Douglas County School District Supplemental Materials

MEMORANDUM

Douglas County School District • General Fund Recovery Plan

TO:	Frankie Alverado, Superintendent; Terri Willoughby, Chief Financial Officer
FROM:	Dr. David Jensen, JensenProfessionalServices LLC
DATE:	September 9, 2026
RE:	Revised General Fund Recovery Plan — Impact of FY 2025-26 PCFP True-Up and Updated Enrollment Projections

This memorandum summarizes the main changes to Douglas County School District's General Fund Recovery Plan following the close of FY 2025-26 and completion of the Pupil-Centered Funding Plan (PCFP) year-end true-up. The District remains under Fiscal Watch by the Committee on Local Government Finance (CLGF), with an update presentation scheduled for September 9, 2026. The August 26, 2026 Five-Year Recovery Plan (Attachment B) and Year 1 Action Plan (Attachment C) were built on a projected FY 2025-26 ending General Fund balance of approximately $(849,088), stable enrollment of 4,500, and a recovery path based on those assumptions. The updated close now shows an ending deficit of $(2,586,967), which is approximately $(1,737,879) worse than projected. This memo explains what drove that change, how it affects the recovery plan, and what revisions have been made to Attachments B and C and the Cabinet Implementation Plan.

Executive Summary

- FY 2025-26 closed with a General Fund deficit of $(2,586,967) — $(1,737,879) worse than the May projection of $(849,088). The shortfall is almost entirely revenue-driven.
- The primary cause is a combined PCFP adjusted-base shortfall of $(1,587,830) — including the year-end true-up reduction of $(160,870) — representing approximately 91% of the total revenue shortfall. Expenditures finished essentially on target with the May projection.
- Expenditure management remained sound. The District finished within $4,974 of the May projection, and support-services savings exceeded the $1.1 million target by $319,716. Those results were not enough to offset the PCFP revenue shortfall.
- The planning enrollment assumption is revised from 4,500 (stable) to 4,364 in FY 2027-28, declining approximately 3% annually to 3,864 by FY 2031-32.
- The Year 1 recurring improvement target increases from $1.33M to $2.12M (a 60% increase). Reserve milestones shift by one year to a 0%→2%→4%→6%→8% path, but the three-year solvency commitment (positive fund balance by end of Year 1) is maintained.

Root Cause Analysis

The FY 2025-26 result was driven by revenue, not spending. This is a positive indicator. After the PCFP true-up and year-end close, the full $(1,737,879) unfavorable swing is tied to the following factors:

- The combined PCFP adjusted-base shortfall was $(1,587,830), including the $(160,870) year-end true-up. This accounts for approximately 91% of the total revenue shortfall and reflects lower-than-budgeted funded enrollment and per-pupil allocation.
- Other revenue variances included a tuition shortfall of $(33,725), an investment earnings shortfall of $(49,464), and a miscellaneous revenue shortfall of $(63,834).
- Gain on sale of assets was $(8,000) below projection.
- The net expenditure impact was essentially neutral: a favorable $4,974 against a $60.4M expenditure budget.

Table 1. FY 2025-26 Operating Result — May Projection vs. Updated Actual

Line Item	May Projection	Updated Actual	Variance
Revenue	$60,537,849	$58,794,996	$(1,742,853)
Expenditures	$60,433,025	$60,428,051	$4,974
Operating Result	**$104,824**	**$(1,633,055)**	**$(1,737,879)**
Beginning balance	$(953,912)	$(953,912)	$0
Ending balance	**$(849,088)**	**$(2,586,967)**	**$(1,737,879)**

The 'Underspend' That Did Not Materialize

The District expected year-end underspending, and the May projection showed that expectation being met in many areas. The support services forecast already included an estimated $1.1 million underspend. Actual support services spending came in approximately $1.420 million below the pre-underspend estimate, exceeding the target by $319,716. Operations and maintenance and student transportation accounted for roughly $1.169 million of those savings. Those favorable results were partly offset by program-level overruns: Regular Programs exceeded the May estimate by $470,733, Athletics by $81,331, and Cocurricular programs by $20,895. Savings elsewhere absorbed those overruns, leaving total expenditures almost exactly in line with the May projection, a difference of only $4,974. Based on this information, the FY 2025-26 outcome should be understood as a revenue problem, not a failure to control spending. However, there is certainly room to improve in terms of expenditure patterns. Encumbrance discipline remains important going forward because year-end encumbrances can use up expected savings. The District should ensure a detailed review with clear approval controls to protect future underspend targets.

The complete FY 2025-26 General Fund Analysis provides additional detail on program-level and object-level expenditures, including the full revenue-by-source reconciliation, the support-services variance schedule, and the object-group budget-execution summary that underlie the figures cited above.

Enrollment Impact

The recovery plan enrollment assumption has been changed from a flat 4,500 students to 4,364 in FY 2027-28, with an estimated decline of about 3% per year to 3,864 by FY 2031-32. This adjustment provides a more "true" projection of enrollment based on historical declining enrollment figures. Because PCFP revenue is tied to enrollment at approximately $10,740 per student in FY 2026-27, the effect grows over time. In Year 1, the difference of 136 students from the original plan equals about $(1.46M) in PCFP revenue. By FY 2031-32, the gap grows to 636 students, or roughly $(6.83M) in annual revenue. This is a cautious planning assumption based on recent trends, not a fixed outcome, as actual PCFP allocations remain unknown at this time. If enrollment stabilizes, each retained student adds about $10,740 (current year $) in annual revenue.

Table 2. Enrollment and PCFP Revenue Impact vs. Original Plan

Fiscal Year	Original Plan	Updated Forecast	Difference	Revenue Impact (est.)
2027-28	4,500	4,364	-136	$(1,460,447)
2028-29	4,500	4,233	-267	$(2,867,201)
2029-30	4,500	4,106	-394	$(4,231,001)
2030-31	4,500	3,983	-517	$(5,551,846)
2031-32	4,500	3,864	-636	$(6,829,737)

Impact on the Recovery Plan

The larger starting deficit and lower enrollment forecast change the recovery plan. The District now begins Year 1 (FY 2027-28) from a projected FY 2026-27 ending balance of $(1,568,072), compared with the $169,807 positive balance assumed in the original plan. That creates a $1.74M deficit starting point from projected. As a result, the Year 1 recurring improvement target increases from $1.33M to $2.12M, and the reserve-building milestones move back one year while the District first restores a positive fund balance. The three-year solvency timeline is still preserved: the plan reaches a positive fund balance by the end of Year 1 and an 8% reserve by FY 2031-32.

Table 3. Recovery Plan — Original vs. Revised Key Metrics

Metric	Original Plan	Revised Plan
Starting position (FY 2026-27 ending balance)	$169,807	$(1,568,072)
Year 1 recurring improvement target	$1.33M	$2.12M
Year 1 ending fund balance	$1.19M	$0
Reserve milestone schedule	2%→4%→6%→8%→10%	0%→2%→4%→6%→8%
FY 2031-32 ending balance	$6.78M (10%)	$4.97M (8%)

Table 4. Revised Five-Year Recovery Scorecard

Metric	FY 27-28	FY 28-29	FY 29-30	FY 30-31	FY 31-32
Enrollment	4,364	4,233	4,106	3,983	3,864
Base annual result (no action)	$(555,916)	$(1,782,219)	$(3,014,705)	$(4,253,318)	$(5,498,098)
Required recurring improvement	**$2.12M**	**$2.97M**	**$4.24M**	**$5.51M**	**$6.80M**
Ending fund balance	**$0**	**$1,185,239**	**$2,407,864**	**$3,668,938**	**$4,969,649**
Reserve target (% of exp.)	Positive	2%	4%	6%	8%

Revised Year 1 Initiative Targets

The five identified actions as part of the Year 1 initiatives have been resized to meet the $2,123,989 committed target, with a $2,548,787 target at the 120% pipeline level. The added capacity is weighted toward position control and enrollment-based staffing as declining enrollment creates an opportunity to align staffing levels with projected need. Additional emphasis is also placed on the Stop/Share/Rebid initiative because of the FY 2025-26 services and supplies overrun.

Table 5. Revised Year 1 Initiative Targets (Committed)

Initiative	Original	Revised	Change
Position control and vacancy dividend	$550,000	$849,596	$299,596
Enrollment-based staffing and schedule reset	$250,000	$467,278	$217,278
Stop, Share or Rebid	$220,000	$382,318	$162,318
Revenue recovery and enrollment protection	$190,000	$254,879	$64,879
Transfer and operating-subsidy reset	$120,000	$169,919	$49,919
TOTAL	**$1,330,000**	**$2,123,989**	**$793,989**

Implications for the September 9 CLGF Presentation

The September 9 CLGF presentation should be direct about the revised financial position and clear about the District's response. I recommend the following approach:

- Disclose the deeper starting deficit candidly. The FY 2025-26 close at $(2,586,967) must be presented directly, alongside the variance analysis that explains it as a PCFP-driven revenue shortfall rather than a spending failure.
- Position the revision as proactive fiscal management. The District identified the true-up impact, diagnosed the encumbrance issue, and recalibrated the plan quickly after year-end close.
- Emphasize that the three-year solvency timeline remains intact. The plan still reaches a positive fund balance by the end of Year 1.
- Explain that reserve-building milestones shift by one year but still reach 8% by FY 2031-32.
- Present the variance analysis and revised recovery plan together so CLGF sees that the District understands the causes and has a realistic path forward.

Recommended Immediate Actions

To implement the revised plan and support the September 9 presentation, I recommend the following immediate actions:

- Secure Board acknowledgment of the revised starting position of $(1,568,072) and the recalibrated recovery targets.
- Obtain Cabinet adoption of the $2.12M Year 1 recurring improvement target and the revised initiative allocations (if necessary).
- Implement encumbrance controls, including year-end review and approval thresholds, to prevent encumbrances from deflating anticipated savings.
- Document and review the FY 2025-26 program-level overruns — Regular Programs $(470,733), Athletics $(81,331), and Cocurricular programs $(20,895) — to confirm drivers, complete any required budget transfers, and incorporate the findings into FY 2026-27 program budgeting and monitoring.
- Accelerate the Stop, Share or Rebid initiative in response to the $728K services and supplies overrun in FY 2025-26.
- Activate a monthly monitoring dashboard for revenue, expenditures, encumbrances, and initiative progress.
- Provide ongoing CLGF progress reports to maintain transparency and demonstrate accountability throughout the recovery period.

Summary

The FY 2025-26 result is a significant setback, and the revised plan requires more from the District than the original plan. Even so, the plan remains achievable. The main drivers are now clear, the revised assumptions are more realistic, and the three-year path to solvency remains intact. As your review this document, please let me know if you have any questions. Please let me know how I can help.

Fiscal Watch Recovery Update

Agenda Item B.1

Fiscal Corrective Action Status Report

September 9, 2026

Douglas County School District

Committee on Local Government Finance

Presented by
Terri Willoughby, Chief Financial Officer

Fiscal Watch has changed how the District operates

The central effect is a shift from annual budgeting to continuous fiscal management.

Visibility

More frequent reporting of cash, budget-to-actual results, forecasts and corrective actions.

Discipline

Hiring, spending and commitments receive stronger review against available resources.

Accountability

Board decisions are tied to explicit recovery milestones and state oversight expectations.

The goal is not simply compliance—it is restoring recurring balance and rebuilding a usable reserve.

The audited baseline confirms a structural problem

FY 2024–25 audited results established the baseline; FY 2025–26 unaudited close is complete; results remain subject to the independent audit.

$948,911

General Fund deficit
June 30, 2025

$476,369

Special Education deficit
June 30, 2025

15%

Enrollment decline
FY 2019–20 to FY 2024–25

FY 2025–26 unaudited close currently reflect a GF deficit $(2,586,967) — $(1,737,879) worse than May projection of $(849,088). Driver: PCFP revenue shortfall $(1,587,830) = 91% of variance. Expenditures within $4,974 of projection.

Revenue fell faster than the cost structure adjusted

Primary drivers

- Enrollment declined by 862 students over five years.
- Staffing and operating costs did not decline at the same pace.
- Special education needs and costs increased as total enrollment fell.
- FY 2025–26: PCFP revenue shortfall of $(1,587,830) accounted for 91% of total revenue variance vs. projection.

What this means

The FY 2025–26 shortfall is almost entirely a revenue problem: PCFP revenue shortfall compared with the May projection drove $(1,587,830) (91%) of the $1.74M revenue variance. Expenditure discipline held — operations finished within $4,974 of the May projection.

Year 1 recurring improvement target: $2.12M (up from $1.33M). Recovery requires both structural cost reduction and enrollment-driven revenue alignment.

Corrective actions are moving from containment to implementation

WORKSTREAM	STATUS	EVIDENCE / NEXT OUTPUT
Immediate spending controls	Implemented	Hiring and discretionary spending review
FY 2025–26 expenditure actions	Implemented	Reductions, freezes and eligible cost realignment
Multi-year General Fund forecast	Updated	Rebaselined using a planning enrollment of 4,364 for FY 2027-28, declining approximately 3% annually thereafter, and the completed PCFP true-up.
Business Services capacity	In progress	Interim support, recruitment and process stabilization
Structural operating changes	Decision phase	School footprint, staffing alignment and service delivery
Reserve policy and milestones	In progress	Revised milestones: 0% (FY 2027-28) → 2% → 4% → 6% → 8% (FY 2031-32); reflects confirmed starting deficit

Early actions reduced near-term pressure

Documented actions in the Department of Taxation follow-up report included:

$700,000

Operating budgets reduced or frozen and eligible costs transferred to Capital Projects

$600,000

Eligible technology purchases transferred to Capital Projects

These actions improve the near-term position, but sustainable recovery depends on recurring solutions.

Labor negotiations delivered measurable FY 2026–27 savings

The revised agreements and related administrative adjustment provide near-term cost containment.

$555,234

Negotiated savings

DCPEA, DCSSO and DCCSEA / NCSEA

$66,617

Administrator adjustment

Five-day base-salary avoidance

$621,851

Combined estimate

Total labor-related FY 2026–27 savings

Important: These are estimated, primarily temporary FY 2026–27 savings. Actual results will be reconciled through payroll and should not be treated as permanent savings beyond June 30, 2027 without further action.

Asset liquidation is advancing—but remains a one-time strategy

The District has moved from isolated discussions to a portfolio review and statutory disposition process.

C.C. Meneley	**Most advanced**	Declared surplus; two-appraiser process underway
Mono Avenue	**Partially resolved**	Dog-park sale completed for $420,000; retain and reoccupy the District Office
Two parcels	**Exploratory**	Playhouse / Museum and Jacks Valley sites in preliminary development scoping
Personal property	**Reconciliation**	Disposition authorized; report net auction proceeds and remaining inventory

Fiscal treatment: recognize proceeds only when received; use real-property proceeds for lawful capital purposes; quantify carrying-cost savings separately.

Recovery will be measured in stages, not by a single event

FY 2027–28	FY 2028–29	FY 2029–30	FY 2030–31	FY 2031–32
0%	**2%**	**4%**	**6%**	**8%**
Restore positive fund balance	Initial contingency	Fiscal Watch threshold	Rebuild resilience	Policy-level reserve

Near-term priority: FY 2025–26 unaudited close currently reflects a $(2,586,967) GF deficit. Year 1 target: restore positive fund balance; Year 1 recurring improvement target: $2.12M.

Assumes enrollment of 4,364 in FY 2027-28, declining approximately 3% annually to 3,864 by FY 2031-32. Milestones subject to annual forecast updates, state funding and Board decisions. Beyond Year 5 target: 10%+ reserve.

Six indicators will show whether recovery is working

Cash	Bank reconciliations, Treasurer’s report and cash balances by fund
Budget	Monthly revenue and expenditure variance with escalation thresholds
Forecast	Rolling General Fund projection updated for enrollment and staffing
Reserve	Ending fund balance measured against 0%, 2%, 4%, 6% and 8% milestones
Actions	Savings and implementation status tracked to accountable owners
Risk	Health fund, staffing capacity and other cross-fund pressures monitored

Recovery is strengthening the District’s financial system

Cash controls	Dual control for bank transactions; monthly reconciliations, Treasurer reporting and fund-level cash visibility.
Policy framework	Fund balance, reserve, budget augmentation and contract-control policies and procedures moving forward.
Health Fund	Reserve policy development separates IBNR, claim volatility, catastrophic risk, rate stabilization and operating cash.
Forecast discipline	Five-year General Fund model rebaselined: enrollment of 4,364 in FY 2027-28, declining ~3% annually to 3,864 by FY 2031-32; incorporates PCFP revenue at confirmed true-up rates and PCFP-driven structural risk.
Finance capacity	Interim assistance, recruitment and process stabilization address turnover and reporting backlog risk.
Structural alignment	Vacancy controls, staffing and class-size review, school consolidation, transportation redesign and contract reductions.

Key risks must be actively managed

RISK	WHY IT MATTERS	MANAGEMENT RESPONSE
Enrollment and PCFP	FY 2025–26 PCFP revenue was $<1,587,830> below the May projection, including $<160,870> year-end true-up adjustment.	Forecast rebaselined on actual enrollment and confirmed PCFP true-up; Year 1 recurring target revised to $2.12M; revised milestones set accordingly.
Execution capacity	Turnover and vacancies can slow reconciliations, reporting and control improvements.	Use interim capacity while rebuilding permanent finance staffing.
Structural decisions	Delayed operating changes extend reliance on one-time solutions.	Bring time-sensitive choices to the Board with quantified options.
Cross-fund pressure	Health claims and restricted-fund needs can create General Fund exposure.	Adopt reserve and funding strategies by fund; monitor monthly.

DCSD’s commitment: transparent reporting and durable correction

The District will continue to:

- Present the FY 2025-26 unaudited close and revised recovery plan.
- Report monthly cash, variance and forecast information
- Advance recurring structural solutions for Board action
- Measure reserve rebuilding against revised milestones: 0%→2%→4%→6%→8%
- Seek timely feedback from the Department and the Committee

Committee feedback

Are the revised starting position, targets, monitoring cadence and reserve path responsive to CLGF’s expectations?

The recovery process is underway; the standard is sustained recurring balance—not temporary relief.