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FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

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Where do we go from here?

Business and Administrative Services Committee (BASC)

AB 1200 Conference

Michael Fine, CEO, FCMAT

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Let Us Explore...

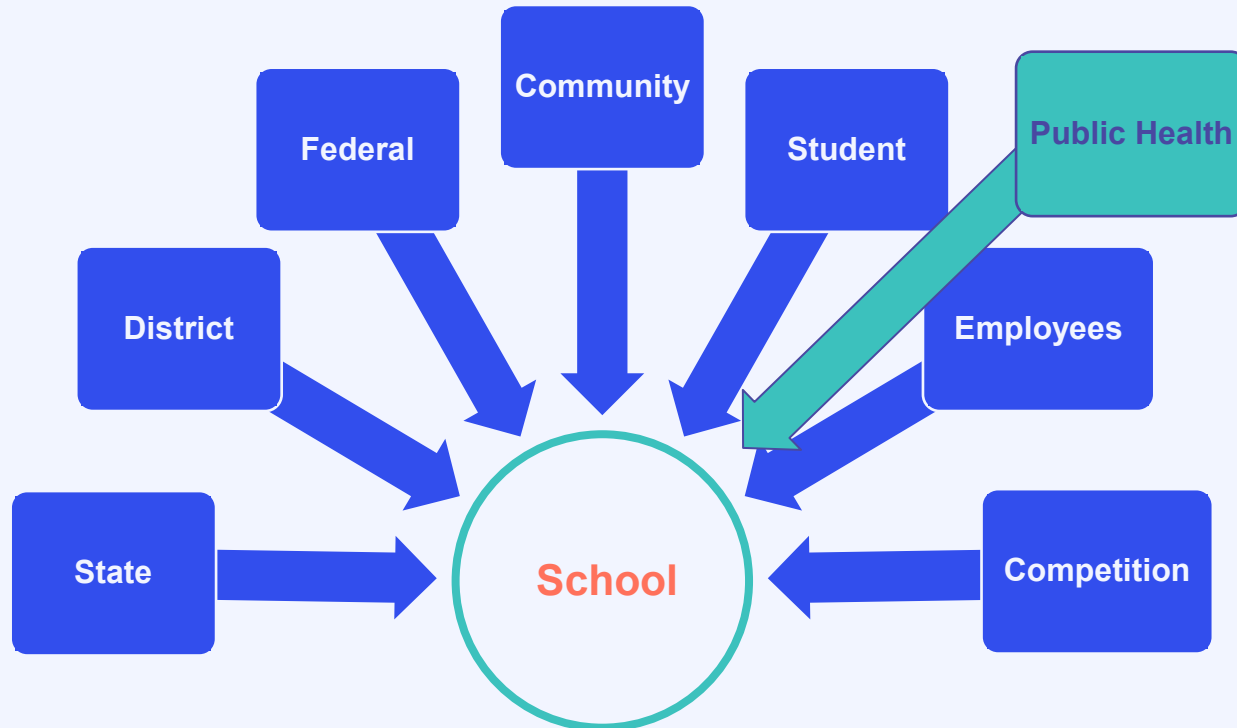
- We are somewhere along the journey through the pandemic – not at the beginning and certainly not at the end
- State and federal budgets have showered significant one-time pandemic relief funds on local educational agencies
- The state appears to have, at least temporarily, resurrected categorical programs
- Current year revenues are tracking higher than projected
- Independent study is no longer the quiet program in the far reaches of the district, but is squarely in the crosshairs
- Most districts are experiencing declines in student enrollment

Let Us Explore...

- How is your county approaching the reserve cap?
- How do we guide planning for 2022-23 and beyond?
- How should our review of budgets and interim reports change?

- As we explore and go about our daily work, let's not forget the context we are operating in this year

Context



What's different than normal?

- State and local public health
- Recall campaign and regular Nov 2022 election cycle
- An enormous infusion of state and federal dollars – much of it for specific purposes
- Increasingly divisive communities
- Virtual learning influences

Looking Back, Dramatic Improvement Was The Budget Theme

- Revised three-year revenue forecast
 - Revised upward at each major milestone in the 2021-22 budget cycle
 - More than \$18.3B from January to enacted budget
- Significant state and federal pandemic-related funding
- New budget uses one-time investments as a hedge against slower growth
- Declining enrollment trends threaten LEA stability

Numerous One-Time Investments

- To hedge against outyear slower Proposition 98 growth, governor's budget proposal includes numerous one-time investments
- No one can argue about the list, but nothing of significance on the list is one-time in nature if done well
- State is spending 65% and 69%, of K-12 and community college resources, respectively, on one-time programs
- Categorical programs are all about state policy priorities, and the overarching tension around topics like accountability, local control, special interests, unrestricted funds, and maybe election season – usually driven by the availability of a poopload of money

Looking Ahead, Reserved Growth Is The Likely Theme

- Year-to-date August state general fund revenues are beating estimates in the enacted budget by \$8.31B (includes May and June 2021)
- Forecasted cost-of-living-adjustments (COLAs) are likely conservative, especially in the early years of the projection period and the influence of rising inflation
- UCLA economic forecast uses words like stable and unspectacular
- Proposition 98 Test 1 – a flat percent of general fund revenues – appears safe for the near term
 - Test 1 is not influenced by changes in average daily attendance (ADA), resulting in higher per-ADA funding level

Looking Ahead, Reserved Growth Is The Likely Theme (Cont.)

- But lots of options on how those added per-ADA funds are apportioned
- Don't jump to conclusions... let the policy, budget and political process unfold (it's another election year!)

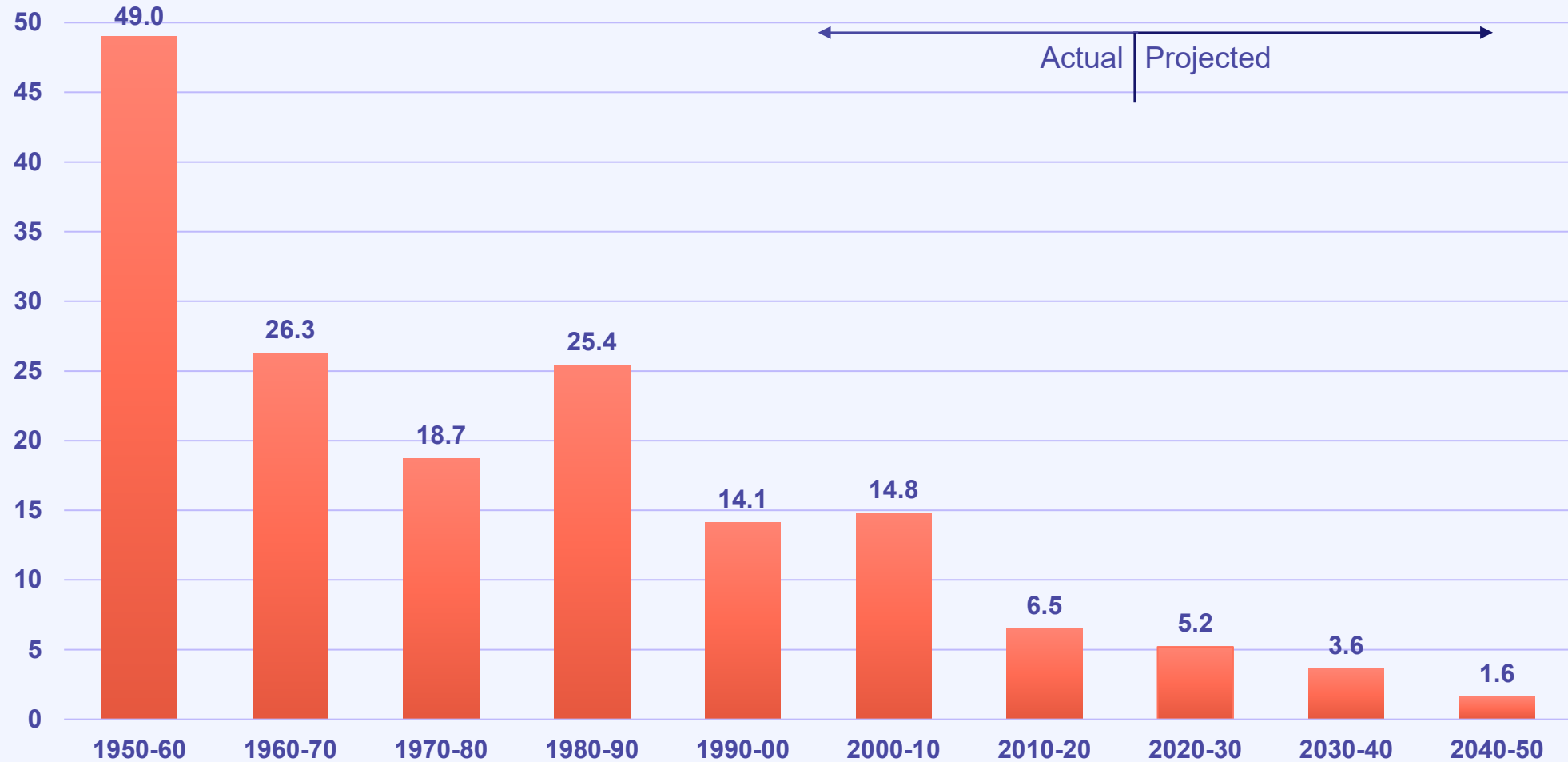
Declining Population Impacts Enrollment

- California lost population for the first time in state history
 - Birthrates are down further, death rates are up, net migration is down
 - PPIC estimates that total fertility rate (TFR) for 2020 is 1.52, down from 2.20 in 2007; a TFR of 2.1 is considered necessary to avoid population decline
 - Fewer teen pregnancies, higher college going rates, college debt, housing costs and broader economics – such as the struggle of young adults to establish financial independence and their own households – all contribute
 - Average age for first marriage for women has surpassed 30 for first time
 - Percent of women in 20s living with parents is 46%
 - Percent of men in 20s living with parents is 51%

Lots of Talk About Migration Out

- Based on early analysis of 2020 census data, the Public Policy Institute of California (PPIC) reports
 - International immigration has slowed, but generating interest is the large migration out of California to other states
 - During the past decade, 6.1 million people moved to other states, while only 4.9 million moved to California from other states
 - Those that move here are more likely to be working age, employed, have higher education levels and earning high wages – concentrated among young college graduates
 - Those that left California cited jobs (49%), housing (23%), or family (29%) as the primary reason

Percentage of Growth of Calif Population



Declining Enrollment Trends

- Over 60% of California's traditional public schools are experiencing declining enrollment
 - Between 2018-19 and 2020-21, noncharter enrollment dropped in every county except one, and that county grew by only .7%
 - Overall, charter schools are growing – now serving 12% of student population
- Kindergarten enrollment averages around 8.5%, but in 2020-21 it represented only 7.7%, the lowest share of enrollment in a decade
- The 10-year (2030-31) forecast of enrollment projects a loss of more than 542,000 students, or 9.03%, with 19 counties declining at a rate greater than the statewide average

Was the Pandemic a Bust or a BIG BUST?

- Pandemic appeared to present short-term spikes in the decline, mainly at lower grades, but...
 - What do current numbers show?
 - Is the pandemic drop short-term or longer-term?
 - Headlines
 - “Marin school enrollment down 5% for 2021-22” (IJ, 9/28)
 - “L.A. Unified enrollment drops by more than 27,000 students, steepest decline in years” (LAT, 9/28)
 - “Back at school, some districts struggle with attendance” (Monterey Herald, 10/9)

Local Attention

- While the state trends tell a story, LEAs must focus on their own data
 - Know the data from your community, your region
 - Understand why you have declining enrollment
 - Take action to correct / mitigate those reasons you have control over
 - Understand the revenue / cost relationship applicable to declining enrollment
 - 35-40 cents in direct services – teachers, aides, school site
 - 60-65 cents in indirect services – all other
- Act early
 - The longer you wait to act, the more painful the adjustment will be

Potential Solutions for Declining ADA

- State budget policy proposals are still a few months away
- There is a heightened awareness of declining enrollment trends
- Is it the number one policy and fiscal consideration for schools?
 - The good news is that when a majority of LEAs share a condition, you can get traction around a common solution / mitigation
- Declining enrollment also brings opportunities
 - Expanded Transitional Kindergarten, early childhood ed programs, etc.

Reserve Cap

- Start by sorting out the 3% and the 10% - often a point of confusion
 - 3% is the threshold of the Proposition 98 reserve (PSSSA) amount compared to total Proposition 98 funding for K-12
 - When the 3% threshold is met, it triggers the applicability of the 10% cap to local district combined assigned and unassigned reserves
- The 3% will be met in the current year, triggering the applicability of the 10% cap in 2022-23
- While likely a tad higher now, in November 2020, the LAO estimated that 129 medium and large districts would be subject to the cap as a result of reserves exceeding 10% of expenditures – forecasted at \$1.3B or about one-third of the reserves held by these districts

Reserve Cap

- What are the options for districts?
 - Spend down their reserves
 - Ask the county superintendent for a temporary waiver
 - Reclassify their reserves to avoid the 10% limitation
- What is your county superintendent's position on waivers?
- FCMAT's advice is to reclassify reserves to committed funds
 - GASB 54 board policy – pay attention to process and timeline

Reserve Cap

- Examples of commitments that most districts can make – list is endless
 - Supplemental and concentration grant funding to support LCAP
 - Technology refresh
 - Deferred maintenance
 - Deficit spending mitigation measures
 - Equipment replacement
 - Textbook adoption
 - Pension obligations
 - Declining enrollment

Independent Study in the Crosshairs

- Changes to independent study are not rocket science
 - Maybe a bit different than the past, with recognition there were not many topic experts to begin with
- The overarching guide is to do what's right for students
- Go back and ensure recordkeeping is in place and recorded as prescribed
 - This doesn't mean go back and create records, but corrections may be appropriate
- Consult with auditors early in planning and implementation to ensure they are on board with your approach
- The state is not in a gotcha mode and truly doesn't want apportionments back, but follow the rules and ensure learning continuity for students

Funding Cliff

- Does Newton's law of motion regarding gravity apply to everything?
 - Pandemic ADA hold harmless has expired, under current law funded ADA in 2022-23 will be the higher of 2021-22 or 2022-23 (the long-standing formula)
 - Unduplicated pupil counts were not held harmless, but are affected by both enrollment declines and universal meal programs
 - Employer contributions to pensions are scheduled to increase with the end of a two-year relief provision
 - Current year independent study provisions are designed for one year
 - Pace of one-time spending compared to need and staffing commitments
 - Considerations for maintenance of effort – formal and informal

Questions to Consider at First Interim

- What is the status of one-time funds?
 - What is the program delivery plan?
 - Where is the district according to plan?
 - Normally one-time funds should be used on one-time needs – where is that not happening?
 - What's the exit plan when the funds run out?
- What are the district's reserve levels?
 - Equally important, how are they designated?
 - What level of detail and supporting documentation exists to indicate the district's perspective on their reserves?

Questions to Consider at First Interim (Cont.)

- Enrollment and ADA trends
 - What is the enrollment trend over the past and upcoming three years?
 - What grades are being affected the most?
 - Are historical relationships between enrollment and ADA being maintained?
 - Is there a quarantine / independent study influence that needs to be researched and corrected?
- Unduplicated Pupil Percentage (UPP)
 - What efforts are being made to identify meal eligibly students?
 - 1% down can ruin your whole day

Questions to Consider at First Interim (Cont.)

- Is the district following basic budgeting principles?
 - Consider all funds and sources in developing a financial plan that supports the instructional plan
 - Always use the most restricted resources first; keeping in mind that restrictions come in a variety of flavors – eligible uses, deadlines to spend
 - Look for opportunities to mix and match funding resources to accomplish the goal

AB 1200 Reviews (Cont.)

- Multiyear Financial Projections (MYP)
 - Routinely prepare alternative MYPs that show the fiscal impact of different budget assumptions through each year of the projection period
 - Recommend that for 2021-22 LEAs produce a minimum of two MYPs: one reflective of current circumstances, one with all the pandemic one-time funds removed
 - Pay close attention to the structural environment – the recurring portions of the projection, keeping your eye on the ball one, two and three years out
 - If needed, develop an expenditure reduction plan that can be implemented in a timely manner

Questions

Thank you!