

Orange Unified School District

FCMAT Fiscal Review

March 5, 2009



FCMAT

- The Fiscal Crisis and Management Assistance Team (FCMAT) was created by Assembly Bill 1200 in 1992 as a service to assist LEAs in complying with fiscal accountability standards.
- Since 1992, FCMAT has been engaged to perform nearly 750 reviews, including school districts, county offices of education, charter schools and community colleges.
- Services range from fiscal crisis intervention to management review and assistance.
- FCMAT also provides professional development training and technical assistance.

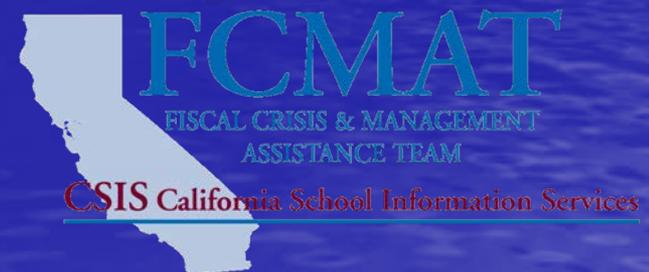


Scope of Study

Invited by the district to:

Provide an in-depth financial review of all funds included in the 2008-09 adopted budget or first interim financial report utilizing the Fiscal Health and Risk Analysis tool created by FCMAT.

Create an independent multiyear financial projection for 2009-10 and 2010-11 using FCMAT's Budget Explorer software, after validating revenue and expenditure allocations included in the district's 2008-09 first interim general fund budget.



Study Timeline

- Developed study agreement, December 2008
- Conducted fieldwork at the district January 7-9, 2009
- Analyzed data and prepared draft report – January and February, 2009
- Updated report data for new state budget – late February 2009
- Present report to school board March 5, 2009

Summary

- Fiscal Health Risk Analysis
Total "No" Responses: 4
 - Key:
 - Low Risk: 0-4 "No" Responses
- However....

Summary

- Multiyear Financial Projection

Orange USD Projected Ending Fund Balance,
General Fund:

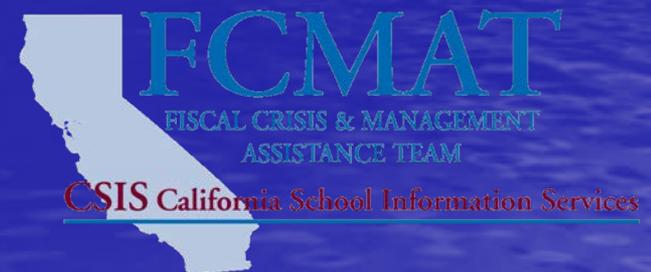
- 2008-09 = \$8 million
- 2009-10 = **-\$15 million**
- 2010-11 = **-\$45 million**

Fiscal Health Risk Analysis



Fiscal Health Risk Analysis

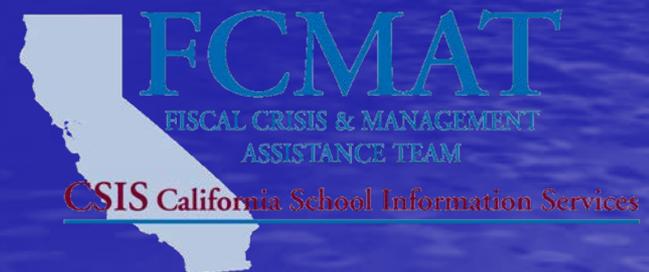
The Fiscal Health and Risk Analysis includes 17 components of key fiscal indicators to measure a district's potential risk.



Deficit Spending

- Is the district avoiding deficit spending in the current year and in the two subsequent fiscal years? **No**
- Has the district controlled deficit spending over the past two fiscal years? **No**
- Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions? **No**
- Has the board approved a plan to eliminate deficit spending? **No**

Rating: No



Fund Balance

- Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? **Yes**
- Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? **No**
- Does the fund balance include any designated reserves for unfunded liabilities or one-time costs above the recommended reserve level? **Yes**

Rating: No

Reserve For Economic Uncertainty

- Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? **Yes**
- Does the district have additional reserves in fund 17, special reserve for non-capital projects? **No**
- If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection? **No**

Rating: No

Enrollment

- Has the district's enrollment been increasing or stable for multiple years? **No**
- Is the district's enrollment projection updated at least semiannually? **Yes**
- Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? **Yes**
- Does the district analyze enrollment and ADA data? **Yes**
- Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? **Yes**
- Has the district implemented any attendance programs to increase ADA? **No**
- Have approved charter schools had little or no impact on the district's student enrollment? **Yes**
- Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment? **Yes**

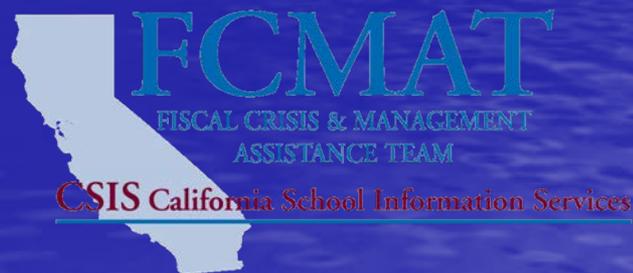
Rating: Yes



Interfund Borrowing

- Can the district manage its cash flow in all funds without interfund borrowing? **No**
- Is the district repaying the funds within the statutory period in accordance with Education Code Section 42603? **Yes**

Rating: Yes



Bargaining Agreements

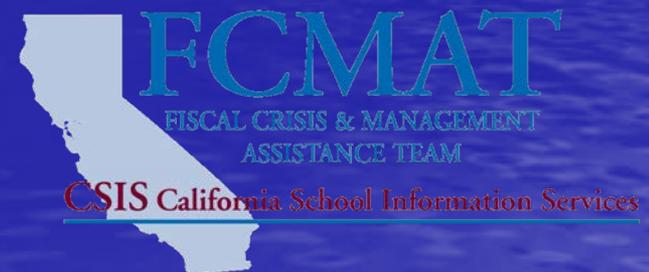
- Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? **No**
- Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? **Yes**
- Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)? **Yes**
- Did the district address budget reductions necessary to sustain the total compensation increase including a board-adopted plan? **Yes**
- Did the superintendent and CBO certify the agreement prior to ratification? **Yes**
- Is the governing board's action consistent with the superintendent's/CBO's certification? **Yes**
- Did the district submit to the county office of education the AB 1200\2756 full disclosure as required? **Yes**

Rating: Yes

General Fund

- Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? **Yes**
- Is the district making sure that only ongoing restricted dollars pay for permanent staff? **Yes**
- Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? **Yes**
- If the district receives redevelopment revenue that is subject to AB 1290 and SB 617, has it made the required offset to the revenue limit? **Yes**

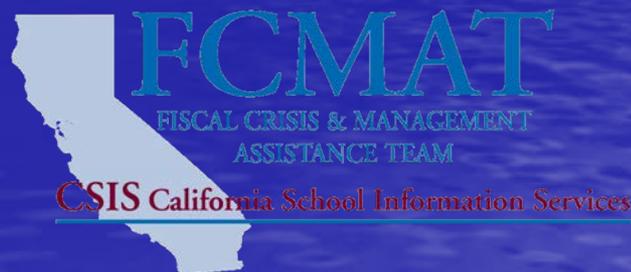
Rating: Yes



Encroachment

- Is the district aware of the contributions to restricted programs in the current year? (Identify cost, programs and funds) **Yes**
- Does the district have a reasonable plan to address increased encroachment trends? **Yes**
- Does the district manage encroachment from other funds such as adult, cafeteria, child development, etc.? **Yes**

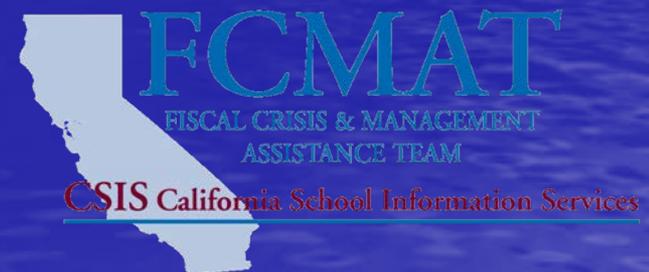
Rating: Yes



Management Information Systems

- Is the district's financial data accurate and timely? **Yes**
- Are the county and state reports filed in a timely manner? **Yes**
- Are key fiscal reports readily available and understandable? **Yes**
- Is the district on the same financial system as the county? **No**
- If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? **Yes**

Rating: Yes



Position Control

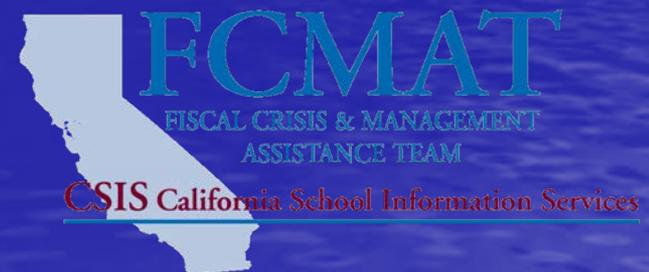
- Does the district maintain a reliable position control system? **Yes**
- Is position control integrated with payroll? **No**
- Does the district control unauthorized hiring? **Yes**
- Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity? **Yes**
- Does the district use position control data for budget development? **Yes**
- Is position control reconciled against the budget during the fiscal year? **Yes**

Rating: Yes

Budget Monitoring

- Are budget revisions completed in a timely manner? **Yes**
- Does the district openly discuss the impact of budget revisions at the board level? **Yes**
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? **Yes**
- Has the district's long-term debt decreased from the prior fiscal year? **No**
- Has the district identified the repayment sources for long-term debt or nonvoter-approved debt, i.e. certificates of participation, capital leases? **Yes**
- Does the district's financial system have a hard-coded warning regarding insufficient funds for requisitions and purchase orders? **Yes**
- Does the district encumber salaries and benefits? **No**

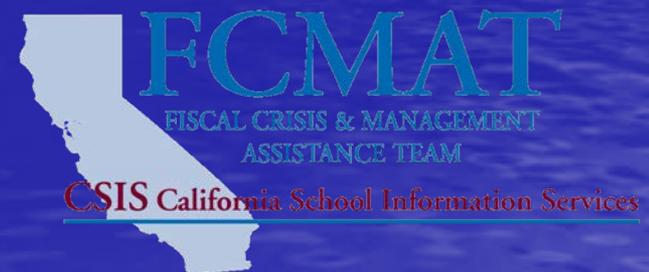
Rating: Yes



Retiree Health Benefits

- Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? **Yes**
- Does the district have a plan for addressing the retiree benefits liabilities? **Yes**
- Has the district conducted a re-enrollment process to identify eligible retirees? **No**

Rating: Yes, with reservations



Leadership/Stability

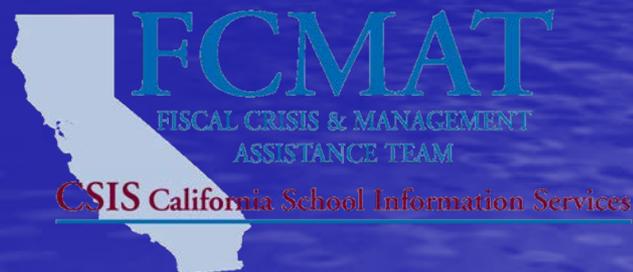
- Does the district have a superintendent and/or CBO that has been with the district more than two years? **No**
- Does the governing board adopt clear and timely policies and support the administration in their implementation?
Yes

Rating: No

Charter Schools

- Has the district identified a specific employee or department to be responsible for oversight of the charter? **Yes**
- Has the charter school submitted the required financial reports? **Yes**
- Has the charter school commissioned an independent audit? **Yes**
- Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency? **Yes**
- Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter? **Yes**

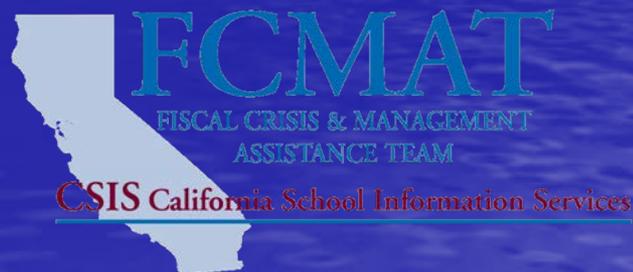
Rating: Yes



Audit Report

- Did the district receive an audit report without material findings? **Yes**
- Can the audit findings be addressed without impacting the district's fiscal health? **Yes**
- Has the audit report been completed and presented within the statutory time line? **Yes**
- Are audit findings and recommendations reviewed with the board? **Yes**
- Did the audit report meet both GAAP and GASB standards? **Yes**

Rating: Yes



Facilities

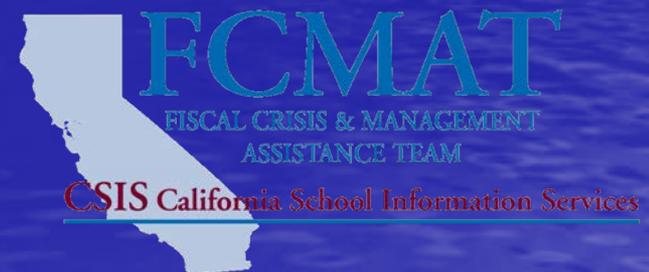
- Has the district passed a general obligation bond? **No**
- Has the district met the audit and reporting requirements of Proposition 39? **N/A**
- Is the district participating in the state's School Facilities Program? **Yes**
- Does the district have sufficient personnel to properly track and account for facility-related projects? **Yes**
- Has the district met the reporting requirements of the Williams Act? **Yes**
- Is the district properly accounting for the 3% routine repair and maintenance account requirement at the time of budget adoption? **Yes**
- If needed, does the district have surplus property that may be sold or used for lease revenues? **Yes**
- If needed, are there other potential statutory options? **No**
- Does the district have a facilities master plan that was completed or updated in the last two years? **No**

Rating: Yes

General Ledger

- Has the district closed the general ledger (books) within the time prescribed by the county office of education? **Yes**
- Does the district follow a year-end closing schedule? **Yes**
- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? **Yes**
- Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? **Yes**
- Does the district reconcile all payroll suspense accounts at the close of the fiscal year? **Yes**

Rating: Yes



Rating Scale

Total "No" Responses: 4

Key:

- Low Risk: 0-4 "No" Responses
- Moderate Risk: 5-9 "No" Responses.
- High Risk: 10-14 "No" Responses
- Extremely High Risk: 15-17 "No" Responses

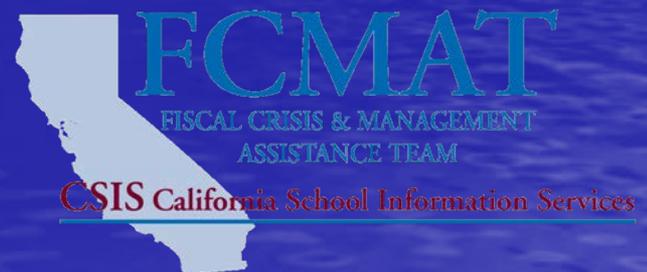
Conclusion

- As noted earlier, a rating with six or more "no" responses indicates a district that may be in need of fiscal intervention. The number of "no" responses places the district at the higher end of the low-risk category.
- This analysis was prepared based on the district's 2008-09 first interim budget report, which did not consider the reductions included in the Governor's 2009 proposed budget for public education.

Conclusion (cont'd)

- The impact of these funding reductions, without offsetting revenue enhancements or expenditure reductions by the district, would result in the need for outside fiscal intervention.
- If the district effectively addressed issues concerning budget deficits, projected reserves for economic uncertainties and negative fund balances, it could avoid outside fiscal intervention.

Multiyear Financial Projection



Multiyear Financial Projection (MYFP)

Source data:

- Orange USD 2008-09 1st Interim Budget Report (& supporting documentation)
 - As adjusted by governors 2008-09 and 2009-10 state budget proposals for public education
- SSC Dartboard
- FCMAT report addendum based upon new 2008-09 and 2009-10 state budgets

Multiyear Financial Projection - Summary

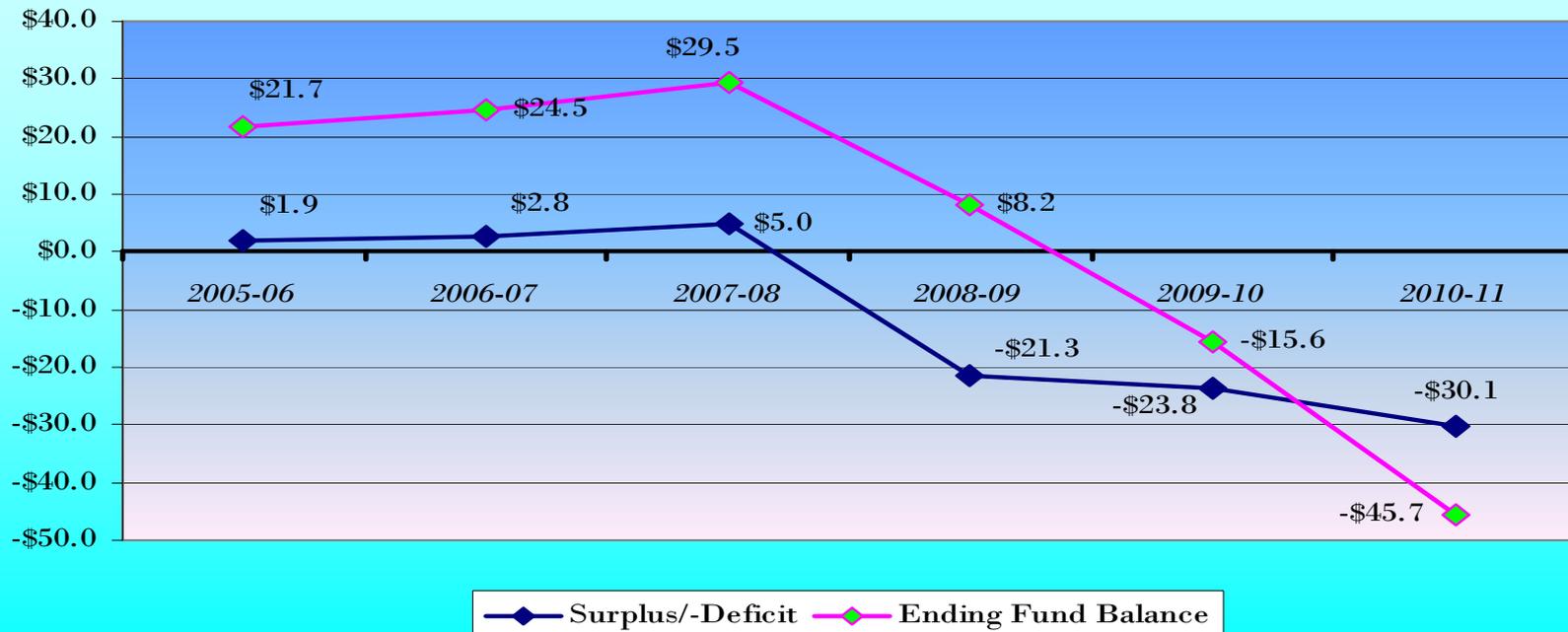
	2008 - 09	2009 - 10	2010 - 11
Total Revenues	\$228,558,032	\$221,168,639	\$218,668,799
Total Expenditures	\$249,762,058	\$243,854,962	\$247,511,896
Excess (Deficiency) of Revenues Over Expenditures	-\$21,204,026	-\$22,686,323	-\$28,843,097
Total Other Financing Sources\Uses	-\$83,660	-\$1,208,110	-\$1,208,110
<i>Net Increase (Decrease) in Fund Balance</i>	-\$21,287,686	-\$23,894,433	-\$30,051,207
Beginning Fund Balance	\$29,517,256	\$8,229,570	-\$15,664,863
<i>Ending Fund Balance</i>	\$8,229,570	-\$15,664,863	-\$45,716,070

Shortfall

	2008 - 09	2009 - 10	2010 - 11
Ending Fund Balance	\$8,229,570	-\$15,664,863	-\$45,716,070
Components of Ending Fund Balance:			
Revolving Cash	\$125,000	\$125,000	\$125,000
Stores	\$150,000	\$150,000	\$150,000
Legally Restricted Balance	\$0	\$5,345	\$10,717
Economic Uncertainties Percentage	3%	3%	3%
Designated for Economic Uncertainties	\$7,529,105	\$7,351,892	\$7,461,600
Other Designated	\$2,878,719	\$0	\$0
Undesignated/Unappropriated	\$0	\$0	\$0
Shortfall	-\$2,453,254	-\$23,297,100	-\$53,463,387

Deficit Spending

Surplus/-Deficit Spending & Ending Fund Balance
(in millions)



Multiyear Financial Projection (MYFP)

Significant Assumptions - Revenues:

- Governor's budget proposals for the 2008-09 and 2009-10 fiscal years
- Declining Enrollment and ADA
- No changes to K-3 CSR program
- No categorical program flexibility
- No federal economic recovery act funds

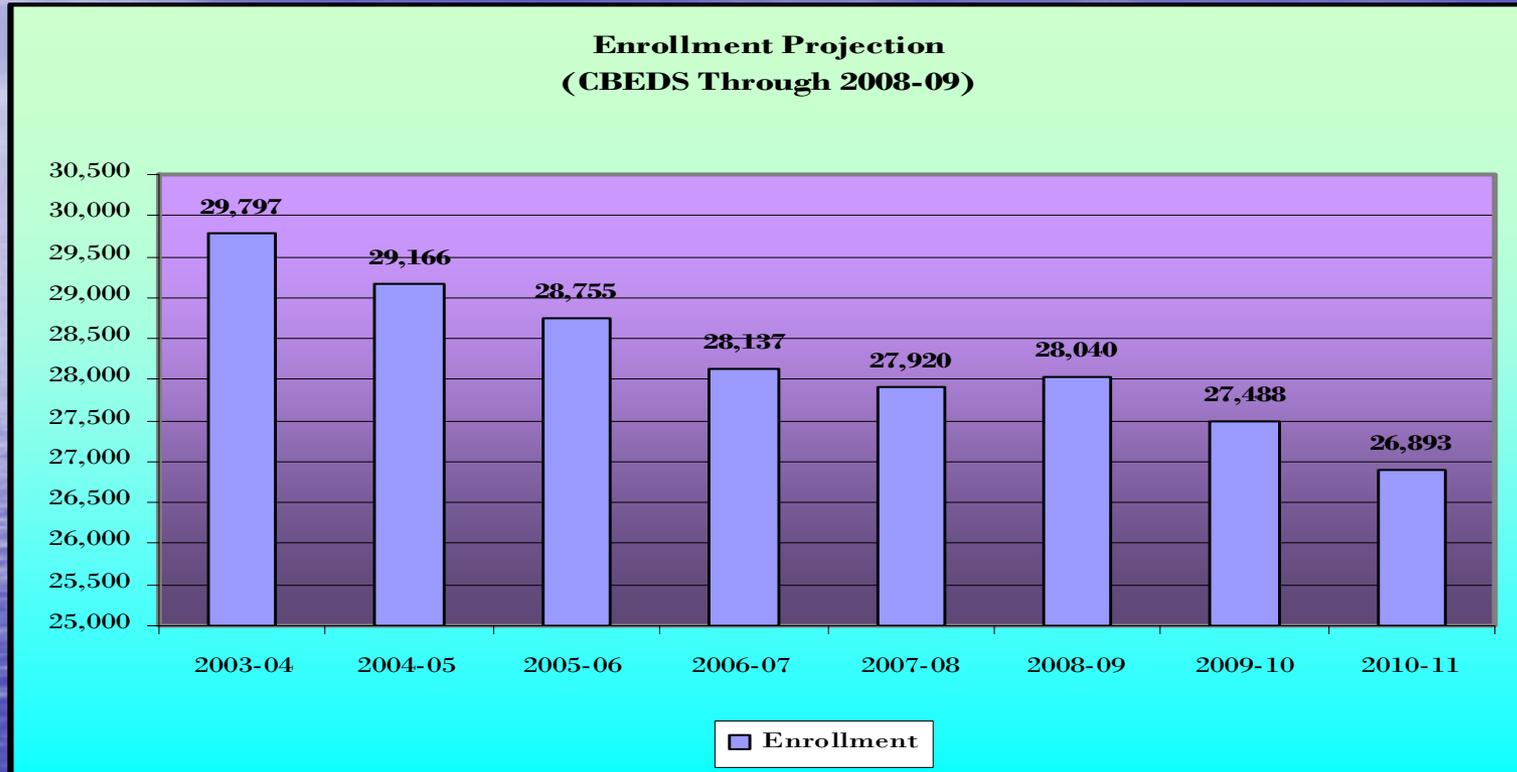
New State Budget - Revenue Limit and Categorical Programs

	<i>Proposed Budget 2009-10</i>	<i>Final State Budget 2009-10</i>	<i>Difference</i>
Revenue Limit - deficit:			
<i>2008-09</i>	9.690%	7.844%	-1.846%
<i>2009-10</i>	16.160%	13.094%	-3.066%
<i>2010-11</i>	16.160%	13.094%	-3.066%
State Categorical Program funding reduction:			
<i>2008-09</i>	0.000%	15.400%	15.400%
<i>2009-10</i>	0.000%	4.500%	4.500%
<i>2010-11</i>	0.000%	0.000%	0.000%

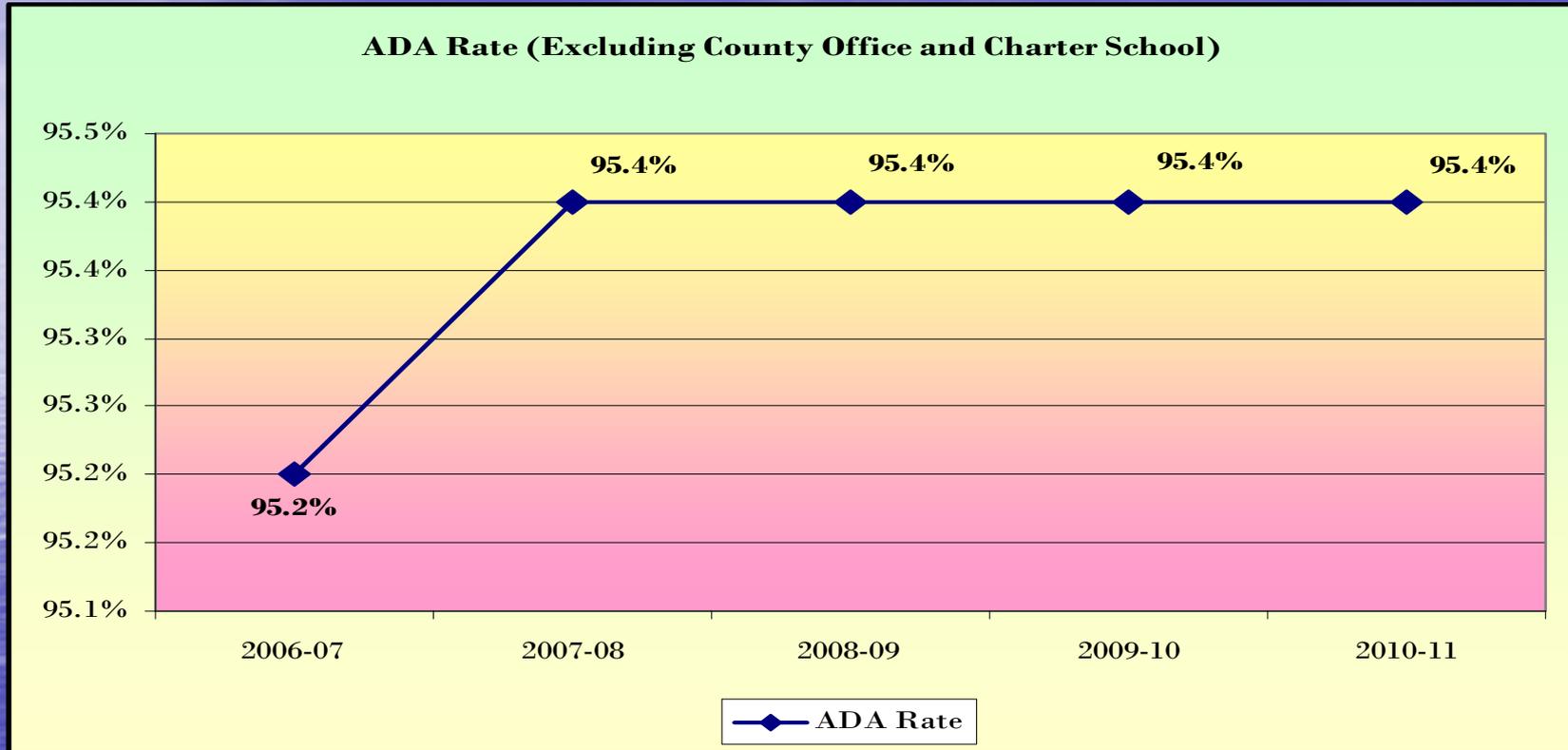
New State Budget - Flexibility

<i>Program</i>	<i>Year</i>	<i>Proposed State Budget 2009-10</i>	<i>Final State Budget 2009-10</i>
Categorical Program Flexibility	2007-08	Limited	Tier III only
	2008-09	100%	Tier III only
	2009-10	100%	Tier III only
	2010-11	100%	Tier III only
K-3 CSR Flexibility	2008-09	100%	Penalty Reduced
	2009-10	100%	Penalty Reduced
	2010-11	100%	Penalty Reduced
School Year Reduction	2008-09	0 days	0 days
	2009-10	5 days	0 days
	2010-11	0 days	0 days

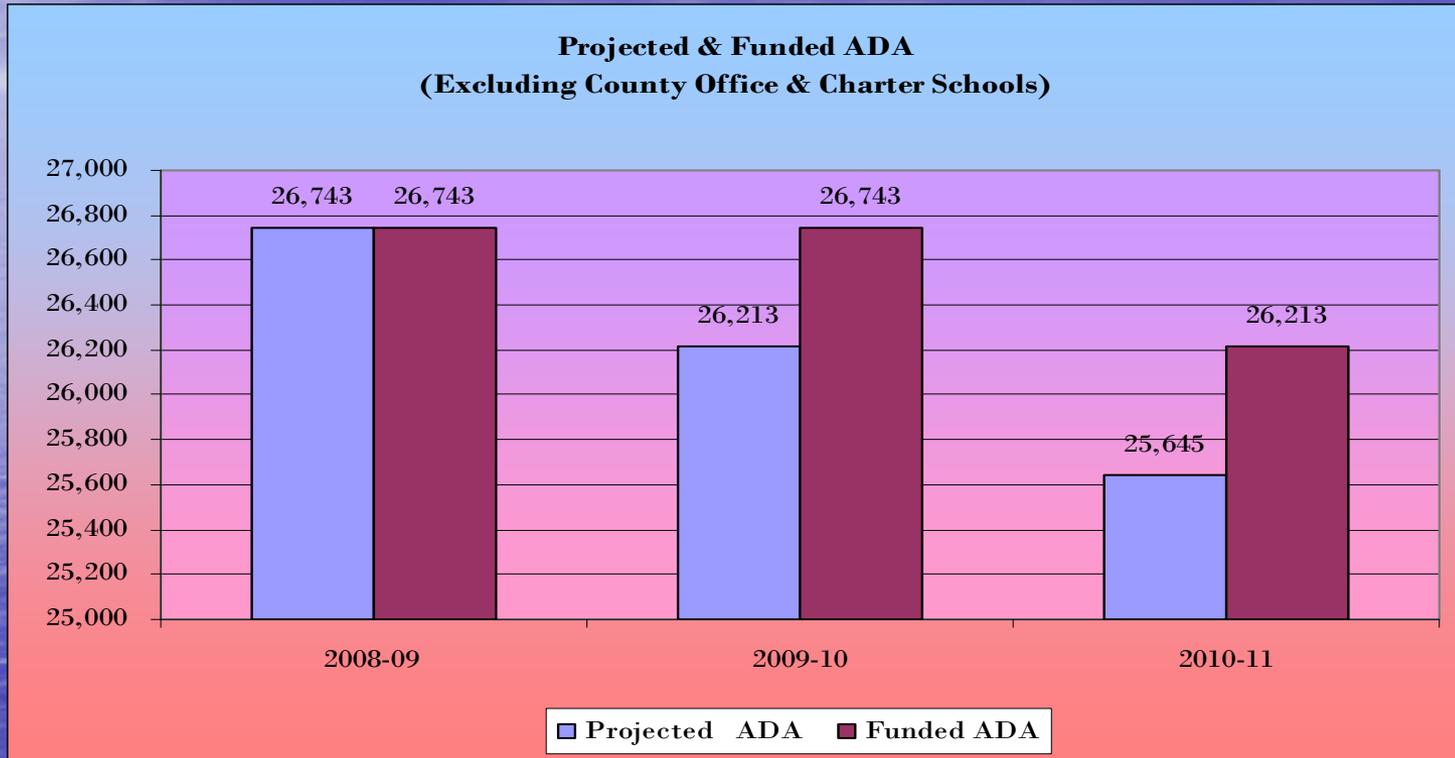
Declining Enrollment



Average Daily Attendance (ADA) Rate



Funded Average Daily Attendance (ADA)



Multiyear Financial Projection (MYFP)

Significant Assumptions - Expenditures:

- *No expenditure reductions* as assumed in MYFP presented with OUSD's 1st Interim Budget Report
 - \$11 million in reductions assumed for 2009-10
 - Reductions were unspecified
 - Consistent with Orange Department of Educations guidance

Multiyear Financial Projection (MYFP)

Significant Assumptions – Expenditures:

- No salary schedule increases through the entire projection period – subject to negotiations
- No staffing reductions
- Average cost of step-and-column movement for all contracted salaries
- No increases for health and welfare costs
- Increases in general operating expenditures based on CPI

Recommendations

Recommendations

- Develop a plan to address deficit spending and the ending balance shortfall through revenue enhancements and/or expenditure reductions.
- Utilize the new state budget as the basis for budget planning.
- Do not assume receipt of funds from the federal economic stimulus package until more is known about this legislation.

Recommendations

- Revise cash flow projections as soon as possible to include the proposed state apportionment deferrals and take appropriate action to ensure the district has sufficient cash to meet its financial obligations.
- Analyze and update cash flow projections at least monthly.
- Consider a mid-year TRAN should the district's cash flow position deteriorate as a result of the state budget crisis.

Cash Deferrals- State Apportionments

Source	Deferral
2008-09 Budget Act AB 1781	50% of February 2009 paid in April 2009
Governor's January budget proposal – no exceptions	50% of Apr. 2009 paid in July 2009
P2 shift enacted in legislation 2002-03 – no exceptions	100% of June 2009 paid in July 2009
Proposed – no exceptions	100% of July 2009 to Sept 2009
Proposed – no exceptions	100% of August 2009 paid in Sept 2009

Recommendations

Share enrollment to ADA data with school site administrators and compare the current year data with prior years on a monthly basis and investigate any variances.

Recommendations

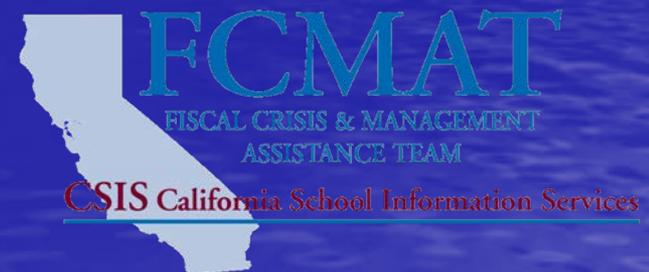
- Be cautious in allowing restricted programs to encroach upon the unrestricted general fund especially during these times of difficult fiscal challenges.
- Charge the cafeteria fund 100% of the allowable indirect cost rate for general fund services.

Contributions to Restricted Programs

Name	2008 - 09	2009 - 10	2010 - 11
<i>Significant Restricted Resources</i>			
Community Day Schools	\$258,211	\$277,773	\$288,343
Special Ed: IDEA Basic	\$0	\$139,757	\$226,016
NCLB: Title II, Part D	\$0	\$0	\$100,956
School Safety & Violence	\$0	\$34,136	\$39,311
Special Education	\$8,124,449	\$8,958,528	\$9,407,621
Supplemental School Coun	\$0	\$59,962	\$74,995
Transportation: Home to Sch	\$2,204,692	\$2,337,560	\$2,416,189
Transportation: Special Ed	\$2,272,794	\$2,261,494	\$2,294,761
Teacher Credentialing	\$0	\$176,346	\$181,137
Targeted Instructional Impr	\$668,227	\$668,227	\$668,227
School and Library Impr	-\$316,826	-\$316,826	-\$316,826
Discretionary Block Grant	-\$190,155	\$0	\$0
Ongoing & Major Maint	\$7,248,662	\$7,667,762	\$7,751,572
Total Restricted	\$20,182,955	\$22,278,715	\$23,195,068

Recommendations

Use FCMAT's free Budget Explorer software program to develop multiyear financial projections.



Recommendations

Expand internal auditing to include more frequent review and comparison of the actual payroll to position control and budget

Current practice:

- Payroll staff = three times/year
- Budget staff = once/year

Recommendations

- Develop a contingency plan for an alternative funding source for positions in the Capital Facilities Fund should said funds fee revenues and ending balance become insufficient.
- Consult with legal counsel to determine if the cost of the positions funded via the Capital Facilities Fund is within the 3% limitation of the government code and develop a contingency plan should the district be found noncompliant.
- Update the facility master plan at least every two years.

Recommendations

- Include the contribution to the PERS retirement system for all classified employees in calculations of the total cost of compensation.
- Continue to ensure that only ongoing dollars from restricted funding sources pay for permanent staff compensation.
- Immediately conduct a re-enrollment to ensure that only eligible retirees and dependents are enrolled in the health and other benefit plans.

Recommendations

- Seek advice from an independent third party investment advisor regarding strategies to address the decline in OPEB bond program asset value that will restore the plan to its original structure and viability.
- Determine how to support future payments from other sources if the market values of the investments fail to rebound.

OPEB Investments – Change in Value

	Market Value as of 1/08/09	Cost	Change	% Change
Short term investment fund				
Cash & equivalents	\$5	\$5	\$0	0.0%
Fixed Income Securities	\$12,440,007	\$13,491,641	-\$1,051,634	-7.8%
Long term investment fund				
Cash & equivalents	\$125,614	\$125,614	\$0	0.0%
Fixed Income Securities	\$39,447,432	\$42,827,024	-\$3,379,592	-7.9%
Equities	\$29,036,822	\$42,165,264	-\$13,128,442	-31.1%
Total	\$81,049,880	\$98,609,548	-\$17,559,668	-17.8%

Recommendations

Postpone any new debt issuance until such time as the state budget has been stabilized, final funding amounts are identified and district cash flow needs more clearly known.

Change in Debt – 2007-08 Year (in millions)

Debt, July 1, 2007		\$83.6
Additions:	OPEB Bonds	\$94.7
	SRP	\$10.1
	Capital Leases	\$7.2
Payments		-\$2.5
Debt, June 30, 2008		\$193.1
% Increase		131%

Discussion





FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

CSIS California School Information Services
