

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

CSIS California School Information Services

Alert

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FCMAT News Alert

Preparing Locally for the Impact of the State Budget

In preparation for dealing with an estimated \$14 billion dollar statewide deficit in the 2008-09 California state budget and ongoing discussions in Sacramento regarding 2007-08 midyear budget reductions, many local educational agencies (LEAs) are now preparing for a period of fiscal uncertainty and challenging financial times ahead. When attempting to balance the budget, many LEAs will need to make difficult choices about which expenditures, programs and functions deserve continued funding and which are best scaled back, re-configured or eliminated. In the short term, districts should not hesitate to take actions now that will help to ensure their solvency over the next couple of years. OLD

Background

One of the greatest obstacles for LEAs experiencing financial difficulty is deciding which areas to reduce among the various operational and program priorities. One first step is to create a list of the costs of providing required and/or essential services. Once this list is created and the cost to perform all the required elements is calculated, the LEA can begin to determine how much money, *if any*, is left for discretionary uses such as elective classes, additional supplies, capital improvements not funded with state monies, and other items that may improve schools and support the LEA's mission but do not have a dedicated, ongoing revenue source.

This process will also help bring a LEA's financial status to the front of the public's consciousness and may help to prompt collaborative efforts to find solutions. In light of our efforts to help support LEAs as they make fiscal decisions, FCMAT has attempted to compile a list of those issues chief business officials CBOs might consider when cost containment or budget reductions become inevitable. This alert contains industry-standard or best practices regarding areas to evaluate and recommended actions.

Recommended areas for review and possible cost containment

Regular and frequent budget monitoring is always a sound fiscal practice and must be more of a focus in times of fiscal uncertainty. If you have not already done so, this is the time to get your budget priorities in order. LEAs should ensure that multiyear forecasts are up to date and that the information they contain is accurate and based on the most current assumptions. Economic indicators will change quickly in this environment, so staying connected to current financial information and support such as that provided by School Services of California will help keep LEAs informed. It is recommended that districts run multiple budget scenarios to assess the impacts of the various COLA and deficit reduction proposals.

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If your LEA uses Budget Explorer, FCMAT has already set the 08-09 COLA at 4.94% with a deficit of 6.99% and plans to use the School Services Dashboard assumptions for the subsequent fiscal years. This is also a good time to perform a self review and assess your solvency risk. The FCMAT Fiscal Health Risk Analysis tool (www.fcmat.org) can assist LEAs in focusing on several areas that will eventually impact their budgets.. Multiyear forecasts, risk and trend analyses are important tools to use and share with your administration and community.

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FCMAT's initial goal was to identify the 10 most important things that LEAs should consider in uncertain fiscal times. As you will see, the list quickly grew to 17 items. This list can be viewed as a starting point for local decision making. Because most school districts spend 80% to 90% of all general fund dollars for salaries and benefits, the task, particularly in the current year, is daunting. Nonetheless, it must be done. Take a measured and logical approach and try not to panic.

Staffing impacts

1. Review all staffing to ensure that staffing formulas, ratios and class sizes (which are often specified in collective bargaining agreements) are being followed according to contract. Seniority lists should be established for all employees/positions in case employee layoff notifications need to be issued for all employees. Freeze hiring for all vacant nonessential management, certificated and classified positions, unless hiring is required by contract.
2. Reduce the use of substitutes when possible, as well as overtime and all staff on special assignments. Reconcile position control data from the human resources department with the amounts budgeted for salaries and benefits, and capture excess dollars where possible.

Restricted program dollars and other funds

3. Ensure that categorical restricted resources and other funds are self-supporting to limit general fund contributions. This should include paying for general fund overhead expenses, such as direct support, indirect costs, PERS revenue limit reduction, post-retirement benefits and all other costs. Maximize the flexibility transfers from categorical dollars, including mega item, AB 825 and Federal transfers.
4. Expend restricted dollars first whenever possible, and freeze nonessential purchases using unrestricted dollars, such as travel or equipment. Complete an in-depth review of expenditures being charged to unrestricted funding. Review existing encumbrances and liquidate any balances that will not be expended. Maximize the efficient use of all categorical resources and strive to limit carryover in these programs.

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Budget

5. Identify all one-time sources of revenue and corresponding expenditures in the budget to clarify the district's funding sources. Delay making final decisions on any new ongoing costs, such as collective bargaining negotiations and capital leases, until reliable fiscal information regarding the state budget is available to enable a better understanding of the multiyear impact on the district's budget. Quantify the available dollars that can be prioritized for uses that may include salary increases.

Enrollment and ADA

6. Ensure that enrollment and average daily attendance (ADA) projections are up to date and are based on current data.

If the district is experiencing declining enrollment, review the possibility of consolidating school sites or programs to reduce operating costs. Identify the causes of declining enrollment including, but not limited to, inter-district transfer agreements, charter schools and competing academic interests. Review annual student attendance/enrollment percentages. Create a plan to maximize student attendance.

Benefits

7. Review health plan costs for cost containment opportunities such as second opinion requirements and primary physician assignments. Conduct a re-enrollment of employees eligible for health benefits to ensure that employees are not covered after separation from the district and that retiree benefits are not being offered after the contracted age. Review the method used to coordinate Medicare benefits with retiree health plan benefits.

Consider a cap on health benefit plans with the collective bargaining units.

Contracted services

8. Review contracted services annually to ensure that the district is receiving what it is paying for and that a less expensive vendor is not available. This can include professional services such as auditing or legal services, which can be negotiated by requesting competitive quotes.

Facilities

9. Ensure that the 3% administrative charge is being assessed against the developer fee fund, as allowed by law.
10. Ensure that the deferred maintenance match ~~is~~ being transferred through the routine repair and maintenance resource so that it counts toward the 3% requirement in Education Code Section 17070.75.

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Services and leases

11. Monitor copy machine costs. Compare the per-copy cost of leases, materials and agreements on existing copiers at school sites and offices. Using an outside vendor is sometimes more cost effective because maintenance and replacement costs on older machines are very expensive.
12. Ensure that cleaning standards have been established in the operations department. Cleaning standards that include specific tasks and timelines for each custodian can often reduce costs.
13. Ensure that policies and expenditures for the use of cell phones have been reviewed.
14. Review utility costs and alternative programs for potential cost savings.

Transportation

15. Consider increasing student nontransportation/walking distances to reduce the number of buses needed and/or the number of driver hours.

Multiyear financial forecasting

16. Keep multiyear financial projections up to date and use them to guide ongoing financial decisions.

Prepare for reduction in force (RIF)

17. It is likely that LEAs with a declining rate of enrollment growth will be required to consider a RIF in fiscal year 2008-09. Notice that FCMAT references this impact for LEAs with *a decline in the rate of enrollment growth*. In FCMAT's view, this means that this is an issue not only for districts with flat or declining enrollment but also for those that may not be growing as quickly as projected or as quickly as they have in previous years. LEAs simply cannot afford to be overstaffed in this economic environment! If your assessment indicates the need for a RIF, get up to speed on the process and get your LEA's seniority list in order. March 15th will come quickly this year.

Local educational agencies should strive to keep their governing boards, staffs and communities informed regarding district finances. As is always the case, good communication is one of the keys to surviving in uncertain economic times.

Because each LEA has a unique combination of services, programs and mission statements, a one-size-fits-all template does not work for budget reductions, cost containment strategies or other adjustments. Although there is no definitive list of procedures that all LEAs should follow when identifying areas to assess and maintain solvency, many of the things identified in this alert are common to all. Continue to visit the FCMAT web site for updates to this document.