SUBJECT: Financial Watch List - Analysis on Why the Count Dropped from 145 to 98

Financial Difficulty Correlates with School Reorganization

Since 1988 when the first financial watch list was issued, the total number of school districts in Illinois has declined from 981 to 924. The corresponding number of school districts on the well publicized financial watch list has paralleled this downward trend. The paradox is that many of the districts that once appeared on the financial watch list have either consolidated, annexed or dissolved in order to ensure an adequate education for their children.

State's Cash Flow impacts the Watch List

Last year's 1993 financial watch list witnessed the number of districts rising significantly versus declining. This was directly attributed to the state's own cash flow difficulties. Although General State Aid entitlements have always been disbursed by the Comptroller's Office on a timely basis, Categorical program payments, (e.g. Special Education, Transportation, etc.) have been delayed by as much as two months. This delay in state disbursements forced local school districts to seek additional short term borrowing in order to meet their own operating cash flow needs.

74 Districts May Have Come Off the Watch List but 27 New Districts Came on It

For the 1993-94 school year, a total of 74 school districts were removed from the watch list, 27 districts were added and 61 districts continued for another year along with the 10 districts that were certified by the State Board of Education as "Districts in Financial Difficulty".

Analysis of the 74 Districts that were removed from the Watch List

- 31% issued long term debt. Districts issued $50 million in bonds. Many districts in Cook County and downstate anticipated the passage of tax caps for their counties and therefore began to build up their reserves. Districts also converted short term loans into long term debt. Long-term debt has helped insulate districts from being put on the watch list. A classic case is Bloom Township High School District 206 in Cook County whose debt, by special legislation, now exceeds the normal debt limits for schools in Illinois. This district is still not on the financial watch list yet they have been certified as a district in "Financial Distress."
• **53% increased revenues.** Most districts accomplished this by either successfully passing tax referendum or having increased property wealth. Some districts experienced increases in their General State Aid entitlements, which could be attributed to the positive adjustments to their low income student counts because of the 1990 Census.

• **10% reorganized.** These districts were forced to do this primarily because of their financial distress and not necessarily because of better educational opportunities.

• **7% made staff and program reductions.** These districts improved their balance sheets by applying various forms of budget cuts and not through increasing revenues.

**Watch List Demographics**

The districts that appear on the financial watch list have not changed dramatically over the years. Half are unit districts and the other half are dual districts with the majority of them being elementary districts. Half of the state’s counties have at least one district on the watch list and nine of the counties have more than half of their school districts on the watch list.

**The Need to Enhance the Early Warning System for School Finances**

It has been recognized for some time that the financial watch list was not the most perfect measure for identifying school districts in financial distress. The Quality School Initiative (QSI) concept paper pointed out the need to enhance the early warning system for school districts with financial difficulty. Therefore, the Illinois State Board of Education has asked the Illinois Financial Advisory Committee to develop a completely new approach in evaluating and reporting the financial health of school districts in Illinois.

We must always remember that whether a school district is on or off the financial watch list, the important message is that all school district Boards of Education and Administration need to develop and adhere to educational and financial strategic plans that will ensure a sound and stable learning environment for each and every child.