



2. Any potential impact of the Charter School on the District's finances is not found to be a sufficient reason to reject the Charter School given that (i) the Charter School can help to ensure that District 187 will continue to receive federal Impact Aid funds; and (ii) the Charter School will offer a high-quality public school option for students of the District.
3. LEARN Charter Schools have consistently outperformed District 187 on state assessments, and opening a LEARN Charter School in North Chicago will offer students a high quality choice and may help improve school programming across the District.

## **II. Statement of Facts**

Under Section 2-3.25f of the Illinois School Code, the State Board has the authority to take aggressive actions to promote stability and improve student achievement in chronically failing school districts, up to and including removing the school board members or dissolution of the district. In 2009-2010, the District 187 entered Academic Watch Status Year 4 due to consistent failure to make Adequate Yearly Progress (AYP). In August 2010, the State Board authorized the State Superintendent to take all actions available under applicable law and/or intervene in the District to help address the serious academic, financial, and operational challenges faced by the District.

After consideration of all available options, the State Board decided to pursue a voluntary oversight arrangement with the District. In November 2010, the District and the State Board entered into the above-referenced Intergovernmental Agreement to institute additional oversight by the State Board for District planning and operations. In its oversight capacity, the State Board has appointed a liaison to the District (the "Liaison"). Under Sections 3 and 6 of the Intergovernmental Agreement, the Liaison has the authority to review and to approve or deny any proposed personnel, contracting, or budgetary decisions of the District. In the event of a contested matter, the Liaison is authorized to refer the matter directly to the State Superintendent for a determination and/or action on behalf of the District.

Throughout the spring and summer of 2011, State Board senior staff had multiple meetings with District Administration, representatives of the Naval Station Great Lakes, the Lake County Regional Superintendent's Office, and other stakeholders to discuss various educational options for District 187. As a result of these meetings, staff determined that it was in

the best interests of the District to consider a charter school option for North Chicago as one of multiple solutions being pursued in the District. With State Board staff direction, on October 18, 2011, the District released a Request for Proposals for a charter school that would be authorized by the District. On December 19, 2011, the District received 3 complete applications from the following charter operators: LEARN; Sabis Educational Systems, Inc.; and Concept Schools. Applications were reviewed by a Charter Evaluation Review team made up of the North Chicago District administration, representatives of the Lake County Regional Office of Education and the Navy, regional and charter educational experts, and local community members. State Board staff provided technical assistance throughout the review process but did not participate in any final decision-making on the applications. Following a thorough review and interviews by the Charter Evaluation Review team, the LEARN application was recommended to the D-187 School Board. The other two applicants voluntarily withdrew their applications.

In accordance with Section 27A-8(c) through (e) of the Illinois School Code [105 ILCS 5/27A-8(c) through (e)], the D-187 School Board held a public meeting on February 2, 2012 to gather more information about the LEARN charter application, and on March 1, 2012, the D-187 School Board held a special meeting to publicly vote on whether to approve or deny the application. The Board voted 4-2 (with one other member abstaining) to deny the application. Two military representatives to the D-187 School Board voted to approve the application, but their votes are not counted in deciding District actions.

### **III. Findings of Fact**

#### **1. Federal Impact Aid**

The federal Impact Aid Program provides financial assistance to local school districts that have federal land within their boundaries to offset the loss of revenue due to the presence of tax exempt federal property, or the increase in expenditures due to the enrollment of federally-connected children in the public school system. The amount of impact aid a federally-connected school district receives is directly proportionate to the enrollment of military students. Federal law further provides heavily impacted status to school districts whose student body is at least 35

percent federally-connected, and in some cases 40 percent federally-connected. *See* 20 U.S.C. §§ 7703(b)(2)(B)(i)(II)(bb); 7703(b)(2)(C)(i)(I)(bb).

North Chicago is home to Naval Station Great Lakes, and thus receives Impact Aid. However, North Chicago's population of military students has steadily declined over the last ten years. According to U.S. Department of Education data, for purposes of calculating payment year 2011, only 22 percent of the District's public education students are federally-connected. Nevertheless, District 187 is currently classified as heavily impacted under the Impact Aid Program because of certain carve-outs and/or amendments to the legislation that have been facilitated by the District's representatives in Congress. The District's heavily impacted status is currently frozen due to a provision in the law that allows for no change in a district's eligibility status while a military housing project is underway. 20 USC § 7703 (b)(2)(H). Naval Station Great Lakes began a housing privatization project in 2004, which, due to its pending status, continues to meet this exception. Once the project is complete, however, Illinois Senators Mark Kirk and Dick Durbin have jointly warned that District 187 will immediately cease to meet the criteria needed to qualify for heavily impacted status. If the District loses its heavily impacted status, the District will then only qualify for regular impact aid, a decrease in federal assistance from between \$6-7 million per year to approximately \$1 million.

At the March 1, 2012 school board vote, certain members of the D-187 School Board stated on record that they did not believe the District was at risk for losing impact aid, because even if their military enrollment numbers continue to decline, federal lawmakers will likely amend the law again to prevent dissolution of the District. This is a more recent example of the District's apparent failure to appreciate the tenuousness of its heavy impact status. A more glaring example occurred in June of 2010 (prior to State Board oversight), when the District's then Business Manager proposed to sell \$39.5 million in revenue bonds that would be funded primarily using federal impact aid. In a detailed, 4-page letter to the District, the State Board's Chief Financial Officer Linda Riley Mitchell strongly cautioned against issuance of the bonds, in part because of the uncertainty of future impact aid payments to the District. Notwithstanding this admonition, the District proceeded with its sale of the bonds. If the enrollment trajectory continues and the District loses its heavily impacted status, then General State Aid or other revenues will need to be diverted from operational needs to pay the debt. If General State Aid

cannot be used, the District may need to levy a tax for the debt payment, in which case the District will exceed its debt capacity and will not be able to obtain future general obligation debt for several years.

In consideration of information received from the U.S. Department of Education and elected officials regarding the future of the federal Impact Aid Program, the District 187 is in real and imminent danger of losing its heavily impacted status, and a charter school provides a viable opportunity for increasing the percentage of Navy children in District 187 to at least 30 percent. Meeting this threshold will preserve the District's heavily impacted status without requiring any amendments to existing Impact Aid law (*see* 20 U.S.C. §7703(b)(2)(B)(i)), a critical target given the uncertainty of the program's future within an ever contracting federal budget.

## **2. Financial Impact to the School District**

Under applicable law, a charter school receives not less than 75 percent and not more than 125 percent of the school district's per capita student tuition, multiplied by the number of students enrolled in the charter school who are resident of the school district. Under this funding scheme, all charter schools will have some financial impact on the school district in which they are located. However, as the courts in *Comprehensive Community Solutions* and more recently in *Rich Township* have opined, "To allow a local school board to deny a charter proposal because it may have an adverse financial impact on the district's budget would defeat the purpose of the statute, which is to create choice and thus competition." *Bd. of Educ. of Rich Tp. H.S. Dist. 227 v. Ill. State Bd. of Educ.*, 2011 WL 6945671, \*17 (Ill. App. 1 Dist. 2011) (quoting *Comprehensive Cmty. Solutions, Inc. v. Rockford School District No. 205*, 216 Ill. 2d 455, 475 (Ill. 2005)).

The potential financial impact of the LEARN Charter School on the District was not cited by the D-187 School Board in its March 1, 2012 public meeting as a basis for denying the LEARN charter proposal. Notwithstanding that fact, State Board staff have analyzed the potential impact of a charter school on the District, using data that was provided to the State Board by District administration, including the District's business manager. According to the

most recent Annual Financial Report for the District, North Chicago's FY11 per capita amount was \$9,624. The State Board staff's analysis based upon the District-provided data indicates that the District can authorize a charter school for the 2012-2013 school year at a per pupil amount equal to 100 percent of the District's FY11 per capita, and 100 percent of the projected FY12 per capita for the 2013-2014 school year, while still preserving overall positive end fund balances in both fiscal years. State Board staff is not able to project the net impact of the LEARN Charter School with specificity in years 3, 4 and 5 of the LEARN Charter School's initial term.

However, staff presumes that the District will adjust its staffing and expenditure levels to reduce the number of students it serves in order to mitigate the financial impact of a decrease in the number of students. Staff also presumes that the presence of a high performing charter school in North Chicago may attract more families with school-age children to North Chicago, including more Navy families, resulting in additional revenues to the District through increases in its General State Aid, federal impact aid, and other state and federal funding sources.

In light of this analysis, an annual per pupil funding amount of *either* 100 percent of the District's then per capita amount *or* \$9,624, whichever number is greater, for the term of the Charter—unless, due to fluctuations in District finances, \$9,624 exceeds 125 percent of the District's then per capita amount, in which case the District will receive 125 percent of such amount—will leave both the Charter School and the District financially secure and solvent and able to withstand the Charter School's establishment.

In addition, any potential financial impact to the District caused by authorizing a charter school is significantly outweighed by the benefits that will accrue to the District through a partnership with the LEARN Charter School Network. As noted above, the presence of a Charter School may help maintain the District's heavily impacted status by bringing military families back into the community and the public school system, preventing a loss to the District of up to \$6 million in federal funds each year. Moreover, the Charter School offers the incalculable benefits of a new, high-quality public school option for students in the District.

### **3. Student Outcomes**

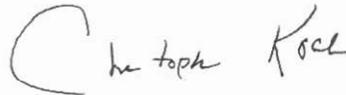
Various indicators of student outcomes and achievement suggest that LEARN Charter Schools are consistently outperforming the District, while serving a much larger population of low-income and minority students.

According to school report card data, in 2011, LEARN's student body across its 4 campuses was 99.9 percent minority (as compared to the District's 93 percent) and 95.3 percent low income (as compared to the District's 64.7 percent). LEARN served a comparatively smaller population of students with disabilities (6.1 percent as compared to the District's 15.9). Yet on the 2011 Illinois Standard Achievement Test (ISAT), a test that is administered to all students in grades 3 through 8, LEARN Charter Schools greatly outperformed the District (with 80.9 percent of LEARN students meeting and exceeding standards on the ISAT as compared with the District's 56.4 percent). Of note, the LEARN Network also outperformed its authorizing school district, CPS District 299 (District 299 had 73.3 percent meeting and exceeding in 2011) and matched the performance of students statewide (across the State 82 percent of students met and exceeded in 2011), a relatively uncommon phenomenon for public schools within the City of Chicago.

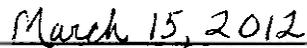
LEARN Charter Schools also had a higher attendance rate in 2011 than District 187 (95.2 percent as compared to the District's 91.6 percent), and a lower chronic truancy rate (0.4 percent as compared to the District's 7.8 percent).

Given this data regarding student outcomes, it is critical that the LEARN Charter School be part of the menu of options available to North Chicago students. As with all charter schools, the expectation is that components of LEARN's successful educational program will be shared with and implemented in other North Chicago public schools where appropriate to help raise the level of achievement across the District.

Given these findings, the decision of the North Chicago Community Unit School District 187 School Board to deny the LEARN Charter School application is not in the best interests of the students and families in District 187. I hereby exercise my authority under Section 6 of the Intergovernmental Cooperative Agreement to overturn the Board's decision and to approve the LEARN Charter School. The basic terms of authorization of the LEARN Charter School are attached to this Order as Exhibit 1. Authorization shall go into effect as of the date of this Order.



Christopher A. Koch, State Superintendent



Date