FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

February 4, 2020

Anthony W. Knight, Ed.D., Superintendent
Oak Park Unified School District
5801 Conifer Street
Oak Park, CA 91377

Dear Superintendent Knight:

The purpose of this letter is to confirm the observations and recommendations the Fiscal Crisis and Management Assistance Team (FCMAT) discussed with the district's assistant superintendent, business and administrative services at the conclusion of FCMAT's on-site technical support services on January 14, 2020.

In November 2019, the district and FCMAT entered into an agreement for FCMAT to provide on-site technical support to the district. Specifically, the study agreement states that FCMAT will complete the following:

1. FCMAT will provide two days of on-site technical assistance to district personnel in developing the MYP for first interim using the Projection-Pro software.

FCMAT visited the district on January 13-14, 2020 and provided training to the district's assistant superintendent, business and administrative services and the director of fiscal services in developing the district's multiyear financial projection (MYFP) using the Projection-Pro software. The following areas were discussed and demonstrated during the training:

- User Menu – user profile, sharing option, and selecting an LEA
- LEA Data – LEA administrator access, including importing historical data, modifying enrollment, unduplicated pupil count (UPC) and average daily attendance (ADA) data, defining custom resource and object codes, and reviewing or modifying indirect cost LEA and resource rates
- Creating a projection, importing the base year budget, copying, and sharing a projection
- Students screen – enrollment, UPC, and ADA projection methodology, modifying historical and projected values
- Assumptions – state rates predefined by FCMAT based on industry standard, modifying rates to create custom projections or alternate scenarios; local rates entered by user, creating user-defined assumptions, and completing assumption narratives
- Assumptions applied by default based on industry standard, adding assumptions to resource/object combinations, deleting and reordering assumptions
- Various assumptions available, assumption calculation methodology, one-time versus ongoing assumptions, and special calculations

- Various entry screens – resources, revenues, personnel, nonpersonnel, other transfers and payments, indirect costs, contributions/balancing, and reserves – and functionality on each screen
- Adjustments column – adding adjustments to the base year budget to show the impact of an alternative scenario on the current and subsequent years
- Reports – viewing or printing MYP, students, balancing summary, object detail, and cash flow reports
- Cash Flow – certification points, default schedules, and user-defined schedules

Multiyear Financial Projections

Multiyear financial projections (MYFPs) allow a governing board and district to make budget decisions that strategically allocate current and future resources in alignment with their goals. Assembly Bill (AB) 1200 and AB 2756 require MYFPs as part of the adoption budget and interim reporting process. Projections need to be evaluated and updated during each interim financial reporting period and before any significant financial decisions are made, such as salary increases or major purchases.

Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria, including enrollment trends, cost-of-living increases, forecasts of costs for utilities, fuel and other consumables, and local, state and national economic conditions. Therefore, the projection should be viewed as a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

When developing an MYFP, attention is focused on a district's ability to meet its required reserve for economic uncertainty and achieve a positive, unappropriated fund balance. The state-required minimum reserve level is determined by district ADA, varies from 1% to 5%, and is 3% for Oak Park Unified. The table below shows the statewide average reserve levels for 2017-18 (the most recent data available).

2017-18 Average Unrestricted Net Ending Fund Balance (Includes Fund 01 and Fund 17)	
Unified School Districts	16.98%
Elementary School Districts	20.20%
High School Districts	15.63%

Source: School Services of California, Inc.

The Government Finance Officers Association recommends a minimum reserve of at least two months of general fund operating expenditures, or about 17%. Reserves above the state-required minimum reserve levels are recommended to mitigate volatility in funding, address unexpected costs, and manage cash flow.

Assumptions

MYFPs should be developed using assumptions that are reasonable, current, and aligned with industry standards and county office of education instructions. FCMAT maintains state assumption rates in the Projection-Pro software that are based on the most recent School Services of California's financial projection dartboard. Users may modify these predefined rates and add locally defined assumption rates to customize projections or to create alternative scenarios.

Enrollment Projections

Accurate enrollment tracking and analysis of ADA are essential to budget planning, and projecting both of these into future years is a core component of any MYFP. Because much of the district's funding is based on the total number of student attendance days, monitoring and projecting student enrollment and attendance are crucial. When enrollment and related ADA increase or decline, districts must consider and plan for the effects of this on the budget, instructional and other staffing, and other operating expenses.

Enrollment projections and assumptions should be based on historical data, industry-standard methods and other reasonable considerations and should be prepared frequently and with sufficient detail by grade level to monitor and project class sizes in subsequent years. Historical enrollment and attendance patterns help identify potential changes in grade level enrollment in future years.

To project enrollment, FCMAT's Projection-Pro software uses a modified weighted cohort survival method, which groups students by grade level on entry and tracks them through each year they stay in school. This method evaluates the longitudinal data on the number of students that pass from one grade to the next in the subsequent year. For the first grade level served by a district, a five-year weighted historical average is used. To project UPC and ADA ratios, the software uses a five-year weighted historical average. Users can modify the number of historical years to use for projections. Enrollment, UPC, and ADA historical and projected values can be modified within an individual projection to adjust for locally known factors.

Enrollment and ADA projections have inherent limitations because they are based on certain criteria and assumptions rather than exact calculations. Therefore, the forecasting model should be viewed as a trend instead of a prediction of exact numbers. To maintain the most accurate and meaningful data, districts should routinely prepare and update enrollment projections and compare them to actual enrollment. This enables the district to better identify a potential enrollment decline and adjust staffing levels and expenditure budgets accordingly.

Revenue Projections

Districts should use the most recently updated Local Control Funding Formula (LCFF) calculator available and current enrollment, ADA and UPC projections to calculate and project LCFF revenues for their budgets and MYFPs. Staff should review entitlement letters on the CDE website and/or grant award letters to confirm federal and state revenue amounts. The district should review and confirm local revenue sources such as interest, rents and leases, donations, and other miscellaneous revenues. Because these revenues cannot be guaranteed year to year, budgets and projections for these items need to be conservative, consider historical trends, and identify revenue streams that are one-time. Any one-time revenues and/or revenues deferred from the prior year included in the base year budget should be eliminated from the subsequent years of the projection.

Expenditure Projections

Accurately projecting salary and benefit costs is a critical component in budgeting for expenditures. Maintaining an effective position control system is essential for managing the cost of salaries and benefits and accurately reflecting those expenditures in a district's budget and MYFPs. Districts should confirm that the position control system includes the most current and complete salary and benefit information and is reflected accurately in the base year budget. Certificated and classified salaries should be increased or decreased in the subsequent years of the projection for known staffing increases or decreases. Estimates for certificated and classified staff step and column costs should be included. Estimates for an increase in cost for statutory benefits, health and welfare benefits and retiree benefits should be included.

Books, supplies, and services budgets should be reviewed for reasonableness using the prior two years' actual expenditures and current year-to-date expenditures. Expenditures should be increased in subsequent years for any planned one-time expenditures or decreased in subsequent years for one-time purchases made in the base year. Districts should review contracts for leases and professional services and adjust subsequent year budgets as necessary. The estimated consumer price index should be applied as appropriate to supplies and services expenditures.

Capital outlay budgets should be reviewed for reasonableness using the prior two years' actual expenditures and current year-to-date actual expenditures and adjusted in subsequent years according to the district's capital outlay plan. Districts should review long-term debt schedules and capital lease agreements, other outgo (tuition, etc.), and transfers between the general fund and other funds and adjust subsequent year projections appropriately. Districts should review budgets for other funds for any possible impact on the general fund.

Districts should ensure that the maximum allowable indirect cost rate for each restricted program and fund is applied to the budget and subsequent years to ensure proper program cost accounting, even when this results in a contribution back to the restricted resource from the unrestricted resource. Out of balance restricted programs should be balanced with adjustments to revenue, expenditures, or contributions as appropriate.

Recommendations

The district should:

1. Review the position control system and processes to ensure that budget information is current and correct. Reconcile and adjust budget and position control using actual payroll data at least at budget adoption and interim reporting periods.

2. Consider maintaining a reserve level over the minimum required 3% for greater fiscal stability and protection from unanticipated funding cuts or unexpected costs and to maintain adequate cash balances, avoiding the need for external borrowing.

3. Consider charging the maximum allowable indirect costs on all resources and funds to capture the true and full cost of operating each program. A complete understanding of actual operational costs will enable the district to make informed decisions about programs.

4. Track contributions to restricted programs from the general fund unrestricted resource. Consider options to reduce or eliminate contributions.

FCMAT appreciates the opportunity to serve you and extends thanks to the staff of the Oak Park Unified School District for their cooperation and professionalism during FCMAT's on-site assistance.

Sincerely,

Debbie Riedmiller

Debbie Riedmiller, CFE
Intervention Specialist