TO: Illinois State Board of Education

FROM: Robert E. Schiller, Superintendent
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Agenda Topic: Discussion Item: School District Financial Profile

Materials: Sample Profile

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Purpose of Agenda Item

• To update the State Board on the development and implementation of the proposed School District Financial Profile which replaces the Financial Assurance and Accountability System (FAAS).

• To explain the overall framework and benefits of the School District Financial Profile.

Expected Outcome(s) of Agenda Item

• The Board will understand the expanded capacity of the School District Financial Profile to profile data in a variety of financial and graphic contexts and how it will be used as a financial designation system.

• The Board will understand the intervention services to be provided through the regional-based finance consultants.
Background Information

In March, 2002, staff met with the Board to release the final Financial Watch, Financially Certified, and Financial Oversight Panel lists under the FAAS measure and process. At that time, the Board encouraged staff to finalize a new designation system and report progress by mid-year. The proposed School District Financial Profile is ready for use as an internal management tool and will be demonstrated to the Board for discussion during the October meeting.

This past summer, staff engaged a number of diverse partners throughout the state as it developed and refined the School District Financial Profile, including representatives of the Illinois Association of School Administrators, Illinois Association of School Boards, Illinois Association of School Business Officials (IASBO), the IASBO Board of Directors, the Management Alliance, the Large Unit District Administrators Association (LUDA), Ed-Red, Chicago Public Schools District 299, the Illinois Financial Advisory Committee, and the State Board’s Finance Committee. Following is an overview of the School District Financial Profile that has been developed, based on the input of these representatives.

School District Financial Profile Overview

Purpose
The School District Financial Profile uses data collected annually through the Annual Financial Report (AFR) process for three purposes:

1.) **Designation System**: First and foremost, the School District Financial Profile is a designation system of five indicators that culminate in a financial score for every Illinois school district. Each district will receive a financial designation based on the score.

2.) **Trend and Comparative Data Analysis**:
   a. Trend Analysis-- Financial data and graphs provide a five-year summary of each district’s operating funds.
   b. Comparative Analysis: District characteristics from the School Report Card and the ILEARN systems are integrated into the School District Financial Profile to highlight key characteristics of the district.

3.) **Intervention Services**: Through an organized system of support, a team of 6 regionally-based Finance Consultants will provide customized technical assistance and financial management services to school districts depending on their financial designation.
Financial Indicators

Identifying financial indicators and establishing measures for the designation aspect of the School District Financial Profile was the primary purpose in meeting with the various focus groups. Two recurring comments came out of these discussions that should be considered:

1. The data was based on historical financial records at a given point in time and did not reflect projections, therefore, the system was not dynamic; and

2. Comparability across districts is complicated because 95% of the districts are on a cash basis of accounting and 5% are on a modified accrual basis of accounting.

Despite these drawbacks, the focus groups agreed that a designation system was important and that there should not be only one indicator. Additional suggestions for indicators included:

1. **Fund Balance to Revenue Ratio**—A stable indicator of the overall financial position of the district for the year. It is the result of dividing the ending fund balances in the educational, operations and maintenance, transportation and working cash funds by the revenues in the same funds.

2. **Expenditures to Revenue Ratio**—This ratio indicates how much the district spent for every dollar received. The total expenditures for the educational, operations and maintenance, and transportation funds are divided by the total revenues for the same funds.

3. **Days Cash on Hand**—This indicator is a calculation that provides an estimate of the number of days a district could operate if no additional revenue was generated. It is calculated by dividing cash on hand by a ratio of expenditures divided by 360.

4. **Percent of Short-Term Borrowing Remaining**—This is 100% minus the percent of Tax Anticipation Warrants outstanding. (Typically these are debts that will be paid or liquidated within a year.)

5. **Percent of Long-Term Debt Margin Remaining**—Districts incur long-term debt (repaid over more than one year) for major expenses such as the construction of buildings, long-term leases, installment purchases of land, etc.
Designation Categories
In presenting the proposed designation categories of the School District Financial Profile, it is helpful to compare them with the former designation categories under FAAS:

OLD
- Financial Recognition
- Financial Technical Assistance
- Financial Watch List
- Financial Certification
- Financial Oversight Panel

NEW
- Financial Recognition
- Financial Review
- Financial Watch
- Financial Warning

Measurements
Scoring for the School District Financial Profile is based on a three-step process. With the assistance of the focus groups, proposed ranges and weightings were established for each of the indicators. To determine the overall score of each district, various statistical tests are being evaluated for use.

- Ranges of each indicator
- Weighting of each indicator
- Overall Score of the District
Unique Feature
Each district will be provided with a copy of their profile prior to statewide release and will have an opportunity to note any aberrations in their profile, e.g., Cook county property tax disbursements, tax caps, etc.

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

Analysis
The School District Financial Profile is ready for use as an internal management tool to analyze FY02 data from the Annual Financial Reports and to determine the financial condition of schools in Illinois for release in the spring of 2003. It offers expanded measures and a comprehensive system of support to assist in improving the financial condition of school districts in Illinois.

Policy Implications
Many policy implications result from the creation of a designation system such as the School District Financial Profile. A major consideration is the inadequacy of 105 ILCS Section 1A-8 and Article 1B of the School Code in providing the State Board authority to intervene and assist school districts in financial difficulty. The state needs a clear process the State Board and districts can follow to provide an appropriate safety net for students and school districts when the district is on the verge of default and mid-school year closure.

The new indicators of the School District Financial Profile will provide a more accurate barometer of financial problems and trends. The ultimate goal is to encourage better financial practices in school districts by helping districts and communities to understand and evaluate their financial circumstances and to take appropriate spending and revenue actions to maintain positive financial positions. Continuous assessment and monitoring of the School District Financial Profile will be necessary to achieve this goal. Additionally, the relationship between the academic and financial status of districts must be explored.

Budget Implications
The new designation system will require some additional agency resources and expertise for staff and to make the application web-based.

Legislative Action
Section 1 A-8, Article 1B and 1E of the School Code needs to be reviewed and aligned with the proposed School District Financial Profile to meet the needs and demands of issues confronting school districts today in a declining economy.
Communication
The role of communication will be a critical factor as the School District Financial Profile is developed into a web-based application for use by school administrators, school board members, the legislature, and the general public.

Next Steps

Staff will proceed to incorporate FY02 AFR data into the proposed School District Financial Profile for use in the new designations in the early spring of 2003.

The Board will review and approve a new school district financial designation system based on the School District Financial Profile indicators including the scoring criteria at its November meeting.