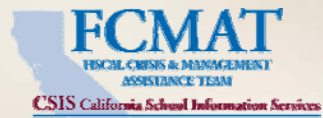
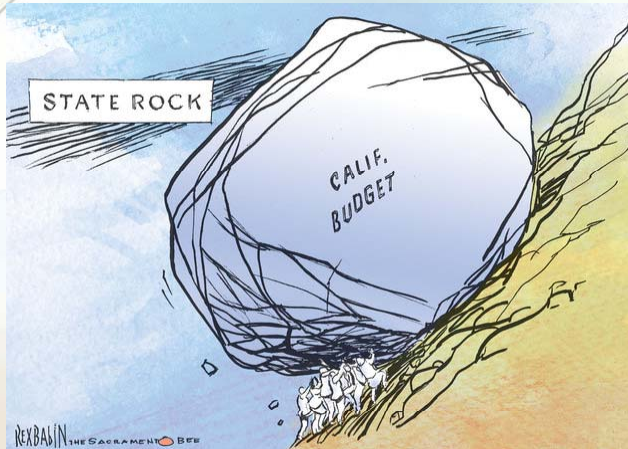
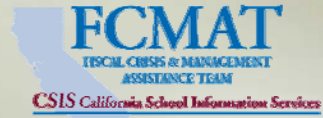


California Association of School Business Officials Annual Conference 2011

FCMAT Reviews and Oversight: Lessons Learned

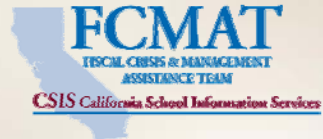
Presented by:

Anthony Bridges, Deputy Executive Officer
Mary Barlow, Deputy Administrative Officer
William P. Gillaspie, Ed.D., Chief Management Analyst
Michelle Plumbtree, Chief Management Analyst

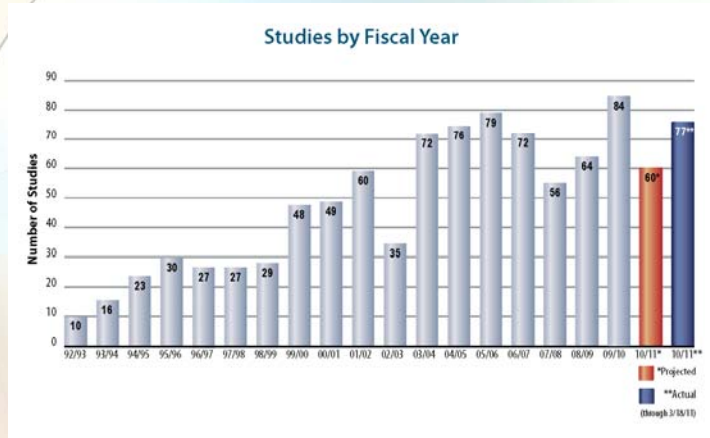


Overview

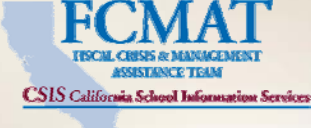
- What is the Fiscal Crisis and Management Assistance Team (FCMAT)?
- Created by legislation in 1992
- An independent/external public agency of the state designed to support districts and county offices
- Small core staff composed of former school district and county office employees (certificated and classified)
- Support is generally requested by school districts, county offices, charter schools, community colleges
- FCMAT can be assigned by the COE, Superintendent of Public Instruction or the Legislature
- FCMAT provides both management assistance and fiscal crisis intervention



FCMAT's Studies by Fiscal Year



FCMAT Studies by Area of Review			
AB 139	1	Food Services	5
Budget Development	4	MOT	2
Budget Explorer / Cash Flow	2	On-Site Fiscal Assistance	4
Child Development Program	2	Organization and Staffing	5
Comprehensive	3	Payroll	1
Facilities	1	Purchasing / Warehouse	1
Fiscal Advisor	3	Reorganization	1
Fiscal / Business	15	Special Education	14
Fiscal Crisis	1	Technology	4
Fiscal Expert	2	Transportation	6
Total Studies (as of 3/18/11)			77



- ### What We Know Right Now
- Temporary tax increases sunset
 - The out-year COLAs (1.8% and 2.3%)
 - Flexibility is extended
 - Cash deferrals are alive and well
 - One-time dollars are all but gone
 - Conference Committee actions
 - The tax extensions go on the ballot?
 - Pension reform
 - Redevelopment agency (RDA) issues
 - Commitment to cut, cap, and deregulate
- 

Multiyear and Cash Flow Projections Critical Tools

- MYFP/cash flow are significant technical tools
- MYFP is a significant communications tool
- Budget assumptions are everything when it comes to MYFP
- Most accurate in the base year, least accurate in the last year (year 3 generally)
- The SSC Dartboard keeps us consistent statewide



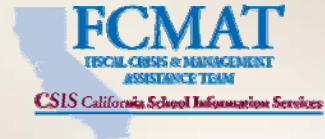
Why The January 2011 Budget Further Changes the Playing Field

- Size of district
- Relative wealth regarding revenue limits impact
- Property tax to revenue limit ratio (AV)
- Reserve position
- Fund balance trends
- Cash deferrals are larger and time between is longer
- Ability to borrow



Why Districts Fail—Most Common Errors

- Overly aggressive estimates of enrollment and ADA
- Lack of a position control system
- Loss of control of staffing costs—total compensation
- Bad decisions in collective bargaining
- Rescinding layoff notices too early
- Chronic, unplanned deficit spending
- Not monitoring encroachment in restricted funds
- Board/staff dysfunction



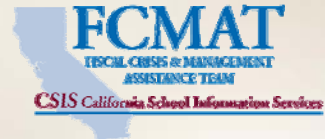
Why Districts Fail—Most Common Errors, cont.

- Underestimating the amount of "real" cuts to balance the budget current plus two years
- Miscalculating debt service capacity of developer fees and RDA and having the general fund pick up the difference
- Poor or nonexistent charter school oversight
- MYFP errors
 - not treating federal revenues as one-time
 - not restoring expenditures for furlough days/salary reductions that have not yet been negotiated for the out years
- Use of one-time money for ongoing expenditures



Why Districts Fail—Most Common Errors, cont.

- Not correctly planning for the loss of ADA due to new charter schools in the district
- Not responding to state funding reductions quickly enough or generally being too slow in decision making
- Ineffective in cost containment for special education programs
- Not using proper modeling for dealing with cash deferrals—dividing by 12 is not a good strategy
- Incorrect or nonexistent cash flow projections
- **No Cash**



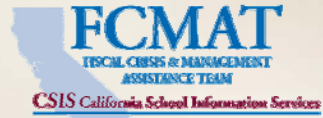
What to do back at home?

- Reduce spending in the current year budget to the greatest extent possible
- Preserve cash and avoid the need to get a TRAN. If you don't have to borrow, don't
- Project enrollment conservatively and don't create new classes until the students materialize
- Communicate accurately and regularly to your constituents and reinforce the concept that things could deteriorate
- Have a contingency plan

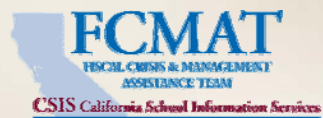
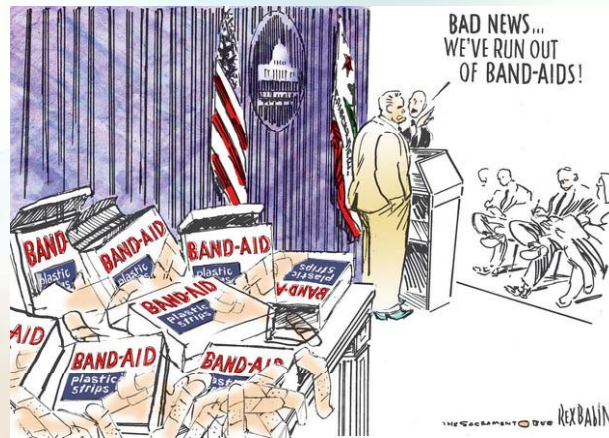


What to do back at home, cont.

- All things continue to be on the table including furlough days, health benefits, salary rollbacks, class sizes, etc.
- Maximize the use of the flexibility options
- Resist the temptation to enter into non-voter-approved debt as your general fund cannot bear debt service payments in the future



Fewer and Fewer Options

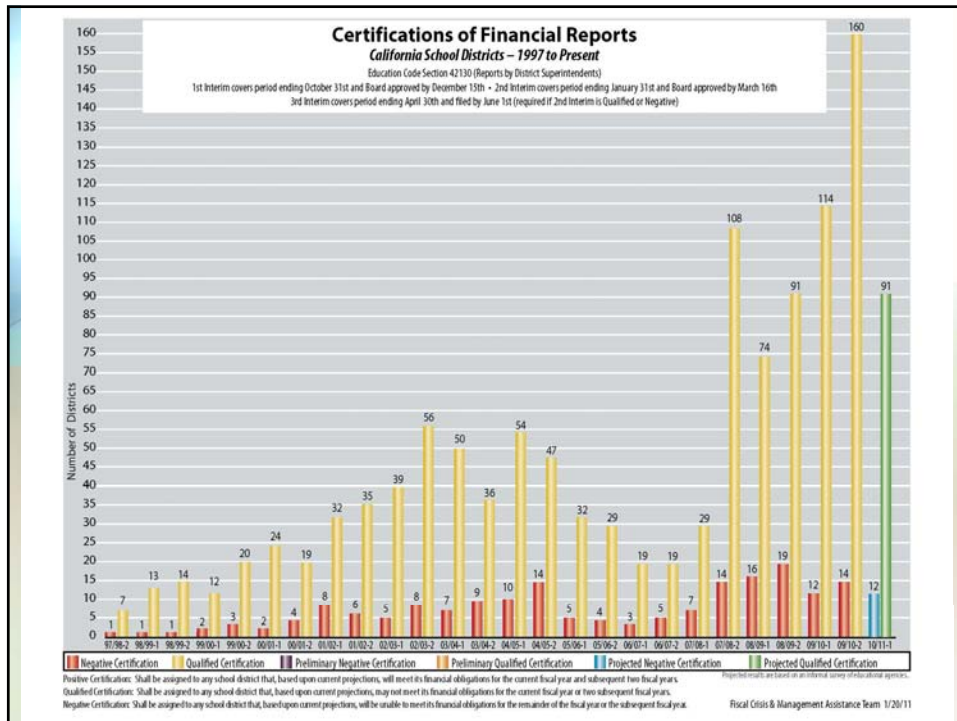


What Happens If Your District Gets into Financial Trouble?

- Intervention by the county office of education
- The role of FCMAT
- Responsibilities of a fiscal advisor
- Responsibilities of a trustee
- Responsibilities of a state administrator
- Responsibilities of the district

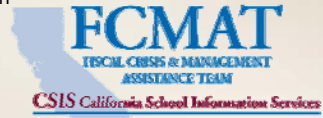


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Intervention by the County Office of Education

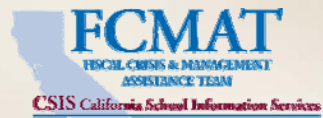
- Intervention under the law starts with the County Superintendent
 - Intervention is progressive and can be tailored to the severity of the problem
 - An adverse interim report or disapproved budget puts the COE in charge to determine the level of corrective action needed
 - A fiscal expert may be appointed when a district has a qualified report. A fiscal expert has limited authority
- Remember, the goal of the COE is to assist the district in resolving its financial problem at the lowest level of outside intervention
 - The COE can be more helpful when you are candid and get it involved early
 - A Budget Review Committee is used to adjudicate disputes between the district and the COE if they do not agree on the problem
- Try to help the COE to help you



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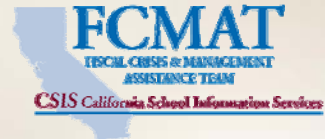
What is a Qualified Certification Really?

- May not be able to meet your financial obligations in the current plus two out years
- Deficit spending, reserves and fund balance in the general fund unrestricted
- Cash position
- The FCMAT Indicators



What is a Negative Certification Really?

- Will not be able to meet your financial obligations in the current plus two out years
- Deficit spending, depleted reserves and fund balance in the general fund unrestricted
- Cash insolvent – cannot borrow internally or through outside source
- State intervention – loss of board authority and significant cost to district



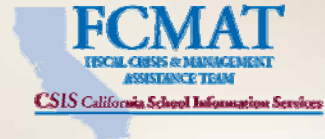
What is the Difference between a Fiscal Expert and a Fiscal Advisor?

- Education Code Section 42127 gives some guidance
- Both are in the district on behalf of the county office due to fiscal concerns
- Fiscal expert is a "helper" with no real authority
- Fiscal advisor is a helper but with stay and rescind authority
- Fiscal expert cost usually paid for by county office
- 75% of the fiscal advisor cost can be charged to the district



What Does It Mean To Be Insolvent?

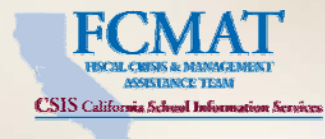
- You have negative cash flow
- Your options for borrowing are nonexistent
- You cannot meet your financial obligations for the current plus one year
- You cannot make payroll
- You will lose your superintendent and local governance option
- Most likely in a state takeover your fiscal situation gets worse, not better



Responsibilities of a State Trustee or Administrator

What Happens if a District Receives a State Loan?

- A bill authorizing the state loan will require the appointment of a trustee or a state administrator
- When the state loan exceeds 200% of the required reserve, a state administrator is assigned
- The superintendent is relieved of duties
- The state administrator functions as the board and superintendent
- The board is advisory only until the state administrator is replaced by a state trustee
- Assignment of the state administrator is the most severe form of fiscal intervention and signals district takeover by the state SPI



Responsibilities of FCMAT

What Happens if a District Receives a State Loan?

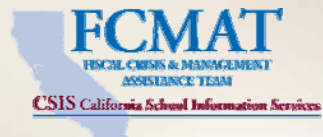
- FCMAT conducts a comprehensive review of the district in 5 management areas: governance, personnel, pupil achievement, finance, and facilities. District performance is measured utilizing FCMAT legal and professional standards.
- The comprehensive report becomes the recovery plan and blueprint for the district to return to fiscal solvency and for the board to regain authority.
- FCMAT conducts periodic reviews to report on the progress the district has made toward recovery.
- When the district has achieved an average score of 6 in a management area with no single standard score below a 4, authority will be restored to the board in that area.



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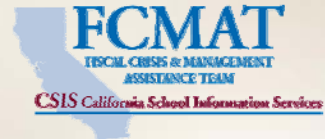
State Loans

- Of the 8 districts and community colleges that have received state loans, 6 were certified qualified or positive at the interim immediately preceding the need for a state loan.
- In comparison to other districts with state loans, King City bears an increased burden in financing and repayment of its state loan since it is not held harmless from the costs associated with financing and the loan carries a significantly higher interest rate. For point of reference, the CDE lists the terms of previous state loans on its website at <http://www.cde.ca.gov/fg/fi/ir/loanlist.asp>.
- The annual payment for the loan is \$1.3 million of a \$16 million general fund budget. The ongoing costs to the district's general fund to cover the annual debt service payment and the high costs associated with prepayment constrain the district's fiscal recovery efforts.



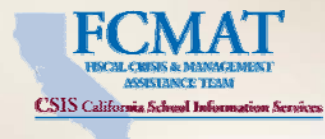
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FCMAT's Management Assistance



Scope of Study

- Be specific!
- What major functions are being reviewed?
 - General program review vs. specific focus areas
- What are your goals for the study?



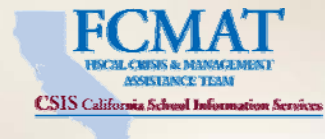
Preparing for the Study

- Gather and organize requested materials before the study team's arrival date
- Create an interview schedule of key personnel as requested by the study team
- Make critical documents and records accessible to the study team



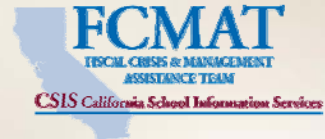
What to Expect During the Study

- Orientation meeting with key leaders in the organization: superintendent, CBO, directors, etc.
- Individual confidential interviews with staff members and internal/external customers of the organization
- Documentation review
- Site/facility review
- Exit meeting



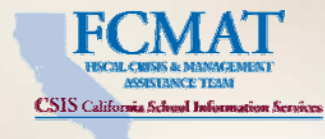
After the Study

- Exit letter within a few weeks with general preliminary findings
- Draft report containing specific findings and recommendations
- Review and comment by district
- Final FCMAT report
- Statutory evaluation of study team by district
- Six-month follow-up, if requested



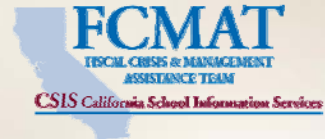
Typical Areas of Evaluation

FCMAT is well known for doing independent evaluation of a district's budget, multiyear financial projection, and cash flow analysis, but we also do many other types of management assistance.



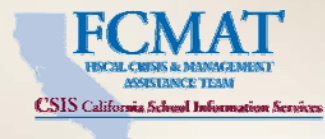
Typical Areas of Evaluation *Transportation*

- Shop
- Driver Training and Safety
- Finances
- Staffing
- Operations



Typical Areas of Evaluation *Special Education*

- Delivery system / cost efficiency / budgeting
- Hiring process / staffing levels
- Implementation of Response to Intervention (RtI)
- Student Study Team process
- Caseloads
- Administrative staffing configuration



Typical Areas of Evaluation *Food Service*

- Maximize participation
- Encroachment
- Meals per labor hour calculations to assess efficiency
- Menu selections
- Competitive food sales
- Purchasing

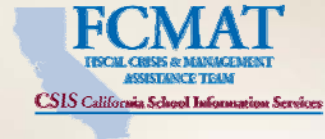


Typical Areas of Evaluation *Associated Student Body*

- Student involvement
- Use of ASB account
- Proper authorization of fundraisers, contracts and expenditures
- Internal controls
- Adequate oversight

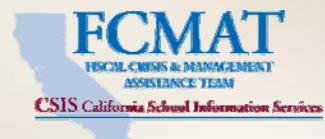


Class Fees, Deposits and Other Charges



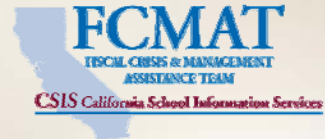
Free School System

- California Constitution provides for a free school system
- Since 1874, the California Supreme Court has interpreted this to mean that students are entitled to be educated at the public's expense.
- Title 5, California Code of Regulations, Section 350, states:
"A pupil enrolled in a school shall not be required to pay any fee, deposit, or other charge not specifically authorized by law."
- **ACLU lawsuit not yet settled...need to clean things up!**



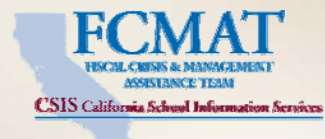
Non-Allowable Fees

- School districts cannot levy fees as a condition for participation in any class, whether elective or compulsory. Includes:
 - Security deposits for locks, lockers, books, class apparatus, musical instruments, uniforms or other equipment.
 - Fees for participation in either curricular or extracurricular activities.
 - All supplies, both necessary and supplemental, must be provided free of charge by the district whenever a curricular or extracurricular program is adopted.



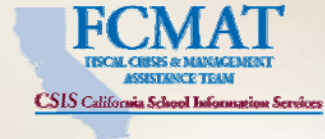
Non-Allowable Fees, cont.

- Gym or Physical Education Clothes
 - EC Section 49066 states that "No grade of a pupil participating in a physical education class may be adversely affected due to the fact that the pupil does not wear standardized physical education apparel where the failure to wear such apparel arises from circumstances beyond the control of the pupil," such as lack of sufficient funds.



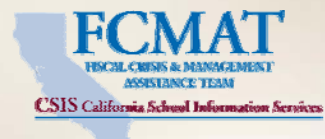
Non-Allowable Fees, cont.

- CDE has stated the position that a school district may require students to purchase their own gym clothes of a district specified design and color so long as the design and color are of a type sold for general wear outside of school. Once the required gym uniforms become specialized in terms of logos, school name or other similar characteristics not found on clothing for general use outside of school, they are considered school supplies and the district must provide the uniforms free of charge.



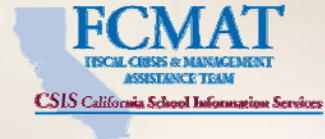
Allowable Fees

- The following fees can be levied based on the Education Code:
 - Transportation to and from school
 - Transportation to places of summer employment
 - Charges for food, limited by the free and reduced program
 - Lost or damaged books or other district supplies
 - Direct cost of materials for property the student has fabricated in class for their own use (if board policy in place)



Allowable Fees, cont.

- Fees for school camp programs (i.e. outdoor science camp). The fee cannot be mandatory.
- Fees for field trips and excursions may be charged in connection with courses of instruction or school-related social, educational, cultural, athletic, or school band activities. The fee cannot be mandatory.
- Insurance for field trips
- Actual cost of duplication of public records or student records.
- Charges for accidental death, injury and medical insurance for athletic team members for those members who cannot afford to pay.



Allowable Fees, cont.

- Deposits for school band instruments, music, uniforms and other items or use on an excursion to a foreign country
- Tuition fees for an adult enrolled in adult classes, with some exceptions (e.g., high school credit given, citizenship for foreigners)
- Adult school transportation
- Class materials necessary for making articles in adult classes
- Textbooks in adult classes, or can charge a refundable deposit



Allowable Fees, cont.

- Tuition fees for pupils whose parents are actual and legal residents of an adjacent foreign country or an adjacent state
- Fees for community classes in civic, vocational, literacy, health, homemaking, and technical and general education (primarily intended for adults and are only open to minors who the governing board believes would profit from such classes)
- Fees for statutory child care and development services
- Fees for a fingerprinting program for children in kindergarten or newly enrolled children to the parent or guardian who chooses to participate



Questions?

