

CBO/MENTOR PROGRAM

School Fiscal Issues

STAYING OUT OF TROUBLE

AB1200 from an Agency Perspective

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Presented By

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OVERVIEW

- AB1200
- 13 Most Common Mistakes Made by Troubled Districts
- What Happens When.....You Get Into Trouble, and...
- How the Heck do You Get Out?

AB 1200 and Oversight Responsibilities



AB 1200 and Oversight Responsibilities

- AB 1200 (EC 42127) sets financial standards for school districts and includes enough “teeth” to assure adequate oversight...maybe
- AB 1200 was enacted in order to help school districts avoid insolvency, it is a progressive law and it does work!
- AB 1200 created the Fiscal Crisis and Management Assistance Team (FCMAT)
- AB 1200 empowered County Offices of Education with fiscal oversight to follow a progression of interventions:
 - Initiate action if financial problems are discovered
 - Lower a self-rating from “positive” to either “qualified” or “negative”
 - Appoint a fiscal advisor, or more stringent measures

So, How Do Districts Get Into Trouble?



Spotting Trouble—the difference between early recovery and insolvency

- The 13 Most Common Financial Mistakes Made by Districts
 - Overly optimistic estimates of state economics
 - Overly aggressive estimates of enrollment, attendance and ADA
 - Failure to document and monitor budget assumptions
 - Loss of control of staffing levels and costs
 - Underestimating “automatic” cost growth
 - Use of one-time money for ongoing expenses
 - Bad decisions at the negotiating table

Spotting Trouble—the difference between early recovery and insolvency

- The 13 Most Common Financial Mistakes Made by Districts
 - Failure to consider multi-year impact of budget decisions
 - Failure to follow through on budget reductions or recovery plans
 - Inadequate budget monitoring by the superintendent and board
 - Chronic, unplanned deficit spending
 - Inadequate reserves and/or no plan to build reserves
 - Not cooperating with the COE

Overly Optimistic Estimates of State Economics

- The January Governor's Budget proposals are just that – proposals
- Until the Legislature acts, there are no guarantees
 - Most years the Governor is in charge of the budget – especially true this year!
 - The May Revision has required major changes, but it is a proposal as well not an automatic !!!!!
- We have come to expect that the statutory COLA, as well as enrollment growth, will be funded
 - Deficits and budget cuts in the past years should have disproved that expectation—**Proposition 98 guarantee is still in significant jeopardy**
- Budgets based on optimistic projections must have a fallback position

Overly Aggressive Estimates of Enrollment, Attendance and ADA

- Never overestimate ADA!
 - Nearly all state funding is based on ADA
 - The floor on ADA is last year's P-2 ADA
 - You need a sound basis for an estimated ADA above that level
- ADA:enrollment ratios usually change slowly
 - If you are expecting to improve attendance, prove it before you add revenue to the budget
- Enrollment can be calculated using a cohort survival model
 - But must be modified if new information is available – for example, a new housing development
 - Always do a “reality check”
- If ADA is overestimated, adding staff to serve ADA that never shows up creates an even bigger disaster

Failure to Document Budget Assumptions

- Budget assumptions are the basic building blocks of the budget
 - Write and publicize the assumptions on which the budget is based
 - Revenue growth including COLA
 - Enrollment growth or decline
 - Benefit cost increases
 - Program augmentations
 - Post-retirement benefits
 - Fuel and utility costs
 - Costs to open or close a school
 - Test and revise assumptions throughout the budget cycle (they are more often initially wrong than right!)
 - Written assumptions provide linkage to the original budget

Loss of Control of Staffing Levels and Costs

- Personnel costs represent the lion's share of the budget – 80%-90%
 - Numbers of people
 - Costs for salary schedule maintenance
 - Pay raises
 - District-paid benefits
 - All of these factors affect the budget dramatically
- Position control systems control numbers of people, assignments, and, therefore, personnel costs
- Overstaffing, intentional or unintentional, is the single most common cause of budget problems
- Staffing cost numbers are so big that the problem can get out of control quickly
- If you blow staffing costs, there is not enough money in the rest of the budget to fix it – you must address staffing

Underestimating “Automatic” Cost Growth

- Automatic cost increases are pervasive to the budget
 - Step increases for seniority
 - Column increases for professional preparation
 - Fuel and utility cost increases (good luck here!)
 - Health benefit increases (Got Cap?)
 - Workers' Compensation insurance increases
- All of these – and more – factors lead to “uncontrollable” increases in expenditures
- COLA and growth funding increases must cover all of these increases as well as any salary schedule increases

Use of One-time Money for Ongoing Expenses

- Don't spend one-time money on anything that eats
 - How will you feed it next year?
- One-time money should be used carefully
 - Good dollars for reserves or one-time expenditures
 - Equipment, technology upgrades, and other nonrecurring expenditures
- Withdrawals from reserves are one-time revenues – do not use them for ongoing salary or benefit increases
 - Sometimes it is appropriate to use reserves for the retroactive portion of a salary settlement

Poor Decisions at the Negotiating Table

- The negotiations table will have a fiscal impact
- Pressure to give more than you can afford can be tremendous
 - “Giving COLA” and finding another way to pay for everything else is a lethal recipe
- Think, and negotiate, based on total compensation
 - Consider step and column, employee benefits as part of any basis for salary increases
- Language issues also cause financial problems
- The CBO needs to be at the negotiating table and should independently cost out each proposal
- Factfinding isn't fun, but it's better than a bad agreement
- Remember, salary increases compound both horizontally and vertically through the salary schedule

Failure to Consider the Multi-Year Impact of Budget Decisions

- AB 1200 requires districts to consider the budget impact on the current year and two subsequent years
- Multi-year planning does not rely on a crystal ball – it is the mathematical consequences of the actions of today
- Most major budget failures can be traced to specific events and decisions
- The COE should intervene if your multi-year projections are less than positive
- We recommend you do a “sensitivity analysis” on your projections
 - What happens if COLA assumptions go up or down?
 - What if ADA changes? Do Trend Analysis!
- Failure to look to the future may ensure that your own “future” ends

Failure to Follow Through on Budget Decisions

- Difficult budgets require difficult decisions
 - Those decisions are hard to make and sometimes the board takes considerable public punishment for making them
 - But once those decisions have been made, they must be implemented – but often they are not!
 - Positions are not cut
 - Expenditures are not reduced
- Failure to follow through, no matter how good the excuse, requires that the board and superintendent re-address the budget
- Bad news does not get better with age – if the cuts can't be made, develop a new plan early

Poor Budget Monitoring by the Superintendent and Board

- The budget is only a plan and is only as good as its last revision
- Tie changes to the original assumptions so the linkage is clear
- There are at least 5 required “checkpoints”
 - Budget adoption
 - The first interim
 - The second interim
 - The unaudited actuals
 - Receipt of the audited financials
- Those events represent a minimum revision level; most districts need more frequent revision
- The earlier a problem is identified, the more options to fix it

Chronic Deficit Spending

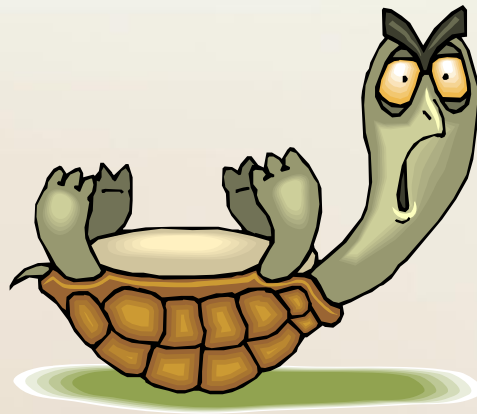
- Deficit spending means we are spending more than we take in
- Some deficit spending may be planned when balances have been built up to allow a large one-time expenditure
- Most deficit spending is unplanned and uncontrolled
- Sooner or later you will run out of reserves
- Address the causes of deficit spending early; make the cuts while they are painful but not life-threatening for the district
- Do Trend Analysis! Deficit spending is the villain of solvency



Inadequate Reserves

- There is no such thing as a good budget without a reasonable reserve
- Reserves are the local buffer that allows problems to be solved locally instead of turning to the COE or the state for help
- The state-recommended minimum Reserve for Economic Uncertainties is just that – a minimum number – most districts need more
- Circumstances that call for higher reserves include:
 - Declining enrollment
 - Rapid enrollment growth
 - Opening or closing schools
 - Basic Aid districts
 - Volatile economic times
- There are no circumstances that warrant lower reserves
 - Temporary shortfall should be fixed immediately

What Happens if Your District Gets into Financial Trouble?



The Role of FCMAT

www.fcmat.org

- FCMAT has a primary mission of assisting school agencies, including charter schools, in the proactive identification, prevention, and resolution of financial problems
- FCMAT staff and consultants perform studies and analyses at the request of school agencies, not just when there is trouble, but to promote effective and efficient operations
- FCMAT may be called in by the district, the County Superintendent, the Superintendent of Public Instruction, the Legislature or the Governor

The Role of FCMAT

www.fcmat.org

- FCMAT can help in
 - Determining the extent of the problem
 - Providing facts that help resolve disputes
 - Developing recovery plans
- FCMAT also advises legislators on the need for state loans
- FCMAT can be a valuable resource before you get into trouble, so ask for help (**management and technical assistance**)
- If you get into trouble, FCMAT will play a role in your recovery

Responsibilities of a Fiscal Advisor

- A fiscal advisor may be assigned by the **County Superintendent** when it is clear a greater level of intervention is needed. A fiscal advisor is more independent and carries a greater level of authority, up to and including staying and rescinding actions of the Board
- It is the fiscal advisor's responsibility to advise the COE and attempt to avert an emergency loan
- When all else fails, the district may need a loan to resolve its financial problems

Responsibilities of a Trustee

- What Happens if a District Receives a State Loan?
 - A bill authorizing the state loan will likely require that a trustee or a State Administrator be appointed
 - If the loan does not exceed 200% of the required reserve for economic uncertainty, a State Trustee may be appointed
 - The Trustee's role mirrors that of the COE-appointed fiscal advisor
 - The appointment of the Trustee continues until the state loan is repaid

Responsibilities of a State Administrator

- What Happens if a District Receives a State Loan?
 - When the state loan exceeds 200% of the required reserve, a State Administrator is assigned
 - The State Administrator functions as the Board and Superintendent rolled into one
 - The Board is advisory only until the State Administrator is replaced by a State Trustee
 - The assignment of the State Administrator is the most severe form of fiscal intervention and signals district takeover by the State Superintendent of Public Instruction



Getting Out of Trouble

- Characteristics of districts that make a successful turnaround
 - Recognize they have a problem
 - Don't mask the problem
 - Take advantage of financial expertise available
 - Work collaboratively with oversight agencies
 - Are part of the solution
- Characteristics of districts that require severe measures
 - Deny they have a problem
 - Resist scrutiny from outsiders
 - Don't seek external assistance
 - Combative with oversight agencies