Webinar Transcript

California State Treasurer's Office and
California School Finance Authority

Putting Deferrals in the Rear-View and the Road Ahead for K-12 Districts and Charters
July 22, 2021

[Editor's Note: This transcript has been prepared by the California School Finance Authority (CSFA) and it believes it to be a fair and accurate reproduction of the comments of the speakers. Any errors are those of CSFA and not the speakers.]

Title Slide — Putting Deferrals in the Rear-View and the Road Ahead for K-12 Districts and Charter Schools

Katrina Johantgen: Hi, good morning. This is Katrina Johantgen. We're going to give folks a little more time to dial in to the webinar.

0:35

Good morning. Hello and welcome. My name is Katrina Johantgen and I'm the Executive Director of the California School Finance Authority. I want to thank you all for joining us today for our discussion regarding the 21-22 state budget. What a difference a year makes! At this time last year, we were conducting a webinar on our cash borrowing program to weather the state deferrals of revenue. Today's presentation highlights a very different scenario for the fiscal year ahead. We're pleased you've decided to join us. We understand it is webinar season, so we're honored you elected to participate in today's webinar. This is the "Putting Deferrals in the Rear-View and the Road Ahead for K-12 Districts and Charter Schools" webinar, but before we get started I want to highlight a few really important housekeeping items. Today's presentation can be accessed on CSFA's events web page and has also been included in the presentation chat. We encourage you to submit questions or comments any time during the program using the box marked questions at the bottom of your control panel. There is live captioning available during today's discussion. Please use the link in the presentation to access live captioning.

Slide 2 — Housekeeping **01:47**

Katrina Johantgen: If at any time during the presentation you experience technical issues, please contact GoToWebinar at the phone number provided.

Slide 3 — California School Finance Authority **02:02**

Katrina Johantgen: First, I want to provide some information regarding the California School Finance Authority (CSFA). CSFA was established in 1985 and is one of 16 Boards, Commissions, and Authorities located within the State Treasurer's Office. CSFA is chaired by Treasurer Fiona Ma with Superintendent Tony Thurmond and Director of Finance Keely Martin-Bosler serving as members. CSFA administers twelve federally- and state-funded financing programs. These programs assist California K-12 schools, charter schools, community colleges, and county office of education finance the construction, remodeling, and renovation of projects and also to secure working capital for cash flow purposes. Since 2002, CSFA has dispersed or financed over $4.5 billion for California local education agencies through our grant and debt programs. CSFA also conducts educational webinars related to state budget matters, financing opportunities, and student and workforce housing issues.

Slide 4 — CSFA Pooled TRANs – State Aid Intercept Notes (SAINs) 3:07

Katrina Johantgen: I want to highlight one of CSFA's most recent financing programs. The State Aid Intercept Notes Program (SAINs) was developed during 20-21 fiscal year to help K-14 districts for state deferrals. We set out with our financing team and stakeholders to develop a program that would secure low costs, and streamline and I believe we achieved these goals. The SAINs offered cash flow financing for fiscal year 2021 principal apportionment deferrals. Thirty-eight school districts and two community colleges districts located in eighteen counties throughout the state participated in the March and April issuances. The SAINs were secured solely for each participant's pledge for its financed apportionment deferrals. The finance deferrals are intercepted by the state controller and transferred to the trustee for repayment of the SAINs to borrowers, unlike traditional school district Tax and Revenue Anticipation Notes (TRANs). The credit ratings for SAINs are based on the state's credit ratings, SP-1+ from S&P and F-1+ from Fitch, rather than the short-term rating of each participating district. By avoiding district credit analysis and disclosure in the offering documents, we significantly lowered upfront costs and increased ease of execution on district staff. So, you can see on the table we've provided there was a March issuance, a tax-exempt series, a taxable series A and a taxable series B. Here you can see yields and all interest costs well below one percent, you've got 20 basis points on the taxable series and a blended yield of 65 basis points. The market was a little bit different in April and we achieved a blended yield of 66 basis points of all in cost for the taxable series C and series D notes.

Slide 5 — CSFA Pooled TRANs – Advances on State Aid Payments (ASAP) Program Notes 5:09

Katrina Johantgen: Next slide covers the Advances on State Aid Payments Program (ASAP) developed for our charter school borrowers. ASAP program notes financed the FY2020-21 principal apportionment deferrals of 62 non-profit charter schools borrowers operating as 40 distinct borrowers located in 22 California counties. These notes were secured by each borrower's pledge of its finance apportionment, similar to the SAIN, but also had a reserve finance by a federal grant that CSFA had been awarded and also a letter of credit that was issued by city and the Royal Bank of Canada. The finance deferrals are paid similar to SAIN by funds that are being intercepted by the state controller and transferred to the trustee on behalf of investors. The Moody's Investment Grade 1 credit rating assigned to those ASAP Notes is based on the credit ratings of the two Letter of Credit (LOC) banks rather than the creditworthiness of each charter school Borrower. The LOCs avoided the need for underlying credit ratings, cash flows, and offering document disclosures for each Borrower and made the large TRAN pool economically feasible. The notes were issued on March 30, 2021, and will mature on December 30, 2021. There are several structuring elements from both programs that CSFA and its financing team now have at our disposal for future cash flow borrowing programs. As you can see in the table here, the chart on page five, the interest rate in all in borrowing costs for this program, the charter school borrowers were well below 3%.

Slide 6 — Speaker Introductions 6:55

Katrina Johantgen: At this time, I want to present our panelists and continue with our presentation. We will first hear from Brianna Garcia. Ms. Garcia serves as Vice President at School Services of California. Ms. Brianna Garcia will discuss the Governor's Budget and Local Control Funding Formula (LCFF) information for 21-22 and the dreaded fiscal cliff we've all been hearing and how to avoid it. Next up, Eric Premack, Executive Director and founder of the

Charter Schools Development Center will discuss average daily attendance (ADA) and funding impact on charter schools. Brianna will then highlight state pandemic funding and what that means for you and your organization, next up we will hear from the legend himself, Mike Fine, CEO of FCMAT or the Fiscal Crisis Management and Assistance Team. It's better to listen carefully to Mike's discussion on cash management, cash flow sufficiency, and insolvency than need FCMAT services later. Thank you Mike for joining us again this year for our webinar. Then, Annette Yee, Managing Director at Montague DeRose and Associates will discuss external cash borrowing to meet your cash flow needs. We hope to have enough time at the end of our presentation to answer your questions. Please remember to ask your questions throughout the presentation and we'll do our best to address all of your questions. At this time Brianna, you can take it away.

Brianna Garcia: Thank you, Katrina. I appreciate it. Good morning everyone, as Katrina mentioned my name is Brianna Garcia and I'm from School Services of California. I want to walk you through a few of the items in this year's budget that we believe are going to have the biggest impacts on your cash flow.

Slide 7 — Governor's Budget vs. May Revision vs. Enacted Budget 8:37

Brianna Garcia: This slide provides an overview of the major components for the K-12 education funding as seen at each of the three major milestones at the state budget cycle. As you can see from this slide, Proposition 98 is increasing and it increased by more than $14 billion dollars over the budget period from 2019-20 to 21-22. Overall, that's great news for education. We ended up with over $3 billion from LCFF funding, which provides for 5.07% "Mega COLA" (cost of living increase) - that is what it is being called. With the compounded COLA being utilized for several of the programs that are part of education and at the very bottom line, the deferrals are fully paid down. And while on this slide, a big chunk was really focusing on that K-12 piece. I do want to note for community colleges, students funding formula is also receiving the 5.07% Mega COLA with this advocacy work that happened and the deferrals are being fully paid down for the community colleges, as well.

Slide 8 — Proposition 98: One-Time vs. Ongoing Spending 10:03

Brianna Garcia: The enacted budget utilizes significant one-time spending; the state is spending almost 70% of all education spending in both K-12 and community colleges on one-time programs. So, that's a sizeable chunk of what we're looking at. The ongoing investments moving forward are predominantly for LCFF and K-12 and Student Centered Funding Formula for community colleges in addition to a few other educational equity initiatives. And so, you can see that while there are a lot of categories in this budget, that's where you are noting that large 70% that we're looking at with regards to one-time versus ongoing spending.

Slide 9 and 10 — 2021-22 LCFF Funding Factors 10:54

Brianna Garcia: With regards to K through 12, as we know, the local control funding formula is the main source of funding for local educational agencies. It's comprised of base grant for each of the grade spans and inclusive for K through 3 and 9 through 12. In addition, there are supplemental Concentration Grants based on the number of students enrolled that are either English learners, free or reduced meal eligible or foster youth.

The final budget compromise between the legislature and governor includes $3.2 billion for LCFF that allow for that 5.07% Mega COLA. And lastly, in the first major change to the local control funding formula since Governor Brown, the Concentration Grant is increased from 50% to 65% of the base grant. Though that does not, and I want to emphasize that because we've gotten a lot of questions about this, it does not change the threshold in order to actually receive the Concentration Grant, which is still at 55% for unduplicated pupils.

Slide 11 — 2021-22 Funding Factors 12:09

Brianna Garcia: This slide shows you the funding factors for LCFF ,and it's inclusive, and you can see that in the second line of the 5.07% Mega COLA, it also shows you that new Concentration Grant amount at 65% on that bottom line.

Slide 12 — Concentration Grant Version 2.0 12:29

Brianna Garcia: I do want to point out though that the $1.1 billion that was included to increase the Concentration Grant does come with strings, as with lots of things. The additional 15% being provided has to be used to increase the number of credentialed and/or classified staff. I want to be particular clear to note that includes custodians. The increase is going to be measured by school sites; they're going to require you to compare prior year staff to student ratios with schools with greater than 55% of a staff to student ratios with 55% or less. We've gotten a lot of questions from local educational agencies (LEAs) out there. What if we're only one school site? What if all our schools are at 55%? And the language doesn't go into that level of detail. But we're looking for that information. Reaching out to our contacts with the state and provide more as soon as we know more. I do want to note accountability is part of the Local Control and Accountability Plan (LCAP) annual update each year. This is not a one-time thing, this is going to be happening from this year forward, receipt of the monies and accounting for those dollars. But because you've adapted your LCAP this year, there's only going to be an LCAP one-time supplement where you'll discuss how you're spending these dollars.

I'll note this one-time supplement, you're going to have to complete it whether or not you're receiving Concentration grant money because it is asking for updates and information on other funding sources that are being received as part of the budget. So, keep that in mind.

Slide 13 — LCFF Growth 14:24

Brianna Garcia: You can see the implications of the new Concentration Grant with this chart. It shows you the current ADA change for 21-22 by unduplicated pupil (UDP) quartile and it accounts for both the Mega COLA and increased Concentration Grant. The blue bars are the base grant roughly equal across all LEAs with differences with regards to grade span distinctions. The orange bar are the supplemental levels you've been receiving over the last eight years. This includes the Concentration Grant at the 50% mark and then the yellow bar shows you the increased Concentration Grant amount of 15%. You can really see with this chart how dramatic the impact of the change of formula is on those LEAs that received Concentration Grants. By using the Concentration Grant as a vehicle, the change is really being targeted to those LEAs that have higher need student population and therefore, they are receiving significantly more with that 15% increase.

That said, the majority of LEAs, within the state, are receiving Concentration Grant funding. As you can see in that stacked bar on the right-hand side. The state-wide average UDP percentage is about 62% and about 60% of LEAs are above that 55% threshold, meaning they are eligible for Concentration Grants. In fact, the average unduplicated percentage LEAs eligible for the

Concentration Grant is about 77%. So, most LEAs will get some benefit, but the magnitude is really going to depend on how high their UDP is.

Slide 14 — County Office of Education LCFF — Operations Grant 16:14

Brianna Garcia: Turning quickly to the local control funding formula for community colleges, they are funded through operations and alternative education grants. The operations grant is comprised of three components: funding per county, per school district within the county, and per ADA within the county. And all three components get the benefit of the Mega COLA.

Slide 15 — County Office of Education LCFF — Alternative Education Grant 16:40

Brianna Garcia: In addition, counties also receive an alternative education grant for the students they educate directly. Similar to school districts and charter schools, they receive base supplemental and Concentration Grant funding, though they get 35% above the base grant for both their supplemental Concentration Grant dollars. And again, the base grants also get the Mega COLA for county offices of education.

Slide 16 — Fiscal Cliff on the Horizon 17:08

Brianna Garcia: We have to say though, with all this new money we're getting from the state budget, I would go with no good deed goes unpunished. Education has a lot to be grateful for, for this budget especially after the last year and a half. Precaution is still needed and called for. We have been sheltered from the impacts of declining enrollment this year with school districts facing some of those impacts and charter schools and county offices facing them this year due to potential declines in ADA. I'll go over that a bit more in the next slides.

There's the expiration of the pension relief, there's an increase to unemployment insurance rates, the cap on district reserves. There's an influx and a role in expiration of pandemic related funding. All of these things make for treacherous ground for LEAs that need to be navigated. One of the main reasons for this webinar today is to talk about the fact that while deferrals might not be on the horizon, there are still other issues that may impact your cash that you need to keep in mind.

Slide 17 — Cap on Districts Reserves 18:21

Brianna Garcia: One of those is cap on district reserves. The Enacted State Budget set aside about $6.4 billion dollars in the Education Rainy Day Fund. Because the four criteria met and the maintenance factor from 2014-15 was paid, it's a test one year. There was sufficient money to fund ADA and COLA; and capital gains exceeded 8% of the general fund revenues.

This deposit is going to equal approximately 8.1% of the total K-12 portion of the minimum guarantee. That's more than enough to meet the 3% threshold require to trigger that cap on district reserves. Beginning in 22-23, school districts cannot have reserves in excess of 10% of combined assigned and unassigned general fund balances, including that special reserve. There are exceptions. First, basic aid school districts and small school districts fewer than 2,501 ADA are exempt and you can ask for an exemption from your county office. You'll have to show the reasons why you feel you need that higher reserve. But in addition, outside of those, we do not recommend you just start spending down your reserves. We think you really should now start looking at how you can commit or otherwise utilize those dollars in such a way that you're still maintaining your fiscal solvency and cash, the ability to manage your cash. But know this is on the horizon and it is going to impact how you're budgeting and how you're managing your cash starting next fiscal year 22-23.

Slide 18 — Cash Flow and Deferrals 20:10

Brianna Garcia: As it pertains to deferrals, again, good news there. As I mentioned on an earlier slide, in January the Governor proposed paying down $9.2 billion in deferrals, again this is for K-12, and then that increased to $10.3 billion as part of the May revision. At that time, he was going to leave only,—I have air quotes you can't see, $2.6 billion in deferrals remaining. But negotiations between the Governor and Legislature, the final 21-22 includes the paydown of all remaining deferrals. I'll note, as I mentioned before, that's the same for community colleges. The Governor proposed paying down all community college deferrals as part of the May revision. And that stuck around and enacted state budget pays down deferrals for all K-14. In addition, for K-12 however, the budget includes the accelerated repayment of the February through April 2021 deferrals. So, when the deferrals were first implemented they were due to be repaid from September through November 2021. You can see at the bottom of the slide. The enacted state budget has those deferrals repaid in August 2021 along with the May deferral which was already scheduled to be repaid in August 2021. The enacted state budget also eliminates June to July deferrals. They basically struck that language and so, those are gone as well. So again, for this year after next month, you will have all these deferrals repaid and there are no deferrals at least in the foreseeable or imminent future.

Slide 19 — 2021-22 ADA Impacts 21:55

Brianna Garcia: Enrollment has already started to decline in California and the pandemic made things worse. This is a real concern for LEAs. Based on the latest statewide data, enrollment dropped by more than 160,000 students between 2019-20 and 20-21. That's compared to a drop that you were experiencing before that of 20,000 to 30,000. This has real world impacts at the Proposition 98 level and at the local budget level. We don't know if this is a temporary drop of that magnitude or if those kids are going to come back this coming school year and so that's a little bit of a wait and see. I'm sure a lot of you are out there on pins and needles waiting to see what those numbers look like. The legislature did provide a reprieve last year with the initiative with the "hold harmless," which requires all LEAs to use prior year ADA. The school districts already have the ability to use prior ADA, but that hold harmless is really coming into play for helping school districts this year. For charter schools and county offices of education, the application initiative provided a cushion, one-year reprieve. Though in their case that was short-lived because they are feeling the impacts of that hold harmless reprieve going away starting this year 21-22.

Slide 20 — 2021-22 ADA Impacts 23:23

Brianna Garcia: You can see the impacts here that we're calling the "fiscal cliff." The hold harmless that was part of last year's budget resulted in the ability of school districts to use the higher--the 2019-20 or 21-22 ADA this year. So, they really don't feel the impacts of any kind of decline in enrollment until next year, until 22-23. Charter schools and county offices however, did not have the benefit of this higher year versus higher or prior year versus current year provision. That fiscal cliff is very real to them right now. However, for school districts with declining enrollment, they have another year before for the impacts are felt. You really need to start planning now because 22-23 is going to be just around the corner and you're going to have to accommodate a steeper drop in ADA represented by the difference between 19-20 and 21-22, even if you're using prior year numbers. It's important that you start to message that your staff and stakeholders, and start now. For charter schools and county offices of education, any effects are already built into your budget this year. For school districts you should be having conversations about “right-sizing” in accordance with actual ADA decreases, and not what you’re funded at. And don't overlook this because you're being funded at a higher amount this year. Again, this year with the hold harmless, increases in COLA, one-time state federal funding due to the pandemic. All of this is a temporary reprieve and should not put you in a situation where you're pushing the can down the road just because you have this reprieve right now.

Slide 21 — 2021-22 ADA Impacts 25:20

Brianna Garcia: And I’ll let Eric talk to you a little bit about—and more specifically about how charter schools are feeling that impact now.

Eric Premack: Thanks, Brianna. I'll just underscore what you’ve noted and that is charter schools in the 21-22 fiscal year will enjoy no declining enrollment or no hold harmless protection. And as a result, the fiscal cliff is something they'll feel and experience in real time, if they’ve been losing enrollment or anticipating any decline in funded average daily attendance. That will roll through the LCFF funding formula through lottery and any of a number of other programs as well. Some charter schools are experiencing an additional “cliff,” if you will, due to sharp declines in some LEAs, in the counts of students who have qualified for Free and Reduced Priced Meals (FRPM), which is the proxy used for low-income status for key funding programs, especially including the Charter School Facility Grant Program (SB740). If you fall below the 55% eligibility threshold, due to a decline in counts of those students, you can experience a “cliff” in your funding for that program, as well.

Slide 22 — 2021-22 ADA Impacts 26:40

Eric Premack: I'll also note that growth funding, bit of good news here, we’ll return in the 21-22 fiscal year after being capped and/or unfunded depending on your school type in the prior fiscal year. That's a bit of good news. For those who are experiencing growth, realize that we return to the normal cash flow procedures related to growth funding, meaning that if you're growing by adding grade levels and have gotten your data into the PENSEC (Pupil Estimates for New or Significantly Expanding Charters) system timely, you'll receive advanced apportionment funding for that growth ADA. Most likely starting in the month of September from California Department of Education. If you are growing by other than adding grade levels and/or if you did not get your data into PENSEC timely, you won't start to see the apportionments catching up with you until after the first principal apportionment, in which case the growth funds will be spread out primarily over the months of February and June. One last piece, just to note, one other perhaps good news for charter schools, they're not subject to the reserve caps that will be triggered for school districts in future years. Thank you.

Slide 23 — State Pandemic Funding 28:08

Brianna Garcia: Thank you, Eric. So, this year brought an unprecedented amount of state and federal resources. Again, good news, bad news. Ron Bennett used to say, “the only time there were problems in the negotiating table is when you don't have money and when you do have money.” So, this is likely to be a subject of negotiations and other items this year. Each one of the sources on the state side and on the federal side has a different expiration date and different strings attached and it's all one time. So, in addition to accommodating the ADA drop, LEAs need to be planning for the gradual end of these funding sources.

This slide outlines the state funding provided and the respective deadlines for each of those, as you can see. The learning loss mitigation funds already came to an end. And both the in-person instruction and the expanded learning opportunities grants expire next year. So again, as we keep going through it as Mike starts to talk to you about cash and how that works, you need to keep in mind what's happening with these funds.

Slide 24 — Federal Pandemic Funding 29:25

Brianna Garcia: This slide provides you with federal funding sources we received. Again, the learning loss mitigation funding is done. It expired at the end of May this year. And the ESSER (Elementary and Secondary School Emergency Relief) money expire next year and ESSER II and ESSER III expire over the following two years. Both these and the state's funding sources are providing you with a runway and helping you provide additional supports to your students. But we cannot stress enough that they are one-time and you need to plan. You need a plan in place for their use and their eventual expiration. If some of these programs you want to keep, you need to start planning how you want to fund those items from your various local sources. Or as you're putting some of these new programs, you need to be working towards, or ensuring those, are all temporary uses that the contracts are for limited times. So, you don't end up in a situation where you have more support than programs you can support.

Slide 25 — Impacts on Multiyear Projections and Cash 30:40

Brianna Garcia: As you look at multi-year projections, these items on the slide will impact cash flow for good and bad. You need to be able to balance those two things. I know it's not a requirement for charter schools but it's a best practice to look beyond the current year even if they're not submitting a multi-year projection. It's good to look forward and start planning how funding sources, your increase and decrease in students, will affect you several years out and keeping these items in mind as well. So, with exception to Concentration Grant augmentation, all the sources on the left are bringing you a onetime infusion of cash. The items on the right, with exception of reopening costs, will last you longer than a year. And so, we really want to keep those concepts in mind of what’s short-term, what's long-term. And how the funding sources you're going to put in place are going to help you manage those different aspects of that and so, with that, I will turn it over to Mike so he can talk to you about how the cash plays out for you as you're working your way through the next year.

Slide 26 — What is Cash and Cash Flow? 32:02

Mike Fine: Thank you, Brianna. And good morning to everybody. Mike Fine, the Chief Executive Officer at FCMAT. My pleasure to be with you this morning. So let’s start with definitions around cash and cash flow and cash insolvency. Cash is often what we say is actually what happens, it's the real world. Conversely, budget, while critical, and we emphasize this critically important, it is in many respects, the make-believe world. It is what we anticipate to happen. Cash is what actually does happen. Cash flow is very simple. It's the actual in-flow and out flow of funds over a period of time and our cash position is simply what is our cash balance in our bank account, in our treasurer holding accounts at our county treasury, or elsewhere at the end of that month, at the end of that period. Negative cash positions, which obviously is our goal is to avoid those. They can be mitigated by borrowing. There's a slide at the end of our presentation today that identifies various borrowing options and the authorities to borrow.

Slide 27 — What is Cash Insolvency? 33:33

Mike Fine: What is cash insolvency? As Katrina mentioned this earlier in her introduction comments, cash insolvency occurs when payroll expense exceeds available cash. And I think the size of payroll expense because ultimately that is what's at stake. When we lose our ability to pay our people, not only direct their salary, but their health benefits, and also pay our partner agencies, such as CalSTRS (California State Teachers' Retirement System) and CalPERS (California Public Employees Retirement System). It's not to say that not having enough funds on hand to pay our utility cost is not important, it's just not part of the actual definition. You have to remember this and this is why paying so close attention, not only to cash, but to your budget and your overall multi-year planning as Brianna just mentioned. Cash insolvency is a function over time of deficit spending, erosion of fund balance and sustained negative cash flow. All those may sound like common sense, and yet, we are working with districts every day struggling with one or more of these conditions reminding you all, cash is king. Cash shows no mercy. When you're out of cash, the game is over and that is the trigger for state emergency appropriation and the resulting changes in your local governance structure. There have been no needs for a state emergency appropriation during the pandemic because everybody has listened carefully and done an excellent job of managing not only budget resources, but cash resources. Next slide.

Slide 28 — Cash Flow Sufficiency 35:25

Mike Fine: Cash flow sufficiency is as simple as asking this question, "How does an LEA make sure they have enough cash to make payroll and pay the bills?" It's really in four easy steps. Prepare cash flow projections out 18 to 24 months. You want to have that view that goes beyond the current year. Conduct prompt monthly reconciliation of all your cash and all other general ledger accounts. This is critical for you to do. Updating cash flow projection with actuals each month is also critical. So, you replace your projection with what really happened. And then the final typical step is re-projecting your cash receipts and disbursements for the rest of the period of time. For this year, we have a bonus step. And that is you're going to spend a lot of time updating cash flow projections this year, especially in the early first part of the year. Because the K-12 community and some charter schools, and even community college districts that will take advantage of the variety of new categorical programs and funding resources that are in this adopted state budget. Brianna mentioned some of those state and federal pandemic-related, but we have close to 30 new categorical programs for K-12 in this budget. And apportionment schedules have not been established for those yet. Those will be coming out over the next four to five months from California Department of Education. And so, each time a new apportionment schedule comes out for one of those new programs you'll be participating in, you'll need to do an update.

Slide 29 — Budget vs. Cash Flow 37:22

Mike Fine: So, let's highlight the difference between budget and cash flow. Good CEOs and fiscal directors understand this clearly, and it's our job to make sure our governing board and the rest of our cabinet, leadership team in our districts and colleges and charter schools have a thorough understanding of the differences. Budget you can see its characteristics, done annually. It's all built on this idea of anticipating revenue and expenditure - that make-believe world. What is anticipated becomes actual when the cash comes and goes out. We follow generally accepted accounting principles on how we recognize revenues and accruals. We do updates to our budget for K-12. That's the 45-day update coming up here in a couple weeks. Every K-12 should be doing an update this year. There are significant changes between the May revised, which was probably your source that you built your budget upon and the actual enacted budget. There's really no excuse not to do a 45-day revision and then the interim report update for K-12. The same will be true for community colleges, once you get into those routine updates on your 311 reports; budgets are always fund specific.

Conversely, on the cash side we're monitoring monthly and we’re forecasting monthly. Sometimes in some months of the year we may even do that weekly. Especially for those that have a higher dependency on local property taxes. You would need to be doing in some months your cash flow weekly; it’s all built upon actuals. Your cash and budget are equalized with accruals, and again, want to be doing monthly updates. It is most common that it's your cash flow and you are monitoring; your cash flow is the first sign of fiscal distress. You see some of the early warning signs of fiscal distress in your cash flow far sooner than you see it in your budget. The reason for that, you're updating cash flow monthly versus the budget, it is done a couple times a year and cash is often comingled across all funds.

Slide 30 — Key Steps in Preparing and Monitoring 39:52

Mike Fine: So key steps in preparing and monitoring your budget for K-12. Certainly, your SACS (Standardized Account Code Structure) reports include a whole variety of reporting, but there are three major reports in every SACS submission and that's your budget, the Form 01, etcetera, your multi-year financial projections, and cash flow. The community colleges, your 311 reports, and while cash flow is not a required element of the 311, it's certainly a best practice for you to be updating cash flow every time you make a change or report new data in a 311. You're always balancing cash flow to budget. And again, you do that through your accruals and these are critical. The time period we want you to look out beyond the current year - think back to last year at this same point in time. We were looking at over eighteen months because the deferrals went out over eighteen months. Payback was extended even for our charter school partners as Katrina just outlined last year's borrowing program and cash advance program. Those borrowings were based on a maturity that went all the way out to December of the current year.

It's important to have this rolling forward constantly beyond the current year. Monitoring is critical. The timeliness of monitoring I can't understate or overstate for that matter the importance that this is done monthly. As I indicated earlier, sometimes weekly. Don't forget as part of this you've got to look at your balance sheet account. Not just budget, but balancing account, such as receivables and payables as well, and you always want to update your forecast based on, as I alluded to, as information changes from the state or as actual details come in different from what you have planned.

Slide 31 — Assessing Fiscal Risk 42:03

Mike Fine: Remember, as you assess your fiscal risk, this particular chart - these 20 areas are the K-12 version. If you go to our web page, we have the exact same information for community colleges and a separate one for charters as well. But in all three versions of assessing fiscal risk, cash management is common across all three and is a key point of analysis that we would encourage you to keep your eye on and certainly if we're coming into your district, to help you with anything. It is one of the key areas we look at in assessing your fiscal risk as I've indicated.

Slide 32 — Indicators of Risk or Potential Insolvency K-12 42:52

Mike Fine: And likewise, the indicators of risk of potential insolvency again, this is the K-12 version. There are the indicators for community college and indicators for charter schools, also on our webpage. Inadequate cash management is one of those indicators common across all three of our organization types that are part of today's audience. And so, you can look at this list and see other areas of risk, of indicators of risk. But I will take you back to where I started and that is definitions; inadequate cash management leads to cash insolvency. And it's cash insolvency that leads to ultimately the potential for your district to be taken over by the state.

While that doesn't apply to charter schools, it does apply to community colleges and traditional K-12 districts. So, I can't again over emphasize the critical nature of timely updates and a lot of attention paid to this whole area of cash management. It is how frankly we've in part survived the ebb and flow of the last 18 months or so. It's by you paying close attention to your cash and managing that accordingly. Next slide please, Brianna.

Slide 33 — Planning for the Terrain Ahead 44:24

Mike Fine: As Brianna mentioned, the fiscal cliff certainly for our K-12 both in some cases charters but certainly for traditional school districts, it's important we keep our eye on data and respond to early changes and trends. One example of this is enrollment. We know that over 60% of our traditional K-12 school districts are in declining enrollment. As Brianna indicated, the pandemic related hold harmless expired. That has immediate impacts on charters and county offices of ed., but it has a delayed impact on K-12. So, understanding your trend around enrollment is one example of data points you have to pay close attention to. How much of the loss last year was one-time? And how many of those kids will be showing back up this week or next week or in the couple weeks ahead when most K-12 districts open their new school year? Certainly, your financial trends are other examples here. We encourage you always to keep an eye on the separation of one time versus occurring revenues. Brianna cited roughly 70% of the new money coming into the K-12 environment being infused to K-12 schools this year in enacted state budget is one time in nature. One-time funds are not something to shy away from. They're still good dollar bills and we want them, but they have a slightly different tinge and color to their green color. And so, you need to treat them different. You need to pay close attention to their expiration dates. Brianna gave you some examples of the pandemic relief dollars and cents, as to when their expirations have already occurred or will be occurring. You have to pay close attention to that.

We've been advising school districts and services in the last number of months to prepare two multi-year financial projections. Brianna mentioned yearly projections and impacts on changing environments we have on our multiple-year projections (MYP). In part we want you to be looking at two sets. One is reflective of everything you know, and one is prepared without the one-time activities, revenues, and expenditures. You can truly see what's ahead of you in the next year, two years, three years, and make good decisions today with that consideration about what lies ahead. Brianna mentioned this, but I'll emphasize it again. As we look at one time funds and how those expire and if you've hired staff with those, you have to pay close attention. You can easily avoid the sudden need to lay off a lot of staff. Keep your eye on attrition, think about how you're ultimately going to adjust staffing when those one-time dollars expire. Brianna also mentioned, it's not on the slide, but she mentioned reserves and the cap on local reserves beginning in 22-23. Our analysis will indicate this is only going to apply to a couple hundred school districts but nevertheless, there is, as Brianna mentioned, no reason for you to spend down your reserves unnecessarily. You want to maintain those reserves, and the strong financial position they offer you and flexibility they offer you during uncertain times and changing environment.

There are easy ways to work around and legitimate ways to work around those local imposition of cash on your reserves. If you're not familiar, please don't hesitate to reach out. Brianna and her team at School Services can offer great advice on that. I and my team are here at FCMAT can also offer great advice on that. You have board policies already in place around GASB 54. I encourage you to look at those — the option of committed funds not subject to the cap and etcetera. But don't hesitate to reach out as you begin to deal with that potential reserve cap -- well not potential, but potential impact from the imposition of the reserve cap which will occur. Thank you, Brianna.

Slide 34 — External Cash Borrowing 49:05

Annette Yee: Alright. Thank you, Mike. My name is Annette Yee, and I work for Montague DeRose and Associates. We're the financial advisor for CSFA Pool TRAN Program for K-12 and college districts, as well as the county offices of education. We're also advisor on CSFA's program for charter schools. These are the TRAN programs that Katrina talked about at the start of the webinar. Before I begin, here's a little bit of my background. I've worked in public finance for close to four decades and have specialized in California school district finance since 1985. I was a school board member at Carmel Unified for 27 years, one of the real pleasures of my life and also one of the biggest challenges. I bring my experience as an issuer to my work as an advisor.

As you just heard from Brianna, Eric, and Mike, the fiscal challenges facing LEAs are not ending with the repayment of the deferrals next month. I want to talk to you about how to deal with temporary short falls in cash. We would always urge you to inter-fund borrow if you have enough cash and other funds to do so. If you don't, on this slide are the three major sources of external borrowing and the Ed Code references that govern those types of borrowings. First, an LEA can either borrow from the County Superintendent or the County Treasurer. Your county office of education will be able to help you if these are the options you would like to pursue. If your LEA is interested in borrowing through the financial markets, you can consider a tax revenue anticipation note or TRAN. I'll talk more about TRANs in the next few slides.

Slide 35 — Tax and Revenue Anticipation Notes (TRANs) 51:06

Annette Yee: TRANs are short-term borrowings that can help bridge cash flow timing gaps. They are issued to even out temporary cash deficits caused by uneven receipts of revenues such as from property taxes, last year's state deferrals, or the one-time only funds from either the state or the federal government. TRANs cannot solve structural budget deficits. In order to determine whether you need a TRAN, you'll need to look at your monthly cash flows. By monitoring your actual cash flow from the past like Mike was talking about, you will learn better about what to expect in the future. Understanding how cash affects your LEA is important in terms of good fiscal management. Being able to predict your lowest cash points and particularly any cash short falls is critical.

If you find that you do need to issue a TRAN, a tax-exempt TRAN will have a lower borrowing cost than the taxable one. This is because investors are willing to accept a lower interest rate since they won't pay taxes on that investment. There are rules on a tax-exempt basis. One such rule is that cash flow deficit -- that the cash flow deficit must be met within six months of issuance. There are also rules on how TRANs are sized and must be repaid within 13 months.

Slide 36 — CSFA Pooled TRANs – The Essentials 52:50

Annette Yee: Last year, CSFA created its TRAN program to help bridge the cash short falls caused by referrals of state apportionment. Thankfully as you have heard, those deferrals have ended and they're even being paid faster. This has allowed us to transition last year's program into a more traditional TRAN program.

This year's K-14 pool is open to all California school districts, community college districts and county offices of education. Last year, the TRAN program proved to be low cost to issuers and this year's program is expected to continue in this vain as a program will have the same financing team and will continue to be over seen by the State Treasurer's Office. We're beginning to hear that some LEAs are interested in a TRAN borrowing to overcome the delays in the reimbursement process. We'll plan issuance as needed depending on LEA interest. We've gotten questions today already about whether we are planning to do this, and that is the case we will be doing TRANs as needed to help fund the short falls due to ESSER needing to pay up front in order to be reimbursed. Please note because of the 20-21 deferral TRAN, the deferrals will be repaid earlier as Brianna discussed. The set aside payments for the TRANs will be made earlier as well.

Slide 37 — CSFA Pooled TRANs – Steps to Borrow 54:45

Annette Yee: This next page outlines the seven main steps to issue TRANs through CSFA after the submission of the application. We anticipate this process will take approximately four months to complete. In step one, districts will prepare monthly cash flows to determine their cash deficit used to size their TRAN. The financing team will provide assistance throughout this process and will coordinate the rating agency's review of credit materials.

In steps 2 and 3, the bond council and disclosure council firms appointed by the State Treasurer's Office will draft resolutions, other financing documents, and preliminary official statement or preliminary official statement (POS). The POS will include information about each district or charter school participating in the pool of TRANs. Disclosure council staff will work with each LEA to assemble their section of the POS.

In step four, the authorizing resolutions and substantially complete versions of the financing documents and POS are provided to each participating LEA for their board actions. The CSFA board will be provided these same items for board actions authorizing the TRAN issuance.

Moving down the page to step five. The TRAN of each participating district will be assigned a credit rating and districts with the same ratings and credit features will be grouped into one series. When the POS is deemed complete by CSFA, the State Treasurer's Office and financing team, the POS will be posted for review by investors.

In step six, after the POS has been available for review by investors for about a week, the under writer will run an order period to set the interest rate for each series of TRANs. The interest rate will be the lowest rate that fully places each series with investors. CSFA's financial advisor and State Treasurer's Office will oversee the pricing process for the TRANs to ensure the interest rates are fair and on market.

Lastly, in step seven, within one week of TRANs pricing, the final statement will be posted to the market. The TRAN proceeds will be provided to each LEA approximately 2 to 3 weeks following the TRAN pricing.

Slide 38 — CSFA Pooled TRANs — Low Cost Borrowing 57:26

Annette Yee: As we said before, we have an experienced finance team to help LEAs with their TRAN borrowing needs. If you're interested in a TRAN or if you have any questions about the program, please contact us.

Slide 39 — Speakers & Contact Information 57:43

Annette Yee: This final slide has the contact information of our speakers. And at this point we will start the Q&A part of the webinar. If you have any questions, please post them in the question area. Since we are concentrating today on cash, cash flow, and the fiscal cliff, some questions already posed may not be answered during the Q&A.

If we don't get to your questions today, we will follow-up with you afterwards. At this point I'd like to introduce my colleague, Mike Kremer who will be coordinating the questions onto the speakers. Mike.

Q&A — Questions from Participants 58:25

Mike Kremer: Thanks, Annette. This is Mike Kremer from Montague DeRose and Associates. We have received a number of questions through the chat. We'll respond to a few today that are relevant to cash flow. So, I have a couple for Brianna, couple for Mike Fine and a last question if we have time permitting for Brianna, Mike, and/or Eric. Brianna, I think this is best suited for you. Is the reserves cap that you mentioned applicable to charter schools or charter districts?

Brianna Garcia: The reserve cap is not applicable to charter schools. It is only applicable to school districts. And that's an interesting question with regards to charter districts. Only because I hadn't really thought about it and what their legal distinction is within the code. They are school districts that converted to charter schools. Mike, would you happen to know where they fall on that continuum?

Mike Fine: If they are -- so I believe they're still subject to the minimum reserve requirements. If they're subject to minimum reserve requirements I believe they will be subject to their non-excluded entity in clean up registration we did several years ago. Eric will be the expert.

Eric Premack: Mike, I think it's a bit of a legal “no man's land”. I don't think the law is terribly clear on this. It might be one to put on firmer legal ground. Perhaps getting exemption from the county superintendent or what have you. To help clarify things.

Mike Fine: Yeah. And again, there are easy workarounds to some of this. So, if you believe you're subject to it, reach out to one of us and we can guide you on how to easily solve the problem.

Eric Premack: Most of the— all charter districts are quite small. And there are a number of workarounds anticipated there.

Mike Kremer: Okay, Eric. Let me throw a question your way since it just came in since we're on topic here. Regarding cash going to charters from the state or the chartering district, the question in regards to the state or district holding that cash to the charter and the question is, is there any way, any guidance maybe for the charter or how to navigate the timing of funds comings in from the chartering district or state? I know this is a broad question. Any thoughts you have on that?

Eric Premack: Yeah. I think a lot of this just comes down to building local relationships and we often find that if there's any kind of a dispute over the timing of cash that the apportionment schedules that the California Department of Education posts are often a helpful kind of neutral ground if you will. And we often advise charter schools to prepare a little schedule of what they're anticipating from the district, particularly as it relates to the transfer of local property tax money and try to have a dialogue over that so both sides understand what's due and when. We find that kind of neutral information factually presented early in the process helps avoid these kinds of disputes.

Mike Kremer: Okay. Thanks, Eric. Brianna, back to the reserve cap on discussion. Does the cap, apply to just the general fund or all funds of the district such as this fund 40 special reserve?

Brianna Garcia: No. It applies to the General Fund and Fund 17, the fund for special reserves. It does not apply to Fund 40 for facilities or cafeteria funds or any of those other funds. And so, as Mike mentioned, there are a number of ways to work around this so you're not spending down your reserves. And that's one of them. If you know that you're going to have some facilities work coming up, etcetera, transferring some funds, some of those moneys from the general fund over to one of those restricted funds is one of those ways you could set aside some dollars and not have to spend them down. Again, it's assigned and unassigned balances in the general fund. So also, as Mike mentioned, if you commit the funds that also then excludes them from that calculation.

Mike Kremer: Okay. Thanks, Brianna. A few questions for Mike Fine. One of the attendees wanted confirmation that all the deferrals will be paid back by end of August.

Mike Fine: That's correct. That's what the trailer bill called for.

Mike Kremer: Okay, thanks. Another question was if districts were able to borrow cash temporarily to inter-fund transfers, is it recommended that they pay interest back to the fund that it is borrowed from?

Mike Fine: Great question, Mike. If the fund is restricted in some nature. And the most common of those will be your bond funds. We always recommend you pay interest if you're borrowing from bond funds. Number one, we would caution about borrowing from bond proceeds to start with. California Debt and Investment Advisory Commission (CDIAC), which is part of the State Treasurer and FCMAT - both caution against that and probably make a case for not doing that. But if you were to make that local decision with counsel of your bond attorney to do so, we definitely recommend paying interest on it at the same rate that those funds would have otherwise used to avoid any claim that your bond proceeds were used for an administrative purpose. Which, of course, would be a violation.

You know, borrowing between Fund 1 and Fund 17 when they're by the state in essence treated alike and for the same purpose. I don't know if you'd pay interest to borrowing with fund 25, which are developer fees. Again, very restricted funds are put in there, they're collected and deposited and then used for very specific purposes in accordance with the law. I'd pay interest on that as well. So, the answer Mike is that it's a best practice to do so but it does vary by fund and the nature of the fund.

Mike Kremer: Okay. Thank you, Mike. I think the last question we have on cash management is a good one. Your slide on cash flow were phenomenal. And I think there's folks out there who would like some follow-up. They're asking if there's classes offered on cash flow management they can attend or—any webinars?

Mike Fine: So FCMAT doesn't offer a direct one on cash flow itself but we do offer for those who use projection pro, which is a software we developed and available for free that serves K-12 community. That is a piece of software that supports your MYP projections and calculations and also cash flow. The training we provide includes best practices for cash flow as well. So that's the closest thing we have and we offer those trainings periodically during the year and we call it professional learning. I was just on there this morning and our schedule for fall is not posted yet but it will be shortly and there will be opportunities and you'll get some good cash arrangement practices from that.

Brianna Garcia: And I'll note that School Services, we are going to be doing a webinar in October on managing cash and you can find that information on our website as well. It will be just a two-hour webinar to have that conversation. We did it in conjunction with FCMAT last year. We'll be doing just a short version as the deferrals, etcetera aren't something on the horizon. We'll be doing a shorter version this year.

Eric Premack: Also note, Charter School Development Center also offers a charter school specific version of cash flow training as part of our larger charter business officer training program. We can make that module available as a one-off for folks who need it for just cash flow specific purposes.

Mike Kremer: There you have it. Three great options to learn more about cash flow management. We received a few questions regarding the authority's ongoing pool TRANs program. There were slides about the K-14 pools. I'm getting questions on similar offerings for charter schools. I think while nothing is in concrete for either district or charter, I think we're open to engaging demand. And I think the charter specifically it's more of a case by case basis as what we can do for the charters. If you're interested in a TRANs or the Authority whether your district or charter school or CMO, I encourage you to contact Katrina Johantgen and we can get back with our thoughts.

One more question that is kind of broad but I think I'll put out to Brianna, Mike, and Eric. Many questions coming through the chat and submitted in advance of the webinar about independent study and how it can affect enrollment, funding, financial planning—I think we mentioned we can spend an hour on this topic alone. If each of you would like to say a couple of words about independent study and how it may affect districts and charters, we can wrap up with those answers.

Mike Fine: So, this is Mike Fine. I'll take the risk here and start now and Brianna and Eric can correct anything I tell you that's wrong. First as independent study relates to cash management, it's the same relationship it's always been. There are two independent city programs both generate ADA, but differently. There's the traditional independent city program, which focus changes that were made in the trailer bill. The second independent study program, frankly few traditional K-12s use, it's more broadly used by charter schools but in total actual very little ADA in total. But something I recommend everybody look at and that's core space independent study. It does generate its ADA differently, but because they are ADA generating programs, their cash flow is simply part of the monthly advanced apportionment or principal apportionment.

Cost structures obviously vary. And the new requirements will add some cost structures because there's requirements for daily and every few days and weekly live interaction and so on that will impact caseloads probably the number of students assigned to a teacher because, they may have, depending on grade level, some daily work to do as opposed to every several week work to do. California School Board Association just released, yesterday, the sample policies on independent studies. So, I encourage you all to take a look at those. There are also county offices that have begun to publish best practices and thinking along the required changes. There's the whole waiver process also being discussed right now and what that entails, and the fiscal hardship that would be. I'll remind most folks the new requirements really don't differ a whole lot from what we did over this past year. With respect to virtual instruction. So, I think while it is a change, it's not a dramatic change from what we did this past school year. But little to no impact on cash flow, Mike, would be my input.

Brianna Garcia: Yeah. I think the only thing I would add to that, and you just posted a fiscal article about it, is the impacts of the independent study and J 13 waivers[1]. Especially with the all the fires going on. With the pandemic flaring up here and there, you want to make sure you understand what the requirements are now with regards to J 13 and being required to provide some independent study option if those school closures that go for longer than what Mike has anticipated. So that's something else to keep in mind as you're moving forward. Again, with that J 13 waiver, you're still provided with funding for days that closure is required. But you do have an additional requirement now potentially depending on how long that closure goes.

Eric Premack: Okay. I think Mike hit the cash flow piece on the head. The larger topic can be its own five, six, eight-hour webinar. We'll be publishing a charter specific instead of independent study policies as part of our larger compilation and have an update on that either later this week or early next week.

Mike Kremer: Okay. Thank you all very much. I would just remind folks that the webinar slides are already posted on CSFA's website under events. And the recording of this webinar will be posted at a later date. Probably in a couple days or early next week. I think that's it for now. I'll hand it back Katrina to wrap it up.

Katrina Johantgen: Thank you, Mike.

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[1] The Request for Allowance of Attendance Due to Emergency Conditions, Form J-13A is used to obtain approval of attendance and instructional time credit pursuant to Education Code (EC) sections 41422, 46200, 46391, 46392 and California Code of Regulations (CCR), Title 5, Section 428. Approval of a Form J-13A request from the California Department of Education, combined with other attendance records, serve to document a local educational agency's (LEA) compliance with instructional time laws and provide authority to maintain school for less than the required instructional days and minutes without incurring a fiscal penalty to the LEA's Local Control Funding Formula (LCFF) funding.

Thank you all for joining us today. We hope you found this webinar instructive and helpful. Sounds like there's a lot more to be revealed in the next couple months as it relates to school finance. Our gratitude is extended to all of our panelists, Brianna Garcia, Eric Premack, Mike Fine, Annette Yee, Mike Kremer, and our colleagues at CDIAC—the California Debt and Investment Advisory Commission who make these webinars possible for us to disseminate information to our stakeholders. As Mike mentioned, the presentation can be found on CSFA's webpage as well as information on financing programs. At this time, many thanks, so long, and farewell.

[End]