Agenda Topic: Financial Assurance & Financial Profile Systems

Materials: To be distributed at Board meeting

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Purpose of Agenda Item

• To release the final Financial Watch, Financially Certified, and Financial Oversight Panel Lists for 2002 predicated upon the current Financial Assurance and Accountability System (FAAS).

• To highlight key indicators of the proposed Financial Profile for Illinois School Districts, which will replace FAAS.

• To describe how the agency will target financial consulting assistance to school districts in need of such assistance.

Expected Outcome(s) of Agenda Item

• Accept the 2002 Financial Watch, Financially Certified, and Financial Oversight Panel Lists and bring closure to a process dating back to the late 1980s.

• Board and public awareness of the proposed framework for a more comprehensive Financial Profile for school districts.

• Board understanding of how the School Business and Support Services Division will provide on-site financial consulting services.

Background Information

The State Board of Education has been involved in monitoring the financial health of school districts for a long time. Since 1988, it has evolved from a simple Financial Watch List to instead a comprehensive Financial Assurance and Accountability System (FAAS).
The purpose of this process is to identify schools with financial trends that are leading to increasing financial difficulty and to establish a point at which they are recognized as being in financial difficulty and requiring interventions up to and including state board oversight.

The ultimate goal of characterizing the financial health of school districts is to encourage and assist districts and their communities to take the appropriate spending and revenue actions necessary to maintain a positive financial position.

In the past, the system has placed too much emphasis on only one measure of financial health—the ratio of fund balances to revenue. Only a small number of districts fell below the line established for that measure. Many districts with severe financial problems did not make the list, and the criteria did not provide a good barometer of looming financial problems.

A year ago, staff advised the Board that a set of measures would be developed to consistently profile the financial health of all school districts. Last October a preliminary profile was presented to the Board and in January the Chicago Tribune ran an article identifying nearly half the school districts in the state as in financial difficulty based upon yet a different combination of indicators.

While you can debate whether the measure the Tribune used is as appropriate as the current FAAS ratio, we continue to believe that a more comprehensive set of measures is necessary to characterize the financial health of school districts. At this meeting, staff will propose specific measures in addition to the FAAS ratio that will be used to characterize the financial health of school districts. At this point, however, we are not yet in a position to identify exactly what the “cut scores” are that would characterize that a school district is in modest to severe financial difficulty.

In addition to providing information, the system has allocated services to school districts from technical assistance to oversight panels. The proposed School Financial Management Support System will expand this aspect of the system to target school districts before they get into financial difficulty. Staff will assist districts in analyzing financial data, claiming and accounting for state and federal funds, interpreting funding legislation, and understanding sound financial management practices.

The Framework for development and implementation of the new Financial Profile for Illinois School Districts is a general guide that staff will use to conduct the "pilot" phase of the Profile system over the coming school year. This process will provide information to establish the “cut scores” as well as presentation of the data. It is also possible that the pilot stage will identify additional measures. The goal is to bring a new set of measures and a user friendly profile to the Board and be applied to the 2001-2002 Annual Financial Statements.
Analysis and Implications for Policy, Budget, Legislative Action and Communications

**Policy Implications:**

The criteria and data used to profile the financial health of school districts and designate school districts in financial categories has significant implications, as does the relationship between this financial designation system and the academic designation system.

**Budget Implications:**

Staff are being reassigned to serve as Regional Finance Consultants at no additional expense to the agency, regional superintendents or local school districts.

**Legislative Implications:**

There are no immediate legislative implications.

**Pros and Cons of Various Actions**

The Board is not required to take any action at this time.

**Superintendent’s Recommendation**

**Next Steps**

- Staff will assess the two remaining certified districts on the “Certified In Financial Difficulty” to determine if those districts have improved sufficiently to be recommended for removal from that category this year
  - Spring Lake CCSD #606 (Madison)
  - Livingston CUSD #4 (Tazewell)

- Staff will conduct further financial analyses of the districts designated on the Financial Watch List and thereby determine if any should be recommended for certification under Section 1A-8.

- Staff will provide a mid-year update to the State Board on the development and piloting of the Illinois School District Financial Profile that is anticipated to be fully implemented in late 2003.