

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

A Few Thoughts On Fiscal Health and Outlook

Business and Administrative Services Committee
Annual Conference
February 26, 2025



Fiscal Health is Strong, but Signs of Weakening are Growing

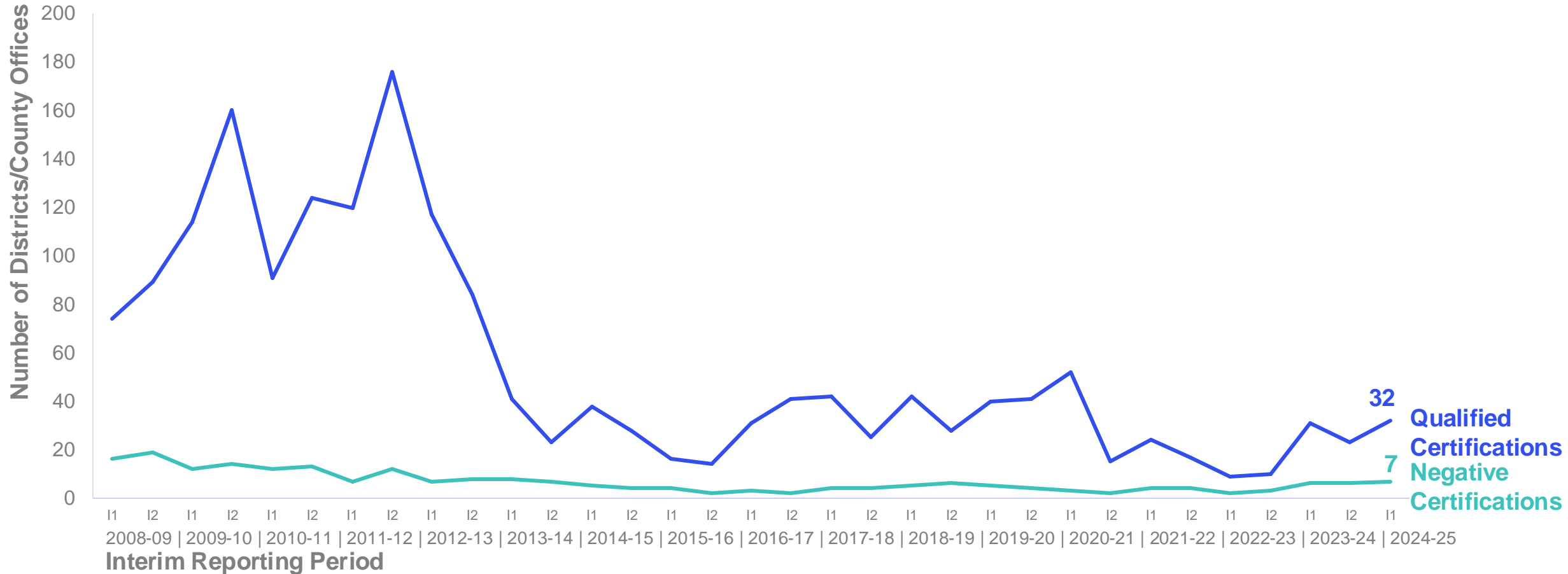
Statewide Trends Impacting Solvency

- Declining enrollment.
 - Offset in the short term by universal transitional kindergarten implementation and improvement in average daily attendance (ADA) yield from pandemic.
- Ongoing expenditures previously supported by one-time pandemic-related funds without an exit plan.
 - Federal Elementary and Secondary School Emergency Relief (ESSER).
 - State Learning Recovery Emergency Block Grant (LREBG).
- Low to more normal cost-of-living adjustments (COLA) moving forward.
 - Fixed costs grow 4.5% to 5.0% annually; COLAs below this level result in local budget difficulties.

Statewide Trends Impacting Solvency (Cont.)

- Inflationary pressures remain on the cost side.
- Significant increases in utilities and insurance costs over a decade.
 - Utilities up close to 200%.
 - Some forms of liability insurance up 700%.
 - Cost of fire coverage will be significantly affected in the coming years.
- Potential federal policy and funding changes are creating uncertainty and risk.
- Reserves are higher than in the Great Recession (23-25% vs 8%).
- Cash reserves are strong but deteriorating due to deficit spending.

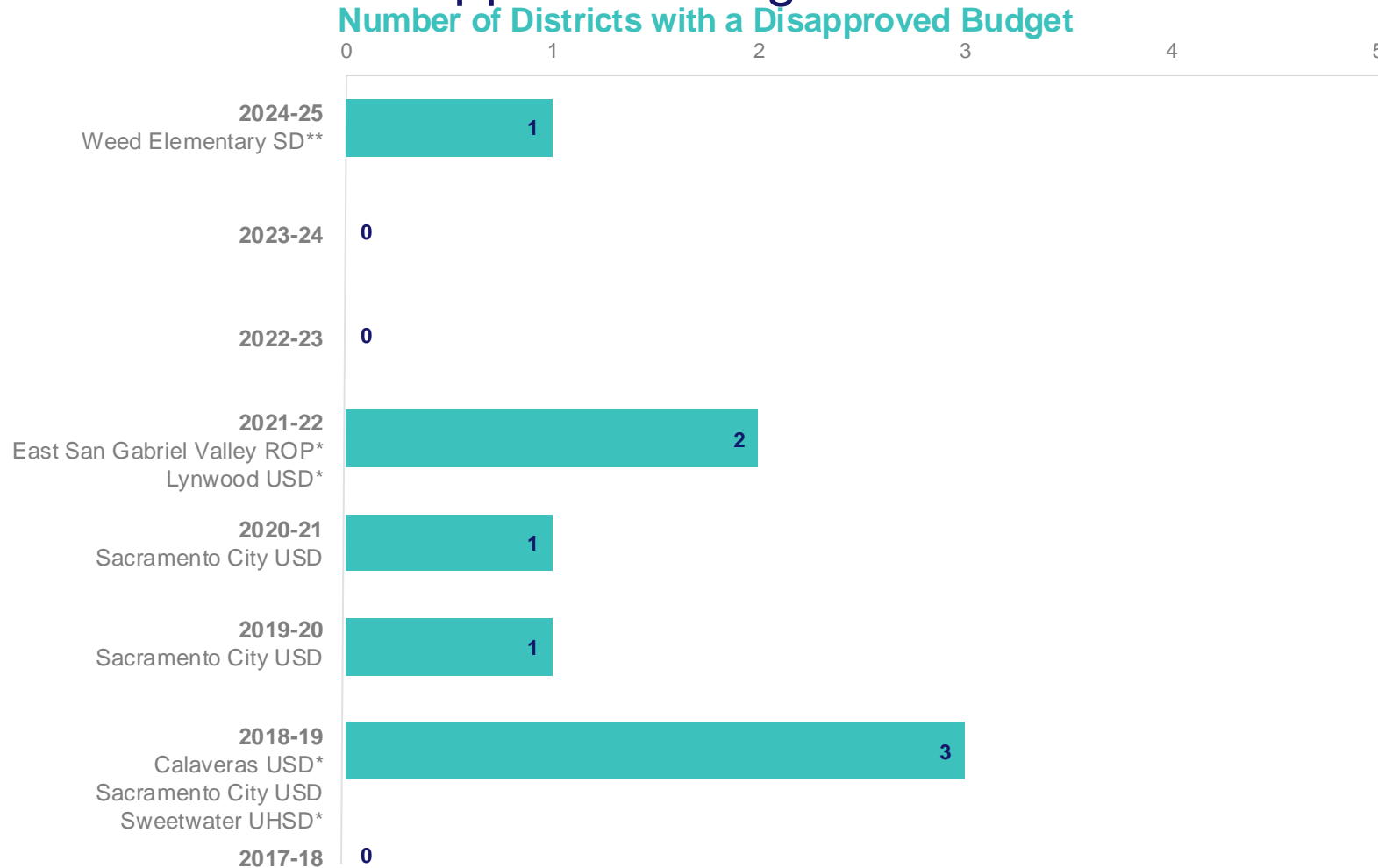
Historical Qualified & Negative Certifications



Source: First and second interim reports, 2008-09 – 2024-25.

Disapproved Budgets

There is one disapproved budget for the 2024-25 fiscal year.



Note: Chart excludes disapprovals solely due to unapproved Local Control Accountability Plan (LCAP).

*Preliminarily disapproved; ultimately approved by November 8 deadline.

**Budget Review Committee sustained county office disapproval, State Superintendent disapproved budget.

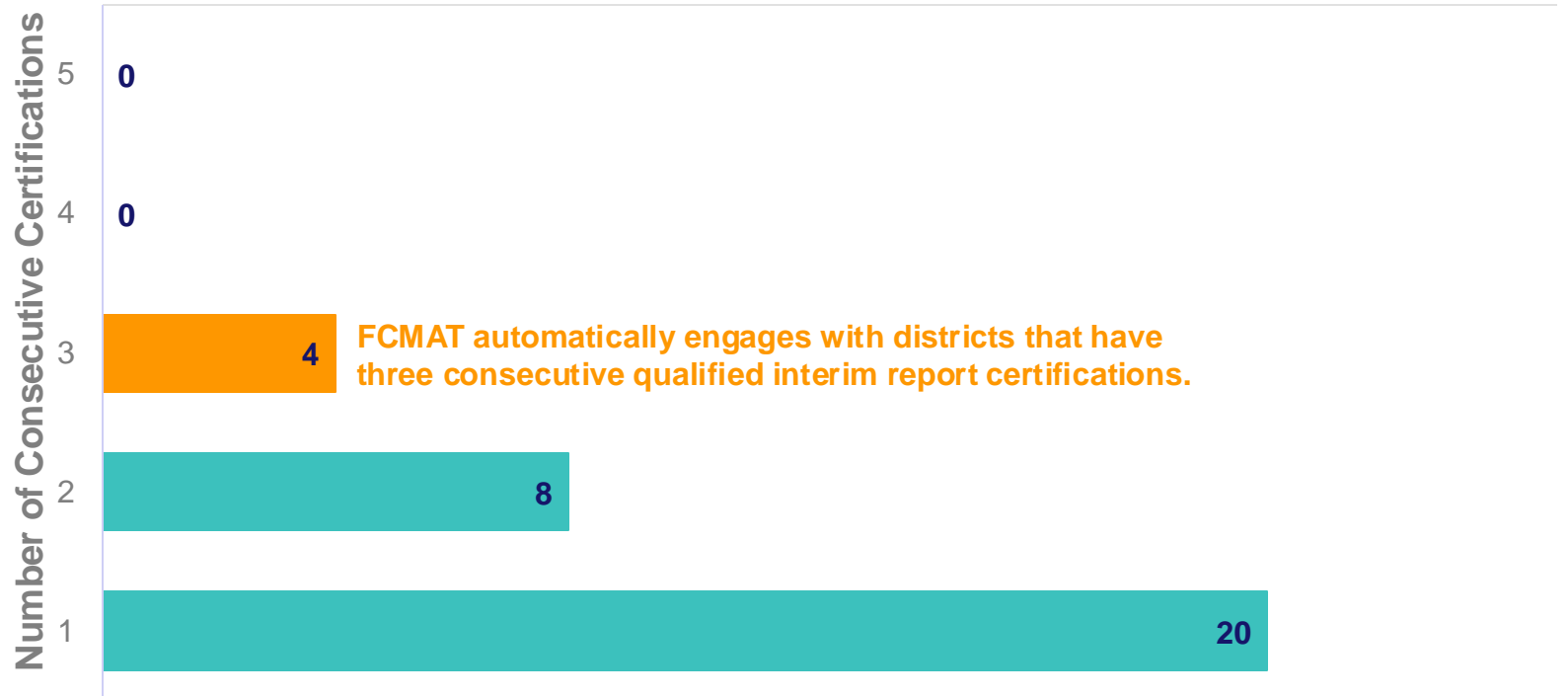
Sources: County superintendents of schools, state superintendent of public instruction.

Qualified Interim Report Certifications

The number of qualified local educational agencies (LEAs) increased from 2023-24 second interim counts.

Number of Districts with a Qualified Certification

0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25



Source: First Interim Reports 2024-25.

Qualified Interim Report Certifications

District	Status	District	Status	District	Status
Alum Rock Union ESD	Qualified 2	Franklin McKinley SD	Qualified 1	Oak Run Elementary	Qualified 1
Amador COE	Qualified 2	Fremont USD	Qualified 1	Pleasanton USD	Qualified 1
Amador County USD	Qualified 2	Happy Camp Union ESD	Qualified 1	Potter Valley Comm USD	Qualified 1
Calaveras USD	Qualified 1	Leggett Valley USD	Qualified 1	Rialto USD	Qualified 1
Cascade Union ESD	Qualified 3	Little Lake City ESD	Qualified 1	Sacramento City USD	Qualified 2
Castle Rock Union ESD	Qualified 2	Live Oak ESD	Qualified 1	Saddleback Valley USD	Qualified 1
Coachella Valley USD	Qualified 2	Livermore Valley Joint USD	Qualified 2	Semitropic ESD	Qualified 1
Cuyama Joint Union SD	Qualified 2	Mill Valley ESD	Qualified 1	Vallejo City USD	Qualified 3
East Side Union HSD	Qualified 3	Millville ESD	Qualified 1	Willits USD	Qualified 1
Eastside Union ESD	Qualified 1	Mountain Empire USD	Qualified 3	Windsor USD	Qualified 1
Del Norte County USD	Qualified 1	Nevada Jt. Union HSD	Qualified 1		

Source: First Interim Reports 2024-25.

Note: The values in the “status” columns indicate the count of consecutive certifications for each district/county superintendent of schools.

Key: ESD – elementary school district; HSD – high school district; SD – school district; USD – unified school district.

Negative Interim Report Certifications

Six of the seven LEAs with negative certifications have active county office intervention.



Source: First Interim Reports 2024-25.

Negative Interim Report Certifications

District	Status
Dunsmuir ESD	Negative 1
Hayward USD	Negative 1
Oakland USD	Negative 1
San Francisco USD	Negative 2
Plumas USD	Negative 1
Weed Union ESD	Negative 1
Yreka Union ESD	Negative 1

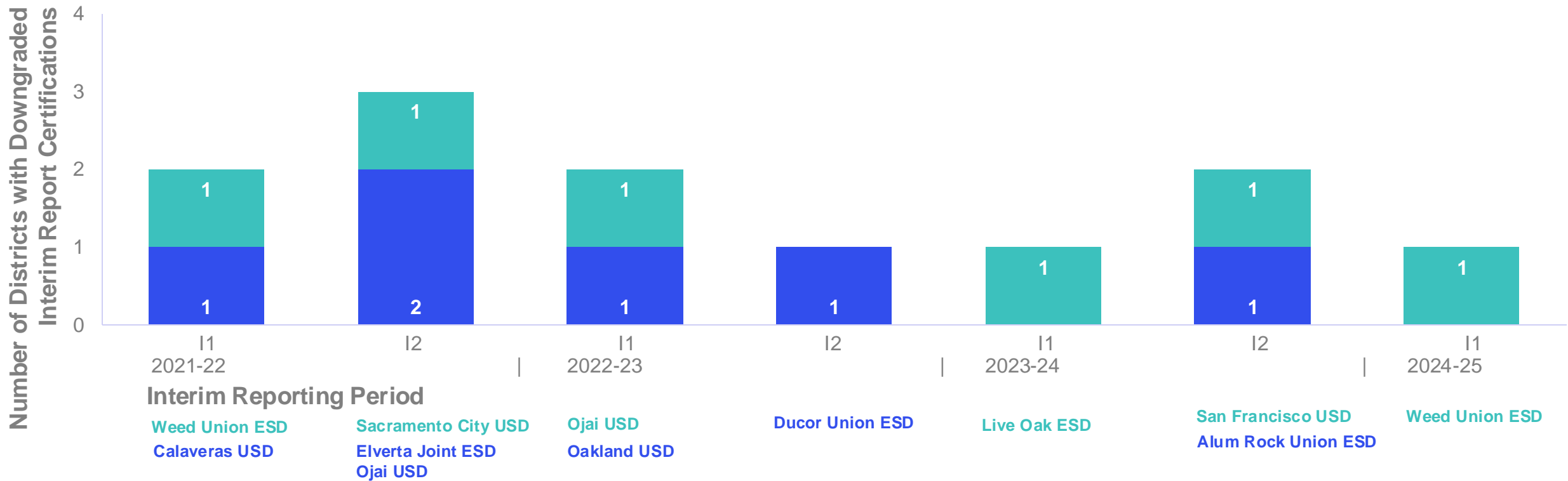
Source: First Interim Reports 2024-25.

Note: The values in the “status” columns indicate the count of consecutive certifications for each district/county superintendent of schools.

Downgraded Interim Report Certifications

The total count of qualified and negative reports includes interim reports with certifications that were downgraded by the respective oversight agency. In 2024-25 the downgrade was a rare change from positive to negative certification.

Qualified Certifications | Negative Certifications

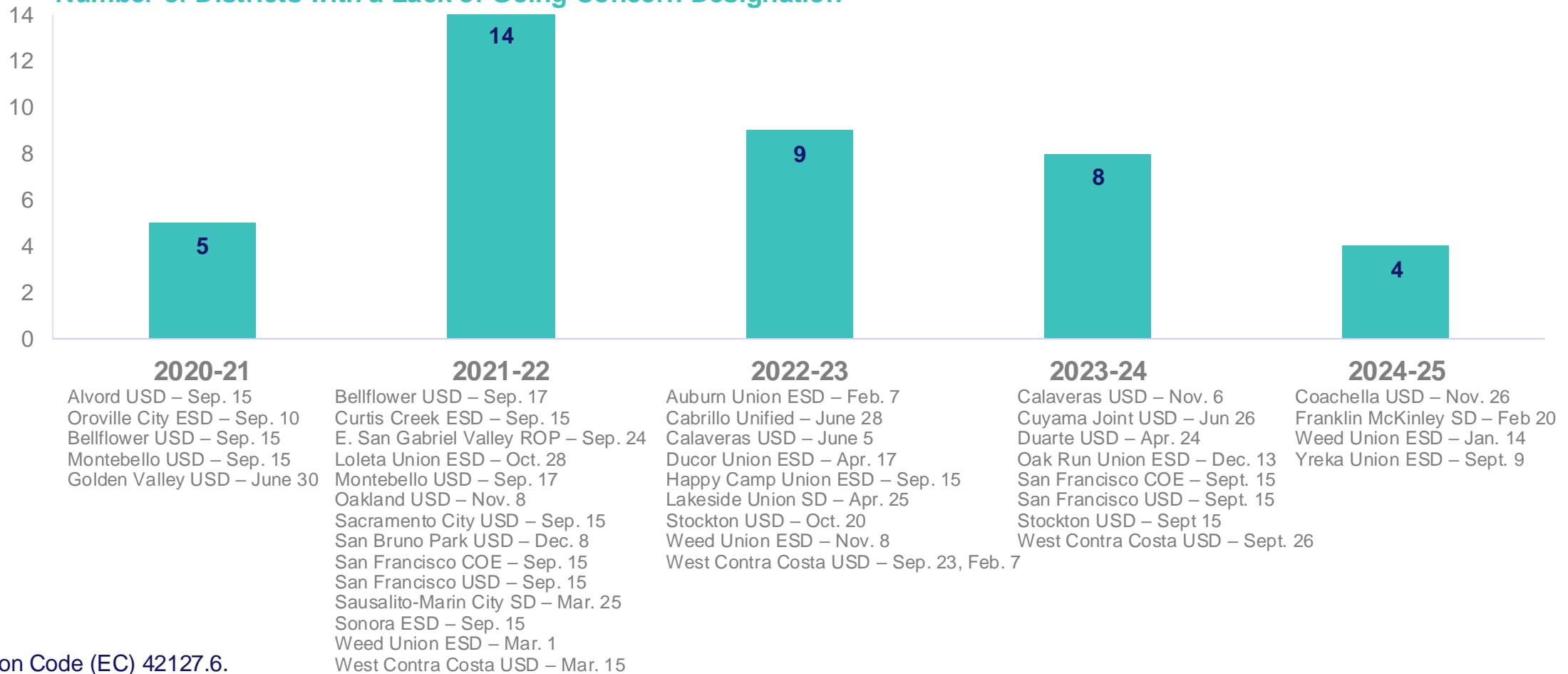


Source: First Interim Reports 2024-25.

Lack of Going Concern Designations

Lack of going concern designations* may be received for a variety of reasons. Two of the three districts also have negative certifications.

Number of Districts with a Lack of Going Concern Designation



*Education Code (EC) 42127.6.

State Budget Prospects

Planning Considerations Related to the Governor's Budget Proposal

- Updated multiyear projections are essential; have one for each potential scenario (i.e., revenue, ADA and COLA scenarios), and adjust as information changes.
- Use caution in budgeting for the proposed transitional kindergarten 10-to-1 staffing add-on funding level.
- Do not budget the \$1.8B discretionary grant; save that decision for the August 45-day revision.
- Expansion of the Expanded Learning Opportunities Program Tier 1 requires attention to detail regarding universal offering.
- Proposed budget does not fund the graduation requirement to add ethnic studies for incoming freshmen in 2025-26; however, the University of California is scheduled to move forward with A-G requirement updates.

Risks in the Governor's Budget

- There are revenue risks associated with the economy, federal policy, and impact from the January fires.
- Legislative Analyst's Office cautions about current year Proposition 98 sensitivity to revenue fluctuation, COLA, and transitional kindergarten staffing rate.
- Potential federal policy and funding changes.
 - Federal education spending in California is approximately \$7.2B, with the largest ongoing programs* being:
 - Child nutrition: 33%.
 - Title I, Part A: 25%.
 - Special Ed IDEA Local Assistance: 16%.
 - Other programs: 26%.

*2022-23 data.

Trailer Bill Proposals

Failure to Adopt an LCAP

- Existing statute does not directly address a district or county office of education neglecting or refusing to adopt a Local Control and Accountability Plan (LCAP) by July 1.
- Without an adopted LCAP, the local educational agency (LEA) may not adopt a budget.
 - Existing statute does address neglecting or refusing to adopt a budget.
 - Existing statute prohibits the apportionment of all state and county funds, but does not apply consistently to community-funded districts or charter schools.
- Existing statute provides penalties around board member and superintendent compensation for failure to submit timely reports to the state superintendent, but the penalties don't apply to LCAPs or failure to file timely reports with county superintendents.

Source: 2025-26 Governor's Budget, Education Omnibus Trailer Bill (February 1, 2025), Section 4.

Failure to Adopt an LCAP (Cont.)

- Trailer bill includes several statutory changes to ensure LCAPs are adopted on time and that other required reports are filed with county superintendents on time.
 - Pursuant to the annual audit, imposes a 20% financial penalty on the LEA's second period principal apportionment local control funding formula entitlement for failing to adopt an LCAP by July 1.
 - Adds an additional 1% financial penalty for each additional business day the LCAP is not adopted.
 - Adds LCAP to existing statute, imposing penalties on compensation of board members or superintendents for late filings.
 - Extends the late filing penalties to be applicable to late filings due to county superintendents.

Source: 2025-26 Governor's Budget, Education Omnibus Trailer Bill (February 1, 2025), Section 4.

Audit Extensions

- The number of requests for audit extensions has risen dramatically in recent years.
- With or without an extension, an audit is late if not filed by December 15.
- Delayed audits can have devastating impacts on LEA fund balance and apportionments.
- Trailer bill includes a statutory change to limit extensions to the shortest amount of time reasonable given the extenuating circumstances but sets increments for extensions at a maximum of 45 calendar days and limits the total extension to 90 calendar days.

Source: 2025-26 Governor's Budget, Education Omnibus Trailer Bill (February 1, 2025), Section 9.

Fiscal Oversight Conformity

- Over time, AB 1200 oversight provisions have been adopted inconsistently with regard to what is applicable to school districts and county offices (including single-district counties).
- It is important that AB 1200 oversight be applied consistently across districts and county offices of education.
- Trailer bill includes several statutory changes to make the oversight language used by the state superintendent for county offices of education consistent with existing statutes for school districts.

Source: 2025-26 Governor's Budget, Education Omnibus Trailer Bill (February 1, 2025), Section 1.

Adds Criteria to Lack of Going Concern

- Education Codes 1630 (county offices) and 42127.6 (districts) are commonly referred to as the lack of going concern statutes and set forth a process for progressive intervention.
- Trailer bill includes the following added criteria for advancing through the progressive intervention steps to the more intense levels of intervention.
 - That an LEA experiences a significant fiscal event determined to have an immediate severe fiscal impact.

Source: 2025-26 Governor's Budget, Education Omnibus Trailer Bill (February 1, 2025), Section 3.

Multiyear Financial Projections are Essential

Multiyear Financial Projections (MYP)

- A district must be able to accurately reflect its net ending balance and ensure early warning of any discrepancies between budget and actual revenues and expenditures throughout the budget monitoring process.
 - One of the purposes of first and second interim reports is to provide updates of the district's projected net ending balance for the current year and multiyear projections.
- Long-term impact of current decisions must be assessed and must be projected over multiple years (at least current plus two years).
 - The cause of most school district insolvencies can be traced to a bad financial decision made during prosperous times that came back to bite the district during lean financial times – exercise caution.

Multiyear Financial Projections (Cont.)

- Second interim MYPs provide a critical look at next year ahead of budget adoption.
 - Current year actual enrollment and ADA.
 - Updated out-year enrollment and funded ADA projections.
 - Governor's budget proposal – COLA and little else.
 - Any new collective bargaining agreement(s) implications.
 - Any remaining current year post-adoption adjustments not made at first interim.
- Cash flow must align with updated budget assumptions.
- Baseline with best- and worst-case scenarios for MYP and cash provides data for important planning considerations.

Thank you!