



Illinois State Board of Education

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Christopher A. Koch, Ed.D.
State Superintendent of Education

April 26, 2010

The Honorable Jim Watson
State Representative, 97th District
200-4N, Stratton Office Building
Springfield, IL 62706

Dear Representative Watson:

Thank you for your letter of April 15, 2010 regarding the ability of school districts to implement a six month budget in place of a fiscal year budget.

Article 17-1 of the *School Code* [105 ILCS 5/17-1] states, "The board of education of each school district under 500,000 inhabitants shall, within or before the first quarter of each fiscal year, adopt and file with the State Board of Education an *annual balanced budget* [emphasis added] which it deems necessary to defray all necessary expenses and liabilities of the district, and in such annual budget shall specify the objects and purposes of each item and amount needed for each object or purpose." Unless the statutory language is amended, districts will be required to adopt an annual budget. Please also note districts are well into the budgeting process.

For General State Aid (GSA), mandated categorical (M-Cats), and state grants, there are two basic ways the State can effectuate a six month budget:

Impact on General State Aid

- (1) The State could leave the foundation level, which is in the BIMP bill, at the specified annual amount and appropriate an amount that is equivalent to half of the amount required to fully fund the foundation level. In this case the GSA entitlement would be significantly prorated as the appropriated amount would be inadequate to fund the specified annual foundation level. The first proration is applied against the poverty amounts in the GSA formula. These are the districts that require funding the most. For the second six month budget for fiscal year 2011, dependent upon the appropriation, GSA for districts may increase, decrease, remain the same, or be zeroed out. Districts cannot maintain their budgets if the GSA is basically prorated at 50% for the first six months, especially if the foundation level is decreased to \$5,669 from the current foundation level of \$6,119. As required by statute, prorations in GSA are first computed as reductions in the poverty grant. Reductions in overall GSA funding would disproportionately impact those districts with high poverty populations and less revenue available to them. OR

- (2) The State could leave the foundation level, at the specified annual amount and appropriate an amount that is specified for six months, July 2010 through December 2010. In this scenario districts could receive full payments for July through December, 2010, but they would not know the funding level for the remaining months of the fiscal year, January 2011 through June 2011. Districts would have to assume they will receive the same amount for the remaining six months which may be an erroneous assumption.

Despite the approach the General Assembly takes, it would be nearly impossible for school district administrators to put together a sound budget. If the General Assembly tried to cut the foundation level in half to avoid the proration issue, there could be other consequences. Currently, if a district's available local resources (per average daily attendance) is 93% to less than 175% of the foundation level, then the district is an Alternate Method District, and if a district's available local resources (per average daily attendance) is greater than or equal to 175% of the foundation level, then the district is a Flat Grant District. If this definition is not changed and the foundation level is cut in half, many districts would become flat grant districts (and possibly be eliminated).

In addition, these six month allocations could lead to unintended consequences in the State's efforts with respect to federal stimulus funds. The federal government could view the six-month budget adversely when evaluating Illinois' adherence to Maintenance of Effort requirements for American Recovery and Reinvestment Act State Fiscal Stabilization Funds. Further, the federal government could view a six-month budget negatively when evaluating Illinois' commitment as we seek additional federal funding through our application for Phase II Race to the Top.

Impact on Mandated Categoricals and Other Grants

Similarly, for the mandated categorical (M-Cat) and other grants, depending upon the appropriation language used, districts will either know the amount of their first two M-Cat payments only or the first two M-Cat payments will have to be prorated more than 70%. (50% due to a six month budget payable over a twelve month period and 20% due to a decreased appropriation proposed from fiscal year 2010.)

Other Practical Challenges for School Districts and Local Education Agencies

Between salaries and benefits, more than 70% of districts' expenditures are already established for fiscal year 2011. The School Code does not allow for a reduction in force at this time as most certified staff must be given notice of release 60 before the last day of school. As a majority of the schools end in late May or early June, the 60 day period has lapsed and staffing levels are already determined for fiscal year 2011; in other words, districts cannot reduce their projected staff expenditures at this time.

If GSA and M-Cats are prorated the first six months by 50% to 70%, districts will not have enough revenue or cash flow to meet payroll and benefits. This will result in borrowing; however, since future revenues would be unknown, lending institutions would be hesitant or unable to lend districts money. If

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districts receive the entire amount in GSA and M-Cats for the first six months, they will not know what to budget for the last six months and will not be able to reflect that amount in their budgets without making unsupported and possibly erroneous assumptions. If funding decreases with the passage of the second six month budget, districts will again have inadequate revenue or cash flow to meet their obligations.

Districts have already made significant reductions in force. With a six month budget, districts will not be able to make adequate staffing decisions. Due to the uncertainty, they will not be able to reinstate staff that they sorely need to provide core education programs to students. If the funding becomes available during the second half of the year, it will be too late in most program areas to reestablish education programs for students. Or, districts may make an incorrect assumption that funding will be coming and reinstate staff only to find the funding did not materialize in the second half of the fiscal year.

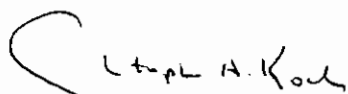
School Districts are already covering cash flow related to the state's inability to make payments on a timely basis. To ask them to further underwrite the state's difficulty in passing a twelve month budget for fiscal year 2011 would put a significant impact on their financial condition. As of April 22, 2010 the last payment made to school districts for state funded programs other than General State Aid was September 30th, 203 days past due. This equates to \$1,252,935,112.76 currently due to educational entities.

Finally, the School Code requires districts to adopt a balanced budget (see 105 ILCS 5/17-1) or they are required to submit a Deficit Reduction Plan to ISBE. Unless this section of the Code is changed, the passage of a six month revenue plan would result in a majority of the State's school districts submitting a Deficit Reduction Plan.

Please remember that this does not only impact school districts, but a six month budget will also impact special education cooperatives, area vocational cooperatives, and all other educational entities. Many of these entities develop annual tuition costs for students participating in their programs which are billed to school districts on a monthly or quarterly basis. These cooperatives will need to adjust tuition cost estimates for the fall based on the various criteria described above. The effect will be to put further pressure on local districts to fully underwrite these program costs beginning with the first invoices in August, yet districts would not know their actual state aid receipts.

I would be more than glad to sit down with you to further discuss these implications. Thank you for showing your concern for district staff and students in these difficult times.

Sincerely,



Christopher A. Koch, Ed.D.
State Superintendent of Education