TODAY’S TOPICS

- Cash Flow Management
- Projecting Cash Flow
- Cash Borrowing Options
- Cash Flow Modeling
THREE KEY THINGS TO REMEMBER

1. Ensure the agency's projections are **timely** and **accurate**.

2. Know **how much** the agency needs and when it is needed.

3. Know the **internal and external** borrowing options available along with any restrictions and/or timelines associated with each one.
THE IMPORTANCE OF CASH FLOW

Cash flow is an important factor in determining the fiscal health of the local educational agency under county office oversight.

No cash for Districts = State Takeover

No cash for Charters = Bankruptcy

Agencies can have the required level of economic reserves and yet be out of cash or can be cash poor.

Cash shows no mercy – you either have it or you don’t.
CASH FLOW MANAGEMENT
What happened statewide to cause cash flow to be so important during the Great Recession, and how will that impact us now?

The state has traditionally borrowed cash to smooth out its cash deficit periods caused by uneven revenue flows – primarily from personal, corporate, and other taxes.
CASH FLOW MANAGEMENT (CONT.)

Just a little history – things you need to know!

Beginning in 2002-03, the state borrowed (deferred) from school agencies the June apportionment - called the “P2 Shift.”

During the Great Recession, the state increased the number of deferrals to solve its own cash flow troubles.

This is cyclic – cash flow management will be the key to fiscal solvency.
During the Great Recession, shortfalls in state revenues and the cost of borrowing contributed to more deferrals. Deferrals to school agencies became part of the state’s cash flow solution.
The deferrals starting five years ago:

- Decreased in amount,
  - Reduced in number,
    - Shortened in time, and
    - Were finally eliminated.

Deferrals have made a comeback beginning June 2020
WRAPPING UP 2019-20
HEADING INTO 2020-21
THE 2019-20 BUDGET

LCFF funding levels are now at 100% for LEAs schools.

This will not hold true for 2020-21.

May Revise included a 2.31% COLA with a 10% Reduction for an effective cut of 7.92%.

Deferrals beginning June 2020.
Spend one-time money on one-time things!

Isolate one-time money from on-going things especially for negotiations!!!
2019-20 was only the fifth time the State was set to pay all K-14 payments on time since 2000-01.

Deferrals are not only planned for June 2020, but also part of April and 100% of May and June 2021.

The state is experiencing an economic slowdown – pandemic induced recession.
K-12 per student decreased over the prior year with 2.31% COLA Less 10% Reduction – including Grade Span Adjustments.
THE 2020-21 BUDGET
LCFF SUPPLEMENTAL GRANT

Supplemental Grants 20% of base – no restrictions/no limits

Grades K-3  
$1,566

Grades 4-6  
$1,440

Grades 7-8  
$1,482

Grades 9-12  
$1,763
Concentration Grants 50% of base with some restrictions that apply for charter schools - UPP Above 55%
THE 2020-21 BUDGET
LCFF

Total Base, Supplemental, and Concentration Grant

<table>
<thead>
<tr>
<th>Grades K-3</th>
<th>Grades 4-6</th>
</tr>
</thead>
<tbody>
<tr>
<td>$13,311</td>
<td>$12,239</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grades 7-8</th>
<th>Grades 9-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,600</td>
<td>$14,982</td>
</tr>
</tbody>
</table>
PROJECTING CASH FLOW
CASH FLOW PROJECTING IS CRITICAL!

Projections must be **timely** and **accurate** to know **when** and **how much** your agency may need to borrow.

In addition to the normal revenue and expenditure flows plan for:

- Budget Cuts
- Enrollment
- Unduplicated Counts
- Deferrals
- June 2020 will be deferred to July 2020 for sure!

- A portion of April and 100% of May and June of 2021 will be deferred to July 2021 under the Governor’s proposal.

<table>
<thead>
<tr>
<th>OBJECT</th>
<th>April Estimated</th>
<th>April % Bud</th>
<th>May Estimated</th>
<th>May % Bud</th>
<th>June Estimated</th>
<th>June % Bud</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Cash Balance</td>
<td>135,086.00</td>
<td>-</td>
<td>9,569.00</td>
<td>-</td>
<td>(41,986.75)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>RECEIPTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LCFF Sources</td>
<td>42,174.00</td>
<td>2.76%</td>
<td>-</td>
<td>0.00%</td>
<td>-</td>
<td>0.00%</td>
<td>242,560.00</td>
</tr>
<tr>
<td>LCFF Principal Apportionment</td>
<td>8010-8019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education Protection Account</td>
<td>8010-8019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-Lieu Property Taxes</td>
<td>8020-8079</td>
<td>37,361.00</td>
<td>0.00%</td>
<td>37,361.00</td>
<td>0.00%</td>
<td>37,361.00</td>
<td>0.00%</td>
</tr>
<tr>
<td>ENDING CASH BALANCE</td>
<td>39,569.00</td>
<td>(49,986.75)</td>
<td>(130,466.25)</td>
<td>-</td>
<td>251,561.75</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Proposition 55 authorized temporary income taxes on higher wage earners through 2030.

Quarterly payments based on Department of Finance estimates.

**EPA has been significantly over-appropriated as of 3rd quarter.**

As a result, LEAs may have already received more EPA funds than their entitlements for the year and as a result will not receive a fourth quarter payment.

CDE and DOF investigating options for recapturing overpayments of EPA funds to LEAs.
When the cup if full, sometimes the “mix” of State Aide, Property Taxes and EPA change within the fiscal year.

- When Property Taxes or EPA go up, State Aid goes down.
- When Property Taxes or EPA go down, State Aid goes up!
Projecting Cash Flow

Local considerations:

- Property tax fluctuations.
- Impact of COVID-19 on enrollment and ADA opening schools.
- New/closed charter schools/enrollment changes.
- Level of interest earnings (this won’t be much!)
Local considerations:

- **Student management system**
  - CalPADS
  - Data collection efforts
  - Management support

- **Unduplicated pupil counts**
  - English Learners
  - Free and/or reduced
  - Foster youth
Based upon the cash projection:

If cash is **negative at any time**, then evaluate internal and external cash **borrowing options**.
It is recommended that school agencies prepare cash flow projections for at least the current and one subsequent fiscal year.

Update actual revenues and expenditures each month and continue to evaluate your assumptions often.
OVERALL CONSIDERATIONS

- By **First Interim**, most Accounts Receivable and Payables from the prior year should be clear. If not, investigate.

- Are **borrowings between funds** accounted for?

- Are **TRANS/RANS/SHORT-TERM LOANS** repayments accounted for?

- Ensure that **bargaining agreements** are accounted for in multiple years.

- Does the **Budget** tie in with the **Cash Flow** totals?

- Are the **assumption** patterns for Payroll **reasonable**?
EXPENSES

- Analyze expenditure patterns in other categories.

- **How are periodic payments accounted for in the projection?** Such as:
  - Increases for *health insurance rates* that may occur after the beginning of the year.
  - **Utility patterns:** Water, gas and electricity usage.
  - **Long-term debt payments:** Annually, semi-annually or quarterly.
  - **Stipends/Coaching/Bonuses/TSAs/Summer Pay.**
CASH BORROWING OPTIONS

- School agencies are allowed to borrow cash to meet cash flow demands.

  - There are internal and external borrowing options available.

  - For all options know the rules, requirements and timelines.
Borrowing is not a financial bailout.

This is short-term borrowing and must be paid back.
Provides that money in other funds may be temporarily transferred to another fund for payment obligations.

Limitations:

- Shall be repaid in the same year, or following year if borrowing takes place within **120 days** of fiscal year end.
- **No more than 75%** of money held in any fund during the current fiscal year may be transferred. (Proposed to change to 85%.)
- Borrowing fund must earn enough income during the current fiscal year to repay the amount transferred.
External borrowing for agencies. Three options – for school districts:

1. Tax Revenue Anticipation Notes (TRANs) G.C. 53854 – resolution, promissory note, financials. (LACOE will have 4 pools, one crossing fiscal years for 2020-21.)

2. Loan – County Treasurer – E.C. 42620 – by the last Monday in April.

3. Loan – County Office of Education – if available E.C. 42621-22- requires both boards approved a resolution.
CASH BORROWING – EXTERNAL OPTIONS

- External borrowing for agencies. Three options – for charter schools:
  1. Revenue Anticipation Notes (RANs).
  2. Factoring accounts receivables with collateral.
  3. Term loans with lots of collateral.
SUMMARY AND CONCLUSION

Successful Cash Management Involves:

- Understanding the principles of cash transactions.
- Verifying cash reconciliations.
- Preparing monthly cash flow updates.
- Managing cash in all programs and funds.
- Preparing for borrowing, if necessary.
- Watching, listening and planning.
NOW FOR A CASH FLOW EXERCISE!
thank you!