

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

WEDNESDAY, APRIL 4, 2018

4:00 PM - STATE CAPITOL ROOM 126

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ITEMS TO BE HEARD**6100 DEPARTMENT OF EDUCATION****ISSUE 1: FISCAL CRISIS MANAGEMENT ASSISTANCE TEAM ANNUAL UPDATE**

The Fiscal Crisis Management Assistance Team (FCMAT) will provide its annual update to the Subcommittee on the fiscal health of school districts, including the number of school districts with negative and qualified certifications on the latest financial status reports and the status of state emergency loans.

PANELIST

- Michael Fine, FCMAT

BACKGROUND

AB 1200 (Chapter 1213, Statutes of 1991) created an early warning system to help local educational agencies (LEAs) avoid fiscal crisis, such as bankruptcy or the need for an emergency loan from the state. AB 1200 expanded the role of county offices of education (COEs) in monitoring school districts and requires that they intervene, under certain circumstances, to ensure districts can meet their financial obligations. The bill was largely in response to the bankruptcy of Richmond School District, and the fiscal troubles of a few other districts that were seeking emergency loans from the state.

The formal review and oversight process, often referred to as the "AB 1200 process" requires the county superintendent to approve the budget and monitor the financial status of each school district and JPA in its jurisdiction. COEs perform a similar function for charter schools and the CDE oversees the finances of COEs.

Fiscal Crisis and Management Assistance Team (FCMAT)

AB 1200 also created the FCMAT, recognizing the need for a statewide resource to help monitoring agencies in providing fiscal and management guidance. The purpose of the FCMAT is to help LEAs fulfill their financial and management responsibilities by providing fiscal advice, management assistance, training and other related services. The bill specified that one county office of education would be selected to administer the assistance team. Through a competitive process, the office of the Kern County Superintendent of Schools was selected to administer FCMAT in June 1992.

There are several defined "fiscal crises" that can prompt a county office of education to intervene in a district: a disapproved budget, a qualified or negative interim report or recent actions by a district that could lead to not meeting its financial obligations.

Governor's 2017-18 Budget

The Governor's budget includes \$5.3 million in Proposition 98 funding for FCMAT's functions and oversight activities related to K-12 schools. The Governor's Budget also includes \$570,000 Proposition 98 General Fund for FCMAT to provide support to community colleges.

Fiscal Reports

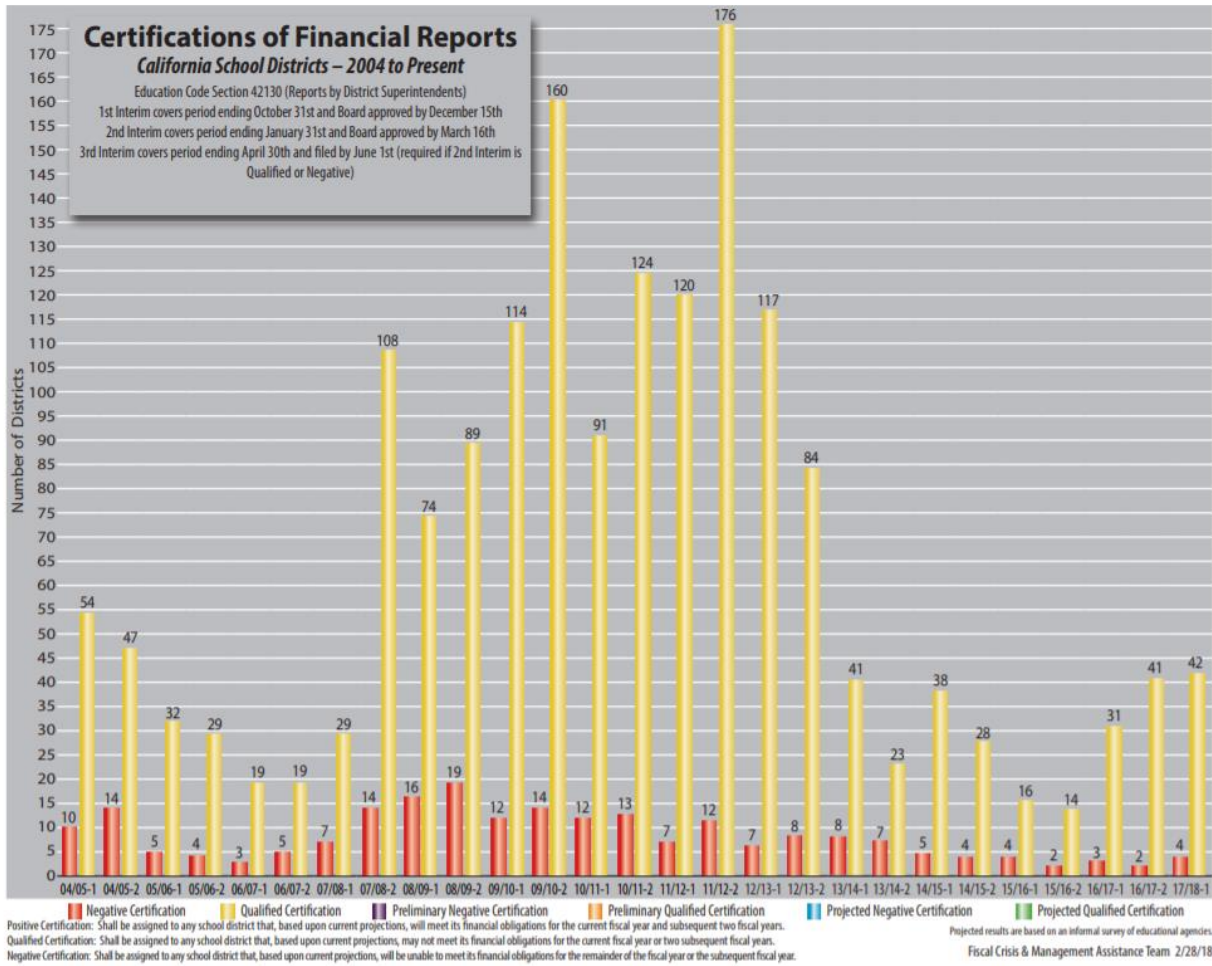
Current law requires districts to file two interim reports during a fiscal year on the status of the district's financial health. For the first interim report, districts self-certify their budgets to their COE by December 15 for the period ending October 31. COEs are then required to report the certification for all districts in their county to the Superintendent of Public Instruction (SPI) and the State Controller within 75 days after the close of the reporting period (generally by March 1). For the second interim report, districts self-certify their budgets to their COE by March 17 for the period ending January 31. COEs are then required to submit their certification of these results to the SPI and the State Controller within 75 days after the close of the reporting period (generally by June 1).

The interim reports must include a certification of whether or not the LEA is able to meet its financial obligations. The certifications are classified as positive, qualified, or negative.

- A positive certification is assigned when the district will meet its financial obligations for the current and two subsequent fiscal years.
- A qualified certification is assigned when the district may not meet its financial obligations for the current or two subsequent fiscal years.
- A negative certification is assigned when a district will be unable to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year.

School Fiscal Health

The financial status of schools in California has improved significantly in recent years. As shown in the chart on the next page, the number of negative and qualified certifications has decreased considerably since 2011-12 when the state had 12 negative and 176 qualified certifications. The first interim status report for 2017-18 reported 4 negative certifications and 42 qualified certifications, reflecting a small increase from the prior year.



The table on the next page shows the LEAs that have received negative or qualified certifications, as reported by the CDE's first interim report for 2017-18.

First Interim Budget Certifications
2017-18

Negative Certification	
County	District
Butte	Feather Falls Union Elementary
Los Angeles	Inglewood Unified
Los Angeles	Pasadena Unified
Madera	Yosemite Unified

Qualified Certification	
County	District
Alameda	Oakland Unified
Butte	Bangor Union Elementary
Calaveras	Calaveras Unified
Contra Costa	Byron Union
Contra Costa	Martinez Unified
El Dorado	Black Oak Mine Unified
El Dorado	Gold Trail Union Elementary
Fresno	Coalinga-Huron Joint Unified
Glenn	Capay Joint Union Elementary
Humboldt	Klamath-Trinity Joint Unified
Imperial	Calexico Unified
Kern	Southern Kern Unified
Los Angeles	Bassett Unified
Los Angeles	Burbank Unified
Los Angeles	Los Angeles Unified
Marin	Sausalito Marin City Elementary
Mendocino	Anderson Valley Unified
Mendocino	Fort Bragg Unified
Placer	Placer Hills Union Elementary
Riverside	Banning Unified
Riverside	Coachella Valley Unified

Qualified Certification	
Riverside	Temecula Valley Unified
San Bernardino	Silver Valley Unified
San Bernardino	Upland Unified
San Bernardino	Victor Valley Union High
San Diego	Oceanside Unified
San Diego	San Marcos Unified
San Luis Obispo	Coast Unified
San Luis Obispo	San Miguel Joint Union Elementary
San Mateo	Portola Valley Elementary
Santa Clara	Alum Rock Union Elementary
Santa Clara	Evergreen Elementary
Shasta	Cascade Union Elementary
Shasta	Gateway Unified
Solano	Vallejo City Unified
Sonoma	Bellevue Union Elementary
Sonoma	Piner-Olivet Union Elementary
Sonoma	Santa Rosa Elementary
Sonoma	Santa Rosa High
Sonoma	Sonoma Valley Unified
Sonoma	West Sonoma County Union High
Ventura	Rio Elementary

Emergency Loans

In most cases the assistance provided by county offices of education and FCMAT under the AB 1200 process is sufficient to pull LEAs out of immediate financial trouble. The option of last resort for LEAs that have insufficient funds is to request an emergency loan from the state. This is often the result of years of deficit spending and budgetary issues.

An emergency loan, or emergency appropriation, can be provided by the state through the legislative process. Accepting a state loan is not without consequence, however. The SPI assumes all legal rights, duties, and powers of the district governing board and an administrator is appointed to the district. Several conditions must be met before control is returned to the district. State loans are typically set up for repayment over 20 years and state control remains over the school district until the loan is fully repaid. The state loan is sized to accommodate the anticipated shortfall in cash that the district will need during the life of the loan in order to meet its obligations. In addition, all of the costs of ensuring a fiscal recovery are the responsibility of the district and are added to the amount of the state loan. Therefore, a state loan will be much larger than what the district would otherwise need to borrow locally if it had been able to solve its own fiscal crisis.

Since 1991, the state has provided nine districts with emergency loans. Most recently, SB 533 (Wright), Chapter 325, Statutes of 2012, authorized \$29 million (General Fund) for an emergency loan to the Inglewood Unified School District (IUSD). The bill also authorized the school district to augment the emergency apportionment with an additional \$26 million through the California Infrastructure and Economic Development Bank (I-Bank). Inglewood Unified School District is the only district under state administration at this time.

STAFF COMMENTS/QUESTIONS

The overall fiscal health of districts has improved in recent years due to the improving economy, which has resulted in districts restoring and expanding programs cut during the recession. However, FCMAT has raised concerns that the period of significant expansion is behind us, while many districts have made commitments built on continued expansion. Although negative and qualified certifications are down significantly from their peak numbers during the recession, the number of qualified certifications doubled in 2017-18 and has continue to rise since last year. There are typically multiple factors that cause a district to be unable to meet its financial obligations and receive a negative or qualified certification. Some of these factors include: declining enrollment, an increase in charter schools and charter school enrollment, increased STRS and PERS costs, and collective bargaining agreements that are beyond what the district can afford. Each school district's LCFF funding also has an impact on their financial situation. FCMAT is urging districts to contain costs at this time, although they recognize this is difficult within the new LCAP process. The Legislature should continue to closely monitor the fiscal health of LEAs, especially with Proposition 98 growth beginning to slow.

Suggested Questions:

- What are the major factors causing districts to receive a negative or qualified certification? How is FCMAT working with these districts to ensure they do not become insolvent?
- How has FCMAT's role changed with the implementation of the LCFF and LCAP?

Staff Recommendation: Information Only
