

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Plumas Unified School District

Presentation to the Governing Board
Regarding District's Fiscal Crisis

April 9, 2025



Integrity

“The supreme quality of leadership is unquestionable integrity. Without it, no real success is possible.”

-- Dwight Eisenhower

Fiduciary Duty

- Fiduciary duty is based on faith; to act faithfully.
- Holding something in trust, entrusted, held in trust, trust, confidence, reliance, pledge, security, one who holds something in trust.
- When someone holds a fiduciary duty to another, the person with the duty must act in a way that will benefit the other; they hold a legal and ethical relationship to another.
- Loyalty, reasonable care.

Components of Fiduciary Duty

- Duty of Care.
 - Due diligence through the collection and reviewing of all evidence and information available. Do not simply accept the information as it is presented; assess the information critically. Ask who, what, when and where?
- Duty of Loyalty.
 - Act solely in the interest of the beneficiaries (district) without personal conflict (conflicts of interest, self-dealing, appearance of, transparency).
- Duty of Disclosure.
 - Act with candor, be open, sincere, honest and transparent.

Components of Fiduciary Duty (Cont.)

- Duty of Good Faith.
 - Advance the interests of the district, fulfill your duties and responsibilities, do not violate the law.
- Duty of Prudence.
 - Be trustworthy, exercise good judgement; use wisdom and the degree of care and skill that a prudent trustee, executive, fiduciary would exercise.
- Duty of Confidentiality.
 - Keep confidential matters confidential.

Tone is Set at the Top

- Ethical leadership is the first and most important element of school district financial success.
- Leaders must exhibit the characteristics they hope to engender in their staff.
- Integrity and ethics shape the entire district.
- Leadership – good or bad – is emulated at all levels and becomes the expectation and organizational standard.
- Competent leaders don't “shoot from the hip,” they know how things should be done and they get them done.
- Effective communication results in shared vision.

Guiding Principles

- Are the allocation of resources and the expenditure of funds:
 - Right for the students, based on student need?
 - Do they promote student achievement and equity?
 - Right for the district, based on community?
 - Aligned with the adopted plan and priorities?
 - Legal?
 - Consistent with the requirements of law or regulation?
 - Fostering public trust?
 - Does the expenditure meet the expectations around integrity, credibility, stewardship?

Indicators of Risk or Potential Insolvency

- Inattention to annual independent audit.
- Inadequate budget development and adoption.
- Insufficient budget monitoring and updates.
- Inadequate cash management.
- Unmonitored charter schools.
- Mismanaged collective bargaining agreements.
- Increasing and/or uncontrolled contributions and transfers.
- Continued deficit spending (unrestricted general fund).
- Mismanaged employee benefits.
- Inattention to enrollment and attendance.

Indicators of Risk or Potential Insolvency (Cont.)

- Inattention to facilities.
- Inadequate fund balance and reserve for economic uncertainty.
- Mismanaged general fund – current year.
- Nonintegrated information system and data management.
- Ineffective internal controls and fraud prevention.
- Weaknesses in leadership and stability.
- Inadequate multiyear projections.
- Inattention to non-voter-approved debt and risk management.
- Lack of position control.
- Unmonitored special education.

See: FCMAT's list of [Indicators of Risk or Potential of Insolvency](#).

Current Status of Plumas Unified

- The current discussion is about Plumas Unified only; not Plumas County Office of Education.
- The current situation appears to be sudden, but in fact the level of dysfunction being observed didn't happen over night.
- There is evidence of incompetency at multiple levels, but also evidence that certain direction, circumstances and processes were being questioned as inaccurate or inappropriate.
- We need to acknowledge that the current news about Plumas USD invokes many emotions among parents, students, employees and the community, but none more important than grief. We must all lead with this in mind.
- Transparency and timely and accurate communication is critical.

Deficit Spending

Plumas Unified has had significant deficit spending leading to a fiscal crisis.

Deficit spending is defined as: expenditures that exceed revenues.

Over time, deficit spending erodes fund balance.

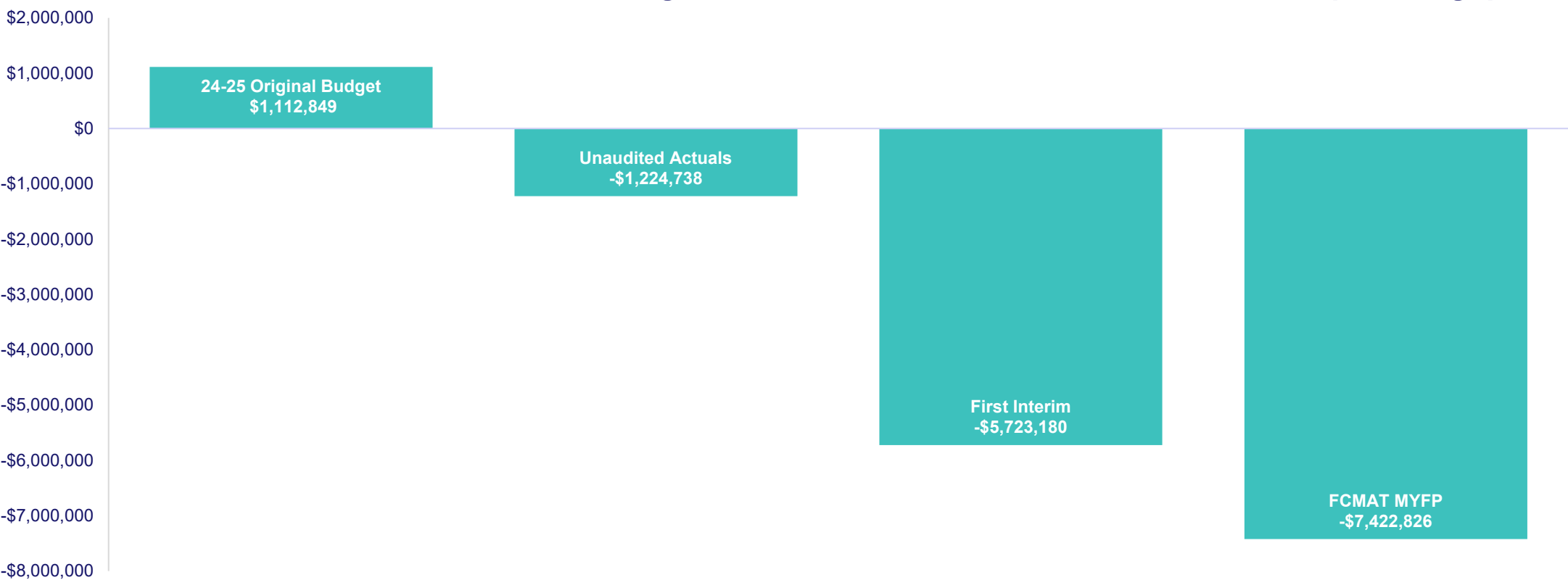
Minimum reserve balances can be in jeopardy.

Cash and fund balance are not the same, but when deficit spending is severe and persistent, it can lead to cash shortfalls.

Poor budget development and improper budget monitoring both lead to deficit spending.

Deficit Spending Erodes Fund Balance

June 30, 2025 Estimated Ending Combined* Fund Balance at reporting periods.



*Combined: unrestricted and restricted.

Source: District Standardized Account Code Structure reports and FCMAT multiyear financial projection.

Assumptions

- The district lacked basic position control. FCMAT created a position control document that provided a basis for salary and benefit projections for 2024-25, which serves as the baseline for subsequent years.
- Costs for employee step and column were included in the multiyear financial projection (MYFP).
- Increases for nonsalary costs influenced by consumer price index were included in the multiyear financial projection.
- Department of Finance published revenue assumptions for current and subsequent years were used in the preparation of the MYFP.
- Property tax growth was estimated at 3.6% annually, and enrollment was projected to decline slightly over the three years in the MYFP.

Assumptions (Cont.)

- Reductions in staff as approved by the board on March 12, 2025.
- No allowance is included regarding pending negotiations with the classified bargaining unit.
- Contributions to restricted programs were increased.
 - Expenses exceed revenues in most programs.
 - Some funding sources are expended and/or expired requiring 100% contribution from the unrestricted general fund.
- Nonsalary expenditures were adjusted for the current year to align with current or expected costs.
- Costs related to state receivership are not included.

MYFP and Ending Balance Concerns

Unrestricted General Fund Ending Balances, 2025-25 through 2026-27.

	2024-25	2025-26	2026-27
Available Reserves (\$)	(7,422,826)	(14,809,788)	(22,927,810)
Available Reserves (%)	(17%)	(35%)	(53%)
Statutory Minimum Reserve (\$)	1,304,600	1,272,577	1,289,353
Statutory Minimum Reserve (%)	3%	3%	3%
Available Reserves vs. Statutory Minimum	Not Met	Not Met	Not Met
Excess / (Shortfall) (\$)	(8,727,426)	(16,082,365)	(24,217,163)

Source: FCMAT MYFP.

Recovery and the MYFP

- Due to timing and insufficient budget mitigation action to-date, deficit spending will continue through 2025-26.
 - Some expenditure reductions may occur, but the opportunity for any significant staffing reductions has passed.
 - Staffing accounts for 85% or more of the budget.
 - Reductions elsewhere will help but cannot eliminate the shortfall.
- Careful planning will need to take place during the 2025-26 fiscal year to rightsize the budget to revenues and begin recovery in 2026-27.
 - Additional costs related to state receivership will need to be factored in.

Cash Flow

- Fund balance declines will impact available cash.
- Plumas Unified is a community-funded or basic aid district.
 - Basic aid districts receive most of their revenue from local property taxes, the majority of which are apportioned twice a year.
 - It is common for districts of this funding type to require short-term cash borrowing.
 - Cash borrowing in this case is not insolvency, it is normal and expected.
 - Typically, this type of borrowing is repaid in the same fiscal year or early in the following fiscal year.
- Plumas Unified has borrowed from internal sources that cannot be repaid.

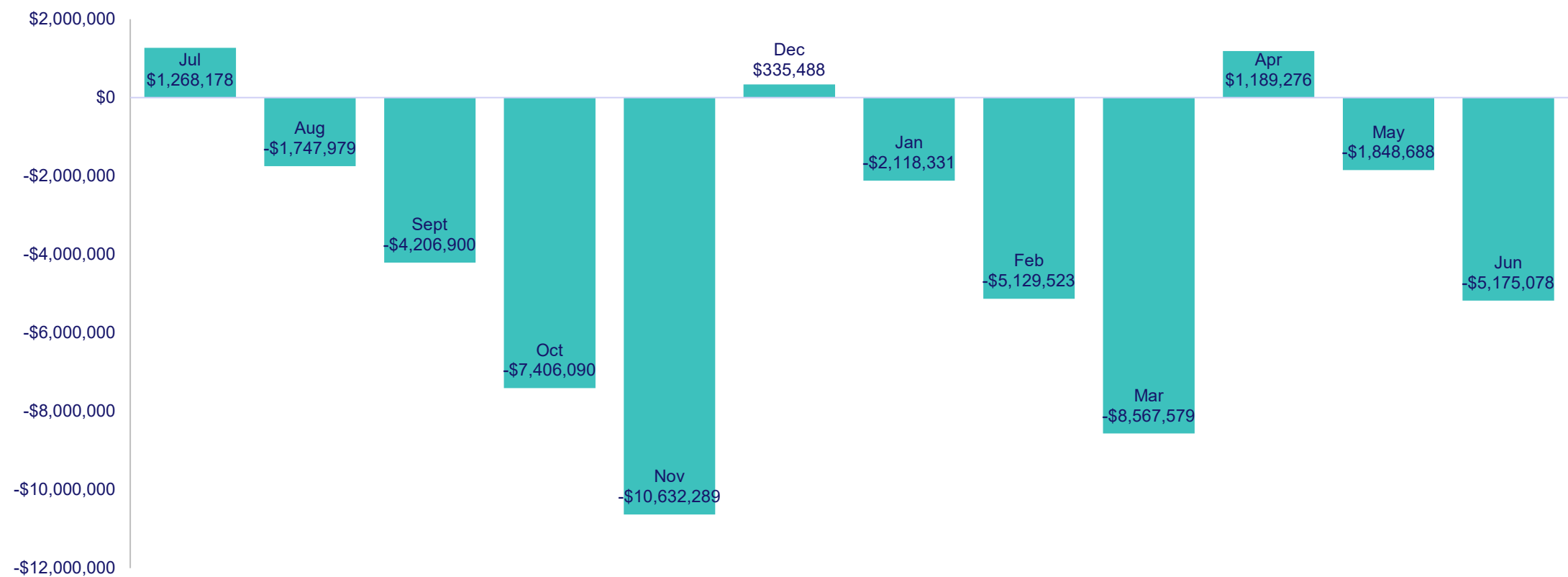
Cash Flow (Cont.)

- Internal, interfund borrowing to support general fund cash needs during 2024-25 occurred in September and November.
 - \$10.1 million was borrowed from three other funds.
 - Fund 17, Special Reserve Fund for Other than Capital Outlay Projects.
 - Fund 35, County Schools Facility Fund.
 - Fund 67, Self Insurance Fund.
 - While the borrowing from Fund 17 can be converted to a permanent transfer, the other funds must be repaid. The amount that must be repaid is over \$5 million.
 - The projected ending cash balance on June 30, 2025, is slightly more than \$2 million.

Cash Flow (Cont.)

- It is estimated that the district's cash balance at the end of July 2025 will be \$1.2 million.
- Projections reflect the district will experience a cash deficit in August 2025.
 - Ending cash balance after August payroll is negative \$1.7 million.
- Circumstances could lead to cash insolvency as early as July or as late as September.
- The month with the lowest cash balance is November 2025.
 - This is immediately before property taxes are received.
- In 2025-26, the projection shows that two months of the year will have small positive cash balances, the remaining months are negative.

2025-26 Projected Cash Flow Report



Source: FCMAT Cash Flow.

Cash Insolvency

- Cash insolvency occurs when payroll expenses exceed available cash in the county treasury, and all options for borrowing have been exhausted.
 - Already exhausted internal borrowing.
 - Will need to evaluate opportunities to borrow from the county office of education or the county treasurer – likely timing solution only.
- Cash insolvency is a function of deficit spending, erosion of fund balance, and sustained negative cash flow over time.
- Cash is king! Cash shows no mercy!
 - Cash insolvency is the end of the road – game over – and is usually the trigger point for an emergency advance apportionment, which may result in governance changes.

The Consequences of Cash Insolvency

- District's governing board may ask for and receive an authorization for an emergency advance apportionment from the state, but...
 - District will lose superintendent and local governance.
 - Expenditure reductions will still be necessary, and they will need to be even more substantial than before due to new added expenses.
 - It is not a bailout – it is a cash advance to help pay the district's immediate obligations. The advance must be repaid.
- In the context of insolvency, it is more likely that the district's fiscal situation will deteriorate in the short term rather than improve.
- Time is of the essence.

Progression

- Districts with financial difficulty follow a progression from stability to distress to crisis, and very few to receivership, over time.
 - Most districts stop at mild to moderate distress and take the necessary action to turn around.
 - Others progress to distress and crisis and require more intense intervention.
 - In 32 years only 10 local educational agencies have progressed from crisis to receivership.
- Districts may also progress from stability to crisis following a sudden event.
 - Wildfires and large settlements or judgements for childhood sexual assault are recent examples.

Receivership Types

- Statute provides two sets of conditions of acceptance or conditions on emergency apportionments.
- The distinguishing characteristic of the two is the amount of the emergency apportionment requested.
 - Type 1 – equal to or less than 200% of the district's required reserve for economic uncertainty.
 - Type 2 – greater than 200% of the district's required reserve for economic uncertainty.
- Based on all available information known today, Plumas USD will require a type 2 apportionment.

Receivership Prerequisites

- The formal process of receivership begins when the district requests an emergency advance apportionment from the state.
- Prerequisites before an emergency apportionment is made include*:
 - Report by auditor on financial conditions and budgetary controls of district.
 - Management review by qualified management consultant.
 - A fiscal plan adopted by the governing board.
- State Superintendent of Public Instruction (SPI) reviews and approves various reports, fiscal plan and repayment plan**.
- The governing board must discuss the need for the emergency apportionment at a public board meeting and receive testimony***.

*EC 41320(a); **EC 41320(b), ***EC 41326(a)

Governance Changes

- As a condition of the acceptance of an emergency advance apportionment from the state:
 - The county superintendent of schools shall assume all the legal rights, duties and powers of the district's governing board.
 - With concurrence from the SPI and the president of the state board of education (SBE), the county superintendent shall appoint an administrator from a pool of candidates identified and vetted by FCMAT.
 - The administrator serves under the direction of the county superintendent.
 - The district's governing board shall serve as an advisory board reporting to the administrator, but has no rights, duties or powers.

Appointed Administrator

- Within 30 days of assuming authority, administrator shall discuss options for resolving the fiscal problems with a variety of partners.
- Additionally, the administrator may:
 - Implement substantial changes in the fiscal policies and practices of the district, including filing for protection under federal bankruptcy law.
 - Revise educational programs to align with resources and student performance standards.
 - Encourage all partners to accept a fair share of the burden.
 - Consult with a variety of partners including FCMAT.
 - Adjust and change policies to effectively implement recovery plans.

Regaining Local Control

- The return of local control occurs when the administrator's work is complete, and a transition is made to a trustee.
- The return of local control is conditioned on a series of determinations and approvals, but is no less than one* year following acceptance of the loan.
 - Recovery plans are approved and FCMAT completes at least two* comprehensive reviews.
 - The administrator certifies that all collective bargaining agreements have been negotiated and ratified and that the agreements are consistent with the terms of the recovery plans.
 - The district has completed all reports required by the administrator and county superintendent.

*One year and two reports are in conflict.

Regaining Local Control (Cont.)

- The administrator, county superintendent, SPI and president of the SBE determine that future compliance with the recovery plans is probable.
- Approval by the county superintendent, with concurrence of the SPI.
- The return of local control is based on both objective and subjective considerations.
- The probability of future compliance with the recovery plans is best determined by the district's progress in implementing the recovery plans as evidenced by annual comprehensive assessment conducted by FCMAT – the comprehensive review.

Comprehensive Review

- Within six months after an emergency apportionment is made, and annually thereafter, FCMAT must conduct a comprehensive assessment in five operational areas over which governance is exercised.



Comprehensive Review (Cont.)

- SBE adopts a list of professional and legal standards that all school districts are encouraged to use as a guide to conduct good educational programs and fiscal and management practices.
- These standards form the minimum basis for evaluating the improvement of a district in receivership.
- Standards were last updated in 2019 and number approximately 150.

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Standards for Comprehensive Reviews

Community Relations and Governance

1.1 Leadership and Organizational Capacity
The LEA has the leadership, culture and organizational capacity to implement and maintain systemic reform, continuous improvement and high expectations for community relations and governance. The organization demonstrates a commitment to attract, develop, and retain competent individuals to carry out responsibilities for community relations and governance in alignment with objectives. The LEA establishes a framework of relationships, policies, systems, processes and practices that are participatory and ensure accountability, fairness and transparency.

1.2 Leadership and Organizational Capacity
The organizational structure clearly identifies key areas of authority and responsibility for community relations and governance. Reporting lines in each area are clearly identified and logical.

1.3 Leadership and Organizational Capacity
LEA leaders set the tone and establish the environment, exhibiting integrity and ethical values in carrying out their community relations and governance responsibilities and directing the work of those they supervise.

2.1 Planning
The LEA has an internal annual community relations and governance calendar that lists responsible parties and all ongoing community relations and governance activities. The calendar is shared with all applicable departments and is used to ensure responsible parties meet critical deadlines, including those required by statute and board policy/administrative regulations.

2.2 Planning
The LEA has developed, and the board has adopted, a communications plan that addresses both internal and external communications. A process and structure exists to regularly update the communications plan based on best practices, assessment of communication strategies, and changing technology. The LEA communicates with all its stakeholders in a timely manner and facilitates two-way communications.

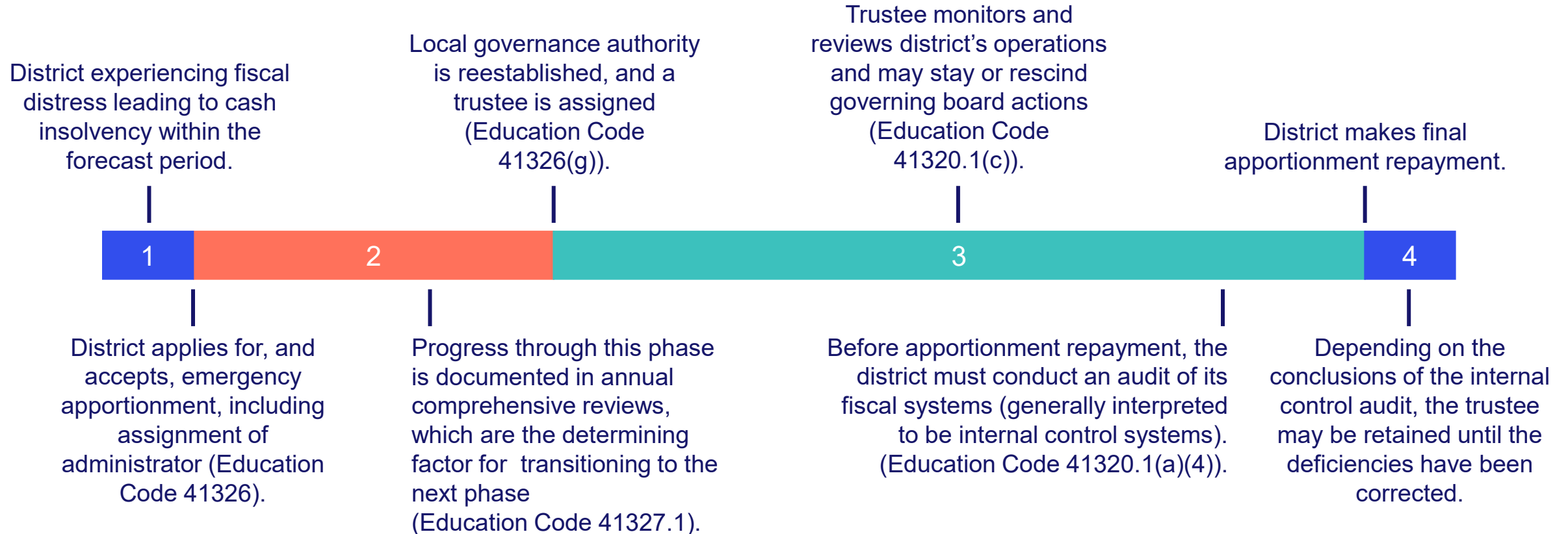
Note: Communications are also addressed in Finance Standard 1.6.

3.1 Parent/Community Relations
At the beginning of each school year the LEA provides all parents/guardians with an annual notice of parents' rights and responsibilities including the uniform complaint procedure. The annual notice and the complaint procedure are readily available. The LEA has internal procedures for accepting, investigating and responding to formal complaints, including Williams complaints, through a uniform complaint procedure. Both the notice of parents' rights and responsibilities, and the uniform complaint procedure are available in English and all other languages spoken by 15% or more of the students. (E.C. 48980, 48985, 11500; CCR Title 5, 4621, 4622)

3.2 Parent/Community Relations
The LEA encourages parents and community members to be involved in school activities and their children's education. Volunteers receive relevant training and contribute in meaningful ways to the schools. (E.C. 48985, 11500; CCR Title 5, 4621, 4622)

Phases of Recovery Under Receivership

Apportionment Greater Than 200% of Recommended Reserve



This graphic is for illustration purposes only.

Summary of Receivership Process

- A summary of the work around fiscal crisis and the state's receivership process for school districts is available on the FCMAT website at:
 - [Fiscal Crisis in School Districts \(report\)](#)
 - [Fiscal Crisis in School Districts \(presentation\)](#)
- The conditions in Plumas USD and the single-district / county structure will require modifications from the current statutory provisions.

Next Steps

- Given the short time period between now and the projected cash insolvency, next steps will move in parallel with one another instead of sequentially.
 - Board needs to work through the prerequisite steps and make a decision whether to request an emergency advance apportionment or not.
 - Legislative bill language will be crafted and introduced with a goal of urgency adoption by June 30.
 - An administrator will be identified and vetted by July 31.
 - The initial cash transfer from the state will occur by July 31.

Thank you.