ARIZONA Auditor General
Making a Positive Difference

School district financial risk action plan template

About our analysis and this template

Our school district financial risk analysis uses the 10 measures listed below to identify the Arizona districts with the highest financial risk. Collectively, the measures relate to a district's overall risk of not being able to operate within its available cash resources and budget constraints. District decision-makers can use the information provided in the analysis to better understand district financial risks when evaluating district budget- and finance-related decisions. We developed this action plan template based on our meetings with Arizona's highest-risk districts, as a tool any district can use to take action to reduce its financial risks. The template provides a step-by-step process district management can use to (1) identify the district's financial risks; (2) identify related root causes; (3) develop planned mitigating actions; (4) compare the risks/causes and mitigating actions' financial impacts; and (5) organize the chosen actions into a timeline action plan and monitor completed actions' impacts.

Financial risk measures

Each financial risk measure below is linked to the measure description included on our analysis website. These descriptions address why the measure is an important financial risk indicator, background information for those less familiar with the measure's impacts, and how the measure data was obtained and analyzed.

Change in weighted student count

Budget limit reserves

- Operating reserve
- Capital reserve

Capital monies redirected to operations

Frozen tax rate

Financial position

- General Fund operating reserve ratio
- General Fund operating margin ratio
- General Fund change in fund balance

Small school budget limit adjustment

Receivership

Completing the template

Step 1—Identify risk areas

Review your district's page of our School district financial risk analysis website and the related measure descriptions for any identified high-risk measures. Also, to proactively address any measures showing increasing risk that are not yet identified as high-risk in our analysis, review your district's other measures in the analysis to determine if your district should include 1 or more of those measures in the action plan template.

Include each district-identified risk area in the template, starting with your district's area of greatest concern. Some risk areas may relate to one another, such as operating and capital budget limit reserves or the 3 General Fund measures (financial position), and can be combined into 1 risk area on the template, if preferred.

Step 2—Identify root causes

Understanding why certain financial risks are occurring in your district is key to developing strategies to mitigate those risks. Some risks' causes may be easy to identify, while others may be identified only through further information gathering and financial analysis. For example, decreasing student count may be related to known population shifts or other unknown factors that could be determined by further researching or analyzing data for patterns related to declining student counts. Some highest-risk districts indicated they were doing additional parent and community outreach, such as surveys, to help them identify causes for student count decreases so they could plan potential mitigating actions.

Along with identifying the cause(s), indicate whether each identified cause is seen as a temporary or permanent situation in the template's cause section, and document when your district anticipates a change for any cause that appears to be a temporary situation. Different actions may be needed to address temporary and permanent financial risk causes.

Examples of causes identified by the highest-risk districts are listed for each risk measure below:

Risk area	Causes identified by highest-risk districts
Change in weighted student counts (decreasing student counts)	• Competition from other schools in their area opening or offering different academic or extracurricular programs or services. • Changes in the area's school age population, including loss of key employers, or demographic shifts away from families with school-aged children.
Operating/capital budget limit reserves (decreasing reserves, budgetary overspending, or unfunded budget limit reserves)	• Difficulty estimating student population changes, especially with declining enrollment, leading to spending that is not aligned with decreased student-count-generated revenues. • Incurring a large unanticipated cost without adequate reserve to cover the cost. • Reacting too slowly to reduce expenditures after losing a revenue source, such as a voter-approved override or grant funding. • Mistakes in calculating budget limits or estimating revenues, especially related to setting small school budget limit adjustments.
Financial position (declining or low levels of General Fund reserve and/or General Fund spending exceeding revenues)	• Budgetary overspending for any reason, including those listed in the section directly above. • Property tax delinquencies causing less property tax revenue to be received than anticipated for the year. • Not adjusting budgeted amounts to stay within amounts provided from all revenue sources, especially when the district has a frozen property tax rate.
Frozen tax rate (often leading to unfunded budgetary reserves)	• Including a small school adjustment in their budget as allowed by State law, but doing so to an extent that causes the tax needed to support the district's budget to exceed the constitutionally allowable limit resulting in a frozen tax rate. • Levying for allowable desegregation spending based on State law, but doing so in the primary property tax rate.
Small school budget limit adjustment (with unfunded budget limit reserves)	• Including a small school adjustment in their budget as allowed by State law, but doing so to an extent that causes the tax needed to support the district's budget to exceed the constitutionally allowable limit resulting in a frozen tax rate. • Property tax delinquencies causing less property tax revenue to be received than anticipated for the year.
Capital monies redirected to operations	• Attempts to maintain operating spending when total revenues decreased, generally from student count decreases. • Increasing support for operating spending when a voter-approved capital override was available to "replace" the reallocated monies.
Receivership	• Spending beyond available budget capacity and cash resources to an extent that the district cannot meet payroll or other obligations when due without assistance from the State.

Step 3—Develop planned mitigating actions

Actions developed in this section of the template should include specific steps that can be taken to directly address one or more identified risks/causes, identifying time frames for taking those steps. For example, identifying specific spending cuts or new revenues, such as new grants, for the current or next year can help bring spending in line with available cash and budget capacity to help address previous budgetary overspending or deficit General Fund balances and may also be the only actions that can address the risk caused by more permanent student count decreases.

Actions identified by high-risk districts are listed below without assigning them to related risks/causes as many of the actions noted may be helpful in addressing more than 1 identified risk/cause:

Improving budgeting strategies—Looking at more demographic information to inform budget projections. Focusing on identifiable trends in district revenues to ensure budget decisions align spending to realistic revenue projections. Developing contingency plans to implement in stages, as needed, if budget capacity decreases or increases from the original projection throughout the year.

Reducing spending to align with revenues or to recover from prior years' incurred deficits—Identifying positions to reduce or eliminate (employee salaries and benefits are districts' largest operating spending areas). Such reductions were made by a combination of not replacing employees when vacancies occurred, reducing positions to part-time, or eliminating filled positions. Some staff reductions were offset by using contracted vendors or through partnering with nearby districts to share costs and services. Such agreements were used for food service, transportation, student support services, and other administrative and instructional positions. One district reduced overtime costs by implementing an electronic time-clock system. Other districts reduced costs by making changes to employee benefit options, including capping district contributions or changing providers.

Districts also used other cost-reduction measures to help align spending to revenues. One district reduced utility costs by limiting the space used in low-capacity schools. A few districts had recently closed or were continuing to close campuses based on long-term student count declines, which resulted in both personnel and other operating and capital cost reductions.

Sustaining and growing student counts—Identifying existing and potential school families' academic and extracurricular program interests through outreach activities, such as surveys, and implementing new educational programs or educational enrichment activities, including extended before- and after-care activities. Advertising or reaching out to area employers and the community to promote existing and new educational programs.

Increasing nonstudent-count-generated revenue—Applying for new federal and State grants and seeking voter-approved budget overrides when community support for such measures appeared to exist.

Applying for supplemental State aid—Districts with more than 10 percent primary property tax delinquencies can apply for supplemental State aid from the Arizona Department of Education under Arizona Revised Statutes §15-980. While this is not a new source of revenue, it provides cash resources for allowed spending based on available budget capacity and can reduce borrowing costs. Districts repay the supplemental State aid when the delinquent taxes are received, either through State funding reductions or direct payments to the State Treasurer.

Step 4—Compare cause and mitigating action financial impacts

Your district should determine the estimated financial impact of both the financial risk causes and planned mitigating actions. If the financial impact of the mitigating actions is not sufficient to address all estimated financial impacts of the risk causes, your district should continue identifying mitigating actions to address any remaining financial impacts. For example, if after reviewing its financial position measures for the General Fund, a district identified a $300,000 financial impact from prior years' spending exceeding related revenues, it should identify mitigating actions with financial impact of at least $300,000 to address the full financial impact of the identified risk. If your district will implement planned mitigating actions over more than 1 year, your district should identify financial impacts by fiscal year.

Step 5—Place mitigating actions in an implementation timeline and monitor impacts

After identifying your district's planned actions to reduce its financial risks, developing a timeline for implementing those actions can increase the likelihood that your district will take the actions and successfully address its financial risks. The template's timeline section provides the ability to document planned actions to take immediately (within next 3 months), and in the short-term (within next 4 to 12 months) and long-term (more than 12 months) time frames. Some actions, such as reducing spending, may need to be broken into different timeline actions based on research or additional information needed to determine the exact spending to reduce or eliminate.

After taking the actions, your district should document their actual financial impact, comparing it to the estimated impact. If your district needs further action to reach the desired financial impact, your district should add action steps to its implementation timeline.

School district name

Financial risk action plan **Date**

Risk area:

Identified cause(s):	Estimated financial impact:
Planned mitigating actions:	

Risk area:

Identified cause(s):	Estimated financial impact:
Planned mitigating actions:	

Risk area:

Identified cause(s):	Estimated financial impact:
Planned mitigating actions:	

School district name Financial risk action plan—implementation timeline	Date
Immediate—actions that will be taken within the next 3 months; may include first steps for short- or long-term actions.	
Actions (Indicate target completion date and planned action):	Actual financial impact:
Short-term—actions that will be taken within the next 4 to 12 months.	
Actions (Indicate target completion date and planned action):	Actual financial impact:
Long-term—actions that will be taken beyond the next 12 months.	
Actions (Indicate target completion date and planned action):	Actual financial impact: