OUSD Fiscal FAQ's
April 2014

The Glenn County Superintendent of Schools Tracey Quarne has issued a letter to the Fiscal Crisis Management Assistance Team (FCMAT) declaring the Orland Unified School District (OUSD) is in Fiscal Emergency. This press release provides information about that letter along with background as to the financial condition of the district. This press release is in response to several questions the district has received from the public.

Why has Glenn County Superintendent of Schools Tracey Quarne sent a letter to the Fiscal Crisis Management Assistance Team (FCMAT) declaring the district in Fiscal Emergency?

1. OUSD has been deemed in fiscal distress since December 2013.

2. In January, a fiscal advisor was appointed by Glenn County Office of Education (GCOE). The advisor has "stay and rescind" power over any new expenses. This advisor stays in place until such time as the district is able to adopt a budget that shows it can meet its fiscal obligation's in the current and subsequent two fiscal years.

3. The district had sufficient reserves in 2012-13 but is expected to have exhausted all reserves by June 2014 due to spending beyond its means (deficit spending).

4. There has been a variety of negative budgetary events that contributed to the deficit spending, including but are not limited to:

    a) a loss of $650,000 federal funding that was expected but is now undetermined due to audit issues
    b) the restoration of five "furlough" days last school year and this year to employees that had been suspended in previous years to help keep the budget in balance
    c) the rising cost of employee benefits, in particular the cost of a self-funded, premium health benefit plan that has no co-insurance and a low deductible ~ and a district contribution that is 57% higher than the average cost that other school agencies in Glenn County are providing to their employees
    d) heavy increases in the cost of special education services
    e) the new school funding formula (Local Control Funding Formula or LCFF) and the restrictions related to spending a substantial portion of that funding on meeting the needs of low income, English language learners and foster/homeless students

5. The district implemented a broad range of reductions in the fall but will still end the 2013-14 school year overspent by $350,000. Reserves in the General Fund (operating budget) will be exhausted at year end.

6. The district also has substantial outstanding debt due to building and construction as well as debt from borrowing against local tax proceeds to maintain sufficient cash flow:

   a) $18 M in voter approved outstanding facilities bonds used to provide construction and modernization; this debt will be repaid through the collection of local tax proceeds
   b) $5.5 M in outstanding debt on a Certificate of Participation (COP) used for facilities construction and modernization: this debt will be repaid in part ($1.8) from the Office of Public School Construction for an approved-but-as-of-yet-unfunded project, reducing the debit to $3.7 M – the balance will be paid down by remaining bond funds of $400,000 leaving approximately $3.3 M to be either refinanced or additional bonds sold once the local economy improves
   c) $4 M in annual borrowing against local tax proceeds (Tax Revenue Anticipation Notes or TRAN); $2.3 was paid off in February and $1.7 M will be paid off in July, 2014

7. The biggest issue facing OUSD is the cash shortfall. Eighty five percent (85%) of the district's obligations are payroll expenses. Unless the district is approved for a TRAN in July 2014, it is unlikely that the district can cover the summer payrolls.

8. There is considerable uncertainty at this time regarding 2014-15 income and expenses. The Governor's Budget Proposal made in January is expected to refill the negative ending balance and restore a portion of the reserves next year but that state budget is not yet approved. As a precautionary measure the district is beginning the process for securing a state loan, also known as going into "receivership."

What is the expected impact of letter to FCMAT?

The letter will be reviewed by the Fiscal Crisis Management Assistance Team (FCMAT) at their April Board meeting. They also have copies of district cash flow projections from the 2nd Period Interim report (this document is available on the district's web page). If they concur that a Fiscal Emergency exists, then they will send a team to audit the district's financial records and make a recommendation as to the potential of needing a state loan. If they believe a state loan will likely be needed, then they will "size the loan" and help the district with the next steps which includes involvement of local legislators. In their analysis they may also have some recommendations for the district on how to avoid a state loan if they see areas in the budget that can still be reduced or ways to increase unrestricted revenues. They will also help to validate the assumptions on which the districts financial projections are based.

Does this trigger state action to loan enough money to get OUSD on track?

No, that would depend on the outcome of the potential visit from FCMAT's financial team to size a potential state loan.

Will the state now run the district?

No. The district remains under control of the school board and Interim Superintendent. If a loan is needed, then the state would take over the district by appointing a state administrator and his/her staff, and then the Board would become advisory only.

What are the next steps for OUSD as it tries to balance its budget?

1. As of March 7 the district froze spending to preserve cash and budget, limiting expenses to only essential current year instructional expenses, purchases required for health and safety, and expenses related to current contract obligations.

2. A fiscal recovery plan is expected to be issued in May that will outline some of the issues and some of the solutions.

3. Currently the district is building its line-item budget for 2014-15. This includes:
    - Determining staffing for next year
    - Projecting the cost of salaries, health benefits, and payroll-related costs such as retirement plans and workers compensation
    - Evaluating utility expenses and projecting the cost of utilities for next year, a process made more difficult than in previous years as a result of all the facilities changes that have occurred in 2012-13 and 2013-14
    - Analyzing and planning for debt that was structured in the district to help pay for facilities modernization and construction along with bond funds
    - Developing the LCAP, a plan for meeting the needs of low income, English Language learners, and foster/homeless students
    - Negotiate reductions in the cost of employment with Orland Teachers Association (OTA) and the Classified School Employees Association (CSEA) as well as negotiating the impact of position changes within those employee groups

District Negotiations: How is that going?

The district has met frequently with both OTA and CSEA this spring.

- OTA: On April 8 the district provided OTA with its third and final offer. As a requirement of accepting about $215,000 of LCFF funding next year, the district plans to gradually reduce class sizes at the K-3 down to a level to 24:1. The districts proposes to continue to staff grades 6-12 at the current staffing level of 28:1; continue to provide bonuses to teachers whose class sizes exceed these contractual limits; restore 2.5 positions (half a nurse and 2 literacy coaches/intervention positions) that were previously reduced; and cap the district contribution to health benefits at $13,000 a year.

- CSEA: Negotiations are on-going with the next meeting scheduled on April 28.

- Administration/Supervisory/Non-Represented Personnel: Discussions are in process with possible reductions scheduled for July 1, 2014.

  (Note: these FAQs were modified from the press release sent out on 4/9/14)

For additional information, please contact

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