FCMAT: Role and Advice

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Overview

- The Role of Fiscal Crisis and Management Assistance Team (FCMAT)
- Governor's 2015-16 Budget Proposal
- What is "Financially Troubled?"
- Indicators of Potential Risk or Insolvency
- What Happens if your District Gets into Financial Trouble?
- What Can Districts Do?
- Responsibilities of the District
- Ways Districts get into Trouble

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The Role of FCMAT

- Field professionals just like you
- External and independent agency of the state
- Primary mission: assisting PK-14 education agencies in identification, prevention, and resolution of financial problems
- FCMAT staff and consultants perform studies and analyses at the request of education agencies, not just when there is trouble, but to promote effective and efficient operations
- May be called in by the district, the CC Board of Governors, Legislature, or the Governor
- We are part of your support system

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The Role of FCMAT

- FCMAT can help in:
  - Determining the extent of the problem
  - Providing recommendations in specific areas that FCMAT has been asked to review
  - Providing facts that help resolve disputes
  - Developing recovery plans
  - Performing fraud investigation
- FCMAT also advises legislators on the need for state loans/takeovers
- FCMAT can be a valuable resource *before* you get into trouble--ask for help
- If you get into trouble, FCMAT will almost certainly play a role in your recovery

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Governor's 2015-16 Budget Proposal

- K-14 education spending levels are increased by $7.8 billion over three years: 2013-14, 2014-15 and 2015-16.

- DOF calculates that community colleges receive a 10.95% share of Proposition 98 funds in this Governor's Budget

- The Governor's Proposal includes significant increases specific to community colleges.
  - The State Budget includes an increase of $125 million in base allocation funding to reflect increased operating expenses, including the increase in required contributions for employee pensions.
  - The Budget also includes $106.9 million to fund 2% growth, and the State Budget summary continues with the new growth formula starting in the 2015-16 fiscal year.
  - $92.4 million to fund the 1.58% cost-of-living adjustment is proposed.
  - No changes to current fee levels proposed .
  - $94.5 million used to eliminate the last apportionment deferral starting this year.

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Governor’s 2015-16 Budget Proposal

- An increase of $200 million for student success programs: $100 million for the Student Success and Support Program, and $100 million for student equity plans.
- For Adult Education, a $500 million block grant is proposed, which the Governor indicates is an integral component of the state’s workforce development strategy.
- Additional funding streams proposed for:
  - Prior-Year Mandates: $353.3 million in one-time funds, to be allocated on a per full-time equivalent student (FTES) basis, to further pay down outstanding state mandate claims
  - Enhanced Non-Credit Rate: $49 million
  - Career Technical Education Pathways Program: $48 million in one-time funds to the Chancellor’s Office
  - Proposition 39: $39.6 million for energy efficiency program grants
  - Apprenticeship: $29.1 million

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What is "Financially Troubled?"

- A financially troubled district:
  - May have a history of deficit spending
  - Has unusual fluctuations in FTES
  - May be receiving stability revenue
  - May have GF unrestricted fund balance that is trending negative regarding the percentage related to expenditures and other outgo
  - Cannot maintain a prudent, GF unrestricted fund balance of 5%
  - May not conform to multiyear projection standards
  - May not have enough cash to meet its obligations
  - May have audit findings about "going concern" issues or on material internal control audit findings
  - Has poor communication with the Systems Office

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Indicators of Potential Risk or Insolvency

- Leadership Breakdown
- Ineffective Communication
- Collapse of Infrastructure
- Inadequate Budget Development
- Limited Budget Monitoring
- Ineffective use of Data
- Human Resources Weaknesses
- Excessive Debt
- Inattention to Cash

What Happens if your District Gets into Financial Trouble?

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Monitoring and Assessment of your Fiscal Condition

- Information used to perform the assessment include at least:
  - Quarterly Financial Status Reports-CCFS-311Q
  - Annual Financial and Budget Reports-CCFS-311
  - Annual District Audit Reports
  - Apportionment Attendance Reports-CCFS-320
  - District response to inquiries from the Systems Office
  - Other available information (i.e., debt reports, Fiscal Data Abstract, etc.)
- Remember, the System's Office's goal is to assist a district in resolving its financial problem at the lowest level of outside intervention
- The System Office can be more helpful when they get involved early
- If early and preventative intervention fails due to the timing or degree of fiscal condition, direct intervention will be assigned

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Monitoring and Assessment of your Fiscal Condition

Primary Assessment Criteria

- General Fund Analysis, including a review of the current, historical and projected fund balance.
- Unrestricted fund balance analysis: Minimum Prudent Unrestricted Fund Balance = 5% (min)
- Review of percentage of unrestricted general fund balance to all expenditures and other outgo of unrestricted general fund. (object codes 1000 through 7000)

Secondary Criteria

- Spending patterns, with greater scrutiny if history of deficit spending
- FTES patterns in relation to statewide patterns and the potential impact upon revenue
- Staffing expenditures (salaries and benefits) increases that are expected to exceed projected revenue increases
- Other—audit findings, legal issues, timely filing of reports, etc.

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Follow Up Actions if Necessary

- No Action—All Systems Go!
- Periodic Monitoring Necessary
  - Complete Sound Fiscal Management Self-Assessment Checklist
  - Update 311Q
  - Create Action Plan to address concerns
  - Communicate regularly with the Systems Office regarding recovery
- Management Assistance Required
  - Complete Sound Fiscal Management Self-Assessment Checklist and show evidence the Governing Board has been informed
  - Submit a Comprehensive 311Q
  - Submit an Assistance Plan with the aid of FCMAT or other entity
  - Participate in Quarterly Review by CEO and CBO/CFO
  - May require the development and submission of a Recovery Plan that has been approved by the Governing Board

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Follow Up Actions

- District Requires Fiscal Intervention
  - Conduct a Comprehensive Management Review of the district and its educational programs and Audit the fiscal condition
  - Direct district to amend and readopt Fiscal and Educational Plans based on the findings and recommendations of the Comprehensive Review
  - Direct outside fiscal crisis intervention from FCMAT or other specialized entity, and/or through the appointment of a State Trustee
  - Assign a Special Trustee to assume Management and Fiscal control of the district

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What Can Districts Do in Anticipation of an Uncertain Fiscal Environment

- Plan—Current plus Two Years
- Keep your Budget Assumptions current
- Spend Restricted Dollars First
- Keep Enrollment and Staffing numbers current
- Build Reserves/Fund Balance If Possible
- Be Careful About Debt, including OPEB Bonds
- Manage Cash
- Forego Big/Expensive Budget Decision unless you can truly afford them

Remember, always think about the future. How will today's decisions affect future year's budgets?

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What Can Districts Do to Manage Cash?

- Have a system in place to analyze and monitor cash flow on a regular basis—all funds
- Report cash flow status and projection to the board on a regular basis
- Conserve cash when possible—all funds
- Build Reserves/Fund Balance—all funds
- Consider creating spending plans to manage available cash
- Consider options for dry period financing (borrowing)
- Don't run out!

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What is Cash Insolvency?

- Generally speaking Cash Insolvency occurs when the cash in payroll exceeds the cash available in the county treasury (or other possible sources of cash) and all options for borrowing have been exhausted.
- Cash insolvency is a limited function of deficit spending, erosion of fund balance, and sustained negative cash flow over time.
- If you run out of cash, it's "game over"
- You can receive an authorization for an emergency appropriation, but…..
  - The local governance options is lost
  - The chancellor/president loses their job
  - It's expensive!

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Responsibilities of the District

- Characteristics of districts that avoid Pitfalls:
  - Recognize when they have a problem
  - Don't mask the problem (bad news does not improve with age)
  - Take advantage of the financial expertise that is available
  - Work collaboratively with oversight agencies
  - Constantly Reassess their Fiscal Position and Health
  - Maintain healthy reserves
- 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
  - Panic

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Thirteen Ways Districts Get in Trouble

- #1 Estimates of State Economics
  - Exposure
    - Significant
  - Professional Standard
    - Maintain knowledge of state economics forecast
    - Anticipate effect on your district
    - Consider state economics in budget projections and revisions
  - Definition
    - State economics determine the allocations to Proposition 98 college funding based upon state revenues

Thirteen Ways Districts Get in Trouble

- #2 Full Time Equivalent Students (FTES)
  - Exposure
    - Critical
  - Professional Standard
    - The district must have policies and procedures in place to appropriately forecast and track enrollment and FTES
  - Definition
    - Enrollment drives costs
    - FTES partially drives revenues
    - The calculation process by which information is translated into “dollars” is the “Program Based Funding Model”

Thirteen Ways Districts Get in Trouble

- #3 Budget Assumptions
  - Exposure
    - Critical
  - Professional Standard
    - The district budget must be based upon a foundation of verifiable facts, and assumptions must be clearly stated
  - Definition
    - Budget assumptions are planning factors that stand in place of facts until those facts are known

Thirteen Ways Districts Get in Trouble

- #4 Control of Staff Costs
  - Exposure
    - Critical
  - Professional Standard
    - Maintain staffing discipline within parameters adopted by the Board and State
  - Definition
    - Staffing control means that numbers of full time, part time, pay rates, assignments, overtime, and are kept within plans and budgets adopted by the Board and State.
    - The 50% rule

Thirteen Ways Districts Get in Trouble

- #5 Estimating Step, Column and Compensation
  - Exposure
    - Critical
  - Professional Standard
    - Districts must have tools and procedures to estimate the annual increase of salary and statutory benefit costs incurred each year as the result of step and column
  - Definition
    - Step: Dollar change between salary steps based on years of service
    - Column: Dollar change between columns based on educational units or accomplishments

Thirteen Ways Districts Get in Trouble

- #6 Use of One-Time Dollars
  - Exposure
    - Significant
  - Professional Standard
    - Ongoing expenses must be covered by ongoing revenues
    - One-time dollars should not be used for ongoing expenses
  - Definition
    - One-time dollars include ending balances, audit adjustments, retroactive revenues, and other nonrecurring revenues

Thirteen Ways Districts Get in Trouble

- #7 Negotiations
  - Exposure
    - To be determined by district
      - Critical – Significant – Minor
  - Professional Standard
    - Maintain comparable compensation and working conditions within the district's ability to pay
    - Balance compensation needs with student needs
  - Definition
    - Collective bargaining is required by the Rodda Act
    - Must negotiate in good faith

Thirteen Ways Districts Get in Trouble

- #8 Multiyear Planning
  - Exposure
    - Critical
  - Professional Standard
    - Multiyear Planning current plus 2 years
    - Long-term impact must be assessed
  - Definition
    - MYP considers the out-year impact of today’s decisions

Thirteen Ways Districts Get in Trouble

- #9 Execution of the Budget
  - Exposure
    - Significant
  - Professional Standard
    - The district must adhere to the approved spending
    - Revisions should be approved before different decisions are implemented
  - Definition
    - Execution of the budget means sticking to the spending plan adopted by the Board

Thirteen Ways Districts Get in Trouble

- #10 Budget Monitoring
  - Exposure
    - Critical
  - Professional Standard
    - The Systems Office requires districts to monitor and perform self-assessment
    - The budget should be revised when necessary
  - Definition
    - Budget monitoring means actual results are compared with planned results and adjustments are made

Thirteen Ways Districts Get in Trouble

- #11 Deficit Spending
  - Exposure
    - Critical
  - Professional Standard
    - The budget should be balanced
    - Any deficit spending should be visible and explained
  - Definition
    - Deficit spending means the district is spending beyond its means

Thirteen Ways Districts Get in Trouble

- #12 Estimating the Ending Fund Balance (EFB)
  - Exposure
    - Critical
  - Professional Standard
    - A district must have the ability to accurately reflect its net ending balance throughout the budget monitoring process. The CCFS 311Q reports should provide valid updates of the district's projected net ending balance. The district should have tools and procedures that ensure an early warning of any discrepancies between the budgeted and actual revenues and expenses
  - Definition
    - When all is said and done and the books have been closed, it is the amount of money remaining in the fund, net of any designations in the restricted and unrestricted accounts. Budget to actuals

Thirteen Ways Districts Get in Trouble

- #13 Management of Cash
  - Exposure
    - Critical
  - Professional Standard
    - All districts must project cash balances on a weekly basis and prepare appropriate cash flow documents in order to assess the need for short term borrowing and the potential of cash insolvency
  - Definition
    - Cash is not budget and understanding the difference between these two things is critical for boards, superintendents and staff. Cash position represents the actual available dollars at any given time held in the county treasury

Summary

- A CEO and CBO/CFO have legal fiduciary responsibilities
  - The vast majority discharge this duty well
- Strong leadership makes a difference
- Fiscal transparency and cooperation is critical
- A District and its Board must simultaneously:
  - Review and report past budget performance
  - Monitor and revise the current year budget
  - Plan and prepare future budgets
- FCMAT is an agency designed to assist education agencies
- If a board gets into financial trouble, the System Office must step in
- The state does not "bail out" Districts from financial troubles
  - A state loan comes with a state trustee and a high cost
- This is a wonderful industry with tremendous opportunity

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Questions?

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