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School District Budgets: Fiscal Oversight and Related Issues

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Select Committee on State School Financial Takeovers
Hon. Sandre Swanson, Chair

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Four Main Components of Fiscal Oversight of School Districts

- ☑ Fiscal Review
- ☑ Budget Assessment and Designation
- ☑ Intervention
- ☑ Emergency Loan

Fiscal Review

- County Offices of Education (COEs) serve as the oversight agent for school district budgets.

- School district financial condition is reviewed at least three times per year.
  - ***Budget Approval.*** District must adopt budget by July 1 and receive COE approval by August 15.
  - ***First Interim.*** District submits updated financial data by December 15 for finances as of October 31.
  - ***Second Interim.*** District submits updated financial data by March 15 for finances as of January 31.
  - ***End-of-Year Review.*** In some cases, school districts are required to submit financial data by June 1 for finances as of April 30.

- Fiscal reviews based on criteria and standards adopted by the State Board of Education, including:
  - Reserves/cash balances.
  - Operating surpluses/deficits.
  - Attendance/enrollment.

Budget Assessment and Designation

☑ The COEs review and assess each district for financial health after each interim report. Each district is assigned one of the following designations:

- ***Positive.*** Will meet obligations this year and two subsequent years.
- ***Qualified.*** May not meet financial obligations for current or two subsequent fiscal years.
- ***Negative.*** Will be unable to meet financial obligations for current or subsequent fiscal year.

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Intervention

- ☑ The COE can intervene if a district budget is designated qualified or negative at interim reporting. Most importantly, the COE has the ability to:
  - Assign a fiscal expert to advise district.
  - Disapprove any labor agreement.
  - Disapprove any debt issuance.
- ☑ The COE can disapprove of a district's adopted budget and require revisions.
- ☑ "Going Concern" provisions allow for greater COE involvement, including the ability to:
  - Assign a fiscal advisor to the school district.
  - Impose budget revisions.
  - Stay or rescind any board action with fiscal effect.

Emergency Loan

- ☑ If a district cannot meet its current expenditure obligations, it can request an emergency loan from the state.
- ☑ To authorize an emergency loan for a district, the state must enact legislation.
- ☑ The legislation typically provides an immediate short-term loan and requires district to finance the emergency loan by issuing bonds.
- ☑ State assumes administrative control of school district.
  - Superintendent of Public Instruction (SPI) assumes legal duties of district governing board and appoints an administrator to act on behalf of the state.
  - District governing board is only an advisory body.
- ☑ Administrative control gradually is returned to district governing board.
  - Must show that future compliance with recovery plan is probable.
  - State trustee is appointed to monitor the district governing board. Trustee remains until loan is repaid and SPI determines the district has adequate fiscal controls and is likely to comply with fiscal plan in future.
- ☑ District bears all associated costs.
  - Must repay loan and interest costs.
  - Must pay for cost of state administrator, state trustee, audits, and external reviews.

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Issues That Could Affect School District Solvency

- ☑ One-time federal stimulus funding will be exhausted by end of 2011-12.

- ☑ Payment deferrals place substantial cash burden on districts.
  - State adopted new $2.1 billion payment deferral in 2011-12.
  - Currently, 21 percent of K-12 program is paid in subsequent fiscal year.

- ☑ State placed restrictions on reducing district staffing and programmatic levels.
  - Districts must assume flat per-pupil funding in 2011-12.
  - Temporary suspension of August layoff provisions.

- ☑ Midyear reductions "triggered" if revenue estimates at least $2 billion below budget projections.
  - Up to $1.5 billion reduction to revenue limits.
  - Up to $248 million reduction to Home-to-School Transportation program.