ILLINOIS STATE BOARD OF EDUCATION MEETING
December 18-19, 2002

TO: Illinois State Board of Education
FROM: Robert E. Schiller, Superintendent
David Wood, Director


Staff contact(s): Dave Wood and Gary Ey

Purpose of Agenda Item
- Explain the deteriorating financial condition of Livingston School District 4, since approval of its financial plan on June 22, 2002.
- Document inconsistencies between the school district’s approved Fiscal Year 2002 financial plan and their Fiscal Year 2002 audit that warrant imposition of an involuntary Financial Oversight Panel.
- Show that the districts approved Fiscal Year 2003 financial plan will need to be amended significantly to obtain short and/or long debt to meet the districts current cash flow needs.

Expected Outcome(s) of Agenda Item
- The Board will understand the financial history and current status of the Livingston school district.
- The Board will approve an involuntary Financial Oversight Panel to manage the district’s finances and assure fiscal and educational continuity.
- The three Financial Oversight Panel members will be appointed as required under Article 1B. Staff have already begun the search for qualified candidates.

Background Information
Livingston CCSD 4 was certified in 1988 pursuant to Section 1A-8 of the School Code because they had issued Teachers’ Orders and adopted budgets with expenditures exceeding revenues and reserves for two consecutive years. Since then, the district has steadily retired outstanding debt in modest increments of $10,000 to $15,000 per year. At the June 22, 2002 State Board meeting, the district’s Fiscal Year 2003 financial plan was approved contingent on continued reduction of their debt.

When the Fiscal Year 2002 audit was received, the following concerns were noted:
- Combined Operating Fund Balances deteriorated from a FY01 deficit of $76,388 to a FY02 deficit of $311,182.
• The Fund Balance to Revenue Ratio deteriorated from a FY01 negative of 5.03% to a FY02 negative of 21.12%.
• The FY02 Annual Financial Report reflected negative cash of $297,000, requiring immediate resolution by the auditor and district.
• The district’s overall finances have deteriorated so significantly it is estimated they will have to obtain Tax Anticipation Warrants or other debt in February or March, 2003 to maintain an adequate cash flow and revenues to complete the FY03 school year. None of this additional debt has been approved in the district’s FY 2003 financial plan which requires prior approval by the State Board.

The FY02 audit confirms that the district did not adhere to its approved FY02 financial plan and this constitutes grounds for appointment of an involuntary Financial Oversight Panel similar to the case in East St. Louis School District 189.

Establishing a Financial Oversight Panel for Livingston School District 4 will provide immediate financial control, accountability and justification for securing additional short and long term debt. A Financial Oversight Panel will provide a necessary public forum for understanding the true financial position of the district and how it deteriorated.

Once a Financial Oversight Panel is in place, they will undertake all duties and responsibilities required by law and may recommend a state Emergency Financial Assistance Grant, for up to $57,000 ($250 per student) and an Emergency Financial Assistance Loan for up to $228,000 ($1,000 per student).

Analysis and implications for Policy, Budget, Legislative Action and Communications

Staff have worked closely with the district Superintendent, Board and Regional Superintendent and will continue to evaluate the district’s FY03 budget to understand how the Financial Oversight Panel can get control over current expenditures and revenues. See the attached profile for a better understanding of the district.

Section 1B of the School Code provides the State Board authority to appoint an involuntary Financial Oversight Panel when a certified district has not adhered to its approved financial plan. The district passed a resolution on November 19, 2002, to petition the state for a voluntary Financial Oversight Panel and subsequently rescinded that on December 4, 2002.

There is precedence for establishing an involuntary Financial Oversight Panel when a district does not comply with their financial plan in the case of East St. Louis School District 189. Staff believe it would be in the best interests of the students and the district to proceed with the appointment of a Financial Oversight Panel which can then work collaboratively with the district, board and superintendent. The situation in Hazel Crest 152.5 illustrates that the General Assembly expects quick and decisive interventions when there is great risk of interrupted educational services.
The State Board of Education has sufficient appropriations in its Emergency Financial Assistance Fund to make both an Emergency Financial Assistance Grant and Loan, if the FOP recommends that is necessary to maintain educational services in the district. We do not anticipate the need for special legislation similar to that which was necessary for Hazel Crest 152.5; however, the General Assembly has asked the State Board to develop legislation to provide alternatives to help failing districts or establish limits to prevent districts from getting into such financial situations.

**Superintendent’s Recommendation**
Approve the immediate appointment of an involuntary Financial Oversight Panel for Livingston School District 4 as authorized in Section 1B of the School Code.

**Next Steps**
Inform the local Board of the creation of the FOP and the names of the three persons who serve on it.