

THE FISCAL HEALTH RISK ANALYSIS:

HOW FCMAT ENSURES HIGH RISK DESIGNATIONS REGARDLESS OF SCORES

SUMMARY

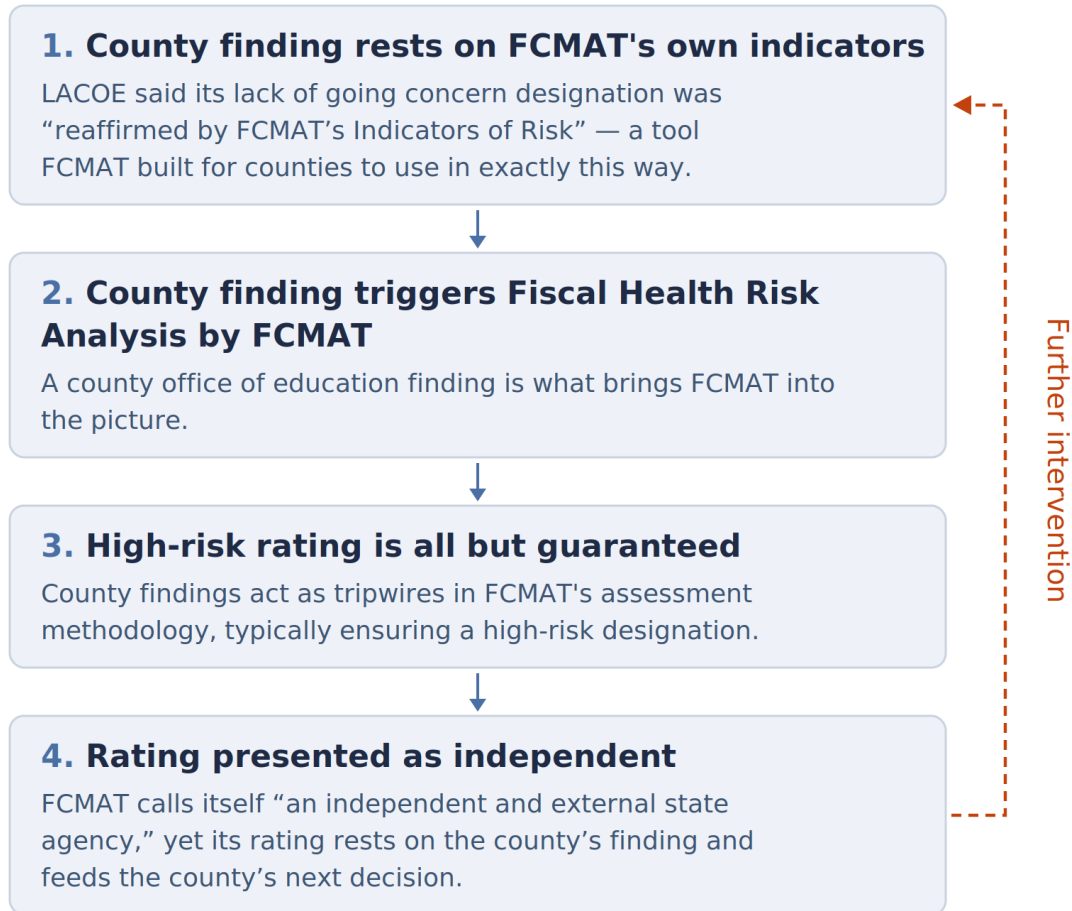
- FCMAT’s September 30, 2026, Fiscal Health Risk Analysis rates LAUSD as “High risk” despite earning a score in the “Moderate” risk range.
- This report investigates the design of FCMATs Fiscal Health Risk Analysis (FHRA) tool and how its scoring system ensures a district gets a “high” risk designation using tripwires—single questions that automatically result in a high-risk designation.
- Repeatedly, the FHRA questions penalize districts for the same issue more than once by asking slightly different versions of the same questions. This is especially true for LAUSD regarding the Special Education and Labor Agreements sections.
- In the FHRA, LAUSD is penalized across four different questions in two different sections for issues relating to the cost of providing services to Special Education students.
- Since FCMAT started publishing both a percentage score and a “high” “moderate” or “low” rating in its Fiscal Health Risk Assessment (FHRA) reports in 2020, 71 out of 72 school districts rated received a high-risk designation.
- Of the 72 districts scored since 2020, 39 districts (55 percent) had scores below 40 percent (moderate or low), but received a high-risk designation due to the automatic tripwires in the FHRA.
- Eleven of those districts had scores below 25 percent—the percentage score would have given them a “low risk” designation if it were not for the tripwires built into the scoring.

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FCMAT's Role

Fiscal Crisis & Management Assistance Team



FCMAT BACKGROUND

The Fiscal Crisis and Management Assistance Team (FCMAT) was set up as part of AB1200 in 1991 to support the state's county oversight system for school district finances. FCMAT is run out of the Kern County Office of Education and has a board made up of almost entirely county and school district superintendents. FCMAT has no authority to direct school districts and officially only has an advisory role. Still, county offices of education use FCMAT's analysis in making their decisions about intervention in school districts.

Under EC 42127.8, FCMAT's authorizing statute, FCMAT assistance only comes at the request of the state superintendent of public instruction, county office of education superintendent, or a school district itself. While LACOE claims that FCMAT's involvement is "mandatory," and FCMAT materials call it "automatic," FCMAT's involvement with the

LAUSD fiscal stabilization plan is solely due to LACOE's decisions.¹ LACOE Superintendent Duardo is, per statute, the party responsible for requesting FCMAT involvement. As of last week, Duardo is now the chair of the FCMAT board.

THE FISCAL HEALTH RISK ANALYSIS (FHRA) TOOL

FCMAT asserts that the 2018-19 Budget Act supports the determination that there are five conditions that trigger an automatic Fiscal Health Risk Analysis: (1) A disapproved budget, (2) a negative interim report certification, (3) three consecutive qualified interim report certifications, (4) a downgrade of an interim certification by the county superintendent, or (5) a lack of going concern designation. **Four of these five conditions are automatic triggers for a “high” rating in the actual FHRA tool, number 3 triggers at least a “moderate rating.” (see Appendix)**

However, the 2018-19 budget act contains **no language** on the above conditions for an “automatic” FHRA. According to the FCMAT *Fiscal Oversight Guide*, when any of the five conditions listed above happen, “per California’s 2018-19 Budget Act” FCMAT “can automatically engage and conduct a Fiscal Health Risk Analysis.” While the 2018-19 Budget Act did increase FCMAT’s funding there is nothing in the act about automatic review triggers.

FHRA SCORING METHODOLOGY

According to the FHRA methodology, a school district receives a risk designation based on how many “No” responses they get on a list of fiscal concern questions. The rubric works as follows:

- Low Risk: $\leq 24\%$
- Moderate Risk: $25\% - 39\%$
- High Risk: $\geq 40\%$

There are, however, a series of tripwires—questions in the analysis for which a “No” answer automatically triggers a “high” risk rating regardless of the percent score. If a district has a disapproved budget, a negative interim certification, a certification downgrade from the county superintendent, or a “lack of going concern” designation, for example, they automatically get a high-risk rating. There are several other automatic high-risk tripwires including lacking a board approved plan to reduce deficit spending, lacking a plan to cover a cash flow short fall, or lacking adequate “presettlement analysis” of labor agreements

¹ LACOE Superintendent Duardo letter to LAUSD from July 2, 2026, states, “Mandatory FCMAT Fiscal Health Risk Analysis. A ‘Lack of Going Concern’ determination automatically triggers a FCMAT Fiscal Health Risk Analysis (FHRA) to determine the District’s risk level for fiscal insolvency. FCMAT will contact the District directly to schedule this mandatory review.

which identify revenue sources/ spending cuts to pay for them. In total there are 13 tripwire questions for a “high risk” designation, and 9 more that automatically trigger “moderate risk.”

WEIGHTING METHODOLOGY CONCERNS

The question “In the current and prior two fiscal years, has the total cost of the district’s bargaining agreement settlements, including step-and-column increases, been at or under the funded cost-of-living adjustment (COLA)?” is itself rated “high” in the “Collective Bargaining Agreements” which has a “high” section weight. The question counts as 25 points towards the total because of the weighting.

Several of the questions in the CBA section seem to be at odds with each other or double count the same issue. For example, questions 6.4 and 6.5:

6.4	Based on the presettlement analysis, did the district identify related costs or savings, and did it identify ongoing revenue sources or expenditure reductions to support the agreement in the current and subsequent years?
6.5	In the current and prior two fiscal years, has the total cost of the district’s bargaining agreement settlements, including step-and-column increases, been at or under the funded cost-of-living adjustment (COLA)?

Based on these questions, even if a school district completely documented exactly how it plans to pay for a given CBA, they will still get penalized by the weighted score for the “no” answer if the salary increases are over the state LCFF COLAs. The idea that raises should be limited to the state COLA is arbitrary and isn’t required by any statute. A district might offer a raise over COLA for a variety of valid reasons such as catching up with area cost of living. While the logic of the question is that the increase in labor costs should be equal to or less than the increase in revenue, total revenue to a school district can fluctuate due to changes in federal and local revenue or non-LCFF state funding—a significant portion of district revenues. Alternatively, a school district can redirect funding from less effective spending areas. A district might be able to pay for a raise by ending spending on subcontracted work, for example.

A growing portion of district revenue has come from non-LCFF sources in recent years. At LAUSD for example, LCFF revenue made up 76% of total revenue ten years ago, but in 2025-26 dropped to 66.6%. The share of federal revenue has fallen in recent years, so the biggest change has been more state revenue coming through non-LCFF restricted sources and unrestricted grants.

The FHRA makes no mention of labor costs outside of collectively bargained agreements, so the salaries of executive leadership or the costs of contracting out labor, for example, are not held to the same standards.

HOW HIGH-RISK DESIGNATIONS ARE ENSURED

It is common for school districts to receive a score below 40 percent but still get a high-risk designation. In the past year, the following districts all received high “fiscal solvency risk level” designations despite lower percent scores:

- Burbank Unified (37.4%)
- Petaluma City Schools (34.6%)
- Pleasanton Unified (25.7%)
- Lassen Unified (22.3%)
 - NOTE: without the tripwire questions, Lassen would have gotten a low-risk designation
- Sonoma Valley Unified (38.6%)
- Apple Valley Unified (31.2%)

Because of FCMAT’s methodology, not every “no” answer carries the same weight towards the final percentage score. There are 20 sections of questions including things like “collective bargaining agreements” and “leadership and stability.” Each subsection has a low, medium, or high rating, and within that each question has its own low, medium, or high rating. Low is worth 1 point, medium is 3 points, and high is 5 points. A “low” weighted question in a “high” weighted section would be worth 5 points (1x5) while a “high” weighted question in a “low” weighted section would also be worth 5 points (5x1). The total percentage is the sum of all those points divided by a total of 2,495 possible points.

There appear to be some formula errors in the FHRA calculator published by FCMAT. Three different questions are excluded from the final calculation formulas. If those questions were included, the total possible points would be 2,538 instead of 2,495. This error helps or hurt districts (marginally) depending on whether they got “Yes” or “No” answers for the excluded questions.

THE LAUSD FHRA

Because LAUSD received a “lack of going concern” designation from LACOE, its high-risk designation from FCMAT is guaranteed by the county, despite a “moderate” score. A “lack of going concern” means the county believes there is enough evidence to doubt the district’s ability to remain solvent and meet financial obligations.

Collective Bargaining Agreements

As noted, LAUSD’s “high” designation was triggered by their “going concern” status given by the county. There are other tripwires within the FHRA question. Notably, the two tripwires under the “Collective Bargaining Agreement” section of the FHRA were not triggered by LAUSD – they received “yes” answers for both tripwire questions 6.3 (has the district accurately quantified the cost and budget impact of the signed CBAs) and 6.4 (did the presettlement analysis identify new revenue or cuts that would support the agreements). FCMAT’s own introduction to LAUSD’s FHRA, however, seems to contradict this by noting that the recently settled CBAs “increased ongoing expenditures without corresponding actions to offset those costs.”

The CBA section is the single biggest contributor to LAUSD’s FHRA score, representing 4.2% of their 37.9% overall score.

The “no” answers LAUSD received in the CBA sections included labor contracts not being settled for the current fiscal year (negotiations going past contract expiration is typical in school districts and labor relations more broadly) and giving raises above the state LCFF COLA. The district is penalized in three separate questions because the CFO and Superintendent waited until after the FSP was agreed upon to sign the public disclosure forms for the settled CBA’s and their cost to the district.

The FHRA includes a table of three years of past raises for each bargaining unit compared to the state COLA to demonstrate that LAUSD has not limited raises to the COLA, but their own table shows that the 7% raises given in 23-24 were under the COLA of 8.22% that year.

By statute, the CFO and Superintendent are required to certify that the district can meet the cost of a labor agreement. The LAUSD CFO and Superintendent presented the cost of the labor agreements to the LAUSD school board and at the same meeting presented a plan to pay for those costs. They waited until after the board approved the plan to sign the documents. FCMAT interpreted this as being in violation of the relevant statutes (question 6.7), and in their explanation only offered that interviews with district staff indicated that typically those forms were signed before public presentation as evidence for the violation. The law is not clear on the timing of the certification. It is FCMAT’s own standard (present in question 6.8) that a CFO and Superintendent should certify before board presentation and so the district is penalized again for the same timing issue.

LAUSD is penalized a third time because the timing mismatch meant it was unclear whether “the governing board’s action was consistent with the superintendent’s and CBO certification.” In their explanation FCMAT admits that they could not “determine whether

the board's action was based on, or consistent with" the CFO and Superintendent's certification.

To summarize, under this scoring system, the CFO's and Superintendent's reasonable desire to wait until the spending plan was approved by the board cost the district 3.0 percentage points out of the 37.9%.

OPEB

LAUSD is penalized for having OPEB pay-as-you-go costs above 2% of unrestricted general fund revenues. There is a tension revealed here by FCMAT's 2% of revenue rule for PAYGO costs. First, there is no explanation for the 2% figure or why that would be a reasonable ceiling for a district with as big a workforce (and retiree population) as LAUSD. Second, the LACOE letter that triggered FCMAT involvement made much ado about the district's revised FSP plan to draw down from the OPEB trust in year 3 if necessary. Given the two percent rule presented in the FHRA, however, paying for some portion of retiree benefits out of the trust would be the only way to get OPEB cost to the general fund below 2%.

Special Education

LAUSD is penalized across four different questions in two different sections for issues relating to the cost of providing services to special education students. Question 7.1 asked whether there was a board approved plan to control the contribution of unrestricted money to restricted programs (most of this contribution is to cover special education expenses). In the explanation for their "no" response FCMAT says:

Although the district's 2026-27 adopted budget projects the contribution to decrease by approximately \$65.4 million from the 2025-26 estimated actuals, the district did not provide documentation or analysis demonstrating that the projected decrease resulted from a board-approved plan to control the contributions

Despite the contribution being budgeted to decrease, FCMAT penalized the district because it was not clear that the decrease was specifically planned to "control" contributions. To be clear, the cost of special education is a problem affecting districts across the state and a sizable contribution from unrestricted to restricted sources has become common in school finance.

Consistent with the pattern in other areas, FCMAT's assessment tool penalizes the district for this problem again, but from the other side, in question 7.3. The district received a "no" regarding whether its budgeted contributions to restricted programs were "reasonable" because the smaller budgeted contribution was lower than last year's actual contribution.

So, the budgeted decrease wasn't good enough because it wasn't part of a clear plan, and because FCMAT does not think the numbers look reasonable.

Yet again the district is penalized for this same problem in the special education section of the report in question 20.5. FCMAT gave LAUSD a "no" as to whether they monitor unrestricted fund contributions to special education programs again because the lower budget this year does not align with past numbers. FCMAT concedes in the explanation however that "district received additional special education funding that may reduce the amount of unrestricted general fund support required."

In question 20.6 the district is assessed as to whether identification of new special education students was "at or below the countywide and statewide average rates." While certainly there can be issues in the special education identification process, the number of special education students that exist is not something LAUSD can control and certainly does not approach through budgetary concerns.

Regardless of how state and federal governments choose to fund education from one year to the next, all students have the right to a Free Appropriate Public Education. Penalizing districts for spending unrestricted dollars on special education is an affront to that commitment. In total, "no" answers on special education-related questions contributed 2.7 percentage points towards the overall 37.9% score.

APPENDIX: FCMAT HISTORICAL FHRA SCORES

	Count	Share
SCHOOL DISTRICT FHRAs, CURRENT TOOL (JUNE 2020 ON)		
Reports with a stated final rating	72	
Rated High	71	99%
Rated Moderate	1	1%
Rated Low	0	0%
Reports with a readable score	71	
Score 40% or higher (High on score alone)	32	45%
Rated above what the score alone gives (despite moderate/low)	39	55%
of which score was in the Low band (<25%)	11	
Reports where the fiscal-status checklist was readable	34	
A High-forcing status condition was present	20	59%
Only 3 consecutive qualified certifications (Moderate floor)	9	26%
No status condition present	5	15%
SCHOOL DISTRICT FHRAs, EARLIER TOOL (DEC 2018 – APR 2020)		
Reports with a readable score	15	
Implied High	7	47%
Implied Moderate	6	40%
Implied Low	2	13%