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ALVAREZ & MARSAL
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Executive Summary | Context of Engagement and Scope of Work

In November 2025, Jefferson County Public Schools (JCPS) engaged Alvarez & Marsal (A&M) to provide an objective assessment of the accuracy and reasonableness of the assumptions, methodologies, and data used to develop its multi-year financial projections.

Context of Engagement

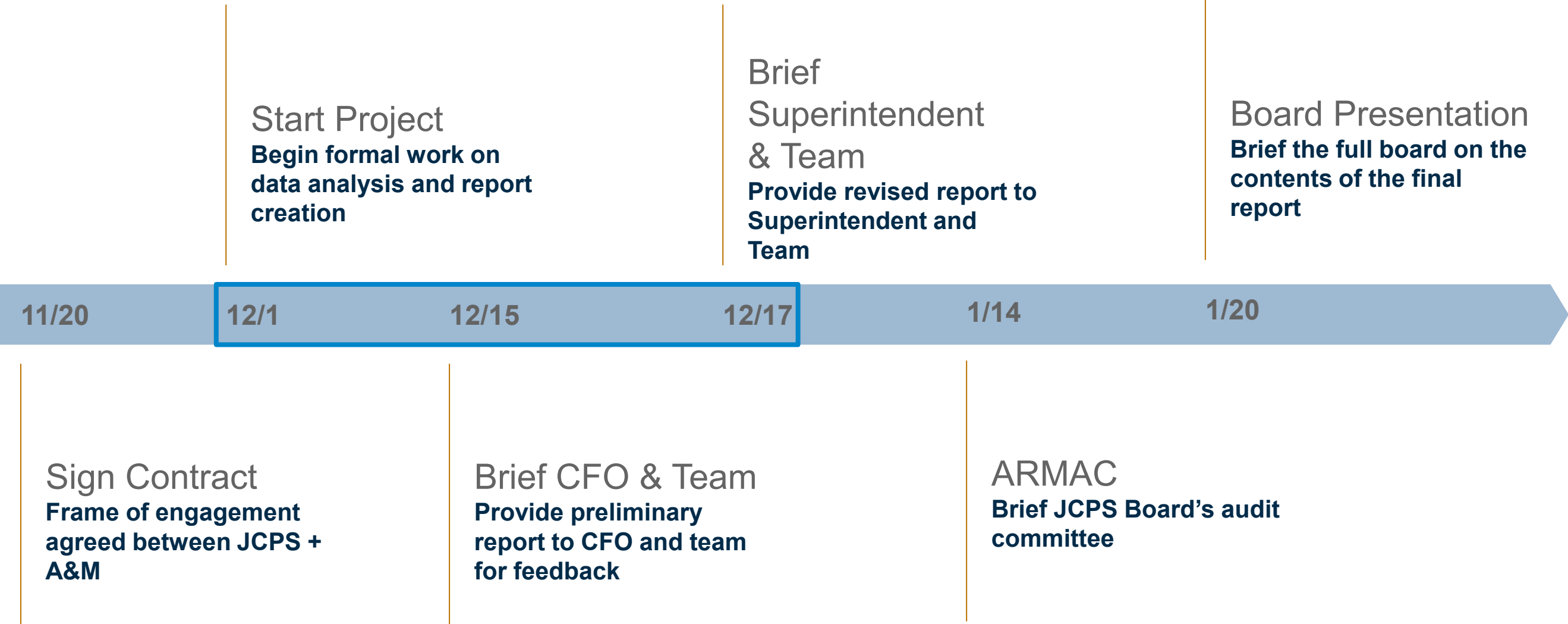
- JCPS faces a \$188M budget deficit in FY26 driven by increases in long term cost structures and exacerbated by expiration of temporary COVID era funding sources.
- The District has made efforts to improve transparency into its financial status, including developing a long-term financial forecasting model.
- JCPS is currently considering multiple options for closing the deficit and would like to utilize its underlying financial data and platform to enable leaders to better analyze its decisions/outcomes.



A&M's Scope of work with JCPS

- JCPS engaged A&M to perform the following work:
1. **Verify Data Consistency:** reconciled alignment/consistency between the various data sources used in building the forecast.
 2. **Assess Forecast Assumptions:** Assess the District's new financial forecasting model, including assumptions and structure.
 3. **Analyze Variances:** Analyze variances between budgets and actuals over the past several years.

Executive Summary | Project Timeline



This report serves as a concise overview of our analysis based on a short and limited engagement. However, we have strived to provide the most pertinent observations and recommendations within the constraints of this timeframe.

Executive Summary | Clarifying the Forecast Model's Purpose and Use Case

The evaluation of the reliability and reasonableness of JCPS's forecast model is highly dependent on the purpose of the model, the forecasts it generates, and its intended use in budget planning.

Purpose of the Existing Forecast Model

✓ Provide a **directionally accurate** overview of JCPS's structural deficit in FY27 and in future years but the realized deficit may be materially above or below what the model produces:

- Provides a strong perspective of financial outcome for the current fiscal year, but there are significant challenges with long term forecasting.
- **Revenue projections are realistic**, with some assumptions backed by analysis, while others need enhancement for accuracy.
- **Expense growth is less precise** and may leave out expected increases in non-personnel increases
- The model has **some functionality to test scenarios**, such as COLA increases and total reductions, allowing for **limited scenario planning**

Some immediate adjustments to assumptions and design will lead to a more accurate directional forecast

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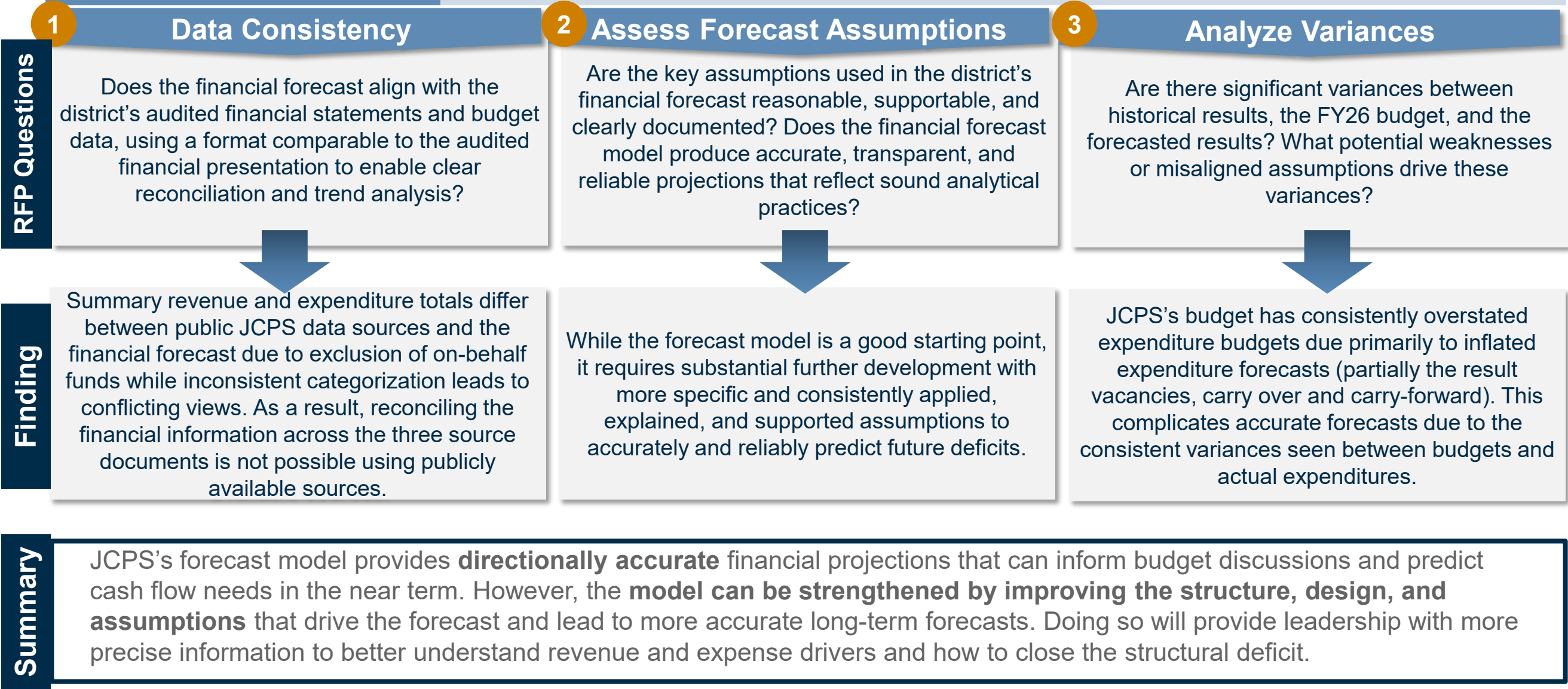
✗ Provide an **accurate and precise** forecast of JCPS's projected structural deficit and detailed information on revenue and expenditure as a **budget planning tool**, and beyond:

- The model should be built on a **complete and detailed list of all revenue and expense categories with dynamic assumptions**
- **Historical financial data should be included** to identify trends and inform future projections
- SEEK funding drivers (e.g. enrollment, state released information) should be monitored and regularly updated
- **Provide a summary dashboard with scenarios** for non-finance leadership and public consumption that can be easily understood

A new model is needed to forecast a more accurate deficit estimate in FY27 and beyond with a higher level of reliability and to be used to inform current and future year financial planning and budgeting.

Alignment with regular budget process: JCPS should carefully consider **how the finalized forecast model aligns with its existing budget development process**, which should accurately produce budgeted revenues and expenditure estimates that allow prediction of deficit values.

Executive Summary | Key Questions, Findings, and Summary



Data Consistency | Findings & Recommendations

KEY QUESTION

Does the financial forecast align with the district's audited financial statements and budget data, using a format comparable to the audited financial presentation to enable clear reconciliation and trend analysis?

Summary revenue and expenditure totals differ between public JCPS data sources and the financial forecast due to exclusion of on-behalf funds while inconsistent categorization leads to conflicting views. As a result, reconciling the financial information across the three source documents is not possible using publicly available sources.

Category	Observation
Accuracy	The total revenue and expenditure values are similar across the working budget and ACFR, but not the financial model (exclusion of on-behalf payments).
Transparency	While revenue presentation has some similarities across sources, expenditure presentation varies greatly.
Reliability	The working budget and financial model show views that may be incomplete and may not demonstrate the true magnitude of the surplus/(deficit).

Data Consistency | Expense categorization across data sources

Categorization is inconsistent across financial documents and tools, indicating a need to streamline for ease of analysis.

EXPENSES BY INSTRUCTIONAL LEVEL FY 2025-26			
			Number Schools
Elementary Schools	\$ 570,468,901	31.7 %	87
Middle Schools	\$ 229,929,643	12.8 %	23
High Schools	\$ 292,470,242	16.3 %	18
Multi-Instructional Level Schools	\$ 69,703,603	3.9 %	6
Special Educ Schools, State Agency Schools, Preschools and Other Special	\$ 125,839,835	7.0 %	67
District-Wide School Costs	\$ 89,810,548	5.0 %	201
Academics Division	\$ 79,267,039	4.4 %	201
Operations Division	\$ 177,012,726	9.8 %	201
Business Offices	\$ 94,054,760	5.2 %	201
District-Wide Costs	\$ 69,656,578	3.9 %	201
TOTAL	\$ 1,798,213,875	100.0 %	

WORKING BUDGET

Expense
Categorization



	2025	2024
Expenses		
Instruction	\$ 1,031,644,547	\$ 1,077,574,900
Student support services	126,983,108	127,019,467
Instructional staff support services	163,651,575	172,501,926
District administrative support services	15,744,309	14,700,109
School administrative support services	138,034,207	143,362,931
Business support services	80,783,009	106,826,198
Plant operations and maintenance	176,669,763	178,437,566
Transportation	121,611,231	123,071,756
Food service support	29,465	94,764
Community services	14,491,362	14,043,405
Other	1,094,007	1,326,298
Interest	23,308,854	23,102,765
Total Expenditures	\$ 1,894,045,437	\$ 1,982,062,085

ACFR

	FY27
Monthly Avg Salary Less On Behalf	82,013,334
Monthly Avg Operational Adjusted for Unused Budgets	33,903,333

FORECAST MODEL

Data Consistency | Recommendations

#	Observations	Recommendations	Difficulty of Implementation	Impact
DC1	Revenue and expense totals are roughly similar between sources, however on-behalf payments are missing from the forecast model.	Include “on-behalf payments” data in the forecast model to align the summary revenue and expense numbers between data sources.	Low	Med.
DC2	Categorization of expense and revenue between data sources differs substantially.	Select a system of categorization that is consistently used across all data sources and documents, in addition to any other categorization used in a particular document.	Med.	High

Assess Forecast Assumptions | Findings & Recommendations

KEY QUESTION

Are the key assumptions used in the district's financial forecast reasonable, supportable, and clearly documented? Does the financial forecast model produce accurate, transparent, and reliable projections that reflect sound analytical practices?

While the forecast model is a good starting point, it requires substantial further development with more specific and consistently applied, explained, and supported assumptions to accurately and reliably predict future deficits.

Category	Observation
Accuracy	Assumptions for change in revenue and expenditures can be further refined to produce more accurate results.
Transparency	The top-down approach to structure makes reliable forecasting difficult.
Reliability	The tool presents a forecast and dashboard that appears to be reliable in the short-term (current fiscal year), but unreliable in the long-term (future fiscal years).

Assess Forecast Assumptions | Overview

FY27	
PRIOR YEAR DEFICIT	(188,172,373)
New Year Property Tax Increase	26,000,000
SEEK New Year Change	(12,297,051)
Occupational Change	-
Other Revenue Changes	-
Interest Revenue Decrease	(3,000,000)
Revenue Change	10,702,949
Personnel Changes	(15,000,000)
Non-personnel Changes	-
Other Reductions	-
Expense Change	(15,000,000)
Projected Unused Salary	35,000,000
Carry Forward	30,000,000
Carryover	17,000,000
Other Unspent Budgets	-
Other Budget Savings	30,000,000
Savings/Offsets	112,000,000
YE SURPLUS / (DEFICIT)	\$ (80,469,424)
FY27 Unmet Needs	(52,000,000)
YE SURPLUS / (DEFICIT) - UNMET NEEDS	\$ (132,469,424)

A&M recast the **structure** of JCPS’s financial forecast for FY27 using figures taken directly from the existing forecast (no changes or adjustments were made) to review the accuracy and reliability of each projection.

A&M’s visual changes to the model include:

- Clearly displaying the true deficit – the expected operating budget balance at the end of FY27 with no changes made to adjust spending – rather than the budget deficit which obscures JCPS’s actual budgetary financial position
- Consolidating the assumptions in the model that drive the forecast, making for more straightforward assessment of each one and how they impact each other

Assess Forecast Assumptions | Revenue

FY27		CATEGORY	JCPS ASSUMPTION	OBSERVATION & ANALYSIS
PRIOR YEAR DEFICIT		Property Tax	\$26M in new property tax each year (although assumption stated in model is: “4.0% allowable property tax revenue increase”) in FY27 and in future years	<ul style="list-style-type: none"> In prior years, actual property tax revenue was \$8M-\$19M higher than budgeted From FY23 to FY24, the <u>actual</u> increase was \$30M From FY24 to FY25, the <u>actual</u> increase was \$41M
New Year Property Tax Increase 26,000,000 SEEK New Year Change (12,297,051) Occupational Change - Other Revenue Changes - Interest Revenue Decrease (3,000,000) Revenue Change 10,702,949		SEEK Change	No change in total enrollment or enrollment by funded subgroup No increase in SEEK Base Per Pupil	<ul style="list-style-type: none"> Enrollment has historically changed, along with each funded subgroup by up to 10% from FY23-FY25 SEEK Base Per Pupil increased by 3% each year from FY23-25 and 6% in FY26, but prior to this, base amount has stayed flat year-over-year
Personnel Changes (15,000,000) Non-personnel Changes - Other Reductions - Expense Change (15,000,000)		Occupational Tax	No change from prior year	<ul style="list-style-type: none"> In prior years, actual occupational tax revenue was \$3M-\$12M higher than budgeted From FY23 to FY24, the <u>actual</u> increase was \$6.2M From FY24 to FY25, the <u>actual</u> increase was \$10.4M
Projected Unused Salary 35,000,000 Carry Forward 30,000,000 Carryover 17,000,000 Other Unspent Budgets - Other Budget Savings 30,000,000 Savings/Offsets 112,000,000		Other Revenue Changes	No change from prior year	<ul style="list-style-type: none"> In prior years, other revenue has changed between \$7M-\$19M
YE SURPLUS / (DEFICIT) \$ (80,469,424) FY27 Unmet Needs (52,000,000) YE SURPLUS / (DEFICIT) - UNMET NEEDS \$ (132,469,424)		Interest Revenue Decrease	\$3M decrease from prior year	<ul style="list-style-type: none"> No back up provided

Assess Forecast Assumptions | Expenses

FY27		CATEGORY	JCPS ASSUMPTION	OBSERVATION & ANALYSIS
PRIOR YEAR DEFICIT		Personnel Changes	Additional \$15M per year for personnel changes hardcoded into model	<ul style="list-style-type: none"> Prior year COLAs have been between 2%-5% No back up provided to validate steps assumption
New Year Property Tax Increase	26,000,000	Non-Personnel Changes	Non-personnel doesn't grow in FY27 or future years	<ul style="list-style-type: none"> Non-personnel, in aggregate, has increased by an average of \$22.5M per year since FY23, with some categories increasing at a faster rate
SEEK New Year Change	(12,297,051)			
Occupational Change	-	Other Increases	Forecast does not allow for inputting any proposed or planned spending increases	<ul style="list-style-type: none"> Incomplete section of the model and is required to have accurate forecasting
Other Revenue Changes	-			
Interest Revenue Decrease	(3,000,000)	Other Reductions	Forecast has functionally to model different levels of reductions	<ul style="list-style-type: none"> All reductions in forecast are applied to non-personnel spending No ability to make staffing adjustments, or other personnel spending, such as reducing extra-duty pay/overtime to FY23 levels (\$30M reduction)
Revenue Change	10,702,949			
Personnel Changes	(15,000,000)			
Non-personnel Changes	-			
Other Reductions	-			
Expense Change	(15,000,000)			
Projected Unused Salary	35,000,000			
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Assess Forecast Assumptions | Savings/Offsets

FY27		CATEGORY	JCPS ASSUMPTION	OBSERVATION & ANALYSIS
PRIOR YEAR DEFICIT		Projected Unused Salary	Vacancy credit of \$35M in FY27 and all future years	<ul style="list-style-type: none"> FY26 estimated amount is \$65M. Average <u>actual</u> credit from FY23 – FY25 was \$90.9M No analysis provided to substantiate FY27 assumptions (and future years)
New Year Property Tax Increase	26,000,000	Carry Forward	\$30M in FY27 and all future years	<ul style="list-style-type: none"> Average <u>actual</u> credit from FY23 – FY25 was \$58.4M No analysis provided to substantiate reduced amount
SEEK New Year Change	(12,297,051)	Carryover	\$17M in FY27 and all future years	<ul style="list-style-type: none"> Average <u>actual</u> Carryover from FY23-25 was \$17.2M Not allowing school Carryover would decrease deficit by ~\$17M in FY27
Occupational Change	-	Other Unspent Budgets	\$0 in FY27 and all future years	<ul style="list-style-type: none"> No historical data in the forecast
Other Revenue Changes	-	Other Budget Savings	\$30M	<ul style="list-style-type: none"> Client discussion indicated that this event was a possibility.
Interest Revenue Decrease	(3,000,000)			
Revenue Change	10,702,949			
Personnel Changes	(15,000,000)			
Non-personnel Changes	-			
Other Reductions	-			
Expense Change	(15,000,000)			
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Assess Forecast Assumptions | Forecasted YE Results

FY27		CATEGORY	JCPS ASSUMPTION	OBSERVATION & ANALYSIS
PRIOR YEAR DEFICIT (188,172,373)		Year End Surplus/(Deficit)	After the estimated changes to major revenues, major expenditures, and savings are inputted, the projected surplus/(deficit) is calculated	<ul style="list-style-type: none">Published values in the working budget do not include the savings/offsets (est. \$112M in this model)The public and board see a different number than what Finance perceives it to be, causing confusionThe presentation of the financial position of the district should be streamlined
New Year Property Tax Increase	26,000,000	FY27 Unmet Needs	There is an additional \$52M JCPS may need to invest in the district for unmet needs	<ul style="list-style-type: none">Separated out correctly due to unpredictable nature of this investmentOffsetting reductions are needed to fund the Unmet NeedsCan cause significant change to end of year surplus/(deficit)
SEEK New Year Change	(12,297,051)			
Occupational Change	-			
Other Revenue Changes	-			
Interest Revenue Decrease	(3,000,000)	YE Surplus/(Deficit) – Unmet Needs	Total amount of budget reductions needed to eliminate forecasted deficit	<ul style="list-style-type: none">This amount is likely the lowest estimate (floor) of necessary reductions. The amount may increase when factoring in non-personnel increases and other adjustments
Revenue Change	10,702,949			
Personnel Changes	(15,000,000)			
Non-personnel Changes	-			
Other Reductions	-			
Expense Change	(15,000,000)			
Projected Unused Salary	35,000,000			
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FY27 Unmet Needs (52,000,000)				
YE SURPLUS / (DEFICIT) - UNMET NEEDS \$ (132,469,424)				

Assess Forecast Assumptions | Recommendations

#	Observations	Recommendations	Difficulty of Implementation	Impact
AFA1	Model lacks connections to factors like enrollment, limiting utility at present.	Build more connections between inputs and growth factors to make the model dynamic and globally responsive to changes (e.g., make enrollment a central driver of activity with connections to revenue, staffing, and other areas.)	High	High
AFA2	Forecast assumptions are often carried over from prior years rather than properly forecasted.	Build a methodology around each growth factor that is based on the relevant driver for the revenue or expense category.	Medium	High
AFA3	JCPS' financial forecast has a "top-down" approach, as illustrated by the combination of all non-personnel expenses into a single pool of costs.	Create a true "bottom-up" model that splits out individual revenue and expense items at the most granular level so they can be forecast accurately.	High	High
AFA4	Cashflow model does not have expected seasonality assumptions included, limiting accuracy.	Project cash flow with a greater focus on seasonality, aided by more granular projection of individual expenditure and revenue items as recommended above.	High	High
AFA5	Forecast model was built as an interim cash forecast tool by JCPS finance and subsequently used as a budgeting substitute and expected to produce multi-year forecasts.	Clearly define the role that the forecast model is expected to serve at JCPS and adjust the forecast model to fit the desired use case.	Med	High

Analyze Variances | Findings & Recommendations

KEY QUESTION

Are there significant variances between historical results, the FY26 budget, and the forecasted results? What potential weaknesses or misaligned assumptions drive these variances?

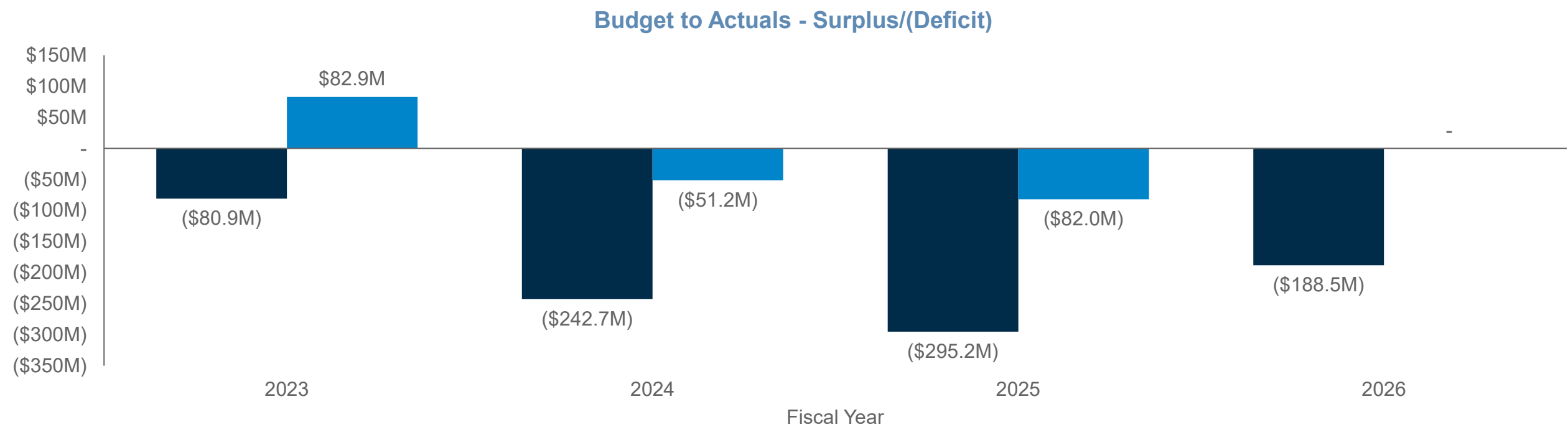
JCPS's budget has consistently overstated expenditure budgets due primarily to inflated expenditure forecasts (partially the result vacancies, carry over and carry-forward). This complicates accurate forecasts due to the consistent variances seen between budgets and actual expenditures.

Category	Observation
Accuracy	Analysis shows that while budgets for revenues are reasonably accurate, budgets for expenditures have moderate to significant room for improvement.
Transparency	There is difficulty identifying where, if at all, key factors such as contingency, vacancy credit, and carry over are integrated.
Reliability	The budget does not appear to represent the internal, forecasted view of what the deficit will be.

Analyze Variances | Historical Budget to Actual Surplus/(Deficits)

Over the past three years (FY23-25) JCPS budgeted an operating deficit where budgeted expenses exceeded budgeted revenue. In each of the years, actual spending was far less (\$90M in FY23, \$210M in FY25). This indicates an opportunity to adjust the budgeting process as budgeting to levels of prior year actuals would decrease the budgeted deficit.

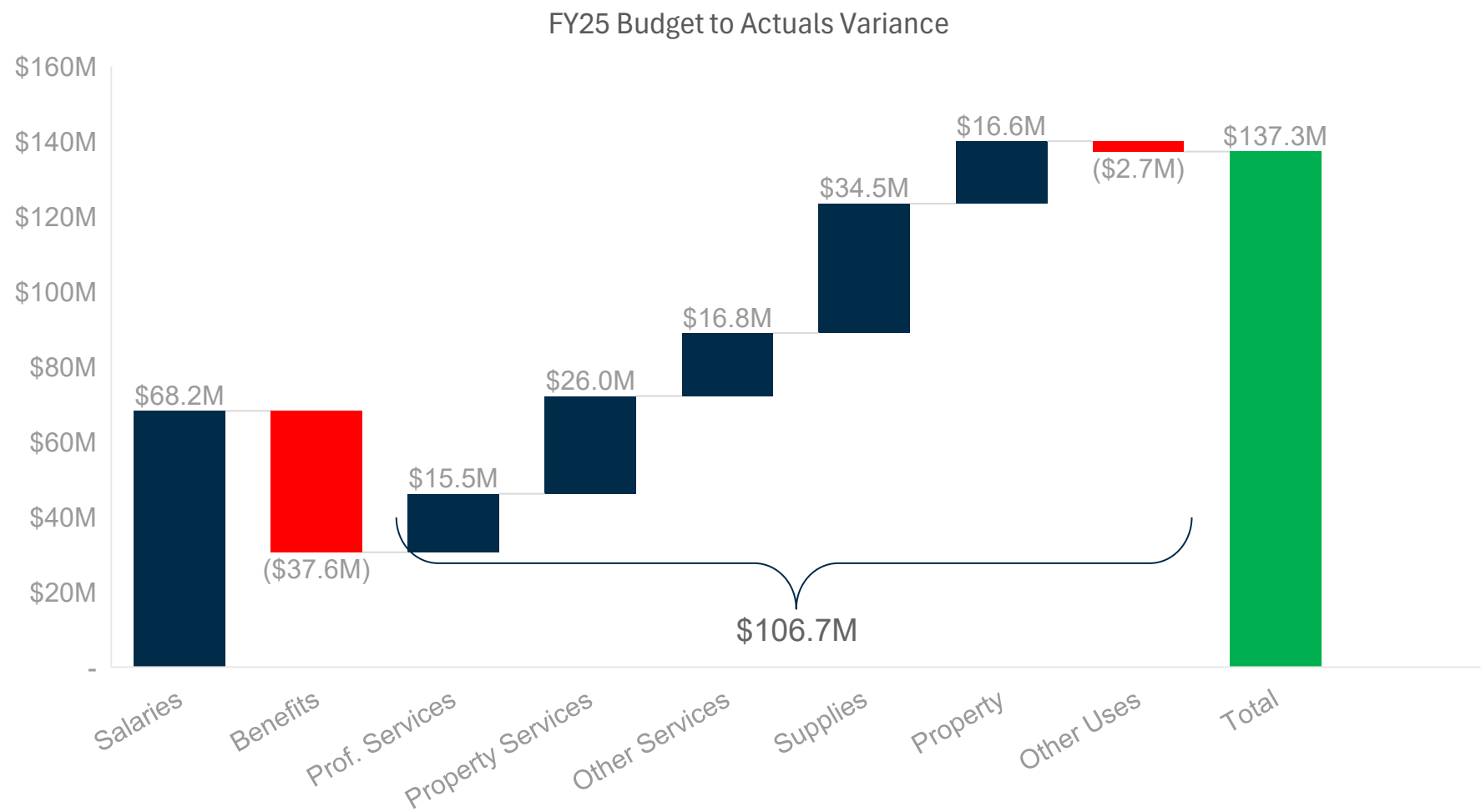
The bar chart below shows historical **budgeted** versus **actual** surpluses or deficits from FY23 to FY25.



1. Data based on general ledger trial balance from FY23 to FY25

Analyze Variances | FY25 Budget to Actuals Detail - Expenditures

The chart below indicates if the expense category was **underbudget** or **overbudget** in FY25, which sums to the **total** expenses underbudget value. JCPS was underbudget by \$137.3M in expenditures in FY24 leading to a large impact on the projected deficit. Additional drivers are listed in the table.



Category	Drivers
Salaries	<ul style="list-style-type: none"> \$39.7M under on certified teachers \$10.3 under on classified instructional assistants \$7.2M over on subs
Benefits	<ul style="list-style-type: none"> \$41.6M over on-behalf payments
Professional Services	<ul style="list-style-type: none"> \$7.4M under other professional services \$4.2M under medical services
Property Services	<ul style="list-style-type: none"> \$18.9M under on other repairs and maintenance \$4.0M under on other purchased property
Other Services	<ul style="list-style-type: none"> \$9.3M under on contract busses \$2.4M under on pupil transportation insurance
Supplies	<ul style="list-style-type: none"> \$19.7M under general supplies
Property	<ul style="list-style-type: none"> \$7.8M under on technology hardware and furniture \$4.4M under on other equipment
Other Use	<ul style="list-style-type: none"> Transfers out

- Underbudget means actuals spent less than budgeted, overbudget means actuals spent more than budgeted
- Omitted contingency, logged under "Other Expenditures" and data excludes vacancy credits
- Data based on historical comparison 2025 P12 file

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Analyze Variances | Recommendations

#	Observations	Recommendations	Difficulty of Implementation	Impact
AV1	While budgeted revenues are relatively accurate, forecasting can be improved. Meanwhile, expenses are consistently underbudgeted.	Re-examine the methods for budgeting non-personnel expenses, which consistently show variance from actuals, potentially contributing to a misunderstanding of the scale of the true deficit.	Medium	High
AV2	Large vacancy credit, carry-over, and carry forward budget amounts are persistent year to year.	To enhance future budget accuracy, the underlying causes (i.e., the "drivers") of fund balances being carried over and carried forward must be rigorously analyzed during each budget cycle. A consistent effort to mitigate these causes will reduce the scale of such balances in subsequent years.	High	High