay away from their work.

2. SENATOR WOOTEN:

3. Would you not agree that it is absolutely essential that
4. you have some kind of tax increase in Chicago at some point in
5. the near future? Otherwise, you know, you're going to have to
6. be down here hat in hand all the time.

7. MRS. ROHTER:

8. I think that that would more accurately, and I promised to
9. be truthful when I took this office, I think that could more
10. accurately be addressed after we see the cuts. We're determined
11. to do cuts in a different way, these are not going to be paper
12. cuts, closing out vacant positions, these are going to be real
13. cuts that produce dollars, reduction in expenditures and we
14. can't know that until that's proved by the board.

15. SENATOR WOOTEN:

16. Well, do you not think it is equally reasonable for us
17. to say we would certainly consider granting a half billion dollars
18. in bonding...in bonding authority when we see what the cuts are?

19. MRS. ROHTER:

20. I suppose we came to a chicken and an egg syndrome there and
21. because...let me say this, in my...my ten years on the board, I'm
22. in my tenth year, I've never saw any...never seen any cuts that to
23. me meant to anything. Every year a bunch of cuts were trodded
24. out, every year, the costs were greater, every year there were
25. more employees. We do not intend to do that this year.

26. SENATOR WOOTEN:

27. Well, certainly you can see our position then. Because at
28. least at first blush it looks as if you're asking for a reduction
29. in your educational tax rate. The assumption of increased debt and
30. we're talking about cuts. I would prefer to see what the cuts
31. are and to see what proposals are made in the spring for tax
32. increases. Because just borrowing more money and paying interest
33. rates that are not limited this year, is not going to help the

1. situation that much. I'd like to see, I think we'd all like to
2. see, some kind of reasonable, realistic long term solution. And
3. there is no disposition in this Body to close the Chicago schools,
4. but there is, I think, a general determination to see some realistic
5. answers. And this does not look that realistic to me.

6. MRS. ROHTER:

7. I am the fiscal conservative, I suppose, on the Chicago Board
8. of Education and have been for these many years, and I will say
9. to you that there will be cuts, you will recognize them as real
10. and meaningful cuts. Unfortunately, we are in Session, so the
11. cuts must be a part of this year. I think that what we're doing
12. is treating a nose bleed and we've stopped the nose bleed with
13. the hundred and forty million dollars. The leukemia has to be
14. treated with the bridge and the long term funding.

15. SENATOR WOOTEN:

16. Well, I am not...I am not unfavorably disposed to the solution,
17. but I do not believe for a minute that we ought to jump into the
18. whole package at this point. If the worst happens, schools...

19. CHAIRMAN: (SENATOR BERMAN)

20. Senator Wooten...

21. SENATOR WOOTEN:

22. ...schools...

23. CHAIRMAN: (SENATOR BERMAN)

24. ...could you limit your...

25. SENATOR WOOTEN:

26. Okay, I'll just stop right there.

27. CHAIRMAN: (SENATOR BERMAN)

28. Let's not get into a dialogue. The witnesses are here for
29. questions, they're...they're not going to decide whether this
30. bill passes or fails. Thank you. Senator Collins. Mrs. Rohter.

31. SENATOR COLLINS:

32. Thank you, Mr. Chairman, I...I will start with Mrs. Rohter.

33. MRS. ROHTER:

34. Yes, Senator Collins.

1. SENATOR COLLINS:

2. Mrs. Rohter and I'm...I'm trying to make this very brief,
3. but I'm...I'm very concerned because you are now Chairman of the
4. Board of Education. You indicated that you had been on the
5. board for ten years prior to this crisis and prior to your
6. election.

7. MRS. ROHTER:

8. I started by tenth year this month.

9. SENATOR COLLINS:

10. You started your ten year. Can you tell me, what...what
11. direct involvement or responsibility has the, in the decision making
12. process, has the Chicago Board of Education had in terms of the
13. operation of the School System in Chicago? What really have
14. been your primary roles and functions and authority? I don't
15. mean what it says in terms of the law or Statutes, but what have
16. you really been doing? What has been your primary function?

17. MRS. ROHTER:

18. Most of it has focused on finance during...

19. SENATOR COLLINS:

20. I can't hear you, could you speak a little louder, please.

21. MRS. ROHTER:

22. Most of our time has been spent on finance as is obvious
23. because we have never had enough money to operate and carry on
24. the programs that have been deemed necessary to educate our
25. unique population. In addition to that, we've spent, I suppose
26. we spend maybe six weeks of every single school year in negotiating
27. of contract for our employees, except for the last year and two
28. where we have had a two year contact. We spend a great deal of
29. time on legislation. There is an instruction committee that should
30. spend time on educational programs for children, but that committee
31. hasn't met in the past several years.

32. SENATOR COLLINS:

33. I...I guess my concern is...another question and then I want

1. to ask you something else. The financial officer, is that person
2. hired by the board?

3. MRS. ROHTER:

4. Yes.

5. SENATOR COLLINS:

6. Does the board have a financial officer?

7. MRS. ROHTER:

8. Under the Illinois School Code, the eleven member appointed
9. Board of Education of the City of Chicago really only has the
10. authority to hire and fire four people. That is the Superintendent
11. of Schools, the Board Attorney, the Secretary to the Board of
12. Education, the Secretary's Office, Corporate Secretary and the
13. Board of Examiners. Apart from that, all other persons are
14. recommended to the board by the General Superintendent of Schools.

15. SENATOR COLLINS:

16. Okay. You...you indicated that much of your time has been
17. spent on...on trying to acquire the necessary funds to operate
18. the school system, but then earlier I heard you indicate that you
19. didn't...hadn't even received a financial report for several
20. years, now that the financial committee met. How then do you
21. go about trying to secure funds if you have no indication or
22. idea as to what your funding needs are?

23. MRS. ROHTER:

24. I think I need to clarify an impression that may have been
25. gained. There were financial reports issued. What I said was,
26. the Finance Committee had not met, the Finance Committee had not
27. shared with the other members of the board to my knowledge and
28. certainly not with me letters given to them by the outside
29. auditor, Arthur Anderson Company, relating to our financial
30. condition.

31. SENATOR COLLINS:

32. But, you...you, the Finance Committee...does meet and they
33. do report to the board other than the financial crisis, I'm not
34. ...prior to the crisis?

1. MRS. ROHTER:

2. No, that's not...I'm sorry to admit it, but the Finance Committee
3. of the Board of Education has not met for several years.

4. SENATOR COLLINS:

5. Is that, in fact, one of your chief functions, though, as
6. a board, to be on top of the financial situations and to know where
7. the monies are going and making sure that it's allocated toward...
8. and providing the best quality education...for the school children?

9. MRS. ROHTER:

10. Well, I think it's a major function and had I had the opportunity
11. to serve on the Finance Committee or to be its Chairman, which I had
12. sought for a number of years, I assure you we would have been meeting
13. on a regular basis. My present plans are to have a Committee of
14. the Whole, which will require participation by all of the members
15. of the board.

16. SENATOR COLLINS:

17. Okay, given the fact, Mrs. Rohter, that you have had limited,
18. apparently access to information and problems in terms through
19. involved in decision making, have you ever publicly spoken out
20. all the ten years you've been on the board, on the limitations
21. or the functions of that particular board? Have you spoken
22. out at...at any point in time?

23. MRS. ROHTER:

24. Yes, as a matter of fact, I have, consistently and persistently
25. over the nine full years that I've been a member of that board.

26. SENATOR COLLINS:

27. Are you a member of the Auditing and Management Committee
28. of that board?

29. MRS. ROHTER:

30. Yes, I was until I became President, vice-chairman of that
31. committee.

32. SENATOR COLLINS:

33. What is the function of that committee?

1. MRS. ROHTER:

2. I described the function of that committee for Senator
3. Newhouse and I said that we were concerned with management of
4. the school system. That we had spent the majority of our time
5. since the inception of the committee, trying to put in place a
6. policy manual for the Board of Education. I indicated at that
7. time that you might find it difficult to accept the notion that
8. a billion dollar entity did not, in fact, have a policy manual,
9. but we didn't, although I had tried to get one along about 1973,
10. there were not sufficient votes to get it. I also indicated
11. that the last year, 1979, we spent perhaps meeting once a
12. week for five or six months putting together a performance
13. contract for the Superintendency position.

14. SENATOR COLLINS:

15. Okay, one more question on that subject. Did you have any
16. knowledge or any suspicion of the current financial crisis of
17. the school system?

18. MRS. ROHTER:

19. I think that to answer that question, I have to tell you
20. that anyone that can add and subtract and particularly someone
21. with...a student of the budget, knew that it was inevitable,
22. it had to come. It wasn't if, it was when. How it was done was
23. the mystery.

24. SENATOR COLLINS:

25. Okay, Mrs. Rohter, one more question on that subject. Assuming
26. now that there is, in fact, this super all supreme power which will
27. be over the board and, of course, of functioning and dealing with
28. the finances of the board and I'm sure informing you and other
29. board members as to the financial state of the school system in
30. the future as chairman of that board, if you find, and especially
31. given the fact of the clause dealing with conflict of interest of
32. which I'm very much concerned about, and I will abide by the
33. Rule of the Chair suggestion not to get in that because I think

1. Senator Wooten clearly articulated my concerns about that parti-
2. cular clause. But given the fact that that clause is in this amend-
3. ment and if, in fact, something start...funny and fishey looking
4. happened with the funds for whatever reason, as chairman of that
5. board, are you willing to come forth and ask the public or indicate
6. that to the public or call for public hearings or public audit to
7. see what is going on and report to the people?

8. MRS. ROHTER:

9. I would not only be willing, I think as Chairman of the Board,
10. especially in as a board member, it would be an incumbency upon
11. me to do so, immediately.

12. SENATOR COLLINS:

13. Mrs. Rohter, but that's not my question. You...you, it was
14. incumbent upon you to do so before...

15. MRS. ROHTER:

16. And I did so.

17. SENATOR COLLINS:

18. ...and that you were not chairman, now you are chairman.

19. MRS. ROHTER:

20. Yes, I would, absolutely and immediately.

21.

22.

23.

24.

25.

End of Reel #3

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33.

1. SENATOR COLLINS:

2. Okay, you indicated that there were some plans already in
3. the process for cutting...cutting back on the budget, and you
4. specifically indicated in your remarks that you had mentioned to
5. those...people. I want to know first of all, do you have...
6. can you tell me how many certificated classroom teachers this
7. actually involved in instructions in the school system?

8. MRS. ROHTER:

9. I'm going to have to say before I answer your question, when
10. I asked for the information relating to how many classroom teachers
11. are there, by that I meant an individual who has in his or her
12. care for five clock hours a day for supervision and evaluation,
13. that's what I call a classroom teacher. I did not get that answer.

14. SENATOR COLLINS:

15. Well, then...

16. MRS. ROHTER:

17. But it is less...

18. SENATOR COLLINS:

19. Can you tell me this...can you tell me this then, how many
20. of the total employees are administrative and custodial or non-
21. teaching staff?

22. MRS. ROHTER:

23. No, I can't tell you that, we have asked to...for that in-
24. formation. I think it's absolutely essential to know how many
25. people employed in that bureaucracy do, in fact...

26. SENATOR COLLINS:

27. Mrs...Mrs. Rohter, how can you then talk about a plan that
28. you've already implemented to deal with cuts...

29. MRS. ROHTER:

30. No, Sir.

31. SENATOR COLLINS:

32. ...if you are concerned...

33. MRS. ROHTER:

 We did not implement the plan, the plan is being drawn to be

1. presented to us. There has been no implementation.

2. SENATOR COLLINS:

3. Oh, I'm sorry, I thought you said that the plan had already

4. been drawn up to cut...

5. CHAIRMAN: (SENATOR BERMAN)

6. Senator...Senator Geo-Karis, for what purpose do you arise?

7. SENATOR GEO-KARIS:

8. I think it's incumbent upon us to allow the witnesses to

9. answer in full before we keep interrupting them. I don't think we

10. should be badgering them, and I'm...and I'm just as much of a

11. cross examiner as Senator Collins, but I do feel that we should

12. extend the courtesy of courtesy.

13. CHAIRMAN: (SENATOR BERMAN)

14. All right, Senator. Senator Rock for what purpose do you

15. arise?

16. SENATOR ROCK:

17. Thank you, Mr. Chairman. I don't mean to interrupt, I have just

18. received a call from the House, they have delayed their opening

19. until right about now, and unless...I don't know how many people

20. are left or remaining to ask questions. I would like if possible

21. if any of the questioners have questions of either Mr. Quern or

22. Julian D'Esposito, if we could get to those so that those two

23. Gentlemen could take themselves to the House and begin the process

24. anew over there that would be extremely helpful. Representative

25. Madigan and Representative Lechowicz have asked that I at least

26. inquire whether we can get leave of the Senate to do that.

27. CHAIRMAN: (SENATOR BERMAN)

28. Any objection? Leave is granted. What we will do is to...

29. okay, let's...Senator Collins, let me ask...just one second.

30. SENATOR COLLINS:

31. D'Esposito...

32. CHAIRMAN: (SENATOR BERMAN)

33. Okay, the Chair will do this. When Senator Collins asks a

1. question of Mr. D'Esposito then I'll go through the list and
2. if anyone has a question of Mr. Quern or Mr. D'Esposito we'll
3. get them up there and let them field their questions so we can
4. shoot them over to the House. Senator Collins of Mr. D'Esposito.

5. MR. D'ESPOSITO:

6. Please, don't use the word shoot.

7. SENATOR COLLINS:

8. Okay.

9. MR. D'ESPOSITO:

10. I was under that threat most of yesterday.

11. SENATOR COLLINS:

12. On...on page 40, of Section 34A-503 dealing with tax levies
13. and I won't go into all of my concerns. I think Senator Netsch
14. answered a lot of questions, but I know that this board apparently
15. from what I can understand has a lot of authorities but I see that
16. you...and I'm going to read this. Before or at the time of issuing
17. any bonds the Authority shall demand, demand, and direct the City
18. Council of the City to provide by ordinance for the levy and
19. collection of a direct annual tax upon all the taxable property
20. located within the school district. How do you feel, I mean how...how
21. do you perceive that this Body has that kind of power that they
22. can demand that a duly constituted elected Body do anything. How...
23. I mean what would happen if they don't pass the ordinance?

24. MR. D'ESPOSITO:

25. They...they can be directed to pass the ordinance. This.
26. because of a peculiarity of Illinois law, a Body that is not
27. elected may not adopt a tax levy or, at least, there are lawyers
28. who so think even under the current Constitution. As a
29. consequence of that may...may not adopt ad valorem property
30. tax. As a consequence of that it is necessary for the Legislative
31. Body within that district to pass the levy. The Board will adopt
32. a...a budget appropriation, which...and then the City Council
33. in a typical circumstance for operating purposes will pass the levy

1. anyway for the Board of Education and I suspect if one looks
2. at the typical sections of Article 34, dealing with the City
3. of Chicago you will find similar language, that the Board of
4. Education directs the City Council to levy the routine property
5. tax on behalf of the Board of Education. This is no different
6. other than the word demand and the word demand may, in fact,
7. occur in the...in the operating section of the Chicago School
8. Code.

9. SENATOR COLLINS:

10. Yes, because there's a difference in direct and shall demand.

11. MR. D'ESPOSITO:

12. Well, I'm not prepared to say exactly what the Chicago School
13. Code says, the concept is...is identical.

14. SENATOR COLLINS:

15. Okay, the other area that...while I have one more question
16. for you and that's dealing with page 31, assistance by State
17. agencies, and other agencies. I don't know quite what you mean
18. there, it seems as though you're saying that this Body can,
19. upon its own discretion, at any time request anything including
20. staff or personnel from any State agency or any other local
21. government agencies and these people are automatically supposed
22. to respond...or that agency.

23. MR. D'ESPOSITO:

24. No, they need not automatically respond. It is within the
25. discretion of both the requestor, and the sending agency to
26. agree that there will be a loan of personnel to provide services
27. to the new Authority.

28. SENATOR COLLINS:

29. That...that does not...this...this amendment does not say
30. that, page 31.

31. MR. D'ESPOSITO:

32. Well, it says upon request of the Authority any agency is
33. authorized and empowered.

1. SENATOR COLLINS:

2. Right, upon request of the Authority.

3. MR. D'ESPOSITO:

4. Right, that is not a...the...the State agency or local
5. government or a school district need not comply. It is that...
6. it is permissive and it is...implementation of the concept of
7. inter-governmental co-operation that exists in the Constitution.

8. SENATOR COLLINS:

9. Well, I don't see that there but I have no other questions.

10. CHAIRMAN: (SENATOR BERMAN)

11. Well, let me...the Chair will go down as follows, and ask
12. each of the persons on my list if you have a question of Mr.
13. D'Esposito or Mr. Quern. Senator Johns, a question of those
14. two Gentlemen?

15. SENATOR JOHNS:

16. Well either one of them...

17. CHAIRMAN: (SENATOR BERMAN)

18. Okay.

19. SENATOR JOHNS:

20. Mr. Chairman. We talk about access to the market, and stability,
21. and that's what we seem to be seeking here, stability, but I'm
22. disturbed that a system, the Chicago School Board, having a short
23. fall of ninety-four million dollars each year, and a seventy
24. million dollar debt retirement each year, and you're going to take
25. fifty cents out of the two dollars and eleven cents levy per year,
26. how they're going to operate at all. I think what we're...the real
27. hidden element here, is that sooner or later Chicago's going to
28. have to have a Real Estate Tax increase. I think that's what
29. we're relying on, am I wrong here..

30. MR. D'ESPOSITO:

31. That is...

32. SENATOR JOHNS:

33. ...in that assumption?

1. MR. D'ESPOSITO:

2. That is the judgment that we are not prepared to make.
3. There is not sufficient information to...to justify that con-
4. clusion. In our opinion, and that is the purpose of the
5. Control Board, to examine the budget, to come up with good
6. figures, and report to this...this Body on April 1st.

7. SENATOR JOHNS:

8. All right, then my question still remains, are we going
9. to have access to the market even if we develop this if we don't
10. have a tax increase in Chicago on real estate.

11. MR. QUERN:

12. Senator, may I comment on the tax question. When we first
13. were confronted with this problem, we began to see many of the
14. parallels, although, it's not on a similiar...it's not identical
15. situation to New York, there's many parallels, and the cry was
16. simply for more money. Just give us more money, just get us more
17. funds, lend us this, give us that. One of the lessons out of
18. New York City was that if you just provide additional funds and
19. don't bring about controls and don't bring about changes, the
20. patterns which led to the original problem will be restored and
21. there'll be no real improvement, there'll just be further loss
22. of funds. We set down as a basic ground rule for this stage of
23. dealing with the problem that we will not consider any additional
24. revenues, State or local, at this time. We will attempt to restore
25. the financing, some access either through their own paper or through
26. some other source of borrowing, so that they can come up to the
27. amount of money that they would have had otherwise, but at this
28. point, until we see that the controls are being placed, that cuts
29. are being made, that there's a serious effort to bring the operations
30. within the revenues, that until that point, we will not even
31. entertain a discussion of State Aid increases, tax increases or
32. any other additional revenues because all lessons from other
33. places indicate insertions of additional dollars simply will not

1. correct the basic problems.

2. SENATOR JOHNS:

3. Mr. Quern, I just want to tell you, that we...we...we assume

4. that in the statements from the summit conference, that State

5. aid to Chicago would be increased over the next two years. Was

6. that...was that a true statement?

7. MR. QUERN:

8. The...the estimate of...in the summit conference? There was

9. basic...

10. SENATOR JOHNS:

11. That was the...

12. MR. QUERN:

13. Yes.

14. SENATOR JOHNS:

15. ...information that came out of the conference.

16. MR. QUERN:

17. What we used was...was an estimated factor I think, of

18. four or five percent increase in State aid which had been a

19. pattern of the last few years which we expected not just for

20. Chicago, but by formula changes that would occur or whatever

21. changes would occur with the State formula across the board.

22. SENATOR JOHNS:

23. Okay, do you see this as any threat to downstate, their

24. allotment in the future?

25. MR. QUERN:

26. Absolutely not.

27. SENATOR JOHNS:

28. Okay, next question. Do you see, that the board made up...

29. as it is for financial purposes can eventually have financial

30. ties outside of our State boundries that will influence the State

31. in this decision making process by this Board?

32. MR. QUERN:

33. The financing Authority's primary power is to look at the

1. bottom line budget of the school board. That will be its focus...

2. SENATOR JOHNS:

3. Okay, but let me interrupt just a minute. Something that
4. disturbed me, Mr. VanGorkom...or no, Mr. Perkins said, he said
5. this is a national type of sale, this goes out beyond our boundries,11

6. MR. QUERN:

7. Anytime...

8. SENATOR JOHNS:

9. ...so I'm saying this goes outside of our boundries, is there
10. a possibility of ties or influence over this board towards the
11. Chicago School Board?

12. MR. QUERN:

13. I don't believe so, this legislation is an attempt to make the
14. borrowing attractive to investors around the country, so that we
15. would hope that if you're trying to borrow five hundred million
16. dollars, that investors from all over the country would be willing
17. to do that. We hope to secure that and make that attractive by
18. virtue of the legislation, which places the kind of security in
19. ...in the investment that will make it attractive.

20. SENATOR JOHNS:

21. Well, my final...just a little statement here. I can remember
22. years ago, Mr. Quern, it was quite a joke in Southern Illinois,
23. we have the oldest bank in the State of Illinois on the banks of
24. the Shawneetown levee, they wouldn't loan any money to Chicago.
25. I'm kind of thinking about that, you know, for the moment, but I
26. really look upon these bills as sort of a boomerang type bill,
27. we're going to throw it out there and it's going to come down
28. crashing and it's really going to be disastrous. Thank you.

29. CHAIRMAN: (SENATOR BERMAN)

30. Senator Regner, do you have questions of these two witnesses?

31. Senator Regner.

32. SENATOR REGNER:

33. Mr. Quern, last Fall you and I worked fairly close together

1. on some legislation regarding Cook County Hospital, and that was
2. the elimination of the Hospital Governing Board, which you were a
3. very strong advocate of, and what I'm wondering is, how do we
4. see any difference here in the county...or in the Hospital
5. Governing Board, it was created eleven years ago, erroneously,
6. and I think correctly eliminated last Fall, and the creation of
7. another Authority here overlooking the Chicago Schools. The
8. way I see it we have the same situation.

9. MR. QUERN:

10. No, Senator, the important differences are...are twofold,
11. one, the Financing Authority has clear budget control. One of
12. the things that we believe was happening at the Governing Commission
13. of Cook County Hospital, was that the commission itself did not
14. have budgetary control. Secondly, by virtue of the five hundred
15. million dollar bonding issue, not only will the Financing
16. Authority have oversight of the budget of the school board
17. it will also, in fact, have control of amount of money...an
18. amount of money, five hundred million dollars, which will come
19. from the proceeds of the sales of the bonds, which will be needed
20. by the schools. And the schools will need to go to the Financing
21. Authority, so that there is a double control here. Secondly,
22. Senator, I think the...one of the things that...establish a
23. different climate, excuse me, are that the...this is not proposed as a
24. total cure, we know that there will have to be significant cuts
25. within this solution. We know that the school board and the
26. Financing Authority are going to have to come to grips and then
27. come back to the Legislature and the Governor later this year to
28. state what their operations are, what they cost, what they've
29. done to reduce those costs, what they expect in growth, and get
30. approval for any change, so, no change can be made. What we
31. were trying to correct here is the possibility of mismanagment,
32. to reduce that possibility, provide stability, keep the schools
33. open, see how they perform in the next few months, later this

1. Session they certainly will be back, your judgments as to
2. whether or not their requests, if there are requests, are valid
3. will be based on actual performance, and they will have to seek
4. your approval for any change.

5. CHAIRMAN: (SENATOR BERMAN)

6. Senator Regner.

7. SENATOR REGNER:

8. Well, Mr. Quern, I see this is very, very, much like
9. the Hospital Governing Board was, we gave them that...that
10. Authority, certain responsibilities, a five year plan to come
11. back to report to the Legislature, and the only thing they ever
12. did was come back and ask for more money, and I don't see any
13. difference in this operation. They can virtually ignore us, just
14. as the Governing Board did as far as any changes or reforms are
15. concerned.

16. MR. QUERN:

17. Well, again the control is...the Control Finance Authority's
18. mandate is to balance the budget. That's its sole purpose. The
19. Governing Commission's purpose was to operate the hospitals, here
20. again there's a distinct difference. There is an entity here
21. whose sole mandate from the General Assembly is balance the budget,
22. make sure the budget is balanced, excuse me.

23. CHAIRMAN: (SENATOR BERMAN)

24. Senator Grotberg, do you have questions of these two
25. witnesses? I don't see Senator Grotberg on the Floor. Senator
26. Berning, do you have questions of these two witnesses? Senator
27. Berning.

28. SENATOR BERNING:

29. Yes, thank you, Mr. Chairman. I want to pursue just one
30. further step the point raised by Senator Collins, and let me
31. preface that by saying, that some major political figures have
32. been quoted in the local and State-wide media that there will be
33. no tax increase. I don't believe that, in fact, I don't see how

1. it can be avoided, but referring again on page 40, to that Section
2. 34A-503, which gives the Authority the right to demand a tax,
3. dropping down to line 15, is what concerns me, and so my question
4. is to you Mr. D'Esposito, what interpretation can you give this
5. if it's any different from mine. Such tax, shall be in addition
6. to, and exclusive of the maximum of all taxes which the Authority,
7. the Board, or the City Council of the City is now or may hereafter
8. be authorized by law to levy for any and all school purposes.
9. As I see it, this is unequivocally and right now a direct tax
10. increase on the citizens of Chicago. I don't see how you can
11. deny it.

12. MR. D'ESPOSITO:

13. The language is, boilerplate language, with respect to
14. General Obligation Bonds. The reason the tax...well one...the
15. way to analyze this is to analyze what other taxes currently
16. exist, and that's all that this is saying. That this tax is
17. not intended to supplant any other kinds of taxes other than
18. to the extent conceptually that the two eleven is dropped to
19. one sixty-one.

20. SENATOR BERNING:

21. I understand that, the fifty cents is supposedly adequate to
22. handle all of this debt and debt retirement, and I just don't
23. believe it's going to do it. So, that this is the escape hatch,
24. so to speak, and to me represents just an outright grant of
25. authority to this board to levy a tax and they'll have to do it
26. almost immediately.

27. MR. D'ESPOSITO:

28. Well, as soon as the bonds are sold, there'll have to be a
29. tax levy connected with those bonds, but at the same time the
30. 1980 levy of the school board will be reduced.

31. SENATOR BERNING:

32. But that isn't what it says.

33. MR. D'ESPOSITO:

1. In addition to the...and exclusive of the maximum of all
2. taxes which the board is now or hereafter may be authorized
3. by law to levy, the tax the board is authorized to levy will be one
4. dollar and sixty-one cents. It has been reduced, and...and
5. the consequences of a levy to retire the principal and interest
6. due on an annual basis is...are that a fifty cents, approximately
7. fifty cents levy will have to be made by the Authority.

8. SENATOR BERNING:

9. That's what...

10. MR. D'ESPOSITO:

11. The aggregate is identical.

12. SENATOR BERNING:

13. Well, your interperatation is one thing, and mine is another. I
14. recognize what you're trying to say, and it may be that's what
15. you want to do, but if you reduce that levy by the school board
16. to a dollar and sixty-one cents, and say that the board...the new
17. board is going to be restricted to fifty cents, that is only
18. rhetoric because it says such tax shall be in addition to, and
19. they have the right to demand the levy of a tax, any amount.

20. MR. D'ESPOSITO:

21. Yes, but they...

22. SENATOR BERNING:

23. There isn't any restriction.

24. MR. D'ESPOSITO:

25. But the tax, may only be levied to retire the principal and
26. interest on the bonds, that is your limit. You may not levy beyond
27. the amount necessary to pay your bonds, but you must levy whatever
28. is necessary to pay your bonds, if you only need to raise app-
29. roximately fifty million dollars, you need a fifty cent levy.

30. SENATOR BERNING:

31. Well, I don't want to carry this on too far, but we are
32. caught on the horns of a fiscal dilemma here, when you and the
33. board is faced with a deficit that you can't say is never going to

1. be greater than what it is now. I challenge that...the school
2. board's ability to exist within that dollar and sixty-one cents,
3. and if they have to incur more debt, this is what is going to
4. authorize them to do it, as I see it.

5. CHAIRMAN: (SENATOR BERMAN)

6. Senator Bruce, do you have questions of these two witnesses?

7. SENATOR BRUCE:

8. I just want to continue on that point that Senator Berning
9. has raised up about tax levies. It...it is clear on page 40 that
10. they can levy any amount that they wish, is that...is that not
11. correct?

12. MR. D'ESPOSITO:

13. Limited by the purpose for which the levy is made, namely
14. principal and interest on the bonds.

15. SENATOR BRUCE:

16. So, if the board asks the City Council or if the Authority
17. asks either the Board or the City Council to levy fifty cents
18. in addition to the dollar sixty-one, and in addition to the
19. fifty cents they already have, is there any prohibition against that?
20. The board can now levy...

21. MR. D'ESPOSITO:

22. I'm not sure how many fifty cents you have in there.

23. SENATOR BRUCE:

24. All right, you say no tax increase, the Governor's made a
25. big point of that, the Statute says however they can demand of
26. the board or the City Council or the Authority to levy any
27. amount sufficient to retire the bonds, correct?

28. MR. D'ESPOSITO:

29. Correct.

30. SENATOR BRUCE:

31. We've changed the Statute to give the board, the school board
32. a dollar and sixty-one cents, and we've diverted fifty cents
33. to the Authority, is that correct?

1. MR. D'ESPOSITO:
2. The consequences of your action is to divert about fifty
3. cents.
4. SENATOR BRUCE:
5. And what prohibits the Authority from the demanding an
6. additional fifty cents which they give to the...to the school
7. board. They...they...
8. MR. D'ESPOSITO:
9. For school purposes?
10. SENATOR BRUCE:
11. Yes.
12. MR. D'ESPOSITO:
13. As opposed...the power to levy, as conditioned in line 12,
14. and 11, by the phrase sufficient to pay and discharge the principal
15. thereof at...maturity and to pay the interest thereon as it falls
16. due, there is no other power to levy.
17. SENATOR BRUCE:
18. And if this Legislature were asked in September to restore to
19. the school board the full two dollars and eleven cents, what is
20. the practical effect on the taxpayer in the City of Chicago if
21. they then also ask for a fifty cent levy in addition to the two
22. eleven?
23. MR. D'ESPOSITO:
24. If...the practical consequence of that is this...Legislature
25. has passed a tax increase.
26. SENATOR BRUCE:
27. That's correct. In other words, we would be the ones...
28. MR. D'ESPOSITO:
29. This bill is not the tax increase, your September action is
30. the tax increase.
31. SENATOR BRUCE:
32. All right, but we...we give the Authority today, for the
33. Authority to raise that fifty cents in any manner they deem

1. appropriate. Is that correct?

2. MR. D'ESPOSITO:

3. No, you give the Authority the power to raise the first year's
4. principal and interest by a property tax, at whatever rate is
5. necessary. We are telling you that the principal and interest
6. on the first year will be about fifty million which requires
7. a fifty cent levy, given the current property tax base of the City
8. in round terms.

9. SENATOR BRUCE:

10. But if we find out in September that the school board cannot,
11. in fact, operate on a dollar and sixty-one cents, and we are asked
12. to put back the fifty cents that we've given to the Authority of the
13. school board, does the Authority at that point have the chance to
14. go out and levy whatever they deem appropriate?

15. MR. D'ESPOSITO:

16. No, the Authority will continue...the Authority will continue
17. to retire...it will be obligated and this Legislature may not
18. impair that obligation to levy that fifty cent, approximately, tax
19. to retire the bonds. If the Legislature determines in September
20. as a consequence of the practices of the school board and the
21. Financial Control Board in their reports to you, that additional
22. revenues are needed, that's your decision when it happens.

23. SENATOR BRUCE:

24. All right, now you mentioned in your earlier comments when you
25. began your speech, that there were questions about the authority
26. of the board to continue, and how long they would continue and
27. with what powers. You indicated that there was discussion by...
28. between the bankers and other people in the room as to phasing-out
29. the Authority and that in fact, this legislation does not phase-
30. out the Authority but there might be an amendment forthcoming,
31. would phase-out at least the duties and the powers of the board,
32. is that correct?

33. MR. D'ESPOSITO:

1. To make sure I understand precisely. I...what I said was that
2. this legislation does not automatically require the sunset of the
3. Authority either in its financing or its control portions, it
4. prohibits the sunset of the Authority as to its debt service
5. until the bonds are paid, that's...that's basic Constitution law
6. with respect to debt service. It does not, on its face, deal with the
7. question about the abolition of the control function of the...
8. control functions of the Authority. It is possible to require
9. that those control powers disappear upon the occurrence of the
10. contingency at a date certain, they come back to life upon the
11. occurrence of the contingency, but this legislation does not do
12. that, it could be done.

13. SENATOR BRUCE:

14. Will we be seeing that amendment tomorrow?

15. MR. D'ESPOSITO:

16. There has been discussion of that from...from several quarters.

17. SENATOR BRUCE:

18. Do you...do you believe given the...the Section 510, that we
19. can, in fact, amend this Statute, at all, at any time? If the
20. amendments were passed...

21. MR. D'ESPOSITO:

22. If this were passed and bonds were sold I think it is
23. probable that you could amend to abolish the control portions.

24. SENATOR BRUCE:

25. All right.

26. MR. D'ESPOSITO:

27. There is some legal question to that consequence. You certainly
28. could do it before the bonds are sold.

29. SENATOR BRUCE:

30. All right. Given the fact that it is stated in Section 510,
31. that we have on the face of the bonds, entered into a contractual
32. agreement between the State of Illinois and the bondholder, not
33. to impair the rights of that bondholder, if we restrict the powers
of the board to regulate the Authority, the powers of the Authority

1. to regulate the board, and the board then goes in default, is there
2. not a contractual obligation between the State and the bondholder
3. since it states upon the face, you've given them the Authority
4. to say that the State of Illinois by contract will not impair this
5. bond. The Authority is authorized to include such pledge and
6. agreement of the State in any resolution or contract with the holders
7. of bonds. Now how do we in any way change this Authority between
8. now the last bond being paid off?

9. MR. D'ESPOSITO:

10. Well, there is the legal question as to whether or not
11. an abolition of the control functions is an impairment of the
12. contract of the bondholders.

13. SENATOR BRUCE:

14. That's correct. That's correct.

15. MR. D'ESPOSITO:

16. I think you can argue that it is not. We are prepared to
17. change that if it's the will of the General Assembly to make
18. certain that the control portions can be changed in whatever
19. fashion is deemed appropriate.

20. SENATOR BRUCE:

21. Can we...can we increase the Bonding Authority...of the
22. Authority next Fall?

23. MR. D'ESPOSITO:

24. If you pass a bill, yes.

25. SENATOR BRUCE:

26. I mean, this bill could be amended, to include a million
27. dollar bond issue?

28. MR. D'ESPOSITO:

29. Certainly, just like IDA.

30. SENATOR BRUCE:

31. And we could also give additional taxing authority to the
32. ...to the Financial Authority in the Fall?

33. MR. D'ESPOSITO:

1. As a practical matter, you would not need to give it
2. additional taxing authority because by giving them additional
3. borrowing power they would continue to have the obligation to
4. levy a tax, to pay the principal and interest of the new bond
5. amount. So, you would not have to change the...

6. SENATOR BRUCE:

7. Wouldn't have to change it at all, then would we.

8. MR. D'ESPOSITO:

9. Right, right. By raising the bond Authority, the
10. consequence of that is, you need to more...raise more debt
11. service, which means more property tax.

12. SENATOR BRUCE:

13. So, shifting the fifty cents isn't the final fifty cents
14. the Authority may require?

15. MR. D'ESPOSITO:

16. This Legislature will be here in the Spring and be here in the
17. Fall and be here next year to continue to deal with this problem.
18. We...I don't know. Certainly nothing is final when the General
19. Assembly passes something...up until you change your minds.

20. SENATOR BRUCE:

21. If we find the schools in a crisis like this in September,
22. we could authorize an issuance of an additional two hundred and
23. fifty million dollars in bonds?

24. MR. D'ESPOSITO:

25. If it were...if it were both wise fiscally and...yes.

26. SENATOR BRUCE:

27. And pay off that new bond issue of two hundred and fifty
28. million dollars would the Authority have the power, and what
29. we're going to do today just to demand from the City Council or
30. the board that they make an additional levy against property taxes
31. in the City of Chicago and the school district, without any further
32. action of this General Assembly?

33. MR. D'ESPOSITO:

1. Technically, yes. But you've...you've taken one action
2. you've raised the debt limit, the consequences of which is to require
3. that additional debt service be raised, the vehicle, the method
4. by which that is done is in the bill.

5. SENATOR BRUCE:

6. Not just technically, actually isn't it?

7. MR. D'ESPOSITO:

8. Yes.

9. SENATOR BRUCE:

10. Actually, the...the case.

11. MR. D'ESPOSITO:

12. It is unfair though to argue that there is tax increase in
13. this bill.

14. SENATOR BRUCE:

15. I didn't...I didn't say there is a tax increase in this bill...

16. MR. D'ESPOSITO:

17. All right, there would be a tax increase if you raised the
18. debt limit.

19. SENATOR BRUCE:

20. That's right, and...and we do that and no one...no one looks
21. to anybody but the Legislature to do that, isn't that correct?
22. We...we, in fact, raise the taxes in the State.

23. MR. D'ESPOSITO:

24. No one looks to anyone but the Legislature to raise the
25. property taxes for the school board of Chicago.

26. SENATOR BRUCE:

27. All right, in Section 604 you indicate the abolition of the
28. Authority, and it states in there it shall be abolished one year
29. after all its obligations have been fully paid and discharged and
30. otherwise provided for. I notice that you did not...in the power
31. section of the board, in which it stayed on page 25 the board shall
32. have the power to enter into long term contracts, leases, purchases,
33. property, borrow money, secure notes, of banks, boards, and the cities.

1. Those are included in sections of the powers of the board, not
2. under what is known as investment obligations, as defined...in
3. the section that defines investment obligations. Those are
4. basically treasury notes and other items of financial paper that
5. we all know, is that correct.

6. MR. D'ESPOSITO:

7. I'm not sure that I understand the relation of the abolition
8. to that question.

9. SENATOR BRUCE:

10. The question is, could they not go out of business owning
11. property over which they have executed a mortgage? You only say
12. that they cannot go out of business as long as they've extinguished
13. all their obligations.

14. MR. D'ESPOSITO:

15. Right.

16. SENATOR BRUCE:

17. And obligation...

18. MR. D'ESPOSITO:

19. And they could own property, yes.

20. SENATOR BRUCE:

21. And what?

22. MR. D'ESPOSITO:

23. And they could own property, yes.

24. SENATOR BRUCE:

25. And there could be a mortgage against the property, is that
26. correct?

27. MR. D'ESPOSITO:

28. Probably, no.

29. SENATOR BRUCE:

30. Well, there could be. You give them the power to enter into
31. leases, purchase property, borrow money, execute notes...

32. MR. D'ESPOSITO:

33. They have the power to make a mortgage.

SENATOR BRUCE:

Right.

1. MR. D'ESPOSITO:
2. But the...the consequences of that is that that is an
3. obligation.
4. SENATOR BRUCE:
5. They also have the right to buy bonds...
6. MR. D'ESPOSITO:
7. It's not discharged.
8. SENATOR BRUCE:
9. Bonds...
10. MR. D'ESPOSITO:
11. So, they may not go out of business.
12. SENATOR BRUCE:
13. ...of the board and city, is that correct? You're giving the
14. Authority to buy...
15. MR. D'ESPOSITO:
16. They may buy investment obligations, yes.
17. SENATOR BRUCE:
18. Okay, and what if those are outstanding at the time that
19. they go out of business? The next sentence says that everything
20. that they...
21. MR. D'ESPOSITO:
22. Right, if the board goes out of business, and all of its
23. obligations are paid, its property is passed to the State.
24. SENATOR BRUCE:
25. And obligations are defined on page 25 as specific instruments,
26. and you do not extinguish for example notes due the Authority.
27. It doesn't say, this Authority could go out of business owing five
28. hundred million dollars to somebody on short term notes. All you
29. say is once they've...they've extinguished their obligations, which
30. you define on page 25 as a specific category of item, a financial
31. item, they can go out of business, in the power section of the
32. Authority you give them the authority to borrow money, enter into
33. notes, contracts, long term leases, all of that could be pending when
they pass this...ball back to the State of Illinois.

1. MR. D'ESPOSITO:
2. No, obligations as defined in page 26, item K are bonds
3. and notes of the Authority, they are not referred...they are
4. not the investment obligations, which is another term Art used
5. in a different section.
6. SENATOR BRUCE:
7. Would you...on page 26...
8. MR. D'ESPOSITO:
9. Page 26, item K, defines the word obligations as it's used
10. in Section 610, is it?
11. SENATOR BRUCE:
12. Right.
13. MR. D'ESPOSITO:
14. 604.
15. SENATOR BRUCE:
16. That's bonds and notes.
17. MR. D'ESPOSITO:
18. Of the Authority.
19. SENATOR BRUCE:
20. All right. Then flip onto page 27, it says they have the
21. power to make and execute contracts, leases, sub-leases, purchase
22. real or personal property, deliver and execute deeds, hold real
23. property in its own name, mortgage, pledge of otherwise grant
24. security interests. Now, that is not defined as an obligation.
25. MR. D'ESPOSITO:
26. That's correct.
27. SENATOR BRUCE:
28. All right, so they go out of business owing money secured by
29. someone else. Now, the second sentence to that, Section 604, says
30. that whatever they left, that becomes the good old State of
31. Illinois, is that correct?
32. MR. D'ESPOSITO:
33. Whatever rights and property they leave. I'm not sure that
the obligation becomes ours.

1. SENATOR BRUCE:
2. Well, how do you define that? What do you say to that?
3. MR. D'ESPOSITO:
4. Well, I'm not...I don't define a right as an obligation.
5. SENATOR BRUCE:
6. All right.
7. MR. D'ESPOSITO:
8. Nor...nor do I define a mortgage as property.
9. SENATOR BRUCE:
10. Thank you, Karl, I appreciate that. Is there any prohibition
11. in this Statute for the school district to issue State aid certificates
12. after July 1st?
13. MR. D'ESPOSITO:
14. No.
15. SENATOR BRUCE:
16. All right.
17. MR. D'ESPOSITO:
18. The law currently prohibits that.
19. SENATOR BRUCE:
20. When can they start issuing State aid certificates?
21. MR. D'ESPOSITO:
22. They may not issue State aid certificates after I think
23. August 1st of 1980, under House Bill 2730.
24. SENATOR BRUCE:
25. No, no, I'm talking about the FY'81 money that we will
26. appropriate and go out of here in July.
27. MR. D'ESPOSITO:
28. 2730 does not apply to that, the bridge Statute will deal
29. with that issue.
30. SENATOR BRUCE:
31. Since I've just gotten it, and haven't read it I'll take your
32. word. So, there's no problem that they could next year issue
33. State aid certificates. They're prohibited from...

1. MR. D'ESPOSITO:
2. That is...that is correct.
3. SENATOR BRUCE:
4. They are prohibited from issuing any State aid certificates
5. next year.
6. MR. D'ESPOSITO:
7. Right, I think if you refer to the bill which you passed
8. last time, it limits that power to this fiscal year.
9. SENATOR BRUCE:
10. All right.
11. MR. D'ESPOSITO:
12. Plus one month,I think.
13. SENATOR BRUCE:
14. The Authority is given the power to issue five hundred
15. million dollars in...in bonds, is that correct?
16. MR. D'ESPOSITO:
17. Yes.
18. SENATOR BRUCE:
19. Is there any concomitant reduction in the power of the Board
20. to issue bonds?
21. MR. D'ESPOSITO:
22. No.
23. SENATOR BRUCE:
24. Does that mean what we're doing is giving an additional five
25. hundred million dollars in bonding authority somewhere? You can't
26. say you're giving the Board...
27. MR. D'ESPOSITO:
28. Clearly. Clearly.
29. SENATOR BRUCE:
30. Clearly. So, after this is all in place the Board could
31. try to market additional bonds?
32. MR. D'ESPOSITO:
33. No.
SENATOR BRUCE:
No.

1. MR. D'ESPOSITO:

2. The Authority may issue...well the Authority has power to
3. issue five hundred million, the Board has power to issue whatever
4. it has power to issue currently. There is no new power being
5. given to them by 1264.

6. SENATOR BRUCE:

7. So, next year's levy, can they levy tax anticipation warrants
8. against that?

9. MR. D'ESPOSITO:

10. Under the current law, the Board would...would be permitted to
11. continue its short term borrowing, subject to the control of the
12. Financial Authority...Fiscal Authority.

13. SENATOR BRUCE:

14. Okay.

15. MR. D'ESPOSITO:

16. Finance Authority. The practical question is whether anybody
17. will buy.

18. SENATOR BRUCE:

19. Let me ask you one final question. If we do anything in
20. this Statute, that a court finds that we have impaired the rights
21. of bondholders do those bondholders have any claim against the
22. State of Illinois?

23. MR. D'ESPOSITO:

24. Their...their claim is to invalidate the Statute.

25. SENATOR BRUCE:

26. No.

27. MR. D'ESPOSITO:

28. Beyond that no.

29. SENATOR BRUCE:

30. Now, explain to me why that is given this fact that placed
31. upon the face of the bond is a statement to the bondholders that
32. we will not impair their rights.

33. MR. D'ESPOSITO:

Their remedy is limited to an...an invalidation of the Statute,

1. which does so impair.

2. SENATOR BRUCE:

3. Well, what right does that give them...just the fact that the

4. Statute is unconstitutional, what is that...are you telling me that...

5. MR. D'ESPOSITO:

6. That's all they need.

7. SENATOR BRUCE:

8. Who pays the bond then? As a bondholder...

9. MR. D'ESPOSITO:

10. The people who were supposed to impair...were supposed to

11. pay the bonds in the first instance.

12. SENATOR BRUCE:

13. But we...but we impair, a court finds that we actually impaired

14. the rights of the bondholders..

15. MR. D'ESPOSITO:

16. You're talking about the five hundred million?

17. SENATOR BRUCE:

18. That's correct.

19. MR. D'ESPOSITO:

20. I'm not sure how we would impair the rights of the five

21. hundred million dollar bondholders. If you are saying that the

22. court may find that we have impaired the rights of existing note

23. holders of the Board of Education by the passage...

24. SENATOR BRUCE:

25. No, no.

26. MR. D'ESPOSITO:

27. ...of a bill authorizing the sale of five hundred million.

28. SENATOR BRUCE:

29. No, no, I'm talking about the five hundred million which

30. you've given the Authority...

31. MR. D'ESPOSITO:

32. Right.

33. SENATOR BRUCE:

...to the Financial Authority to place upon the face of that

1. bond.

2. MR. D'ESPOSITO:

3. Right.

4. SENATOR BRUCE:

5. The State of Illinois shall take no action, which impairs your

6. rights as a bondholder.

7. MR. D'ESPOSITO:

8. That's right.

9. SENATOR BRUCE:

10. That's what the bond is going to say, and a court finds through

11. action we take now or anytime in the next twenty-five years that

12. we have, in fact, impaired the rights of that bondholder, what claim

13. contractually does he have with the State of Illinois, when it

14. states in this Statute he has a contractual obligation?

15. MR. D'ESPOSITO:

16. None other than to invalidate the action which you took, which

17. impaired.

18. SENATOR BRUCE:

19. You think a court is just going to say that the Statute...

20. we have impairs his rights, which he had a contractual obligation

21. not to do, and that action is then unconstitutional?

22. MR. D'ESPOSITO:

23. There's a principal of sovereign immunity which is operating

24. here, and a bondholder does not have a right of damages against

25. the State for impairment of his bond obligations, his right is to

26. invalidate the action which impairs his contract.

27. SENATOR BRUCE:

28. All right. And...and so I take it this is put on the face of

29. the bond to give bond council something to hang their hat on somewhere

30. and not scare anybody around, but has no...no...

31. MR. D'ESPOSITO:

32. It's...it's put on the face of all bonds issued by any

33. authority in the State of Illinois.

1. SENATOR BRUCE:
2. Okay, thank you, Mr. Chairman.
3. CHAIRMAN: (SENATOR BERMAN)
4. Senator Nimrod do you have questions of these two witnesses?
5. Senator...Senator Nimrod, do you have questions of these two
6. witnesses?
7. SENATOR NIMROD:
8. Thank...thank you, Mr. President. Just quickly, my concern
9. is on page 36.
10. CHAIRMAN: (SENATOR BERMAN)
11. 36.
12. SENATOR NIMROD:
13. That directs us into contracts, and more specifically is
14. ...is that sections that imply there involve labor negotiations,
15. contracts under labor negotiations?
16. MR. D'ESPOSITO:
17. It...it applies to all obligations of the school board
18. including contracts with employees.
19. SENATOR NIMROD:
20. Then, can, in fact, the school board then pass, agree to a
21. labor contract that, in fact, would become effective without having
22. the new Authority approve that labor contract?
23. MR. D'ESPOSITO:
24. The...Section A of that...Section 405, says no contract shall
25. be entered into unless it is consistent with the plan and budget,
26. if the Authority is permitted to require that contracts be submitted
27. to it on terms which it defines, and it then is required to judge
28. any contract so submitted by the standard as to whether the costs
29. estimated in the contract are accurate, and if so whether that
30. contract is consistent with the budget in the financial plan
31. previously approved. They may reject the contract if it is not,
32. but only on those grounds, they may not reject a part of a contract.
33. SENATOR NIMROD:
 More specifically, under negotiations for labor contracts, we

1. know that those contracts are, in fact, reached an agreement.
2. Who then negotiates labor contracts according to the Board
3. of Education.

4. MR. D'ESPOSITO:

5. The Board of Education will continue to do so.

6. SENATOR NIMROD:

7. Then if they negotiate a contract, is that then...contract
8. is that binding and effective.

9. MR. D'ESPOSITO:

10. It is not binding until it has been approved by the Board,
11. if the Board so requires, it is not binding if it is not in
12. compliance with the financial plan in the budget.

13. SENATOR NIMROD:

14. Then you're saying that labor contracts then, for all
15. practical purposes, cannot be effective until the Authority then
16. approves them?

17. MR. D'ESPOSITO:

18. Let me be precise. The Authority may not choose to require
19. that a labor contract be submitted to it, under the terms of Section
20. B, subsection B. Nonetheless, if the labor contract does not
21. comply, it is invalid.

22. SENATOR NIMROD:

23. It is invalid as far as the Board is concerned, or the Authority?

24. MR. D'ESPOSITO:

25. As far as the law is concerned.

26. SENATOR NIMROD:

27. Well, you see we have some similar problems right here in
28. our Legislature, and I want to try and avoid a similar situation.
29. We have direct negotiations, that are made through the Executive
30. Department, that, in fact, this Legislature is faced with pay
31. increases and...or benefits as a result of...of labor negotiations,
32. and then what happens in realistic forms, is that we always have
33. to come up with the money regardless what it is, because you don't
go back and change a contract. It seems to me that it would be

1. wise, and I'm asking that if you would consider that we ought to
2. because of that situation that we know exists and the impact that
3. it would have on the thousands of employees who really been...
4. made some sacrifices of some benefits here, should we, at least,
5. should we encourage or allow a practice to take place that, in
6. fact, says that they've negotiated for a benefit and then have
7. that benefit denied, or should we have it that no...nothing can
8. be agreed to or involved until it is approved by the Authority
9. which, in fact, determines whether or not it's fiscally responsible.

10. MR. D'ESPOSITO:

11. Well, it seems to me then you have the Authority doing the
12. negotiation and...

13. SENATOR NIMROD:

14. I'm not talking about the negotiation, they would just look
15. at what the package said, and then say yes or no before they can
16. go ahead and make final agreements.

17. MR. D'ESPOSITO:

18. Well, but there won't be any package until there's been
19. negotiation between the Board and the...and the union whichever
20. it may be.

21. SENATOR NIMROD:

22. What are you saying, then?

23. MR. D'ESPOSITO:

24. I'm saying that the purpose of this is to permit the Board
25. of Education to determine its labor policies just as it determines
26. its educational policies provided that those remain within the
27. fiscal bottom line of the financial plan and the budget.

28. SENATOR NIMROD:

29. All right, but we...we know that we allow them an opportunity
30. for the Board to, in fact, negotiate a contract that, in fact, would
31. for all practical purpose even though the Authority can reject it, would
32. in fact enforce a...a contract that would have to be honored, or else
33. be faced with again the threat of strike or discontinuance of education

1. MR. D'ESPOSITO:

2. You ultimately may get to that point.

3. SENATOR NIMROD:

4. All right, secondly, and I guess this'll...I'm not sure...
5. but you have repeatedly mentioned that tax increases would have to
6. come at a later date...

7. MR. D'ESPOSITO:

8. Well, no...

9. SENATOR NIMROD:

10. It seems to me...I'm not talking about the tax increase on the
11. bond retirement. I'm talking about a general tax increase
12. that would be made by the public.

13. MR. D'ESPOSITO:

14. What we have said, I think, Senator, is that...that we who
15. have worked on this agreement, and I believe the General Assembly
16. as well is not in the position to decide at this point based on
17. the information which it has, whether or not a tax increase is
18. necessary and we create a structure that requires that the Board
19. return, produce a fiscal plan and a budget, give it to the Control
20. Board, which monitors, oversees, controls that, and the Control
21. Board comes back April 1st and tells you...

22. SENATOR NIMROD:

23. All right, assuming...

24. MR. D'ESPOSITO:

25. ...the answer to that question.

26. SENATOR NIMROD:

27. Assuming what you're saying is true, and as I look at the
28. cash flow and information that we have received this day, it
29. seems very apparent that if everything goes right, that within the
30. next six months or one year it would be very obvious that if we're
31. going to maintain any kind of standard of education, that it would
32. be prudent, and if the cuts are made by the Board as anticipated
33. that it certainly would be, in order, to maintain the quality of ed-
ucation, that we would need additional funds, or additional financing. Now,

1. I'm not saying where it comes from or what it does. So, are we
2. saying that this then would mean that it would have to come back
3. to the Legislature for additional ability to provide those funds?

4. MR. D'ESPOSITO:

5. Yes.

6. SENATOR NIMROD:

7. Okay. Under the present Statutes I would assume that we are,
8. when you talk about homerule units that can go on by referendum,
9. and I would imagine that I would get to the school board property
10. more specifically on that, and I'll hold those questions for later,
11. thank you.

12. CHAIRMAN: (SENATOR BERMAN)

13. Senator Walsh, do you have a question of these two witnesses?

14. SENATOR WALSH:

15. Julian, you could answer this, I think. The provision on
16. page 38, which gives the Board the power to issue bonds, can...
17. can you give me an idea what the projected time table is for the
18. five hundred million. When...when do we anticipate being able
19. to float those?

20. MR. D'ESPOSITO:

21. As soon as possible.

22. SENATOR WALSH:

23. Well...

24. MR. D'ESPOSITO:

25. It seems to me that is required by...because of the
26. cash flow situation of the school board.

27. SENATOR WALSH:

28. You...you've got a month maybe to test the constitutionality.

29. MR. D'ESPOSITO:

30. Well...well, the need is as soon as possible. The possibility is
31. dependent upon litigation which we assume will be filed to test the
32. Authority to issue bonds, and I can't...and I can't tell you how
33. long that will take. We...it took four months to resolve the Personal
Property Tax case, people thought it might have only taken a month

1. to six weeks.

2. SENATOR WALSH:

3. Someone mentioned that a hundred million was to be issued
4. next year, four hundred million this year, is that still...

5. MR. D'ESPOSITO:

6. That is a ballpark figure that was written on the back
7. of an envelope. It is...it is some...something that will obviously
8. be subjected to the analysis connection with the financial plan.
9. It appears that the Board can get through this fiscal year with
10. four hundred million, but I...that is...and it could be less but
11. we're not certain.

12. SENATOR WALSH:

13. But they anticipate they need four hundred million through...
14. through August 31st.

15. MR. D'ESPOSITO:

16. I know. Yes, the cash flow statements seem to show that.

17. SENATOR WALSH:

18. Is it necessary to provide in here that the entire authorization
19. be for educational and other operational needs? The...the Authority,
20. the purpose for which these bonds are being issued for...to issue long
21. term bonds for operations is something we generally try to avoid,
22. and I realize that we have an emergency, but is it necessary that
23. the entire authorization be for that purpose because if Mrs. Rohter
24. is not successful and cannot make the cuts we might find ourselves
25. in the position of having this pool which would just go the way
26. things have gone for the last ten years. Why do we need that...
27. that very broad authority for the entire five hundred million?

28. MR. D'ESPOSITO:

29. You...you need it because the cash flow statements of the Board
30. show that that kind of borrowing is required to keep the schools in
31. operation, even with the cuts which we estimate are possible.

32. SENATOR WALSH:

33. Well...well can it not be too...I mean couldn't we say that

1. that...if we're going to have cuts, they should be able to live
2. within their...when their...you know, future expenditures, should
3. be paid out of future revenues assuming that we're going to have
4. cuts. We need this money to pay off existing obligations, it's
5. my understanding. To pay off...

6. MR. D'ESPOSITO:

7. For portions of them yes. Portions of it, yes.

8. SENATOR WALSH:

9. Well, couldn't we provide that this...that this...that these
10. bonds are to be issued to retire existing indebtedness whether
11. it be vendors or short term credit or whatever it may be that's
12. ...that's rolling over constantly, rather than give this board
13. the very broad authority to issue five hundred million for operational
14. purposes?

15. MR. D'ESPOSITO:

16. I think it's important that we provide money so that the
17. school board can continue to operate as well as to pay existing
18. bondholders, and vendors, which is why we're at the figure that
19. we're at.

20. SENATOR WALSH:

21. Well, the...the two hundred and twenty-five is to...I thought
22. was to do that.

23. MR. D'ESPOSITO:

24. The two hundred and twenty-five will not take us much through
25. this Spring.

26. SENATOR WALSH:

27. But...but those are the tax anticipation notes that...

28. MR. D'ESPOSITO:

29. Right.

30. SENATOR WALSH:

31. ...generally are issued for operational purposes. It's...it's
32. quite unique to issue a half a billion dollars in bonds for operational
33. purposes.

1. MR. D'ESPOSITO:

2. When this plan was originally announced there was some
3. confusion as to whether we were providing eight hundred and
4. seventy-five million dollars worth of cash to the school board,
5. that is not the case. Portions of the five hundred...portions
6. of the two twenty-five may be used to pay off portions of out-
7. standing debt, portions of the five hundred will most certainly
8. be used to pay off portions of the bridge, if not all of it.

9. SENATOR WALSH:

10. Well, it...it may be but we aren't sure that it will
11. be, because, you know, we have no control over it as it's written.

12. MR. D'ESPOSITO:

13. The Control Board has control over it.

14. SENATOR WALSH:

15. So, we're pretty much at the subject of the Control Board
16. in giving them this very broad authority. Well, okay, I...I
17. would think that we might be able to restrict it somewhat, but
18. sobeit.

19. MR. D'ESPOSITO:

20. We have spent time with the numbers, and we think that five hundred
21. is a realistic...

22. SENATOR WALSH:

23. One...but apparently Mr. VanGorkom did not affirmatively. You
24. only intend to issue four hundred in this calendar year, is that...
25. is that accurate?

26. MR. D'ESPOSITO:

27. This...this school fiscal year.

28. SENATOR WALSH:

29. Four hundred this school fiscal year.

30. MR. D'ESPOSITO:

31. You must remember, Senator Walsh, that those are numbers which
32. have been developed by people who are not in the position that people
33. in the Control Board will be in, and so they are subject to change.
which is why we have the five hundred figure.

1. SENATOR WALSH:

2. All right, one...one other question. To...to the extent that
3. this five hundred million is going to be secured by a State...State
4. aid. I think it has a first...

5. MR. D'ESPOSITO:

6. It is not.

7. SENATOR WALSH:

8. Oh, doesn't it have a first claim on State aid?

9. MR. D'ESPOSITO:

10. No. The two twenty-five has a secondary claim on school aid
11. which in terms of time may occur before the notes are due, but the
12. five hundred...there is no State involvement on the five hundred million
13. at all.

14. SENATOR WALSH:

15. So...all right, the two twenty-five then has a secondary claim
16. after the Property Tax anticipation warrants, and then they can
17. go as a secondary claim against State Aid, is that it?

18. MR. D'ESPOSITO:

19. It's...it's an offsetting in Stateaid being paid, the word
20. secondary may cause other lawyers to be nervous, I should be
21. more precise.

22. SENATOR WALSH:

23. Okay, to...to the extent that the funds flowing into the
24. school board are then restricted, are we not limiting the resources
25. available to pay existing creditors?

26. MR. D'ESPOSITO:

27. That question sounds like a lawyer's question, and I will answer
28. it no in the legal sense, and in a practical sense we anticipate
29. that the five hundred million will pay off the two hundred and
30. ...twenty-five short term, and...the State Aid will be free from
31. all obligation at that point.

32. SENATOR WALSH:

33. The...well I know the two twenty-five is...is perfectly secure,
because they've got the Property Tax and they've got the State Aid

1. payment, but what about the people who have up to today extended
2. credit to the...to the Board on the basis of the Board's full
3. faith in credit, general, obligation unsecured liability, who
4. are looking to State aid, and Property Tax, and whatever resources
5. might be available, aren't they...to the extent you are restricting
6. the...aren't they to the extent that you are restricting State
7. aid going to be...going to suffer...

8. MR. D'ESPOSITO:

9. The...it's my understanding and I may be subject to correction,
10. that the existing noteholders are not looking to State aid.

11. SENATOR WALSH:

12. Well, they look to the general...

13. MR. D'ESPOSITO:

14. They are looking to the Property Tax, the general obligation...

15. SENATOR WALSH:

16. Well, I take issue with you there, they look to...they look
17. to the general resources of the...of the board. They wouldn't...
18. they wouldn't...certainly wouldn't look just to Property Tax
19. revenues.

20. MR. D'ESPOSITO:

21. I'm sorry, Senator, can you...can you repeat the question, I'm
22. sorry.

23. SENATOR WALSH:

24. Well, basically, the...the new...the new bondholders, the new
25. creditors, the creditors that are going to come into being after
26. this law passes, are in a better position than the existing creditors,
27. to the extent that they have a claim against State aid.

28. MR. D'ESPOSITO:

29. If you...there is a provision in the bill which provides protection
30. for existing noteholders. That is found on page 17. Where there's
31. a debt service fund setup to provide some kind of security. One
32. of the problems apparently is that the monies to be deposited in...
33. debt services funds have not been deposited in debt service funds,
this bill will require those monies to be so deposited.

1. SENATOR WALSH:
2. Well, that...that, Julian, just refers to...to the new bonds
3. that are going to be issued.
4. MR. D'ESPOSITO:
5. No, this...five...that section on page 17 applies to existing...
6. SENATOR WALSH:
7. Oh, what...what line are you on?
8. MR. D'ESPOSITO:
9. The bottom of the page. There...Section 29.2...
10. SENATOR WALSH:
11. Okay.
12. MR. D'ESPOSITO:
13. ...is an addition, which provides protection to existing
14. creditors...noteholders.
15. SENATOR WALSH:
16. Well...I can see that, that's...that's an additional...
17. MR. D'ESPOSITO:
18. It's an additional escrowing...
19. SENATOR WALSH:
20. Something they should have been doing right along, that you're
21. going to make them do with this,but...but that doesn't answer the
22. question relative to the available resources to pay off existing
23. creditors, namely State Aid, Federal Funds or...or Property Tax
24. whatever it might be.
25. MR. D'ESPOSITO:
26. Senator, I think...I think the answer to that question is that
27. the purpose of the numbers that were chosen for both short and long
28. term borrowing, those numbers are conscious, and they were to
29. provide sufficient revenues to pay operating expenses and debt
30. obligations as they became due, they were not chosen arbitrarily.
31. SENATOR WALSH:
32. It's not the amounts, Julian, I'm talking about, it's the
33. rights of the creditors, the rights of these new creditors are

1. better than the rights of the existing creditors to the extent
2. they have a claim against State aid.

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(END OF REEL)

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1. MR. D'ESPOSITO:

2. To the extent that the people on the two twenty-five have
3. the...have the claim against State aid, they are...right. We
4. are creating additional security for them because that is
5. demanded so the two twenty-five are purchasable.

6. SENATOR WALSH:

7. Well, I appreciate that and apparently you feel you have
8. to create additional...

9. MR. D'ESPOSITO:

10. But, we are not depriving the existing creditors.

11. SENATOR WALSH:

12. Well, that fifty cents that you are using to...to...as
13. debt service for the new bonds plus the State aid that is
14. available for the bridge is money that is not available to
15. existing creditors.

16. MR. D'ESPOSITO:

17. I'm having trouble getting it with both ears.

18. SENATOR WALSH:

19. Well, do you follow me, Art? Do you want to answer?
20. Maybe you...you've been on your feet a little while.

21. MR. QUERN:

22. Let...let me try. The...the fifty cents is coming out of
23. the operating levy, the educational levy. There is a separate
24. part of the existing levy which is dedicated to debt service
25. on existing debt which is not touched and which is adequate to
26. pay off existing debt.

27. SENATOR WALSH:

28. Well, but is...I don't think all debt comes out of that
29. separate section. Some of the debt, the general obligation
30. notes, for example, I believe, comes out of the operating levy.

31. MR. QUERN:

32. I don't believe so, Senator. I think that the Educational
33. Fund, from which the reduction is made, is money...is that

1. resource which has been used for operations and not for any
2. debt service.

3. SENATOR WALSH:

4. If what you say is true, that all debt is retired...all
5. debt is retired out of a separate fund, then, you know, my...my
6. problem is...is not well-founded but I...

7. MR. QUERN:

8. Yes, the problem has to be...

9. SENATOR WALSH:

10. Maybe...maybe Bill Mc Glone or somebody can answer that
11. for us, but would you agree with me then that to the extent
12. that any debt is retired out of the operating fund, the opera-
13. ting levy, they would be...they are going to suffer a detri-
14. ment.

15. MR. QUERN:

16. That any...I think...I don't know how to answer that
17. question. What do you think?

18. SENATOR WALSH:

19. Well...there...there is less there...

20. MR. QUERN:

21. There...if there is debt retired out of the operating
22. fund now, they are less...those existing debts are less secure
23. than the two twenty-five?

24. SENATOR WALSH:

25. They are less secure than they are now because now there is
26. a two eleven levy and there's only going to be a one sixty levy.

27. MR. QUERN:

28. Yes, as long...I understand. I'm sorry. There is no debt
29. out of that operating fund. If there is, I think you are right...
30. if there were to be.

31. SENATOR WALSH:

32. Okay. Right. Well, and there...there may be some anticipa-
33. tion warrants that might fall there. Okay. We...I can check

1. that I guess. One other thing, the...why is it necessary not
2. to have any limit on interest for the first...for a year? If
3. they issue the full five hundred million right off the bat...

4. MR. D'ESPOSITO:

5. That was a policy judgment made by the people who partici-
6. pated in the drafting, particularly the people who are experienced
7. in the...in bond sales, that the interest rate structure as such
8. was so unpredictable that to put a statutory limit in might, at
9. a critical time, preclude the sale of the bonds.

10. SENATOR WALSH:

11. Are these bonds...provide in here that they be subject
12. to bid or can they be placed at a private sale?

13. MR. D'ESPOSITO:

14. It is not specified.

15. SENATOR WALSH:

16. I presume you would have no objection to that?

17. MR. D'ESPOSITO:

18. I'm not certain.

19. SENATOR WALSH:

20. There is a provision in here for abolishing the working
21. cash fund and then the reestablishment of it. Can you explain
22. why that's necessary?

23. MR. D'ESPOSITO:

24. I'll have to ask the Board of Education why that's...the
25. purpose of that or their financial advisor or Bob Mandeville.
26. Would you like to respond to a question as to the
27. abolition of the working cash fund?

28. MR. MANDEVILLE:

29. The working cash fund, financed by, I believe, a five cent
30. tax levy is typically created each year, the levy extended,
31. the working cash fund financed and it dies the end of the school
32. year. As I understand it, this was not the case for those
33. school districts in cities of over five hundred thousand. This

1. would make it comparable to the rest of the State is my under-
2. standing of why it's being abolished at this point and then
3. recreated.

4. SENATOR WASLH:

5. I mean...in effect, what you are permitting here is a...
6. is a new...to the extent you have a working cash fund, you can
7. abolish it and then establish another one so you have a new
8. tax without a referendum to that extent.

9. MR. MANDEVILLE:

10. My...without...without referendum, but...but I understand
11. that's the situation throughout the State.

12. SENATOR WALSH:

13. No, I don't think so.

14. MR. MANDEVILLE:

15. Well, I'm not a lawyer so you would have to ask someone
16. else that.

17. SENATOR WALSH:

18. Well, who put it in there?

19. MR. D'ESPOSITO:

20. That was a recommendation that came from the board and
21. the...the banks who participated in the drafting, I think. At
22. the time it happened, I'm not sure I can remember where it came
23. from.

24. SENATOR WALSH:

25. Is there...well, can you get that information for us?

26. MR. D'ESPOSITO:

27. Yes, someone...someone from those who were present last
28. night will respond to that question specifically, Senator.

29. CHAIRMAN: (SENATOR BERMAN)

30. Are you concluded as to these two witnesses, Senator Walsh?
31. Okay, Senator Becker has advised me that he has no questions of
32. these two witnesses. Senator Gitz, do you have a question of
33. these two witnesses? Senaor Gitz. While he's getting to his

1. mike, Senator Grotberg, did you have a question of these two
2. witnesses? Okay. Senator Gitz.

3. SENATOR GITZ:

4. My question may very well also be directed to the President
5. of the School Board. On page 32, the language appears that the...

6. CHAIRMAN: (SENATOR BERMAN)

7. Senator Gitz, let me interrupt you. Is this a question for
8. Quern or D'Esposito?

9. SENATOR GITZ: (SENATOR BERMAN)

10. Well, it is a question about the Authority to make cuts.

11. CHAIRMAN: (SENATOR BERMAN)

12. All right. Let's...Julian, listen to his question and
13. maybe you can respond. Proceed, Senator.

14. MR. D'ESPOSITO:

15. I'm sorry, Senator.

16. SENATOR GITZ:

17. Okay. The language appears in the amendment, "The Authority
18. shall have no power to impair any existing contract or obligation
19. of the board." Now, as I understand this agreement, you are
20. floating close to four hundred million dollars in bonds. This
21. is revenue which will basically come to an end at the end of the
22. school year. You will begin the new school year in September
23. basically with a hundred million dollars worth of bonds and what-
24. ever you have in the way of a tax levy and the obligations. In
25. other words, it seems to me that this whole arrangement is heavily
26. incumbent upon the willingness and the ability to make very
27. substantial cuts despite a record that you have exceeded the
28. means. I am somewhat disturbed...let's put it I wonder if the
29. realism of any existing contracts or obligations of the board and
30. whether you will be able to make such substantial cuts without
31. the necessity of renegotiating some of those contracts, agree-
32. ments and arrangements that are presently in effect.

33. MR. E'ESPOSITO:

1. I think, Senator, that question is more properly responded
2. to by the board who is in a position better than we to know.
3. However, in our discussions with them, it was our opinion that
4. the cuts were possible.

5. SENATOR GITZ:

6. How do you make such cuts without violating or renegotiating
7. those agreements? I assume that not all of the employment
8. arrangements and the teachers' contracts, you have several
9. union arrangements, I assume that they are not all oral agree-
10. ments that can be just simply changed by whim.

11. MR. D'ESPOSITO:

12. Senator, the purpose of this bill is to direct the board
13. to begin that task with the assistance and oversight of the
14. School Finance Authority and to report back on its achievability
15. in April, but we do not think we have set them off on an un-
16. realistic task.

17. SENATOR GITZ:

18. Okay. Well, my question goes to the heart of it is, is
19. the reason for the board, the super board, is an enforcement
20. mechanism. You are going to set a perimeter. You are going
21. to say that you are going to have to cut within a certain
22. margin. Now, if the...the Authority has no power to impair
23. any existing contract or arrangement, what is the kicker, the
24. enforcement mechanism to insure that it happens?

25. MR. D'ESPOSITO:

26. Mrs. Rohter reports that the board and the teachers are
27. opening renegotiations.

28. SENATOR GITZ:

29. Well, is that to say then that the only cuts we are going
30. to worry about is in teaching?

31. MR. D'ESPOSITO:

32. No, Sir. Oh, pardon.

33. SENATOR GITZ:

1. Okay. Is that also to say then that the board is opening
2. renegotiations under other agreements?
3. MR. D'ESPOSITO:
4. Again, I can't...we are in the position...
5. CHAIRMAN: (SENATOR BERMAN)
6. Mrs...Mrs. Rohter is indicating yes. Mrs. Rohter is
7. indicating yes.
8. SENATOR GITZ:
9. Now, is that also then to assume that Mr. Healy agrees
10. with this board? He understands this and that he is willing
11. to go along with it?
12. MR. D'ESPOSITO:
13. That's a question appropriately directed to Mr. Healy.
14. CHAIRMAN: (SENATOR BERMAN)
15. Well, let...I think Mrs. Rohter can...Mrs. Rohter can
16. respond to that at the...the appropriate time. Do you have
17. anything else that Mr. D'Esposito could respond to?
18. SENATOR GITZ:
19. No, the thrust of my entire questioning, Mr. Chairman, I...
20. it is not my intention to use a lot of time, is directed to
21. this specific feature.
22. CHAIRMAN: (SENATOR BERMAN)
23. All right. I think that can be best answered by Mrs.
24. Rohter at the proper time. Accordingly, Mr. D'Esposito and
25. Mr. Quern...good luck over in the House. Thank you for your
26. time here.
27. MR. D'ESPOSITO:
28. Thank you, Members.
29. CHAIRMAN: (SENATOR BERMAN)
30. Mrs. Rohter has asked for...the...to be allowed to make
31. a short statement. Mrs. Rohter. We are going back for other
32. witnesses. Yes. Mrs. Rohter.
33. MRS. ROHTER:

1. Senator, the...the privilege for reopening a contract with the
2. Chicago Teachers Union is provided for in each contract if both
3. parties agree thereto. Mr. Healy has, in a letter to me, agreed
4. to reopen the contract. He asked for specifics. Some of those
5. were sent to him earlier this week. You also asked about other
6. agreements. We do, indeed, have other agreements with other
7. employee groups, Principals' Association, to name one, some
8. custodial groups, lunch room people, clerical people, but there
9. is another way to cut that has nothing to do with contractual
10. agreements and that is look at the add-ons, many of which are
11. extra-curricular in nature and they are lovely to have and they
12. are important to the education of a well-rounded student, but
13. we are at a position where I have recommended to the board that
14. we look at a base line program. What is required by Code,
15. what is acquired...what's required for accreditation and for
16. compensation under ADA? That's the basic program, how much does
17. it cost? What do you have left? What's on your priority list
18. and what do you want to interface into that basic program and
19. how much does that cost and how much do you have left and
20. then go from there. That's the approach that we absolutely
21. must take, not any of this nonsense with a ten percent across
22. the board cut which is really meaningless and it really does
23. violence to the educational program. For those of you who have
24. an interest in the statement that I made earlier when I alluded
25. to our financial picture and the available cash on hand for
26. Friday to meet a commitment to pay retroactive wage increase
27. unless there is a change in the situation as of this time and
28. that means that the unions who are involved in the agreement
29. reached in the Mansion come through with dollars for Friday, we
30. will not be able to meet that commitment. That requires some
31. eight million dollars. We do not have that money now and unless
32. the unions come through with their money tomorrow at the latest,
33. we will be unable to meet that payroll. That is how dire things

1. are. We simply do not have any cash available.

2. CHAIRMAN: (SENATOR BERMAN)

3. It's the purpose of the Chair...Senator Rock, for what
4. purpose do you arise?

5. SENATOR ROCK:

6. Well, I was going to suggest...I do not wish ever to
7. foreclose anyone. I was going to suggest that it has been
8. suggested to me that there are other witnesses and they, too,
9. wish to avail themselves of the opportunity to address the
10. House. If we could handle some of those other who have not yet
11. been heard from and then, perhaps, hold our questions in
12. abeyance, we can probably get the whole process moving a little
13. more quickly.

14. CHAIRMAN: (SENATOR BERMAN)

15. All right. That's...is leave granted to proceed with other
16. witnesses who have registered? All right. The next witness is
17. Pauline E. Pantisios. Please indicate your name and title.

18. MS. PANTSIOS:

19. Senator Berman, Ladies and Gentlemen, my name is Pauline
20. Pantisios. I am President of the League of Women Voters of
21. Chicago. A native born Chicagoan, my mother was a graduate of
22. the Chicago Public Schools and taught in the Chicago Public
23. Schools for fifty years. I am a graduate of the Chicago Public
24. Schools and I have three children who are graduates of the
25. Chicago Public Schools. I want to thank you for holding these
26. hearings. It is a long-standing League of Women Voters' position
27. that public policy requires public input. The Chicago League
28. of Women Voters has intensively studied school related issues,
29. especially since the late 1960's. Positions are reached on the
30. basis of grassroots responses to consensus questions developed
31. from issues that have been studied and researched in depth by
32. the Schools Committee. If some of our remarks in this prepared
33. statement seem a little irrelevant, it reflects the fact that

1. the statement was prepared last night when the League Schools
2. Committee was as much in the dark about this legislation as you
3. Legislators were. The focus of those participating in the
4. development of this legislation has been finance first and
5. education a distant second. The League of Women Voters supports
6. improved educational facilities, programs, policies and innova-
7. tive plans for Chicago Public Schools which will provide both
8. quality and equality of educational opportunity for all students.
9. It is doubtful that this goal can be successfully accomplished
10. by people who are solely fiscal experts. Local control of the
11. schools is an important cornerstone of our education system.
12. We deplore what appears to be a distinct effort to remove
13. powers from the Board of Education and place them in the hands
14. of an oversight committee. It is important that accountability
15. by any oversight committee to the public be built into any
16. legislation. If those who are appointed are not from Chicago,
17. we fear not only their lack of knowledge about education in
18. general, but about Chicago education in particular. There must
19. be a true understanding of the complexity of public education
20. in urban settings. It is important that any oversight committee
21. be limited to a definite time span. It is important that any
22. oversight committee be distinctly limited in power. For
23. example, it is important that the oversight committee not have
24. hiring and firing powers. It is important that any oversight
25. committee have the power to accept or reject a budget as a
26. whole. It should not have line item veto powers. It is
27. important that any funding needed by an oversight committee
28. not be taken from Chicago Board of Education monies, thereby
29. further weakening the resources available to Chicago school-
30. children. Any long-range financial solution must not divert
31. current tax revenue for additional interest payments, therefore
32. further diluting the quality of Chicago public education. More
33. consideration and care should be given to other acceptable

1. solutions such as forward funding and total payment of mandated
2. programs and more frequent collection of property taxes. We
3. thank you again for this opportunity as together we work for
4. the education of our children, the State of Illinois' most
5. important resource.

6. CHAIRMAN: (SENATOR BERMAN)

7. Miss Pantsios, would you be available for...to wait until
8. we finish with the rest of the witnesses so if there's questions
9. they can be addressed? Okay. Thank you. John Appel or Appel.
10. State your name and title, please.

11. MR. APPEL:

12. John Appel. I'm the Executive Director of the Citizen's
13. Schools Committee in Chicago. We would like to thank you for
14. this opportunity to present our views. We deplore the manner
15. in which the present legislation was created. Until now, we
16. believe that there has been no opportunity for an ample, informed,
17. public discussion. It is refreshing that you are here meeting
18. in Open Session and the other House is also meeting and that
19. we now have the opportunity to at least present our thinking
20. and we would hope that other people, perhaps, would avail
21. themselves of this. We recognize the undesirability of the
22. necessity of a Financial Oversight Committee however, we
23. offer the following considerations as guidelines for possible
24. amendments which should be considered during your current
25. debate. We further demand that sufficient time be devoted to
26. hearings before such legislation is...voted upon. We have eight
27. or nine points that we would like to present and this statement
28. should take no more than one or two minutes. One, we believe
29. there should be a specific residency requirement similar to that
30. which governs members of the Board of Education. In other words,
31. a year, perhaps, which would omit the possibility of a suburban-
32. ite from serving. This is not in your present draft legislation.
33. Two, we believe there should be a staggered term for the members

1. of the Financial Oversight Committee or Authority as it's now
2. worded and this appears to be in the draft legislation. Three,
3. we believe there should be State Senate and City Council
4. hearings on the proposed appointments to the Financial Oversight
5. Committee and that there should be the advice and consent of
6. both Bodies before these positions are formally filled and
7. their...and the nominees assume their responsibilities. This
8. apparently is not in the draft of the bill. The financial over-
9. sight committee should include members from the city's minority
10. communities. In order to accomplish this, the legislative
11. intent should be expressed in language which mandates that the
12. composition of the Financial Oversight Committee or the
13. Authority be as representative as possible of the characteristics
14. of the Chicago school community. Four, we believe that the
15. Statute should specify some kind of sunset provision. This,
16. in the draft bill, apparently does not appear. I would encour-
17. age you to consider the discussion presented a little earlier
18. that at least there be a Sunset Provision where the control
19. function would be omitted, even if you are required to keep
20. the body in existence because of bonding. We would hope that
21. this would at least be a compromise. Five, the Authority should
22. have only the power to accept or reject an entire Board of
23. Education budget. This appears to be in the draft legislation
24. on page 34, lines 32 and 33. This Authority must be specifically
25. prohibited from having the power to make a line item veto of
26. any portion of the school budget. It would probably be reassuring
27. and more explicit if that language was in the legislation. Six,
28. the size of the current Board of Education should be immediately
29. increased to fifteen members in order to enable the minority
30. community to have more representation. The question of mandating
31. an elected school board should be fully examined. I understand
32. that there are attorneys who believe that under Home Rule powers,
33. the City of Chicago City Council does have the authority to

1. increase the...to also have an elected school board without
2. legislative permission. This is open for some legal debate.
3. However, I would urge you to consider this carefully and
4. after the immediate crisis is handled that you examine this
5. and if there seems to be a concensus in the community, that
6. you then go ahead and pass appropriate legislation. Seven,
7. we believe the Mayor of the City of Chicago should be required
8. to appoint people to the Board of Education, at least under the
9. present structure, only if they are on a list of recommended
10. candidates from the Mayor's Advisory Committee on School
11. Board Nominations. This particular legislation, by the way,
12. has been suggested before, but it has not been passed in the
13. Legislature. Eight, the members of the Board of Education, as
14. well as the Authority that you are now considering, should
15. receive compensation. We believe a per diem compensation for
16. the members of the Board of Education up to some specified
17. maximum limit. Nine, we believe that the Board of Education
18. and any Financial Oversight Committee must be specifically
19. required to make available to the public all documents. This
20. is not in the draft legislation. The Financial Oversight
21. Committee must be required also to hold its meetings in public
22. and that provision is in the bill. Finally, I would like
23. to indicate that we wish...we would hope that you will look in-
24. side of yourselves, individually, and that your collective
25. wisdom, as a Body, will reflect concern for the children and
26. not only for the financial community. Finally, we would like
27. to deplore the possibility of irresponsible budget cutbacks
28. by fiat and to indicate that we hope that members of the
29. Legislature will encourage those who will be involved in such
30. matters to consider cutbacks, if necessary, which are education-
31. ally, as well as physically, sound. Catastrophic cutbacks
32. will, in the long run, not only be not cost-effective or, in
33. fact, will not be cost-effective because of the inevitable

1. social costs which we will all have to pay. We cannot afford
2. to pay such social costs. Thank you.

3. CHAIRMAN: (SENATOR BERMAN)

4. Next witness, William J. McGlone.

5. MR. MCGLONE:

6. My name is William J. McGlone. I'm Director of Development
7. of the Civic Federation. The purpose of this statement is to
8. lend the Civic Federation's support to the general concept of
9. having a financial control board. The Civic Federation is an
10. eighty-five year old taxpayers' watchdog agency which for many
11. years has been a leadoff witness at public hearings on the annual
12. budget of the Chicago Board of Education. In mid-December, the
13. Civic Federation was the first voice calling for the creation
14. of an emergency finance board authorized to have full or bottom
15. line control over the Chicago Board of Education's affairs for
16. a three to five year period. We said the sad record of fiscal
17. mismanagement and prolific spending by the Chicago Board of
18. Education makes it imperative that controls be placed on the
19. Board's fiscal...policies and practices, especially in view of
20. additional revenues contemplated by a multi-million dollar long-
21. term bond issue. We recommended in December a fiscal plan
22. which would include one, transition to a truly balanced budget
23. by Fiscal 1982 or 1985. Two, reduction in short-term board
24. borrowing, three, growth in controllable spending, all but
25. pensions and debt service of not more than two percent per
26. year. In addition, this board might be given the following
27. responsibilities: Number one, estimating the board's revenues
28. and keeping spending within these limits. Two, reviewing
29. and approving major labor contracts. Three, approving of
30. board borrowing. Four, disbursing school revenues, but only
31. after it was satisfied that the expenditures were consistent
32. with the multi-year fiscal plan. Every year, since 1970, the
33. Board of Education has had deficits in the Educational Fund

1. and the cumulative effects since 1974-75 have brought the
2. financial crisis to the present head. Now, mainly through
3. negative appropriations which were used by no other school
4. district in the country that I could find, there were short-
5. ages in the Educational Fund over the last four years ranging
6. from fifty-four million dollars in '75, seventy million in
7. '76, a hundred and fifteen million in '77, ninety-seven million
8. in '78, eighty-nine million in '79 and a hundred and fifteen
9. million in the 1980 budget. As the result of increasing long
10. and short-term borrowing over the years, the board's debt
11. service has increased enormously. In 1970, the debt service
12. for long-term debts...since 1970, it has gone up one hundred and
13. seventy percent, from twenty-five million to sixty-nine million
14. and that's in the audit report...'70 to '78. This represents
15. an annual growth rate of about fourteen percent. The recur-
16. rent budget deficit and the attendant borrowing, often from
17. restricted funds, were but symptoms of a deeper malady. The
18. real crisis is that the board has lived beyond its means.
19. Year after year it's expenditures have increased more than it's
20. tax revenues. We feel that a financial control board would go
21. far to bring needed fiscal responsibility to a governmental
22. body obviously devoid of it. Now, many...a number of years the
23. Civic Federation has warned about the fiscal crisis of the
24. Board of Education. We weren't listened to. In September...1976,
25. at the public hearing on the budget, the Civic Federation warned
26. the Board of Education of the folly of deficit financing of
27. operations and particularly pointed out the traumatic example
28. of New York City. We said it is the responsibility of all
29. local governments, school boards and otherwise, to balance the
30. budget within available revenues. We told the board that since
31. 1971, it had used various devices to balance the Educational
32. Fund, including overestimating State Aid, preempting funds from
33. a subsequent Fiscal Year, borrowing from Bond Funds and bud-

1. getting job positions at one dollar each which later cost
2. several million dollars. Now, under normal circumstances,
3. in September, 1977, we criticized the use of general obligation
4. bonds to replenish the working cash fund, a revolving fund,
5. saying that such use tends to weaken the determination of a
6. taxing body to face up to deficits in current operating funds.
7. In 1977, we also urged expansion of the internal audit function,
8. pointing out that the lack of a strong internal audit operation,
9. particularly in regard to mandated State and Federal funds,
10. had been identified as one source of New York's substantial
11. financial and operating difficulties and I think I would add
12. that the seriousness of this...of being in debt is amplified
13. by...in New York, they thought they'd get rid of the board
14. in two or three years, but the mere fact that the...that the...
15. in New York, they asked for a moratorium on paying principal
16. on notes, immediately the financial community insisted that
17. the board stay in existence until the retirement of the last
18. dollar of general obligation debt. We urge you to support
19. a financial control board. Thank you, Mr. Chairman.

20. CHAIRMAN: (SENATOR BERMAN)

21. Next witness, Dr. John R. Porter. Senator Walsh.

22. SENATOR WALSH:

23. When are we to ask questions of these witnesses?

24. CHAIRMAN: (SENATOR BERMAN)

25. After the...I have one...I have four more witnesses and
26. then you'll ask questions of the panel.

27. SENATOR WALSH:

28. Will they...will they...they've been asked to wait then,
29. apparently, those...these witnesses who are now testifying?

30. CHAIRMAN: (SENATOR BERMAN)

31. Yes, they understand that.

32. SENATOR WALSH:

33. And is Mrs. Rohter going to be back here again?

1. CHAIRMAN: (SENATOR BERMAN)

2. Yes, she went over for a short period in the House and
3. when we are done with this panel, the...if there's questions
4. of this Body of Mrs. Rohter or others, other than D'Esposito
5. and Quern, we'll try to get them back here. Dr. Porter.

6. DR. PORTER:

7. Mr. President, members of the Senate, it's a privilege and
8. a pleasure to address you. My comments will be shared by
9. three other persons.

10. CHAIRMAN: (SENATOR BERMAN)

11. Would you just indicate your name and capacity.

12. DR. PORTER:

13. Dr. John R. Porter, pastor of the Christ United Methodist
14. Church and a member of the Black Education Coalition. The
15. folks you see in the Gallery, up there, we are extremely proud
16. of, represent parents and educators, taxpayers, many of whom
17. have children in the public school system of Chicago. My
18. statement will be divided into three parts. I shall read the
19. first part, Mrs. Dorothy Tillman, the second part, Mrs. Ann
20. Chester Smith, the third part and the Reverend George Ed
21. Riddick will wind it up for us. We, the representatives of
22. organizations, groups' and agencies, which cover and reflect the
23. broadest spectrum of black community life, present the case
24. and the cause of our grievances to the Executive and Legislative
25. Body of the State of Illinois and to the public in general. The
26. occasion of our grievances, our outrage, our moral and righteous
27. indignation is one of immense and far-reaching proportions, for
28. inasmuch as the Governor of the State of Illinois has engaged
29. in negotiations and has arrived at solutions for the crisis of
30. the public schools of the City of Chicago, outside of the usual
31. and democratic limits of due process which are provided by the
32. Constitution of the State of Illinois and by the Constitution of the
33. United states of America as well, we do proclaim that all Executive

1. and Legislative procedures on what we determine as the Spring-
2. field plan for the Chicago Public School system are illegal,
3. and should be held in abeyance until due, fair and just processes
4. are reestablished. We strongly urge all elected Legislators
5. to refrain from participation in all measures which are currently
6. in process to push this plan for financial remedy for
7. Chicago's public schools. We strongly beseech all elected
8. Legislators to cease and desist in all conferences and deliber-
9. ations to hastily approve and pass into law such bills which
10. have obviously circumvented and bypassed normal and democratic
11. procedures. We strongly entreat upon the legal and the moral
12. consciousness of all elected Legislators for full and open
13. submission of all bills and all proposals to the proper
14. channels of committee study and appraisal in both the State
15. Senate and the State House of Representatives, whereby the
16. voting communities which are most effective, by such precipitous
17. action, can lend dissent, consent and recommendations in terms
18. of the final outcome. To do otherwise, is tantamount to
19. dictatorial conspiracy on the part of the governing bodies
20. of both the State and the City of Chicago. Specifically,
21. we address our grievances and our outrage to the Springfield
22. plan for Chicago public Schools, from the premise of the
23. following measures which have been foisted upon us without
24. adequate time for black elected officials to study and act
25. upon them. First, we oppose the composition and empowering
26. of an oversight committee, for such a committee becomes
27. superordinate to and superimposed over existing structures
28. of schools and School Codes. Further, diminishing correct and
29. smooth operations by the very definition and nature of such
30. a superstructure. The financial mess of the current Chicago
31. school budget and fiscal arrangements is further compounded
32. by the call for and hasty legitimatization of an oversight
33. committee. It is our firm belief and our recommendation that

1. that the governing bodies of both the State of Illinois and
2. the City of Chicago can take the time, follow due processes
3. and come up with a satisfactory arrangement that does not
4. smack of political collusion with Wall Street and other high
5. financiers for perhaps both political and financial gain that
6. may become more visible as time goes by. For everyone involved,
7. Governor, Mayor, Legislators, bankers, it would have been
8. even more feasible to solve the current and the future problems
9. of the Chicago public schools through procedures that would
10. include those Legislators and those citizens via our leadership
11. who pay the taxes for governmental services and who are most
12. affected. The crisis did not develop overnight. It should
13. not be rushed to solution overnight. Mrs. Dorothy Tillman shall
14. continue.

15. CHAIRMAN: (SENATOR BERMAN)

16. Dorothy Tillman.

17. MRS. TILLMAN:

18. To the President, the Senate, my name is Dorothy Tillman.
19. I'm a parent. I'm also a member of...I'm also a member of
20. ...Community Organization, District 23 Educational Council.
21. I'm a mother of five children, four of...in the Chicago
22. Public School System. Two, we oppose the fact that monies
23. will be raised which will cause taxation without fair represen-
24. tation. Incorporated in this grievancy is the fact that
25. both the Governor and the Mayor appear strangely contented to
26. permit these funds to be raised hurriedly and in a state of
27. panic on the one hand and to be turned over to the same authorities
28. who are responsible for gross mismanagement on the other hand
29. and without the same manifestation of panic, for, indeed, if
30. taxpayers have to be taxed in order to generate the necessary
31. revenues to repay loans, they should be consulted and democratically
32. involved in the process for such taxation via the Legislators
33. and possibly via direct referendums to the voters. Three, we

1. are apposed to any measures which will cause cuts in teachers
2. and other staff personnel of Chicago's schools via...via these
3. hastily measure...to not only resolve the financial dilemma of
4. the moment, but to apparently satisfy some already prepared,
5. kept on the back burners, plans to either eliminate or juggle
6. personnels and services in Chicago public schools under smoke
7. screens of a crisis. In other words, no direct...no direct service
8. to Chicago...no direct service to the children of Chicago Public
9. Schools should be curtailed or eliminated until all financial
10. and educational factors have be carefully examined. Equally,
11. no curtailment of personnel should come about until all
12. Federal, State and local laws and codes have been examined
13. and are legally executed. All State officials, Governors and
14. Legislators should call for a full investigation of Chicago
15. compliance of Federal laws and guidelines which will provide
16. more assets to funds for Chicago's schools. Inasmuch as over
17. sixty percent of the Chicago school population are black
18. children, it was at one time conceivable and not clearly
19. obvious that little efficacy is made on the still existing pattern and
20. program of racial segregation and racial discrimination in
21. the City. Thank you.

22. CHAIRMAN: (SENATOR BERMAN)

23. Mrs. Ann Chester-Smith.

24. MRS. CHESTER-SMITH:

25. Mr. President, members of the Senate, Ladies and Gentleman,
26. I'm Anna Chester-Smith, a parent of children in the Chicago
27. Public Schools, member of District 22 Educational Council, member
28. of several other organizations. We call for full investigation
29. of...mismanagement of funds by the Chicago School Board, but
30. additionally, and in spite of the fact that such investigation
31. has already been called for, we couch this request in the realm
32. of reality that causes us to demand that at least three-fifths
33. or sixty percent of the investigators be selected from the black

1. community. This request is made in order to guarantee that
2. full disclosure of mismanagement is made and that interests
3. of the majority of the Chicago schools' population is represen-
4. ted and preserved. The results of this investigation shall
5. then be made public. We ask that the Governor and the State
6. Legislators...we ask the Governor and State Legislators to demand
7. full public hearings on the Chicago Schools' financial crisis
8. involving both the City of Chicago Legislators and State of
9. Illinois Legislators in open confrontation with those officials
10. and those employees most involved in the crisis which has
11. brought everyone to the brink of disaster and to such high
12. levels of stress. Arrangements for these hearings can be
13. worked out by both the Legislative Bodies and then made public-
14. ly known as to the time and place and finally, it must be
15. made abundantly clear that mobilization around this issue shall
16. continue in the black community of Chicago until our grievances
17. are heard, dealt with and our outrage assuaged. Black children
18. will suffer even more as a result of what is taking place
19. at this time. Black economic life, black social and psychological
20. stability is further impinged upon and further alienated by
21. what is being done at this moment. Enough damage has already
22. occurred and thus, if insensitive and self-serving politicians
23. opt to further cosign black children to the obscure side of
24. history it is mandatory on our part that we guarantee that their
25. places in the next century and ultimately their own place in
26. the sun. Toward these ends, we live and work. We will take
27. the case and the cause of our legitimate grievance to the
28. highest levels of revealing justice in the country and in
29. this world, for a world without fairness and justice for all
30. is a world that endangers whatever fairness and justice it
31. accords to a chosen few, thus as officers and leaders of the
32. Black Education Coalition, we ask the Legislators for full
33. consideration of measures that bespeak and delineate these and

1. all other privileges of liberty and I would just like to,
2. for the sake of information and...a partial list list of
3. the organization, black organizations, basically, in Chicago
4. that are taking part in this coalition. They are the Chicago
5. Urban League, Chicago NAACP, Operation Push, Kenwood Oakland
6. Community Organization, Black Administrators Chicago Schools,
7. Black Educators Association, Black Business Association,
8. Midwest Community Organization, Grand Boulevard Civic Organ-
9. ization, West Side Service League, Chatham Avalon Community
10. Organization, Park Manor Neighbors, South End Community Assoc-
11. iation, Englewood Community Association, Black Womens' Aux-
12. illiary, Palmer's Foundation, Second Ward Concerned Citizens,
13. Third Ward Community Organization, Association African His-
14. torians, Institute of Positive Education, Black Teachers'
15. Action League, Chicago Assembly Political Education, Twentieth
16. Ward Concerned Citizens, Far Southwest Community Improvement
17. Association, West Chatham League of Parents, Oakland Improvement
18. Council and that's just to name some of them. Thank you so
19. much for your time.

20. CHAIRMAN: (SENATOR BERMAN)

21. The next witness is Reverend George Riddick.

22. REVEREND RIDDICK:

23. Mr. Chairman, members of the Legislature, I want to begin
24. by thanking you for this opportunity to express our views
25. which essentially support and reaffirm the statements that
26. have been made already by the three previous speakers. We have
27. some additional comments that we think are important in this
28. whole question for we feel that the children of the City of
29. Chicago and their parents are being made scapegoats for a system
30. that has been plunged into financial catastrophe by forty or
31. more years of mismanagement and of racial politics. The Chicago
32. Lawyer, a publication of the Chicago Council of Lawyers observed
33. that since 1960, the Board of Education has built more than

1. a hundred and forty schools, costing the taxpayers some four
2. hundred million dollars. It is also estimated that since
3. the 1954 Supreme Court decision that the Board of Education,
4. where interests and other costs are calculated, quite likely
5. have spent nearly one billion dollars to sustain a dual
6. educational system, one for blacks and browns and one for
7. whites. Among other things, this Legislature should know that...is
8. that of a hundred and four elementary schools, eighty-one
9. or seventy-eight percent of them are ninety or more percent
10. black. Nine were segregated for whites. Three are majority
11. Hispanic. Only nine of those schools can be considered in
12. any sense racially integrated. Of ten upper grade centers
13. and middle schools, seven have been one hundred percent black
14. since the day they opened. On the Southwest side of the
15. City of Chicago, there are fourteen schools with space for
16. one thousand or more pupils, but blacks are being bused east-
17. ward and northeastward to other black schools to prevent
18. their utilization of that space or occupancy of those empty
19. seats. In the Englewood and West Englewood areas, where,
20. according to Board of Education statistics, the dropout rate
21. was third highest in the city, students are being bused
22. away from over one thousand seats in public schools of that
23. area. On the North...on the Northwest side of the City or
24. rather on the North side...Near North side of the City, I'm
25. sorry, the Waller and Near North Career Vocational High School
26. Center exists as examples of the determination of the Board
27. of Education to maintain compact, segregated schools. These
28. particular actions have cost the Board of Education over
29. four hundred million dollars. The policy of building small,
30. impacted and deliberately underprojected schools has resulted
31. in the near bankruptcy of the Board of Education. We understand
32. that the proposed control board structure has all of the
33. skeletal trappings of the New York Municipal Assistance Corporation

1. or Big Mac, the brain child of Felix Rohrten-Lazzard Fraris
2. I would remind you, as members of the Legislature, that some
3. seventy-five schools were closed in the City of New York and
4. over fourteen thousand teachers dismissed, yet in today's
5. New York Times, the New York Mayor has asked for additional
6. cuts which would close forty more schools, which would cost
7. an additional hundred and fourteen million dollars in cuts
8. to the Board of Education and would remove three thousand
9. more teachers. What value could this kind of continual
10. emasculation and chopping away of a school system do? The
11. board is being forced to adjust itself to the possibilities
12. of losing total control of its operations for no matter what
13. is said about the question of educational planning and the
14. question of determining educational programs, if you are
15. unable to determine the budget, if you are unable to say
16. how much money can be spent, you, in fact, are unable to run
17. your school system. What will happen to the Board of Education
18. in the City of Chicago is that it will become a day to day
19. advisory board moving only on those things that are minimal
20. to the central operation of the school system itself. As it
21. is evident that some monitoring structure will be empowered,
22. Operation Push contends that the proposals of the black publicly
23. elected officials and Legislators represent a position closest
24. to one that is acceptable to the black communities. The
25. structure must be limited in powers and should have a definitive
26. time limit on its existence. It should be required to help
27. raise revenues and it should be compelled to live by a ceiling
28. on all curtailments of the programs that it calls for. A very
29. definitive percentage limit on cuts must be affected. PUSH
30. also joins those officials in insisting upon built-in public
31. accountability within the structure of the so-called control
32. board. It is interesting to us that this board has moved from
33. being a financial oversight committee now to being a financial

1. authority. Just what does that tell us about the structure
2. and about its powers? We seriously question the imposition,
3. also, of a chancellor for the school system, but this is the
4. Lazard Fraris model that was imposed upon the City of
5. New York. It will make the Superintendent of Schools little
6. more than a figurehead who has absolutely nothing to do with
7. critical decisionmaking in the city. We, therefore, call upon
8. you, as Legislators, to reject this punitive legislative
9. proposal designed to make Chicago pay through the nose for...
10. the persons who are paying are the citizens and the children
11. of the City of Chicago. Rather, we urge you to conduct a very
12. thorough investigation of all of the transactions and events
13. that have taken place relative to the Board of Education over
14. the last five years at least. The criminal damage that is
15. done...that has been done to the system of the City of Chicago
16. deserves your attention. We would remind you that the current
17. president and vice-president of the Board of Education both
18. served on very critical oversight committees relative to the
19. Board of Education and should have known what was going on
20. relative to the financial fiasco we are presently in, yet, in
21. fact though, their negligence has been rewarded with new offices
22. that make them the most visible, yes, and most powerful members
23. of the board itself. Another matter deserving scrutiny from
24. thisBody concerns the failure of the Cook County Assessors
25. Office to collect taxes due in Cook County, a substantial
26. portion of which were taxes for the Board of Education. I remind
27. you that this is especially true of the Corporate Personal
28. Property Tax, but as of the year 1977, over 1.3 billion dollars
29. had gone uncollected in taxes in Cook County. Of this amount,
30. in 1977, two hundred and thirty-nine million dollars went un-
31. collected. These taxes are needed for public services and
32. especially for the public schools of the city. We should not
33. ignoreeither the board's present lease rental arrangementswith
occupants in many instances of prime loop land. The fact, for

1. example, that the board sold a prime piece of loop property
2. to First Federal Savings and Loan for half it's market value
3. or that some loop lease rentals are as low as twenty-five thou-
4. sand dollars for establishments as large as Carson Pirie and
5. Scott or that many firms hold management of properties within the
6. loop whose rentals are no higher than forty-three thousand dollars.
7. I want to add this to my statement to, in fact, clear up a matter
8. that came up earlier with reference to one of the minority
9. board members of the City of Chicago. We were advised that
10. the Finance Committee had not met for a substantial number of
11. years and that, in fact, the Chairman of that committee was
12. Mrs. Carrie B. Preston. For the record, Chairman Berman, and
13. for the record for you, as Legislators, let me assert that Mrs.
14. Preston was Chairman of that committee, but resigned her chair-
15. manship and it is on the record and the board never or the board
16. president never appointed another chairman for that committee and
17. that those committee...that there is evidence present that
18. minutes of the committee show that that committee did meet
19. when she was chairman of the committee, but, in fact, the
20. committee has stopped functioning, not as a result of her
21. resignation, but as the result of the failure of duly authorized
22. officials to, in fact, reactivate that committee's operations.
23. I think that is important for you to know in terms of the type
24. of things that have gone on in the Board of Education. We
25. thank you again for this opportunity. We urge you to think care-
26. fully through this matter. We urge you to deal with the whole
27. question of the future of the children of Chicago, some five
28. hundred thousand of whom are in the public schools and who need
29. a quality education on a racially desegregated basis and need it
30. within the kind of structures that provide adequate financing,
31. so that, in fact, all children and not just some, but all chil-
32. dren will be guaranteed the type of education that represents pre-
33. preparation for significant and contributing citizenship. Thank you
very much.

1. CHAIRMAN: (SENATOR BERMAN)

2. The Chair will now ask for Senators to indicate if they
3. have any questions of the following witnesses: Mrs. Pantsios,
4. Mr. Appel, Mr. McGlone, Doctor Porter, Mrs. Tillman, Mrs. Smith,
5. and Reverend Riddick. All right, Senator Walsh.

6. SENATOR WALSH:

7. Bill McGlone, is he still here?

8. CHAIRMAN: (SENATOR BERMAN)

9. Bill McGlone, are you in the Chamber? He was asked to remain
10. and he heard our admonition.

11. SENATOR WALSH:

12. Yes, it was probably a little tough for the Civic Federation
13. to support this, and he must have run for cover. Well, I...he's
14. not going to be back or what?

15. CHAIRMAN: (SENATOR BERMAN)

16. I asked him to remain, I don't know where he went, Senator.
17. Any other Senators that have questions of the witnesses I read?
18. All right, now, we have the following persons who have asked further
19. ...well let me...Mrs. Rohter is...is here, she has...she's required
20. in the House, are there any questions of Mrs. Rohter? All right,
21. if you'll put your lights on, I'll make a list. Senator Becker.

22. SENATOR BECKER:

23. Thank you, Mr. President. Mrs. Rohter, I first want to admire
24. you for the way you conduct yourself. You stated several times
25. today that you served in...as a board member for nine years and
26. presently serving as President of the Board, is that correct?
27. In your Chicago Board of Education I assume that you have a
28. table of organization from the President of the Board and on down
29. the committees, do I assume that to be correct?

30. MRS. ROHTER:

31. Yes. Yes, Sir.

32. SENATOR BECKER:

33. The previous speaker referred to real estate, could you tell

1. me approximately how many pieces of real estate is owned by the
2. Chicago Board of Education?

3. MRS. ROHTER:

4. No, I can't give you an accurate answer to that, and rather
5. than guess I would prefer to send you material that was developed,
6. in fact, this week and presented partially at a meeting on
7. Monday where there will be a full...

8. SENATOR BECKER:

9. Well, let's then if you don't have the answer for that, let's
10. go to Midway Airport, which is owned by the Chicago Board of
11. Education. How much taxes does the Board pay on that piece of
12. property?

13. MRS. ROHTER:

14. Well, the Board does not pay tax on property, we're tax
15. exempt.

16. SENATOR BECKER:

17. All right. That piece of property has been idle for the past,
18. in using a ballpark figure, for the past ten years.

19. MRS. ROHTER:

20. Well, it depends, I suppose on the definition of idle, because,
21. in fact, I have taken off and landed there a number of times during
22. the past ten years. It certainly is not utilized as it was prior
23. to O'Hare.

24. SENATOR BECKER:

25. Is it worthwhile for the Board to continue to hold this piece
26. of property?

27. MRS. ROHTER:

28. That is a matter that is on the agenda, as a matter of fact,
29. for the January 16th Real Estate Committee meeting to be held in
30. the Board offices.

31. SENATOR BECKER:

32. How many members do we have serving on the Real Estate Board,
33. reporting to your Board and to your President?

1. MRS. ROHTER:
2. There are five members of the Real Estate Committee, and
3. there is a Real Estate Department of the Board of Education, that
4. department is acting with an assistant real estate agent, because
5. of the retirement of the previous holders of that title.
6. SENATOR BECKER:
7. Now, you've made mention of a real estate agent, a broker
8. who you people turn over a piece of property to, and he in turn
9. rents it, is that correct?
10. MRS. ROHTER:
11. No, the real estate agent for the Board handled transactions
12. in which the Board was already involved with lease arrangements.
13. Some of those leases, you know, are very, very old, and can be
14. considered as not producing necessary income on today's wild market,
15. but you can only judge whether those leases were good if you based
16. them on the time that they were consummated. The agent for the
17. Board reviews leases, recommends to the Real Estate Committee...
18. SENATOR BECKER:
19. What term leases would you know that they give to the tenants
20. in say your savings and loan association?
21. MRS. ROHTER:
22. Some of those...
23. SENATOR BECKER:
24. Is it ninety-nine years, is it five years?
25. MRS. ROHTER:
26. No, some of them are.
27. SENATOR BECKER:
28. Would you say that the City of Chicago in turn is renting from
29. the Board of Education?
30. MRS. ROHTER:
31. In the case of Midway Airport, yes.
32. SENATOR BECKER:
33. How about the building zoned, by the Board in the Loop itself?

1. MRS. ROHTER:

2. There are no pieces of property in the Loop, to my knowledge
3. rented by the City of Chicago. There are buildings that we rent
4. from the City of Chicago for a dollar a year.

5. SENATOR BECKER:

6. That you rent from the City of Chicago for a dollar a year?
7. Who assess this property, is it the County Assessor?

8. MRS. ROHTER:

9. Yes, Sir.

10. SENATOR BECKER:

11. You don't pay any taxes on any property owned by the Board
12. of Education?

13. MRS. ROHTER:

14. No, Sir.

15. SENATOR BECKER:

16. Is it profitable for you to hold this property?

17. MRS. ROHTER:

18. There's some question about whether or...in fact, a Board
19. of Education should be a holder of real estate that is not necessary
20. for school purposes. That's being reviewed also. We're in so many
21. businesses that have nothing to do with education. Real estate is
22. one of them.

23. SENATOR BECKER:

24. This is what I'm trying to get at Mrs. Rohter. We're in the
25. business today of educating children, not being in
26. the real estate business, not being in selling tooth brushes or
27. whatever it might be. I think we should concentrate on education.
28. You made a statement that you have approximately forty-eight thousand
29. employees, using a ballpark figure again, we say that approximately
30. twenty-seven thousand are teachers, possibly twenty thousand
31. teaching in the classrooms, seven thousand in administrative spots,
32. plus the backup people totaling some forty-eight thousand. You
33. made a statement that the President of the Union has agreed to
reopen negotiations and you're going to talk about the discharging

1. some two thousand people possibly tomorrow.

2. MRS. ROHTER:

3. But those...that discussion would take place tomorrow if,

4. in fact, I get back in time, which I'm beginning to doubt, but

5. the two thousand positions that were discussed cannot be construed

6. as teaching positions. Those were across the board positions.

7. SENATOR BECKER:

8. Across the board? The backup people, including teachers?

9. MRS. ROHTER:

10. I don't know how many of them are teachers, I would hope that

11. none of them would be classroom teachers. That is the one sacred

12. position in our system, and that's what we are supposed to be about.

13. I agree with you, we're in the transportation business, we're in

14. the food business, we're in the real estate business, we're in

15. the health business, and the recreation business, when we ought

16. to be in the education business...

17. SENATOR BECKER:

18. Maybe that's why we're falling flat on our face.

19. MRS. ROHTER:

20. Perhaps, but I think that many of the ills of society are

21. foisted on school systems for correction, and we're ill-equipped

22. to do it, nor are we funded to do it.

23. SENATOR BECKER:

24. Isn't it true, Mrs. Rohter, that the twenty-seven thousand

25. are represented by the Chicago Teacher's Union?

26. MRS. ROHTER:

27. I do not know how many teachers in the Chicago Public Schools

28. are members of the CTU...

29. SENATOR BECKER:

30. The backup people...

31. MRS. ROHTER:

32. ...but certainly the majority.

33. SENATOR BECKER:

1. The backup people then had the opportunity of joining the
2. Chicago Teacher's Union, but refused, isn't that correct?

3. MRS. ROHTER:

4. No, I think that what I would say is, administrators are not
5. members of that union. Building and trades people have their
6. own unions. That's mostly teaching certificated people and
7. I believe that there's an auxiliary of clerks...

8. SENATOR BECKER:

9. That are not represented by a union, and you would have
10. no problem...

11. MRS. ROHTER:

12. I think nearly every...

13. SENATOR BECKER:

14. ...or another union.

15. MRS. ROHTER:

16. No, I think nearly everyonethat works for us is represented
17. by some kind of an employee group.

18. SENATOR BECKER:

19. But you wouldn't have a problem with the teacher's union if
20. you went into the backup people to lay them off, would you?

21. MRS. ROHTER:

22. Well, I think that teachers certainly should not bear the
23. brunt and take all the responsibility for paring the budget. There're
24. other people that need to be...and other programs that need to
25. share in the responsibility of bringing our expenditures within
26. resources.

27. SENATOR BECKER:

28. I'm...I'm very happy I've had the opportunity of asking some
29. questions today, because the answers I received I'm sure will be
30. helpful when I go to press a button. If we're going to continue
31. on being in the educational field, my recommendation will certainly
32. be to stick to education, and let the other people run all the
33. other businesses, and let's mind our own. Thank you Mrs. Rohter.

1. MRS. ROHTER:

2. Thank you.

3. CHAIRMAN: (SENATOR BERMAN)

4. Senator Walsh. Before you commence I haven't mentioned before
5. but let me mention at this point, the rules of the Senate require
6. that our guests in the gallery and elsewhere in...in this Body
7. refrain from any demonstrations, clapping or otherwise, so please
8. at this point let me admonish you as to restraining for any indication
9. for approval or disapproval of any remarks that you hear. Senator
10. Walsh.

11. SENATOR WALSH:

12. Mrs. Rohter, I asked a question of Mr. D'Esposito and...and
13. Quern earlier about the...what it seems to me to be the impairment
14. of the...of the rights of existing creditors when we pass a law
15. which is going to reduce the...the tax rate which generates the
16. funds available to repay those debts, and they stated that...that
17. there...those debts were repaid out of a fund other than the
18. Educational Fund. Now, I...I note from a discussion I had with
19. Bill McGlone, and from the audit, that, in fact, some of your
20. short term notes are repaid out of the Educational Fund.

21. MRS. ROHTER:

22. That fund is the Operating Fund.

23. SENATOR WALSH:

24. So, that if you have short term financing, the...the obligations
25. that are issued are repaid out of your Educational Fund levy, is that
26. correct?

27. MRS. ROHTER:

28. Yes.

29. SENATOR WALSH:

30. Well, where are you going to get the money to repay those
31. debts if your tax rate is lowered?

32. MRS. ROHTER:

33. Well, I had not viewed it as a reduction in the tax rate, but
simply taking that fifty cents to produce the...the millions of

1. dollars necessary from the two eleven, which gave us a dollar
2. sixty-one. It was simply separating money for debt retirement,
3. but I think that we need to also keep in mind that there are other
4. monies...

5. SENATOR WALSH:

6. Excuse me. I...I understand your answer, but don't you see
7. that that favors the new creditor to the detriment of the existing
8. creditor, the one who's been doing business with you all this time

9. MRS. ROHTER:

10. You're talking about holders of notes?

11. SENATOR WALSH:

12. Holders of notes or anyone who has extended you credit for
13. whatever purpose.

14. MRS. ROHTER:

15. But there are other monies that come to the Chicago Board
16. of Education. The Property Tax is going to be flowing in, the Corporate
17. Property Tax, there are other categorical aid money that can be
18. used to finance programs. I think that as we put together a whole
19. new structure in my understanding of the legislation before you, that
20. I haven't had a chance to see, is that in fact there will be required
21. a new budget from us in February, and I think that that will
22. certainly be addressed. I don't see why someone who had confidence
23. and faith in us or at an earlier time, and bought our bonds and
24. notes should be penalized nor do I intend for them to be, and I'm
25. sure that no member of the Board intends for them to suffer.

26. SENATOR WALSH:

27. Well, there's...there's nothing in this...as a matter of fact
28. this legislation would...would give you the opportunity to do
29. that, and that's one of the things that bothers me somewhat. Further-
30. more, it would seem to me that if you don't need the full five
31. hundred million now, it's going to take four hundred million to
32. get you through the end of the year, is that correct?

33. MRS. ROHTER:

1. Yes, and I can't imagine that we don't need whatever
2. amount we can get. We have so many obligations and the cuts
3. that we will be making should bring us into a realistic expend-
4. iture level.

5. SENATOR WALSH:

6. Would...would you have any objection to providing in this
7. legislation that reports be made to the General Assembly every
8. thirty days as to the progress you're making on your cuts?

9. MRS. ROHTER:

10. No, I think you're entitled to that information.

11. SENATOR WALSH:

12. Would...this crisis came to light the first part of
13. November, I guess, did it not? I mean that's when the rating was
14. ...was lowered.

15. MRS. ROHTER:

16. Yes.

17. SENATOR WALSH:

18. And can you tell me what if any cuts or closings or reductions
19. and expenditures have occurred in the two plus months since then?

20. MRS. ROHTER:

21. What has happened is, a reduction in expenditures this way,
22. a motion was introduced on the Board Floor that absolutely nothing
23. of any nature that was not absolutely critical could, in fact, be
24. ordered or received, those expenditures have ceased. The contracts
25. that had been entered into and had not been officially signed, sealed
26. and delivered have been rescinded. The cuts that we are now discussing,
27. are in the overall school program, those that the superintendent
28. had administrative prerogative to cut have taken place. Then that
29. would come to the Board for authorization will be presented to
30. the Board, and where those are educational cuts in order to have
31. an orderly transition will take effect January 28th, which is the
32. first day of the second semester.

33. SENATOR WALSH:

1. Well, specifically can you tell me how many fewer employees
2. you have now? I know Doctor Hannon is no longer there and I
3. think two...two financial people left with him, is that correct?
4. Are there any others who are not there now who were there then?
5. MRS. ROHTER:
6. Any position vacated since that time, has not been filled.
7. SENATOR WALSH:
8. How many are there?
9. MRS. ROHTER:
10. I beg your pardon.
11. SENATOR WALSH:
12. How many vacancies have...have come to pass since that time?
13. MRS. ROHTER:
14. I can't tell you that. I don't know. I don't know how many
15. people have voluntarily left the system since that time. I'm sure
16. we've lost some, because our employees have, in fact, been financing
17. us on a regular basis, and people who had obligations that they
18. could not postpone had to leave and seek employment other places.
19. SENATOR WALSH:
20. I heard a report, I guess over the radio or the newspaper, some-
21. where that Doctor Hannon had a claim against the Board for what
22. some eighty-five thousand dollars for severance pay or something
23. like that, can you tell me what the situation is in that connection?
24. MRS. ROHTER:
25. We do not have a severance pay as such. My understanding is,
26. that Doctor Hannon had vacation time due him, sick leave time due
27. him, personal business day time due him, and that he seeks com-
28. pensation for that unused time. The recommendation was that he
29. be placed on the vendor list.
30. SENATOR WALSH:
31. Well, that's the end of him, I guess. What...what is the
32. amount of his claim?
33. MRS. ROHTER:

1. I am not sure at this time...

2. SENATOR WALSH:

3. Was...was eighty-five thousand dollars approximately the

4. figure?

5. MRS. ROHTER:

6. I think that's high; but it was a substantial amount of

7. money, obviously we were not able to deal with it.

8. SENATOR WALSH:

9. When it's placed on the vendor list, does that mean you're

10. going to pay it, say out of these bond proceeds or...

11. MRS. ROHTER:

12. No, I think that that will come before the Finance Committee

13. for review.

14. SENATOR WALSH:

15. So, you...you have not agreed that that, whatever his claim

16. is, is due, is that correct?

17. MRS. ROHTER:

18. No, it was deferred because we had more pressing obligations

19. to handle.

20. PRESIDENT:

21. All right, Gentlemen, again I would remind you that, we have

22. four on the list who have requested questions of Mrs. Rohter. I

23. would ask your indulgence, however, to be as brief as humanly

24. possible. We are...Mrs. Rohter is due shortly or immediately in

25. the House, and I have...Senator Chew do you wish to...

26. SENATOR CHEW:

27. Thank you, Mr. President. Just two or three questions of

28. Mrs. Rohter and they won't prolong your time. I heard several

29. reports, and I read several statements pertaining to your Presidency

30. to the Chicago Board of Education. One statement said you were

31. called in by Mayor Byrne, and you immediately exited her office

32. and there was a Board meeting and you were elected by a majority

33. of the Board members. You were the Vice-President of the Board

1. prior to that?

2. MRS. ROHTER:

3. When Mrs. Carrie B. Preston, who was the Vice-President for
4. nine years refused another term as Vice-President, I was nominated
5. for the Vice-Presidency of the Board and I was elected by the
6. Board majority, and I held that office for about three months
7. until Mr. Jack Carey resigned on November 30th, and shortly there-
8. after in a meeting with the Mayor she indicated support of
9. my candidacy for President, and I told the Board members that she
10. had indicated confidence in me for that position and that we
11. had an election and the majority of the Board voted for me in
12. that role.

13. SENATOR CHEW:

14. The fact is that you were the Vice-President when you ascended
15. to the Presidency?

16. MRS. ROHTER:

17. Yes, Sir.

18. SENATOR CHEW:

19. Do you feel that because of that position you were entitled
20. to the Presidency?

21. MRS. ROHTER:

22. No.

23. SENATOR CHEW:

24. From Vice-President to President, or from Executive Vice-President
25. ...isn't that a normal procedure that would normally be followed?

26. MRS. ROHTER:

27. Such has not been the case on the Board of Education during
28. the years that I have been there. No, I don't think anybody has
29. a right to anything...

30. SENATOR CHEW:

31. Do you think you would have become the President had you not
32. been the Vice-President?

33. MRS. ROHTER:

1. I might have.

2. SENATOR CHEW:

3. Okay, my point for asking that question, I'm concerned with
4. the entire spectrum of the Board, and the education of our children,
5. but I'm also concerned about how certain qualified black members
6. are employees of the Board of Education are systematically excluded
7. from decision making positions, and namely when Doctor Hannon was
8. selected to become the Superintendent of Chicago Schools he was
9. the Superintendent of Real Estate if my information is correct.

10. MRS. ROHTER:

11. Facilities Planning.

12. SENATOR CHEW:

13. Would that be real estate?

14. MRS. ROHTER:

15. For new buildings and...

16. SENATOR CHEW:

17. That's real estate.

18. MRS. ROHTER:

19. Sure.

20. SENATOR CHEW:

21. He was selected on par with Manford Byrd who also holds a
22. PhD in education or PhE, and when Joe Hannon resigned all practical
23. procedures of operation in my opinion, shouldn't Manford Byrd been
24. appointed Superintendent of Schools?

25. MRS. ROHTER:

26. Should he have, is that the question?

27. SENATOR CHEW:

28. That's the question, Mrs. Rohter.

29. MRS. ROHTER:

30. In 1975 when Doctor Redmond resigned there was a Search
31. Committee, there were names submitted to us, at that time the
32. incumbent interim General Superintendent was one of the finalists,
33. at that time Mr. Byrd, now Doctor Byrd and Doctor Hannon were
the finalists. I voted then based on the rationale that I did not

1. know what Doctor Hannon could do, he had never been in that
2. position, therefore he deserved a chance.

3. SENATOR CHEW:
4. Who deserved a chance?

5. MRS. ROHTER:
6. Doctor Hannon.

7. SENATOR CHEW:
8. And Doctor Byrd didn't?

9. MRS. ROHTER:
10. Doctor Byrd had, in fact, operated the Chicago School System
11. for some years, he was the Chief Operating Officer, and I knew
12. what he could and could not and would not do. My choice at that
13. time was to support the candidacy of Doctor Hannon as I think
14. seven other Board members did.

15. SENATOR CHEW:
16. Let me ask you a question. I'm a little green on this,
17. who appoints the Superintendent of Schools?

18. MRS. ROHTER:
19. The Superintendent of Schools is elected by the majority of the
20. Board.

21. SENATOR CHEW:
22. And did you vote in this last election when this very competent
23. woman was selected by Mayor Byrne to become the Superintendent of
24. Schools? Did you vote in favor of her?

25. MRS. ROHTER:
26. Senator, I must respectfully correct you. Mayor Byrne did not
27. select nor appoint nor elect Doctor Carruso.

28. SENATOR CHEW:
29. Well, let me put it another way. Are you aware that she went
30. into see Mayor Byrne before the votes?

31. MRS. ROHTER:
32. Sir, I was with her.

33. SENATOR CHEW:

1. When you...when they went in? For what purpose was the
2. visit?

3. MRS. ROHTER:

4. I had seen Mayor Byrne on, I believe, two days previous. She'd
5. asked me at that time what are you doing about getting a new
6. Superintendent, and I said well...she said are there any candidate^s,
7. and I said oh sure. Well, who is it, and I said, well, everybody
8. has a candidate and she said do you, and I said, yes. She said,
9. who is it, and I said, Angela Carruso? She said, do I know her.

10. SENATOR CHEW:

11. Oh, you recommended Mrs. Carruso?

12. MRS. ROHTER:

13. Yes.

14. SENATOR CHEW:

15. Had she applied for the position?

16. MRS. ROHTER:

17. There weren't applications sought.

18. SENATOR CHEW:

19. What is it that Joe Hannon or Mrs. Carruso can do that
20. Manford Byrd wouldn't do or cannot do?

21. MRS. ROHTER:

22. I don't believe...

23. CHAIRMAN: (SENATOR BERMAN)

24. Senator Rock for what purpose do you arise? Senator Rock.

25. SENATOR ROCK:

26. Thank you, Mr. Chairman. On a point of order. We are, I hope,
27. discussing the possible amendment to...which will be offered
28. tomorrow to House Bill 1264. I frankly don't see the relevance of
29. this, as interesting as it might be, it's just simply irrelevant, and
30. I would call attention to the fact that there are others who wish
31. to pose some more relevant questions.

32. CHAIRMAN: (SENATOR BERMAN)

33. Senator Chew.

1. SENATOR CHEW:

2. With all due respect to the President, who does not occupy
3. the Chair at the present time, in my opinion his suggestion is not
4. well taken, and my purpose for pursuing, this kind of questioning
5. is merely to establish, Mr. President, the kind of systematic
6. exclusion that constantly occurs in the top echelon of the Chicago
7. Board of Education and the political interference of politicians
8. with the Board of Education, and until that ceased to be I have
9. grave reservations about voting for anything for the Board of
10. Education and I want to pursue my line of questioning.

11. CHAIRMAN: (SENATOR BERMAN)

12. Senator, the President's comments pertain to the provisions
13. of the bill that is before us, and the amendment that's before
14. each member here. I don't believe that there is anything in that
15. bill dealing with the structure of the Board or the selection of
16. the Superintendent.

17. SENATOR CHEW:

18. Well, it ought to be, and it might be tomorrow. May I proceed,
19. Sir?

20. CHAIRMAN: (SENATOR BERMAN)

21. I would ask that you confine your remarks to the bill before
22. us.

23. SENATOR CHEW:

24. All right, I'll rephrase the question. At any time since Joe
25. Hannon resigned without making a statement pertaining to the
26. financing or the mess the Board is in, and your having served on
27. the Finance Committee...

28. MRS. ROHTER:

29. No, Sir. Again I will correct you, I did not serve on the
30. Finance Committee, I have never been a member of the Finance Committee,
31. although I sat...

32. SENATOR CHEW:

33. You are a member of the Audit Committee?

1. MRS. ROHTER:
2. The Audit Committee, yes, Sir.
3. SENATOR CHEW:
4. Does that deal with finance at all?
5. MRS. ROHTER:
6. After...after the fact, Sir.
7. SENATOR CHEW:
8. Does that deal with finance at all?
9. MRS. ROHTER:
10. After the fact.
11. SENATOR CHEW:
12. After the fact?
13. MRS. ROHTER:
14. Yes.
15. SENATOR CHEW:
16. Mrs. Rohter, why is it that black people employed by the
17. Board of Education cannot look toward the top spot in management
18. and education in top offices?
19. MRS. ROHTER:
20. I don't know how to answer that question, because it's not
21. quite true, there are many, many...
22. SENATOR CHEW:
23. Tell me why Manford Byrd is not the Superintendent of Chicago
24. Public Schools.
25. MRS. ROHTER:
26. You know, if we were in...in a board meeting that would be
27. a matter for Executive Session, and I think it rather delicate
28. to discuss Mr. Byrd's qualifications or lack thereof in public.
29. CHAIRMAN: (SENATOR BERMAN)
30. Senator Rock.
31. MRS. ROHTER:
32. I don't think that's fair at all, Sir.
33. CHAIRMAN: (SENATOR BERMAN)
 Senator Rock.

1. MRS. ROHTER:
2. I think Doctor Byrd is entitled to kinder treatment than that.
3. SENATOR CHEW:
4. I'll be through in a minute, Senator. Just one more
5. question.
6. CHAIRMAN: (SENATOR BERMAN)
7. Senator Rock, for a point of order.
8. SENATOR ROCK:
9. Yesterday on the Floor of this Senate, it was suggested by
10. the Senator that I invite certain people to be present. Doctor
11. Byrd was himself invited by me, and he declined. Now that question
12. can properly be put to him. I suggest this is irrelevant and you
13. are totally out of order.
14. CHAIRMAN: (SENATOR BERMAN)
15. Senator Chew, another question.
16. SENATOR CHEW:
17. One...one more question. Mrs. Rohter, if everything in this
18. amendment is passed, do you predict that this will cure the ills
19. the Chicago Board of Education has incurred because of mis-
20. management?
21. MRS. ROHTER:
22. If you're talking about financial ills, it certainly will go
23. a long way toward that. If you're talking about educational
24. deficiencies that can only be corrected...
25. SENATOR CHEW:
26. I'm speaking of the money end of it now.
27. MRS. ROHTER:
28. Yes, it will go a long way toward that, but it will only
29. help if children come to school, if there's a commitment to
30. education. We understand that education is not by injection, but
31. that it requires effort on the part of everyone involved. In addition
32. to the teachers and the principals, and the Legislators, and the
33. Board members...

1. SENATOR CHEW:
2. Maybe...maybe I didn't phrase that right. If we give you
3. what has been worked out over the weekend, how long before you'll
4. be back here asking for additional funds?
5. MRS. ROHTER:
6. Based on...
7. SENATOR CHEW:
8. This is not the cure all, is it?
9. MRS. ROHTER:
10. Based on the agreement reached in the Governor's Mansion,
11. the bills before you today with the cuts that are proposed, when
12. we come back to report to you and the Governor in the Spring, I
13. do not foresee asking for the kind of help that we're asking for
14. today. I think that this will be, not stopping the nose bleed,
15. but working on the cure for the leukemia.
16. SENATOR CHEW:
17. Okay.
18. CHAIRMAN: (SENATOR BERMAN)
19. Senator Bruce. All right, I'll get back to him. Senator Martin.
20. I'll get back to him. Senator Martin. Terry, I'll get back to
21. you in a second.
22. SENATOR MARTIN:
23. Yes, Mrs. Rohter.
24. CHAIRMAN: (SENATOR BERMAN)
25. To your left. Okay.
26. SENATOR MARTIN:
27. Not really, but...
28. MRS. ROHTER:
29. Okay.
30. CHAIRMAN: (SENATOR BERMAN)
31. Only to her left.
32. SENATOR MARTIN:
33. You commented earlier that some of the problems that you had

1. seen coming on the Board financially, the Board, you felt, was
2. not responsive too, and that indeed the Finance Committee,
3. for instance, had not met for years, and perhaps some of the
4. information that the Board should have...either it did not or
5. did not act. I think many of us as Legislators still have real
6. questions about the behavior, if we...if you can use that word,
7. about the members, the current and even some past members of the
8. Chicago School Board. Now, why this is important is because al-
9. though this bill sets up some financial rescue for the Chicago
10. Schools, and sets up an Oversight Committee, as you point out
11. ultimately the responsibility still remains with the same Board
12. that was unable to handle this problem. I'm going to ask you,
13. do you not think that your Board should be meeting and singly
14. but totally turn in your resignations to be accepted or rejected by
15. the Mayor on an individual basis. I guess I am asking how is by a
16. Legislator from a downstate district that by the way had to end all
17. extra curricular activities so your cuts are going to be difficult.
18. How this Board, which has given absolutely no evidence in toto
19. rather than individually of being able to act in a fiscally
20. responsible matter, suddenly is going to have seen the light?

21. MRS. ROHTER:

22. Well, let me see, there's several questions there. The first
23. one I would respond to in this way, the Board has new leadership.
24. I have an entirely different view of the responsibility of the
25. Board President. I intend to and have been, as a matter of fact,
26. exercising that role. The second question dealt with resignations,
27. I cannot speak for any of the other nine City members. There has
28. been one resignation as you may know, but I have no plans to resign.
29. I see this as a opportunity to turn education in Chicago around.
30. It's a horrible way to have that opportunity come about, but
31. I do see it that way, and I intend to make the most of it, and fight
32. like the devil, restore fiscal integrity also the confidence of
33. the people of our City and of our State in the ability of the Chicago

1. Public Schoolsto educate children as we once did, when parents
2. were committed, when it wasn't have Johnny or somebody else do
3. it.

4. SENATOR MARTIN:

5. Well, I'm not suggesting that the Mayor would accept your
6. resignation.

7. MRS. ROHTER:

8. I would hope not.

9. SENATOR MARTIN:

10. But I do believe that...and I guess I'm saying, hasn't that
11. suggestion come from one of the more responsible Board members,
12. that all do this, and risk not being reappointed. I, too, am a
13. product of Chicago Schools, so, but that may be a mark against
14. them as a matter of fact.

15. MRS. ROHTER:

16. I think not.

17. SENATOR MARTIN:

18. Well, but I wonder how I can possibly ever go back home and
19. say in effect that the very same people who made the mess, who
20. ignored it, who whatever, if...if not, I don't know if there's any
21. indication of misfeasance or malfeasance, but certainly incompetence
22. as a Board and even if you are outstanding, nonetheless, there...
23. if you're still going to run it by some votes. Either they're going
24. to turn into robots or each of them is suddenly going to have to
25. become an example of what they've shown no indication they could
26. have been over thepast few years.

27. MRS. ROHTER:

28. And...and I think that's possible, for instance, one of the
29. advantages of the Chair, of course, is the ability to appoint committees.
30. The first thing that I want to see is a Finance Committee of the
31. Committee of the Whole. Legislation is absolutely the most important
32. thing. I want to see that as a Committee of the Whole. I think
33. a Board President has a responsibility with committees that don't

1. meet, to recall those committees, rescind the appointments and
2. appoint new members, if indeed, the lack of discharge of duty
3. continues, I think then it's another kind of problem.

4. SENATOR MARTIN:

5. Well, Mrs. Rohter, there were comments in the paper from,
6. at least, six of the sitting Board members, that they might not
7. be able to go along with cuts, that they thought perhaps one would
8. not be able to live within that budget that was going to have to be
9. maintained if the system is to maintain a degree of financial
10. stability, and I just...I guess I recognize your answer and...and
11. not from your point of view, but in effect, it's no answer. There's
12. no evidence to me at all, that the members of the Board have behaved
13. ...I guess I just can't imagine that there's that kind of...just
14. not all out the door after what's happened, and then those members
15. who are able to cope with the situation or gave some evidence that
16. they were trying to cope with it could be retained, but to main-
17. tain that board as it stays now, seems to me an arrogance on the
18. part of those Board members that I find almost inexcusable.

19. MRS. ROHTER:

20. Well, I would not comment on that last statement. I would
21. say, however, that I have not seen, unless it happened in the last
22. day, I didn't see the papers yesterday, I didn't know that six
23. sitting Board members had made those comments, but if indeed it's
24. true, then it must be obvious to everyone in this room that a
25. Financial Control Authority is indeed necessary and immediately.

26. CHAIRMAN: (SENATOR BERMAN)

27. Senator Bruce.

28. SENATOR BRUCE:

29. Mrs. Rohter in your opening comments earlier this afternoon
30. you mentioned that part of the problem that you face was the
31. fact that the State of Illinois had mandated several programs, and
32. that you would be looking to the State for help with these. Can
33. you elaborate on exactly what that means?

1. MRS. ROHTER:

2. Mandated programs, discussion always brings about Special
3. Ed, and that's a clientele least able to defend itself. The
4. implementation of Public Law 94-142 is going to require
5. astronomical sums of money. We cannot raise the money for it,
6. the consequences of lack of funds, of course, is something with
7. which we must live. What I would hope is that the Legislature,
8. in its wisdom would review all the mandates, look at the level
9. to which they are funded, see if you cannot find one or two
10. possibilities within reason. One, to increase the level of
11. funding for those mandated programs, or review the programs and
12. reduce the level to which we are expected to implement them.
13. Special Education children must be given the opportunity to reach
14. their full potential, and it's an extremely costly endeavor, but they
15. are entitled to it, but we don't have the money for it. The
16. cash flow is affected by that, we do not get money for months and
17. months and it's within the law as it exists. Legislative change
18. we will be required in order to accelerate the flow of funds to
19. Chicago for services rendered, that was what I was referring to
20. in the earlier statement I made.

21. SENATOR BRUCE:

22. You don't anticipate other than a cash flow situation, several
23. years ago those statutory changes were made because the State
24. of Illinois faced a cash flow problem, we made you go into a
25. quarterly basis, rather than an...for reimbursement as opposed
26. to paying in advance. Do you wish us to go back the other way?
27. What are we...what kind of money are we talking about next year
28. in dollars?

29. MRS. ROHTER:

30. One of the things that I would be pleased to do is sit down
31. with a group of people who can speak specifically to the intricacies
32. of mandated programs and the lag in funding. If we could even
33. move to progress funding it would be a big help to us. I would
welcome the opportunity to bring some people here to Springfield,

1. and sit down and discuss that with you. With backup documentation
2. if you would please.

3. SENATOR BRUCE:

4. And my second question is, in seeing the documents or at
5. least the cash flow projections that the summit conferees used,
6. I...I...it indicates a fairly large increase in the amount of
7. State aid going to Chicago over the next two years. I wonder
8. if you would...what exactly...changes have been discussed in the
9. State Aid Formula that will give additional money to the...to
10. the City of Chicago. Your projections are far more than I can
11. find in the present formula.

12. MRS. ROHTER:

13. I did not see anything in there that indicated that Chicago
14. would have any increase that the rest of the State would not have.
15. The Governor emphasized time and time again that no monies would
16. flow to Chicago that would not accrue to the other school districts.
17. He was absolutely emphatic and adamant about that. I suppose that
18. if there's an increase for Chicago that that increase will accrue to
19. all the other districts in the State of Illinois based on the infor-
20. mation presented to us. The assessed valuation for Property Tax
21. is one of the considerations that will change the amount of money
22. we have, the Corporate Personal Property Tax replacement and those
23. things, but I know nothing about an increase in State aid, that the
24. other districts would not receive also.

25. SENATOR BRUCE:

26. Do you plan to be making any proposed changes to the State
27. Aid Formula for next year?

28. MRS. ROHTER:

29. I'm sorry.

30. SENATOR BRUCE:

31. Do you plan to make any changes, proposed changes to the State
32. Aid Formula next year?

33. MRS. ROHTER:

1. That hasn't been discussed by us, but I just said that I
2. intend for the Legislative Committee of the Chicago Board of
3. Education to be a Committee of the Whole, and we'll certainly
4. look at it, as we will a number of other things.

5. SENATOR BRUCE:

6. Thank you, Mr. Chairman.

7. CHAIRMAN: (SENATOR BERMAN)

8. Senator Berning.

9. SENATOR BERNING:

10. Thank you, Mr. President. Before I direct one quick question
11. to the President of the School Board, since some of the other
12. questions have already been answered, I had wanted to direct one to
13. Senator Newhouse, his standard question. I'm interested in
14. knowing how many pupils he has in your schools President Rohter,
15. but I see he's not here.

16. MRS. ROHTER:

17. I can't speak about that. I can tell you that there are
18. only two members of the Board of Education currently sitting
19. members who do have children of...

20. CHAIRMAN: (SENATOR BERMAN)

21. No that wasn't it.

22. MRS. ROHTER:

23. ...of school age.

24. SENATOR BERING:

25. Yes, I wasn't questioning you. I wanted to know how many
26. Senator Newhouse has. Anyway, you have responded to Senator Bruce
27. about 94-142, and mandated programs which was something that I
28. was interested in, and was going to ask you, how we might collectively
29. approach that problem, and I suggest to you respectfully that
30. perhaps we ought to consider some appeal to Congress to review the
31. 94-142 excessively expensive requirements. The other one then
32. that I'd like to ask you to comment on, is how you might best if
33. at all you can, address the problem of the prevailing wage which
I understand is a part of the compensation of the crafts and for

1. whom there can be a case made, or about whom. A case can be
2. made that there is no justification for complying with the
3. prevailing wage when these people are on an annual, year-round
4. employment schedule. Is there anything that can be done there?
5. MRS. ROHTER:

6. I think that nothing is impossible. I think that it will
7. not be done overnight. I do think that one of the first things
8. that we could do, is take a look at the work day, and increase it.
9. I don't know why anyone should be on a seven hour day, most of us
10. work for eight hours, and that would reduce overtime. That's one
11. of the things that I'd like to see done immediately, and must come
12. before our Board for approval, because it is a change in working
13. conditions, but surely people who are employed by the Board,
14. and who have suffered during these last weeks with not knowing
15. if they were going to get paid, missing two pay days, must
16. understand the necessity for realigning the scope of the work
17. and increasing the work hours.

18. SENATOR BERNING:

19. Thank you, I'm glad that you are willing to face the issue.

20. MRS. ROHTER:

21. I am indeed.

22. CHAIRMAN: (SENATOR BERMAN)

23. That concludes the questions from the Senators of Mrs. Rohter.
24. On behalf of the Senate I want to thank Mrs. Rohter and all of
25. the other witness, and citizens that came down. Senator Bloom, I'm
26. sorry. Did you have a question of Mrs. Rohter?

27. SENATOR BLOOM:

28. Yes, I did.

29. CHAIRMAN: (SENATOR BERMAN)

30. I apologize, please proceed.

31. SENATOR BLOOM:

32. I was picking up on your colloquy with Senator Bruce. Ms.
33. Baloskus, of your Board was on the commission to examine mandated
programs in '77, held hearings in eight communities including the

1. City of Chicago, heard over two hundred and fifty witnesses. Un-
2. fortunately for a variety of reasons I won't go into here, the
3. commission, the Education Panel on State Mandates was unable to
4. submit a report to the Governor, but the Chicago School System
5. witnesses who did testify in front of us, and their input was basically
6. they like the mandates because they like the money, and they
7. wanted more money. There was no qualitative discussion from the
8. urban school systems about curricular mandates as well as other
9. mandates, and the representative of the Chicago Board of Education
10. on the Education Panel was among those voting against even submitting
11. some kind of basic findings to the Governor. So, your...your
12. comments about State mandates, curricular and otherwise are not
13. particularly well taken. I think you should be aware of that.

14. MRS. ROHTER:

15. Sir, I think that whatever has happened prior to this time,
16. has to be viewed in a different context. I hope that you would
17. view what happens now as being totally separate and apart from
18. what has preceded us. I think that as the Board reviews...first
19. of all some of the things that we can do for ourselves is consolidate
20. classrooms. It's ridiculous to have three children here with a
21. teacher, four children there with a teacher, and then complain
22. about lack of funds. Those are some of the things that we're
23. addressing now. That's the kind of thing that has been happening
24. since the crisis became apparent. I hope that you will not be
25. offended by my statement about mandates. It's possible that I
26. stand corrected in some areas, and I should be pleased to learn
27. whatever it is that you can share with me.

28. SENATOR BLOOM:

29. Well, Mam, I mean you no personal disrespect.

30. MRS. ROHTER:

31. Of course not.

32. SENATOR BLOOM:

33. I would point out it is the same Board, and I would point
out that the Chicago School Systems, using the example of bilingual

1. education, which started off as attempting to mainstream foreign...
2. foreign speaking students, has now been turned into a kind of
3. ethnic pride thing, and this has been mainly at the initiatives
4. of urban school systems. This colloquy goes beyond the subject
5. matter of the bill. Thank you.

6. MRS. ROHTER:

7. I do understand what you're saying about bilingual education.
8. It was, in fact, in the beginning a transitional program to acquaint
9. students who were not English speaking with the language of our
10. land, and there is something going on now that's a maintenance
11. program and I recognize that, and I think it needs to be evaluated.

12. SENATOR BLOOM:

13. This isn't the place to...

14. MRS. ROHTER:

15. Okay.

16. SENATOR BLOOM:

17. ...continue this colloquy. I point out that the idea was
18. to mainstream them when it first passed the Legislature.

19. MRS. ROHTER:

20. Okay.

21. SENATOR BLOOM:

22. Thank you.

23. CHAIRMAN: (SENATOR BLOOM:

24. Thank you, Mrs. Rohter, and the Chair and the Senate appreciates
25. your participation and all of the other witnesses and citizens
26. that have come down for this hearing. Thank you. Now the Chair
27. has witness slips from Legislators who wish to testify at this
28. Committee of the Whole. We will go through them and hopefully
29. that they will be brief and not address anything that has already
30. been addressed in the questions or comments previous. Senator
31. Newhouse. Senator Newhouse. Representative Braun. Representative
32. Braun. Representative Alexander. Representative Alexander.
33. Representative Ewell. I'm sure I don't have to admonish you to

1. be brief.

2. REPRESENTATIVE EWELL:

3. Thank you, Mr. Chairman...

4. CHAIRMAN: (SENATOR BERMAN)

5. For the...excuse me, Ray for the purpose of the membership
6. we have only one other witness slip and that's Representative
7. Gaines and that would complete the testimony for today. Repre-
8. sentative Ewell, please proceed.

9. REPRESENTATIVE EWELL:

10. Fundamentally, I do believe in keeping my nose out of another
11. man's house. It is just the magnitude of this issue, and the fact
12. that we in the House have traditionally gone along with the wishes
13. of the Senate that compels me to make a few brief remarks. As
14. a sane and rational man, I would hold certain things to be self-
15. evident. First of all is that any bill that's drawn by bondholders
16. for the benefit of bondholders cannot be in the best interests of
17. children. Here we have a plan that purports to do everything for
18. everyone at a cost of nothing to anyone. This is an...unadulterated
19. fraud on the mental capacity of this Legislative Body. We have
20. seen before us administrators that could not add, Federal, State,
21. and Property Tax revenues and subtract operating expenses and
22. funded indebtedness. Yet, they are about to embark on a program of
23. a vast reorganization of the Chicago School System. We have again
24. administrators who cannot or who did not either read or understand
25. the yearly audits, yearly audits of the Chicago School Board that
26. were available to all and yet they are now going to understand
27. the bill that has to be drawn and literally approved by Chapin and
28. Cutter...Chapin and Cutter. You're looking here for administrators
29. who will not and do not have the will or the desire to fire fellow
30. administrators, fellow aids, fellow secretaries, or fellow coffee
31. makers, but rather they will embark on a program of cutting at the
32. very bottom of the scale of the people who work the hardest and
33. receive the least. These are the people who'll will be the sacrificial

1. lambs. I say to you, the schools will close under this proposed
2. program, but nary a plush office or a paper clip will be missing.
3. I contend that you will have...I contend that time, tide and memories
4. will fade but the consultants to the school board will go on
5. forever, and it is the programs for the children that will perish.
6. I suggest to you that this is the same school board that gave
7. Superintendent Hannon a rousing vote of approval with a forty-
8. two percent raise to eighty-two thousand dollars and I suggest that
9. the next superadministrator will be given another large raise and
10. yet even a larger staff, and the classroom teachers will be asked
11. to take the pay cuts. I suggest to you that we have here a twenty-
12. seven year plan, that protects foreign bondholders, and places them
13. before the interests of Chicago children. I suggest that something
14. of this magnitude needs more than a single day's hearing. I say
15. to you that we have before us blind, deaf, incompetent, and in-
16. sensitive administrators that wrought this havoc on the Board of
17. Education through everything from misfeasance, malfeasance, non-
18. feasance, to no feasance, and yet we are asking these people to
19. lead us to quality education. I would suggest that if we fired
20. the Board the entire Board, sold all of their property, closed
21. the district offices, and turned the job over to the school
22. principals we would fare much better. We should allow them to
23. make the economies and the necessary cuts, and then finally if
24. that didn't work we could start off by firing the school
25. Superintendents starting in June, if they did not make improvements.
26. Ladies and Gentlemen of the Senate, that indeed would be a better
27. way to proceed than this twenty-seven year plan that's going to
28. be considered in one hour and we all know that before tomorrow
29. morning, Chapin and Cutter will have before you and on your
30. desks about ten or more administrative corrections to the bill
31. while we, the members of the House and the Senate, will not be
32. allowed to adopt a single amendment. That is not the way to go,
33. and Ladies and Gentlemen I ask you, of the other districts, that you
give consideration to this bill for as we in the City of Chicago

1. are in the barrel today, you from the downstate districts who
2. cannot protect yourself from a combination of city and suburbs,
3. will find that tomorrow indeed may be your day, and this is
4. my earnest plea, that you consider, that you think, that you
5. allow us, at least, the time to reflect and, at least, the chance
6. to consider other alternatives before rushing to judgment. Thank
7. you.

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(END OF REEL)

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1. CHAIRMAN: (SENATOR BERMAN)
2. Any questions of Representative Ewell? Senator Mitchler,
3. a question of Representative Ewell.
4. SENATOR MITCHLER:
5. Thank you for appearing, Representative Ewell. I take it
6. that you would be opposed to this legislation in its present
7. form, is that correct, Sir?
8. REPRESENTATIVE EWELL:
9. That's correct.
10. SENATOR MITCHLER:
11. If this does not go through, if this would fail and
12. this Legislative Body would not reach an agreement and we
13. recessed until March 5 or something like that, what would
14. you predict would happen in the City of Chicago to the Chicago
15. School System?
16. REPRESENTATIVE EWELL:
17. I think the same thing that would happen when the House
18. refused to accede some Senate Amendments and they went home.
19. You'll come back.
20. SENATOR MITCHLER:
21. And try to work it out that way.
22. REPRESENTATIVE EWELL:
23. And work it out in a reasonable, rational and acceptable manner. I
24. suggest to you that when you have eighty percent of the population
25. that has had no input whatsoever into something that affects
26. the very essence of their lives, it is, indeed, wrong and it
27. is a flagrant disregard of the process of representative
28. elections. I think that as reasonable men, we can work out a
29. reasonable solution, but when you ask me if I think that we
30. ought to entrust the same board, the same board that wrought the
31. havoc, that did nothing, read nothing, could do nothing, then
32. I suggest to you then we are in error. I suggest to you that
33. the schools stayed open for a month with no pay. I suggest

1. that they have been paid two salaries. They are not in arrears.
2. I suggest there is no rush to the fact that if we take a day
3. or two or three days next week and we consider and you give a
4. chance to have some input from the people of the community
5. no matter what, for I, as a citizen or I, as a Legislator, have
6. lost many a battle, perhaps then I can join you and say we did
7. the best we could, but to surrender to something that you know
8. is wrong without even a hearing, with no input from the members
9. of the community, when the facts remain that hardly a single
10. black educator, Legislator, businessman, banker and I think that
11. I could point out that the City of Chicago had a black comptroller,
12. the City of Chicago had a black treasurer, we have a State
13. Comptroller who is black. Surely, somewhere along the line,
14. there could have been one, at least one, who could have been
15. brought into this process and consulted.

16. SENATOR MITCHLER:

17. Well, Representative Ewell, is your goal to have a quota
18. of certain racial or ethnic individuals on the board? I mean,
19. what does that really satisfy? That...I don't look at the board
20. that way. I look at their qualifications.

21. REPRESENTATIVE EWELL:

22. No, I do not want a quota on the board any more than you
23. would want a quota in your district of either Democratic
24. Representatives and Senators and I think that you ought to be
25. able at least to reflect the considered opinions of the people
26. of the district and I do believe that when men of good will get
27. together and sit down we might do as the ex-Mayor said, "Come,
28. let us reason together."

29. SENATOR MITCHLER:

30. Final question. Do you think it's possible for the School
31. Board, if...if it did remain intact as it is now, Representative
32. Ewell, that they could possibly make sufficient reductions in
33. the operation of the Chicago School System and let's...let's...

1. both you and I give them the fact that are really going to...
2. really going to get in there and try. We're going to forget
3. about who they are and...do you think they could actually make
4. that much of a reduction and satisfy the Chicago Teachers' Union,
5. satisfy the Special Education parents who, you know, they'll be
6. at your doorstep and all the...all the special interest groups
7. that are involved in the Chicago School System. Do you think
8. it's possible, even if you and I were on the School Board, do
9. you think that we could and let's say that we were really
10. getting in there. Do you think it's possible to make sufficient
11. reductions, to live within a budget that this new governing
12. board would give to them?

13. REPRESENTATIVE EWELL:

14. The answer is no and I might point out...and I might point
15. out to you very well that any time you reduce the amount of
16. money that's available from the Property Taxes from 2.211 to
17. 1.61, you are taking away almost twenty-five percent and when
18. you ask about cutting twenty-five percent from an ailing
19. school system, I don't believe that they either have the heart...
20. they have not shown in the past the heart, the guts, or the
21. will to do it. I don't believe that they could get the type
22. of support that might be necessary to do the things that have
23. to be done. I think that you would have to start with a new
24. board. You cannot hang this entire matter on Hannon and say
25. that Hannon is the fault for it all because Hannon had help.
26. Hannon had this board to operate with. They were all there.
27. They should all share the blame and share the guilt and I
28. think no one under the sound of my voice will disagree that
29. the Chicago School Systems are a educational mess in addition
30. to being a financial mess and I do not believe that they have
31. either the heart or the guts to do it.

32. CHAIRMAN: (SENATOR BERMAN)

33. Representative Gaines. Thank you, Representative Ewell.

1. Charlie, somebody suggested that we save the best for last.
2. It's all yours.

3. REPRESENTATIVE GAINES:

4. Thank you very much, Mr. President. I came here today
5. because I have been in touch with many of the civic organizations
6. in my district which is entirely within the City of Chicago
7. and therefore, all of our kids go to school in the City of
8. Chicago School District. I'm currently the...president of
9. the Dixon Elementary School Council and past-president of
10. District 27 and District 22 Educational Council, composed
11. of parents and other citizens concerned with quality educ-
12. ation and I'm also chairman of the Advisory Committee of
13. Operations Push's Excel Program and I'm also a member of the
14. House Elementary and Secondary Education Committee which is
15. being denied an opportunity to review this very serious change
16. in elementary and secondary education in Illinois. According to
17. the Chicago Teachers' Union...

18. CHAIRMAN: (SENATOR BERMAN)

19. Senator Rock.

20. SENATOR ROCK:

21. When you say denied, Representative, there is, in fact,
22. a Committee of the Whole at which all members of the Elementary
23. and Secondary Education of the House are cordially invited. It's
24. going on at this very moment.

25. REPRESENTATIVE GAINES:

26. It still doesn't give the committee...Elementary and
27. Secondary Education Committee an opportunity, with due respect
28. to the distinguished President of this Body. That's Committee
29. of the Whole. That's not the Elementary and Secondary Education
30. Committee, as such. According to the Chicago Teachers' Union,
31. more of their members live in my district than any other district
32. in Chicago. They are my friends, neighbors and supporters. It's
33. also the district that elects Senator Chew and Representative

1. Ewell. The...residents of my district own their own homes. We
2. are a taxpaying district so we are concerned very much about
3. taxes and how they are used. Also living in my district, is
4. State Comptroller Roland Burris, who was not invited to take
5. part in this meeting that resulted in this bill. My district
6. adjoins the Twenty-sixth District which for a number of years
7. sent Cecil Partee here, who is the past-president of this
8. illustrious chamber and who is now City Treasurer and he also
9. was not invited to attend this star chamber meeting that resulted
10. in this catastrophe. The people of my district keep asking
11. and everywhere I go they want to know two things. Why aren't
12. you finding out who took the money and disappeared with it?
13. Why aren't you trying to find out who created this mess and the
14. second question is, why is it that the City Comptroller and
15. the State Treasurer were in on the meeting and the State
16. Comptroller and the City Treasurer were not in on the meeting.
17. It can't be political because all four of them are Democrats.
18. The only difference is race. The people of my community are
19. appalled that such distinguished black elected officials in
20. the fiscal area were not included in an effort to solve the
21. crisis that involves mostly black children. Is there some other
22. reason they weren't there? If so, I'd like to know it so I can
23. give them an accurate answer when they ask me when I go back
24. and also, why not allow those of us who are opposed to this
25. matter the same opportunity to have our lawyers and financial
26. experts to go over this bill as the team of lawyers as was
27. testified here went over it to prepare it last night? Why can't
28. we wait a week so we can have the president of Independence
29. Bank, the largest black bank in the world, former member of the
30. Chicago School Board, look it over. Why can't we go back and
31. have the Cook County Bar Association, composed of brilliant
32. black lawyers, look it over from a legal point of view. It
33. may well be the best plan, but we want to have an opportunity

1. to study it and find out if it is the best plan and if it's not,
2. like to have time to prepare the type of amendments and suppor-
3. tive testimony that the Governor and the Mayor had here today.
4. That is the issue. Proper representation by the black community
5. in solving a problem that basically concerns us. As I said
6. before the news media, nobody they are talking about for this
7. banker committee has any children in the school system and
8. none of them have any black children. Thank you.

9. CHAIRMAN: (SENATOR BERMAN)

10. Thank you. Any questions of Representative Gaines?
11. Thank you, Representative Gaines. You certainly did. Senator
12. Rock, for what purpose do you arise?

13. SENATOR ROCK:

14. Thank you, Mr. President...Mr. Chairman, I would move
15. now that the Committee of the Whole do arise.

16. CHAIRMAN: (SENATOR BERMAN)

17. All those in favor signify by saying Aye. Opposed. The
18. motion carries and the Chair extends the...the thanks to all
19. of you who have remained to this point.

20. PRESIDENT:

21. All right, with leave of the Body, the Senate will reconvene
22. in its Regular Session. Message from the House.

23. SECRETARY:

24. A Message from the House from Mr. O'Brien, Clerk.

25. Mr. President - I am directed to inform the Senate
26. the House of Representatives refused to recede from their
27. Amendment No. 1 to a bill with the following title: Senate
28. Bill 769. I am further directed to inform the Senate the House
29. of Representatives requests a First Conference to consist of
30. five members from the House and the Speaker has appointed the
31. members on the part of the House.

32. PRESIDENT:

33. Senator Shapiro.

1. SENATOR SHAPIRO:

2. Mr. President, I move we accede to the request of the
3. House and that a Conference Committee be appointed.

4. PRESIDENT:

5. The question is shall the Senate accede to the request
6. of the House that a Conference Committee be appointed. All
7. in favor signify by saying Aye. All opposed. The Ayes have it.
8. The motion carries and the Senate does accede to the request
9. to appoint a Conference Committee. Motions in Writing.

10. SECRETARY:

11. I move that Senate Rule 5 be waived and that the Senate
12. Committee on Elementary and Secondary Education be discharged
13. from further consideration of House Bill 303 and that the bill
14. be read a second time and be placed on the Calendar on the
15. Order of 3rd reading. Signed, Senator Gitz.

16. PRESIDENT:

17. Senator Gitz.

18. SENATOR GITZ:

19. Mr. President, I don't know if an explanation is necessary,
20. but House Bill 303 has been asked for by the Scholarship
21. Commission so that we can put an amendment on. Shortly, the
22. Auditor General will release a report in which the entire State
23. program, the Full Faith Credit of the State will be questioned
24. because of a technical defect in the amendment that was passed
25. in 1972. Those defects, for anyone who is interested, are
26. number one, that it did not pass by a three-fifths vote and
27. number two, there was no Statutory limitation. Unless this bill
28. is discharged, put on the Calendar in the Order of 2nd reading,
29. advanced to 3rd and amended and sent out of here, we will have
30. a cloud develop over the entire reimbursement for the Guar-
31. anteed Loan Program.

32. PRESIDENT:

33. All right. Any discussion? If not, you have heard the

1. request. Is leave granted? Leave is granted. Further business
2. to come before the Senate? All right. On the Order of House
3. Bills 2nd Reading, House Bill 303. Read the bill, Mr. Secretary.

4. SECRETARY:

5. House Bill 303.

6. (Secretary reads title of bill)

7. 2nd reading of the bill. No committee amendments.

8. PRESIDENT:

9. Any amendments from the Floor?

10. SECRETARY:

11. No Floor amendments.

12. PRESIDENT:

13. 3rd reading. Further business to come before the Senate?

14. If not, Senator Shapiro moves that the Senate stand adjourned

15. until ten o'clock a. m., Friday, January 11th, ten o'clock a. m.

16. tomorrow morning, Gentlemen. Thank you all for your endurance.

17. Senate stands adjourned.

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