Monitoring Fiscal Condition

**Chancellor’s Office’s goal:**

- Prevent cases where it would be necessary to appoint a special trustee or seek an emergency appropriation.

- Target the limited resources available for intervention.
Indicators of Risk or Potential Insolvency

— Unreliable Budget Development
— Insufficient Budget Monitoring or Updates
— Inadequate Cash Management
— Mismanaged Collective Bargaining Agreements
— Increasing and/or Unplanned Transfers, Intra and Interfund
— Continuing Deficit Spending
— Mismanaged Employee Benefits
— Inattention to Enrollment and Attendance Reporting
Indicators of Risk or Potential Insolvency (cont.)

- Decreasing Fund Balance and Reserve for Economic Uncertainty
- Ineffective Internal Controls and Fraud Prevention
- Breakdown in Leadership and Communication
- Lack of Multiyear Planning
- Inattention to Non-Voter-Approved Debt and Risk Management
- Lack of Position Control
- Related Issues of Concern
Analysis

- FTES and financial data submitted by districts.
- Analysis presented to the BOG each year in January.
- The analysis uses two measures to understand a district’s fiscal condition:
  - The ending fund balance ratio, and
  - The Net Activity (Revenue minus Expenditures).
Determining Fiscal Risk
Scenario I.

Positive Net Activity (Surplus)

- Ending Balance Less than 5%
  - HIGH RISK
    - Possible FCMAT review
- Ending Balance Between 5% and 10%
  - No Immediate Action
- Ending Balance 10% and Greater
  - No Immediate Action
### Scenario I Example

**Positive Net Activity (Surplus)**

<table>
<thead>
<tr>
<th></th>
<th>No Immediate Action</th>
<th>No Immediate Action</th>
<th>HIGH RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$57,402,798</td>
<td>$57,402,798</td>
<td>$57,402,798</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$57,040,920</td>
<td>$57,040,920</td>
<td>$57,040,920</td>
</tr>
<tr>
<td><strong>Net Activity (Surplus)</strong></td>
<td><strong>$361,878</strong></td>
<td><strong>$361,878</strong></td>
<td><strong>$361,878</strong></td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>$17,543,198</td>
<td>$4,543,198</td>
<td>$2,143,198</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$17,905,076</td>
<td>$4,905,076</td>
<td>$2,505,076</td>
</tr>
<tr>
<td>% Ending Balance of Ex.</td>
<td>31.39%</td>
<td>8.60%</td>
<td>4.39%</td>
</tr>
</tbody>
</table>

- **HIGH RISK** indicates a critical financial situation that requires immediate action.
- **End of Surplus** suggests the surplus has ended or will end soon, necessitating a strategic approach.
Determining Fiscal Risk
Scenario II.

Negative Net Activity (Deficit Less than 5%)

- Ending Balance 10% and Greater
  - Immediate Action Required
    - FCMAT Review; Possible Special Trustee
- Ending Balance Between 5% and 10%
  - Moderate Risk
    - Request for Fiscal Health Risks Analysis
- Ending Balance Less than 5%
  - No Immediate Action
### Scenario II Example

**Negative Net Activity (Deficit Less than 5%)**

<table>
<thead>
<tr>
<th></th>
<th>No Immediate Action</th>
<th>Moderate Risk</th>
<th>Immediate Action Required</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$62,839,859</td>
<td>$62,839,859</td>
<td>$62,839,859</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$63,228,020</td>
<td>$63,228,020</td>
<td>$63,228,020</td>
</tr>
<tr>
<td><strong>Net Activity</strong></td>
<td>($388,160)</td>
<td>($388,160)</td>
<td>($388,160)</td>
</tr>
<tr>
<td><strong>Beginning Fund Balance</strong></td>
<td>$13,331,935</td>
<td>$6,331,935</td>
<td>$3,143,774</td>
</tr>
<tr>
<td><strong>Ending Fund Balance</strong></td>
<td>$12,943,774</td>
<td>$5,943,774</td>
<td>$2,755,614</td>
</tr>
<tr>
<td><strong>% Ending Balance of Ex.</strong></td>
<td>20.47%</td>
<td>9.40%</td>
<td>4.36%</td>
</tr>
</tbody>
</table>
Determining Fiscal Risk
Scenario III.

Negative Net Activity (Deficit 5% or Greater)

- Ending Balance Less than 5%
  - Immediate Action Required
    - FCMAT Review; Possible Special Trustee

- Ending Balance Between 5% and 10%
  - Moderate Risk
    - Request for Fiscal Health Risks Analysis

- Ending Balance 10% and Greater
  - High Risk
    - Possible FCMAT Review
# Scenario III Example

## Negative Net Activity (Deficit 5% or Greater)

<table>
<thead>
<tr>
<th></th>
<th>Moderate Risk</th>
<th>HIGH RISK</th>
<th>Immediate Action Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$58,401,905</td>
<td>$58,401,905</td>
<td>$58,401,905</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$63,228,020</td>
<td>$63,228,020</td>
<td>$63,228,020</td>
</tr>
<tr>
<td>Net Activity (Deficit - 7.633%)</td>
<td>($4,826,115)</td>
<td>($4,826,115)</td>
<td>($4,826,115)</td>
</tr>
<tr>
<td>Beginning Fund Balance</td>
<td>$13,331,935</td>
<td>$9,338,276</td>
<td>$7,338,276</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$8,505,819</td>
<td>$4,512,161</td>
<td>$2,512,161</td>
</tr>
<tr>
<td>% Ending Balance of Ex.</td>
<td>13.45%</td>
<td>7.14%</td>
<td>3.97%</td>
</tr>
</tbody>
</table>
## Summary

<table>
<thead>
<tr>
<th>Net Activity</th>
<th>Ending Balance Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10% and Greater</td>
</tr>
<tr>
<td>Positive Net Activity</td>
<td>No Immediate Action</td>
</tr>
<tr>
<td>Negative Net Activity</td>
<td>No Immediate Action</td>
</tr>
<tr>
<td>(Deficit less than 5%)</td>
<td></td>
</tr>
<tr>
<td>Negative Net Activity</td>
<td>Moderate Risk</td>
</tr>
<tr>
<td>(Deficit 5% or Greater)</td>
<td>Request for Fiscal Health Risks Analysis</td>
</tr>
</tbody>
</table>

### Glossary
- **Net Activity**: The difference between income and expenses.
- **Ending Balance Ratio**: The ratio of the ending balance to the total assets.
- **High Risk**: Action required to prevent financial crisis.
- **Moderate Risk**: Action recommended to improve financial health.
- **Immediate Action Required**: Actions must be taken immediately to prevent financial crisis.
- **Possible FCMAT Review**: Review by Financial Crisis Management and Assistance Team.
- **Possible Special Trustee**: Appointment of a special trustee by the court.
Take Away

Possible Triggers for Chancellor’s Office action:

- Deficit greater than 5%
- Ending Fund Balance less than 10%
Q&A