

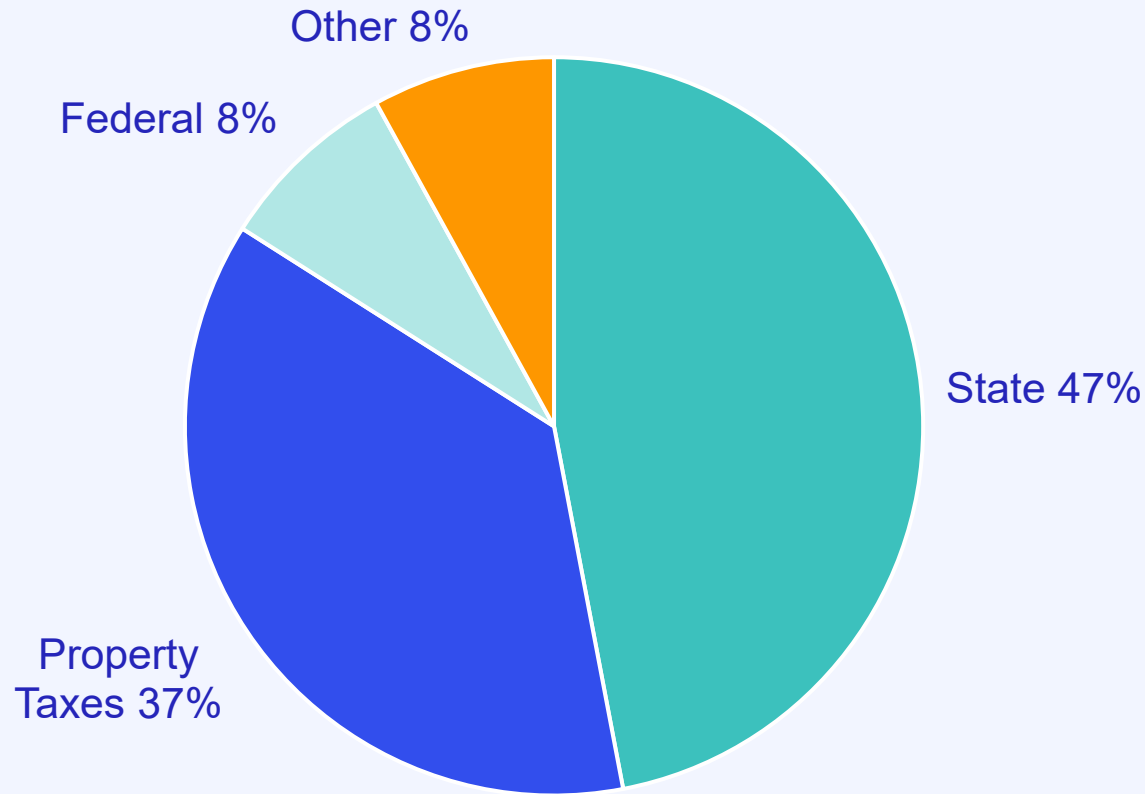


Thoughts on Fiscal Impacts on K-12 from COVID-19

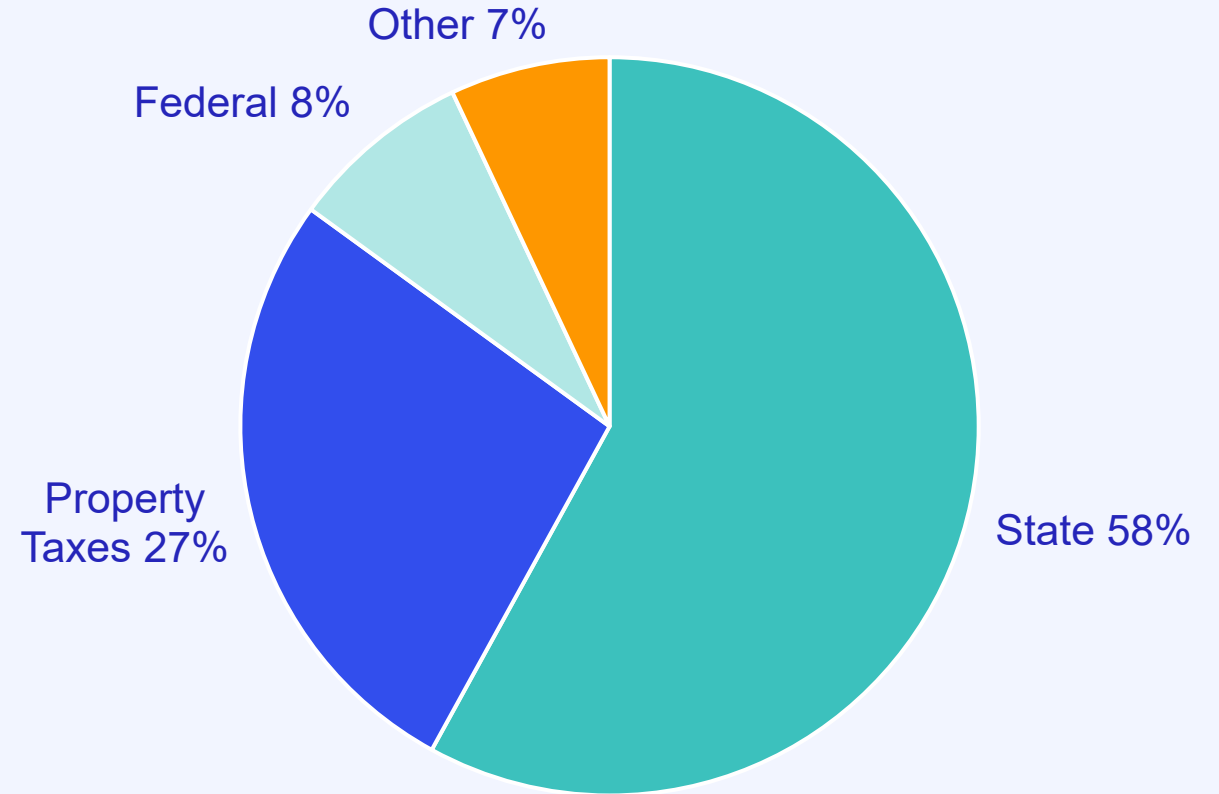
May 12, 2020

Public School Revenue Sources

United States

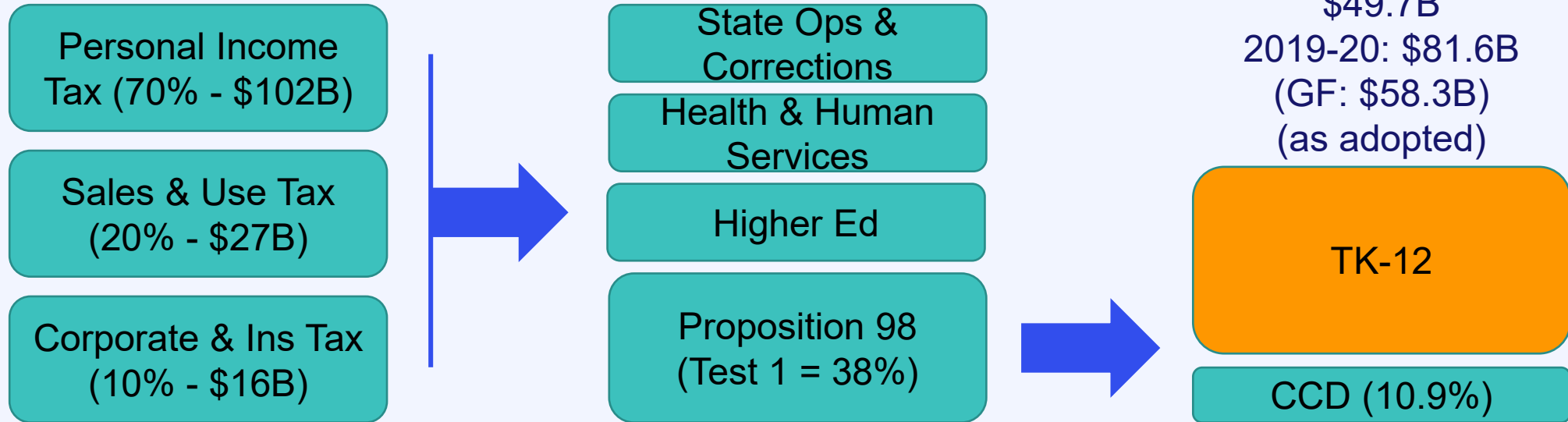


California



Source: National Center for Education Statistics, April 2020

Big Picture Economic Impacts from COVID-19



-\$9.7B/-\$32.2B

2019-20/2020-21

-\$18.3B

Over two years

Income Loss Compared



Source: DOF

How Will the State Approach P98 Gap

- Proposition 98 will be severely impacted by rapid degradation of state tax receipts
- Considerations will be both financial and political:
 - The overall size of the state revenue reductions and the resulting impact on Proposition 98 (\$18.3B)
 - The size of interyear apportionment deferrals
 - The size of non-LCFF Proposition 98 program cuts (preschool, grants)
 - Relief from non-Proposition 98 funding sources such as the Budget Stabilization Account (rainy day fund) for either revenue increases or expenditure reduction
 - LCFF rate reductions – CUTS

Fiscal Realities For LEAs – Current Year

- **Revenue** – fairly stable; ADA held harmless; lottery and local down
- **Expenditures** – unplanned, extraordinary expenses are up
- **Reserves** – trending down from start of the pandemic
- **Cash** – was strong, will decline rapidly with a June apportionment deferral
- **Key takeaway** – update now

Fiscal Realities For LEAs – Budget Year

- **Revenue** – Jan 10 proposals scrapped; rapid decline in state resources; federal assistance; statutory COLA 2.31%, funded COLA ?; expect range of -5% to -10% net reduction
- **Expenditures** – continued distance learning costs; potentially significant physical distancing costs; some flexibility in regulations
- **Reserves** – need to maintain but likely trending down rapidly; they are one of the puzzle pieces
- **Cash** – will continue to decline with a June+ apportionment deferral
- **Key takeaway** – possibility of budget revisions in fall based on updated tax receipt data; LCAP delayed; big unknown is school year and configuration

Fiscal Realities For LEAs – Outyears

- Multiyear Financial Projections (MYFP) are critical.
- The effects of today's operations and financial decisions are indelibly printed on the future.
- All decisions should be made through the added lens of the MYFP and the impact on the district's overall financial health.
- Budget year (2020-21) will not reflect the full impact of the downward spiral.
- Depending on the amount of time in a recessionary condition (“U-” or “L-shaped” recession it is likely that 2021-22 state tax receipts and COLA calculations will be harder hit than 2020-21.
- Some thought partners see 2021-22 with additional 10%-15% reductions.

FCMAT Guidance



Fiscal Alert

April 2020

Preparing Budget Scenarios for 2020-21

This fiscal alert addresses considerations for and approaches to budget preparation for 2020-21 during this time of uncertainty. Although definitive information on COVID-19 impacts and the many implications for state revenue assumptions is lacking, FCMAT recommends local educational agencies (LEAs) run multiple budget scenarios to help them begin to understand the financial impacts.

To generate scenarios for the budget year, the first step is to update the 2019-20 assumptions, which may have changed drastically since the last official reporting of second interim. Updated funding proposals from the state have not yet been released, but additional expenditures and trends are known, and those trends can lead to 2020-21. Time is of the essence to prepare, analyze and review potential funding impacts that could result from the various scenarios.

This alert is for all LEAs, including county superintendents serving in their fiscal oversight role. Further, this alert is a companion to a previous fiscal alert on effective cash management (see FCMAT [Fiscal Alert Effective Cash Management During Uncertain Times](#)).

LEAs need to keep in mind that Proposition 98 funding considerations by the state may not be clear at the May Revision or the June adopted budget. In fact, with rapidly declining state revenues and a delay in tax receipts, Proposition 98 funding levels likely will not be determined until fall. Early in the Great Recession, state tax receipts fell so rapidly that multiple state budgets were adopted during one fiscal year, setting the stage for mid-year changes for Proposition 98 as well.

This fiscal alert is lengthy, providing guidance on what FCMAT believes is prudent financial planning. The best practices outlined here are applicable irrespective of the times. The guidance presented is built on realistic considerations based on available data, which will be updated with the May Revision, June state budget adoption, and likely mid-year changes (a second adoption) of the fall.

Current Year Budget Updates and Third Interim Report

Education Code Section 42131(e) requires each school district to be qualified or negative certification for the second interim period. LEAs classified as qualified or negative by the county superintendent should provide financial statement projections of the school district's balances through June 30 for the period ending April 30. This is a



Michael H. Fine
Chief Executive Officer
1500 17th Street - City Centre
Bakersfield, CA 93301-4533
Telephone: 661-636-4611
Fax: 661-636-4647

755 Baywood Drive,
Second Floor
Petaluma, CA 94954
Telephone: 707-775-2850
www.fcmat.org

Administrative Agent
Mary C. Barlow
Office of Kern County
Superintendent of Schools



Michael H. Fine
Chief Executive Officer
1500 17th Street - City Centre
Bakersfield, CA 93301-4533
Telephone: 661-636-4611
Fax: 661-636-4647

755 Baywood Drive,
Second Floor
Petaluma, CA 94954
Telephone: 707-775-2850
www.fcmat.org

Administrative Agent
Mary C. Barlow
Office of Kern County
Superintendent of Schools



Fiscal Alert

April 2020

Effective Cash Management During Uncertain Times

Background

You have heard the phrase, "cash is king." Private industry has long understood the importance of this concept. Governmental entities and especially California schools began to fully appreciate the importance of effective cash forecasting and management strategies during the Great Recession when state cash receipts fell dramatically, resulting in the deferral of cash payments to local educational agencies (LEAs). During the economic recovery of the past eight years, the focus on cash has understandably lost a bit of its luster. However, during periods of economic distress, cash is a "third rail" issue, and LEAs must enhance their planning and monitoring around cash issues weekly.

This Fiscal Alert addresses the impact of the ongoing COVID-19 pandemic on LEAs cash resources for the current and subsequent fiscal year. This alert is for all LEAs, including county superintendents serving in their financial oversight role. During these rapidly changing, unprecedented times, it is critical for LEAs to begin analyzing and planning for various scenarios that will adversely impact cash flow and avoid cash shortfalls.

During the Great Recession a significant decline in state tax revenues prompted numerous apportionment deferrals that caused LEA cash fluctuations and resulted in extensive local borrowing. Similar deferrals will be one of the first tools the state uses to stabilize its own cash flow and to control in what year Proposition 98 appropriations are attributed. Cash deferrals are more favorable to LEAs than actual reductions in state funding but require LEAs to maintain accurate cash flow projections and to develop multiple cash flow scenarios to deal with the impact of the deferrals when they occur.

The May Revision may address short-term state plans and determine whether cash deferrals are part of those plans, especially for June 2020. However, the May Revision, and likely the June adopted budget, will not provide definitive answers about budget and associated apportionment plans, necessitating the need for LEAs to wait until a revised state budget is adopted in August/September to receive a more complete funding plan for the 2020-21 fiscal year. Use the time now, before the May Revision, to analyze and plan for various current year and budget year cash deferral of the June principal apportionment to early July. Ensuring the availability of adequate cash reserves is a vital function for all LEAs.



FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Alert

April 2020

Associated Student Body (ASB) Considerations During COVID-19

This Fiscal Alert addresses the impact to associated student body accounts (ASB) resulting from the COVID-19 pandemic and associated school closures. This guidance is provided in response to questions from school districts, county offices of education and community colleges throughout California, and has also been included on the FCMAT website in the Help Desk FAQs. This alert includes local education agency (LEA) considerations and practical alternatives for ASBs to navigate the requirements with regard to event cancellations, carryover funds, and refunds in an unprecedented and decentralized setting. It should be considered analysis rather than legal advice, and all LEAs are encouraged to seek additional guidance from their external auditors and/or legal counsel.

Background

The FCMAT ASB Accounting Manual, Fraud Prevention Guide and Desk Reference was created to provide guidance to LEAs on the various statutory provisions, best practices, appropriate internal controls, and related considerations relative to ASB accounts. The manual presumes that schools are operational and generally does not include allowances for unexpected and extended school closures or a sudden disruption of the educational process. Accordingly, the following guidance can be used to supplement the manual where alternative processes are needed within the framework of the relevant Education Code provisions.

The manual is available without cost at the following link: <https://www.fcmat.org/2015-asb-accounting-manual-fraud-prevention-guide-and-desk-reference>. Chapter 3 of the manual sets forth the framework for how circumstances not addressed elsewhere may be handled, stating the following:

The laws and regulations that govern ASB activities and funds are not sufficiently comprehensive to provide guidance for all areas in which questions arise. Thus, while this manual conforms to the laws and regulations, it also provides supplementary guidance in areas where formal legal guidance is inadequate or nonexistent. This supplementary guidance is based on sound business practices, internal controls and effective procedures used by successful LEAs throughout California. Because the additional guidance is not based on laws or regulations, local school administrations may change these recommended practices to better suit the operating environment of each individual LEA.



Michael H. Fine
Chief Executive Officer
1500 17th Street - City Centre
Bakersfield, CA 93301-4533
Telephone: 661-636-4611
Fax: 661-636-4647

755 Baywood Drive,
Second Floor
Petaluma, CA 94954
Telephone: 707-775-2850
www.fcmat.org

Administrative Agent
Mary C. Barlow
Office of Kern County
Superintendent of Schools

www.FCMAT.org/COVID-19-Resources

Cited References

- **Policy Analysis for California Education (PACE)**

<https://www.edpolicyinca.org/sites/default/files/2020-04/PACE%20COVID%20Funding%20webinar%204.28.20.pdf>

- **National Center for Education Statistics (NCES)**

https://nces.ed.gov/programs/coe/indicator_cma.asp

- **Center on Budget and Policy Priorities (CBPP)**

<https://www.cbpp.org/research/state-budget-and-tax/states-need-significantly-more-fiscal-relief-to-slow-the-emerging-deep>

- **Department of Finance (DOF)**

- http://dof.ca.gov/Budget/Historical_Budget_Publications/2020-21/documents/DOF_FISCAL_UPDATE-MAY-7TH.pdf

- **Legislative Analyst's Office (LAO)**

Report on State and School District Reserves: <https://lao.ca.gov/Publications/Report/4216>

Spring Fiscal Outlook: <https://lao.ca.gov/reports/2020/4228/spring-outlook-2020.pdf>

- **Fiscal Crisis and Management Assistance Team (FCMAT)**

www.fcmat.org/covid-19-Resources