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GETTING A GRASP ON THE GLOBAL ECONOMIC CRISIS SUMMARY OF POTENTIAL ISSUES

SUBMITTED TO PRESIDENT ELECT OBAMA TRANSITION TEAM

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December 3, 2008

The effects of the financial crisis are ricocheting around the globe, and the number of taxpayer dollars required to clean up the current state of affairs grows daily. Every day, more and more questions arise about how the global economic crisis will affect local economies and our individual school systems' fiscal stability. Undoubtedly, school systems have thought about some of the most obvious issues, but have they considered the bigger picture: the affects our school systems Nationwide could still be feeling years after the current crisis is "under control"?

While ASBO may not yet have all of the answers, we do have some of the questions and are beginning to work with leading international economists as well as some of our nation's top business leaders to gather critical information that will help our members prepare for and deal with what lies ahead. This month (December 11,12), ASBO will be holding an economic summit with some our nation's best economists, business and school leaders as we all attempt to answer critical questions facing our profession, our school systems, and our communities. We will report the results of this meeting around the middle of January 2009. This document will serve as a resource and be made available to any school system, person or agency who would like to access it.

Until then, we have compiled a short list of potential immediate and long-range impacts on our school systems, communities, and the various business factions. We have encouraged school systems to use these items as a basis for discussions with their cities, counties, provincial, and jurisdictional leaders as they begin to analyze potential budget implications.

These are discussions that cannot be held in isolation. They are complex issues that will require complex collaborations if we are to deal successfully with these turbulent times.



Potential immediate and long-range issues for discussion include

- Reduction of property tax collection issues relative to mortgage foreclosures
- Erosion of property tax base based on assessed valuations
- Re-evaluation of residential and business tax assessments
- Potential mill levy increases to accommodate long-term debt payments
- Impact on any jurisdictional spending caps
- Effect on credit ratings (Moody's, S&P, Fitches, etc.)
- Capital construction
- Government Obligation (GO) bonds
- Cash flow/lines of credit
- Short- and long-term borrowing
- Tax anticipation notes
- Investments-erosion principal
- Unanticipated student decline due to various economic factors
- Increased participation in the federal free and reduced-price meal programs
- Unanticipated expenses due to various economic issues (increases in shipping and costs of goods and services)
- Ability or inability to enter into lease purchase agreements

While this list is nowhere near inclusive to all issues, we hope it spurs some strategic thinking as school leaders move forward to proactively deal with these economic issues.

What can be done to help?

Many of the issues listed above have the propensity to thrust a school system into bankruptcy with little or no warning. Most school systems are funded with finance formula's that utilize local property taxes as a foundation for that funding. Due to the large number of foreclosures, decreased property tax collections and the erosion of the tax base is inevitable. But, schools won't experience the full effect for at least 8, 10, or even 12 months from now based upon how property taxes are collected, received, and paid to school systems.

Some school systems, for a variety of economic reasons, will be unable to raise mill levies to meet their long term debt obligations, hence potentially defaulting on their capital bond payments. This will have a domino effect not only on the schools, but those who financed the bonds. In the case where bonds were insured, those insurance companies may experience huge claims, potentially draining their resources and reserves.

If the Obama Administration entertains the idea of an economic recovery package for our Nation's Schools, these are areas that should command some attention. While there are many areas where additional dollars could be utilized, these few areas will have long range and far reaching effects not only on schools but our community as a whole. A recovery package focused in these areas will not only benefit our schools but will also have a huge positive economic effect on our communities and businesses.

Just as varied are our Nation's schools are their individual needs. One key element of any recovery package will be providing flexibility for school systems to utilize any funding to address their own individual needs.



Some school systems will need help with everyday cash flow issues because of an eroding tax base and low property tax collections. Still others may have issues with facilities and construction that need to be addressed. Flexibility will be the key to a recovery package being successful. School systems must be encouraged to utilize any recovery package funds on one time expenditures since a recovery package is not a continual source of revenue.

As you can see the issues are many and varied. It becomes very difficult reducing these issues to paper and still able to provide any level of detail for the transition team. Should the team need additional detail or have further discussion on these or other items, ASBO International remains ready, willing and available to meet with any of the Obama Transition Team/Administration as you move forward addressing the needs of our Nation's children. John Musso can be reached anytime at 571-243-9100 or jmusso@asbointl.org.

ASBO International thanks the Obama Transition Team/Administration for being proactive in this area. As all of you, we remain committed to the children in our Nation's classrooms.