The Common Message

April 2020

Best Practices in Times of Fiscal Crisis

CCSESA

BASC
Business and Administration
Steering Committee

Best Practices in Times of Fiscal Crisis

Over the past few weeks it has become apparent the COVID-19 pandemic will have a dramatic effect on state general fund revenues and, by extension, K-12 local education agency (LEA) financial health. We have abruptly moved into a very different economic environment. Therefore, all districts and charter schools should immediately begin assessing a range of potential cash flow and budgetary impacts.

Budget Scenarios and Contingencies

In times of uncertain revenue streams, it is important to develop multiple scenarios that could reasonably affect the LEA. Each scenario demands a different set of corresponding actions necessary to balance revenues and sustain adequate reserve levels. Understanding that LEAs are in the budget development process now, <u>they should utilize the second interim report, adjusted for any current year material changes, to assess the probable impacts of COVID-19.</u> At minimum, for initial impact assessment purposes, one scenario should utilize zero cost of living adjustment (COLA) in fiscal years 2020-21 and 2021-22. Other scenarios could include a funded COLA or negative adjustment to LCFF. The intent is to be thinking about how to address a multitude of situations the LEA may find itself in once the full and actual impact of the pandemic is determined. Although recessions tend to last 10-15 months, the effect on public school funding can be longer lasting. The FCMAT Projection Pro software was developed for this purpose. Although other tools may serve an LEA’s needs, planning for various scenarios is essential and should be kept current throughout times of fiscal crisis and unpredictable revenues.

Cash Flow

Cash flow is critical. <u>It is imperative to review anticipated cash receipts and cash outflows based on various budget scenarios, including zero COLA. In addition, for the 2019-20 fiscal year, LEAs should examine the impact of a June 2020 to July 2020 principal apportionment cash deferral.</u> LEAs should also consider the cash impact of lost parent fee/donation collections for lunches, child care programs, enrichment programs, transportation fees, etc.

Interyear deferrals are a high possibility in that Proposition 98 spending can be modified by the state toward the end of the fiscal year by shifting appropriations from the end of June to the beginning of July. LEAs should begin examining all cash management options including interfund borrowing, tax and revenue anticipation notes (TRANs) and possible assistance from the county office of education and county treasurer in preparation for getting through this forthcoming period of fiscal challenge. State and federal COVID related aid will flow to most LEAs, but these funds are for mitigating new costs related to the pandemic and are relatively minor given the challenges that lie ahead.

Summary

Definitive information will likely not be available at May Revision or in the June adopted budget. Proposition 25 dictates the Legislature to adopted an ontime budget, but based on the new July 15 deadline for filing income taxes, they will likely revisit it in August once the revenue picture is clearer; therefore, the need for modeling scenarios is all the more important so that LEAs can be nimble in response.