



2006-07

First Interim Financial Report

Los Angeles Unified School District

Office of the Chief Financial Officer

December 12, 2006

Prepared on December 7, 2006
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First Interim Report

Recommendation

Recommendation

Based on current available financial information and projections, it is recommended for the District to file a **positive** certification and certify that the LAUSD is able to meet its financial obligations for 2006-07, 2007-08 and 2008-09.

First Interim Report

Background

FY 2006-07 Financial Reports to LAUSD Board

Document	Due	Authority
Provisional Budget (or Preliminary Budget)	June 30, 2006	Mandated
Final Budget	September 8, 2006	Mandated
First Interim (Using October Data)	December 15, 2006	Mandated
Second Interim * (Using January Data)	March 15, 2006	Mandated

* Note: Pursuant to Education Code (EC) Section 42131(e), a Third Interim Report is required to be filed by June 1 if the Second Interim certification is not positive.

FY 2006-07 Financial Reports to LAUSD Board

Document	Due	Authority
Unaudited Actuals (Annual Financial Report— Unaudited)	September 15, 2007	Mandated
Audit Report (Comprehensive Annual Financial Report—Audited)	December 15, 2007	Mandated

AB 1200 Oversight

- Empowered county offices of education with oversight for school district's fiscal condition
- Sets financial standards for school districts
- Was enacted in response to a number of near bankruptcies, requests for state loans & defaults on district financial obligations

AB 2756 Oversight

- Effective July 2004
- In response to emergency loans and districts in financial crisis
- Increased oversight at all levels

AB 2756 Oversight—Districts

- Superintendent and Chief Financial Officer must sign collective bargaining disclaimers and certify they are affordable
- Must allow more time for review by the County Office of Education
- Cuts must be acted on by board

AB 2756 Oversight—County Office of Education (COE)

County Superintendent must take action:

- Earlier intervention
- Must qualify or make negative if procedures not followed
- Conditional approval of shaky budgets
- Must take action to correct deficiencies

AB 2756 Oversight—FCMAT

Fiscal Crisis and Management Assistance Team (FCMAT) has an increased role:

- Greater support for districts and COE's
- Hands-on assistance to troubled districts
- More training and professional development to avoid crisis

Purpose of Interim Report

1. Governing Boards of each local educational agencies (LEA's) are required by California Education Code to certify at least twice a year to the LEA's ability to meet its financial obligations for the remainder of that fiscal year and for the subsequent two fiscal years. (LACOE Bulletin No. 124)
2. The First Interim Report is required to be filed within 45 days of October 31, 2006.
3. The Report is based on actual income and expenditures through October 31, 2006.

Certification Definition

- Positive = A school district that, based on current projections, will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years.
- Qualified = A school district that, based on current projections, may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.
- Negative = A school district that, based on current projections, will be unable to meet its financial obligations for the current fiscal year or for subsequent two fiscal years.

First Interim Report

2006-07 Projection

Bottom Line for LAUSD



1. District will meet all current financial obligations for 2006-07 and two subsequent fiscal years.
2. The 2006-07 Ending Balance is projected to be \$620.3 million.
3. The Ending Balance reserve level exceeds the minimum statutory requirement.

General Fund Balances, Revenues & Expenditures—2006-07

(Dollars in Millions)

	(A)	(B)	(C)	(D)
	Original Budget	Modified Budget	First Interim	Variance (C - B)
Beginning Balance	\$ 434.5	\$ 434.5	\$ 434.5	\$ 0.0
Rev./Other Financing Sources	7,106.7	7,106.7	7,024.1	(82.6)
Exp./Other Financing Uses	6,993.9	6,994.9	6,838.3	(156.6)
Operating Surplus/(Deficit)	112.8	111.8	185.8	74.0
Ending Balance	\$ 547.3	\$ 546.3	\$ 620.3	\$ 74.0

Components of Ending Balance

(Dollars in Millions)

	(A)	(B)	(C)	(D)
	Original Budget	Modified Budget	First Interim	Variance (C - B)
Reserves	\$ 15.6	15.6	15.6	\$ 0.0
Legally Restricted	186.6	186.6	299.9	113.3
Reserve for Econ. Uncert.	71.5	71.5	71.5	0.0
Carryovers	129.4	129.4	128.2	(1.2)
Subtotal	\$ 403.1	\$ 403.1	\$ 515.2	\$ 112.1
Undesignated	144.2	143.2	105.1	(38.1)
2006-07 Ending Balance	\$ 547.3	\$ 546.3	\$ 620.3	\$ 74.0

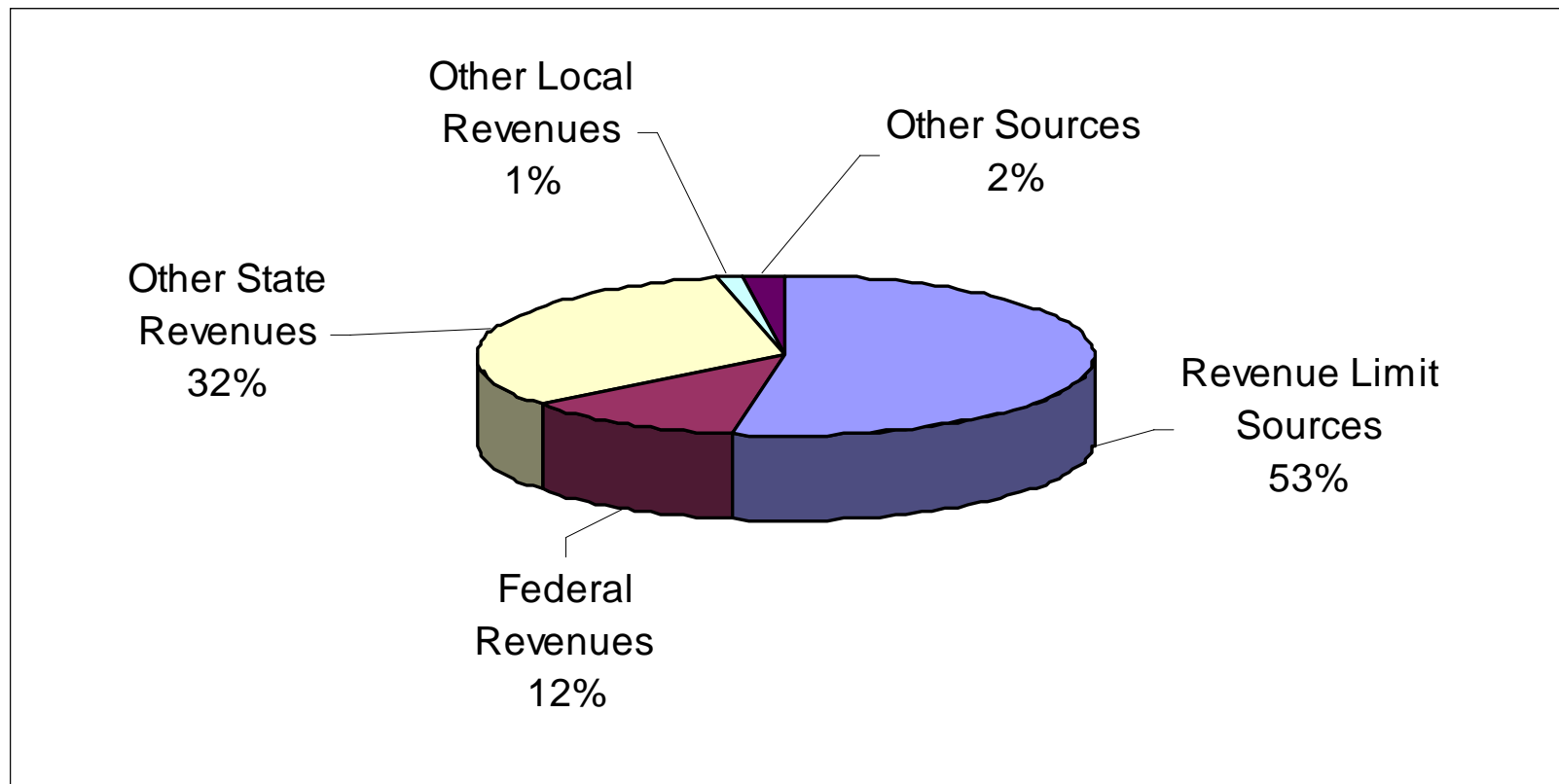
Revenues

(Dollars in Millions)

	(A)	(B)	(C)	(D)
	Original Budget	Modified Budget	First Interim	Variance (C - B)
Revenue Limit Sources \$	3,662.8	\$ 3,662.8	\$ 3,702.4	\$ 39.6
Federal Revenues	942.6	942.6	823.8	(118.8)
Other State Revenues	2,267.7	2,267.7	2,239.3	(28.4)
Other Local Revenues	105.6	105.1	100.2	(4.9)
Other Sources	128.0	128.5	158.4	29.9
Total Revenues	\$ 7,106.7	\$ 7,106.7	\$ 7,024.1	\$ (82.6)

Revenues

Projected General Fund Revenues



Expenditures

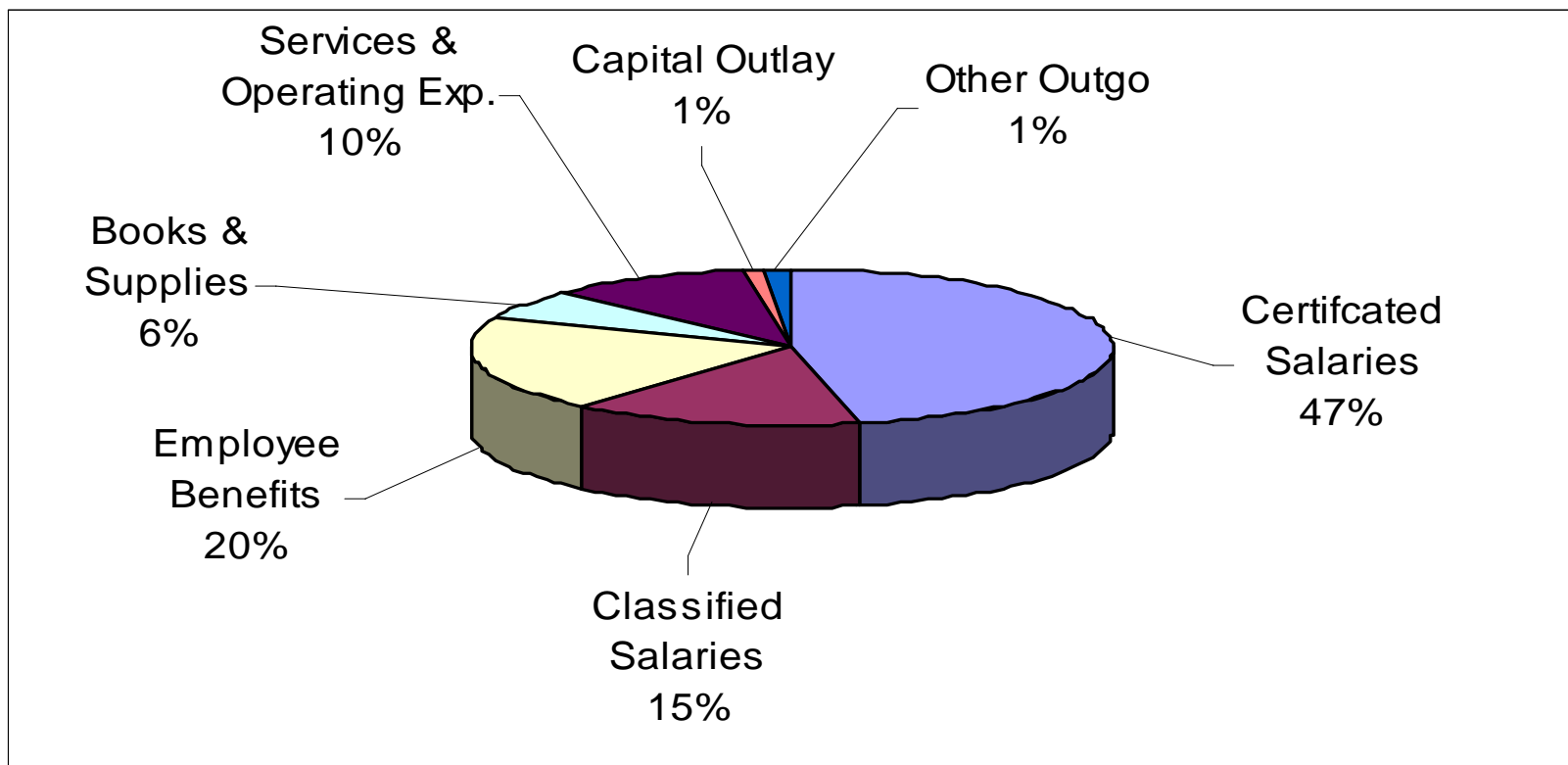
(Dollars in Millions)

	(A)	(B)	(C)	(D)
	Original Budget	Modified Budget	First Interim	Variance (C - B)
Certificated Salaries	\$ 3,137.2	\$ 3,102.9	\$ 3,199.5	\$ 96.6
Classified Salaries	971.2	957.7	993.2	35.5
Employee Benefits	1,347.8	1,363.7	1,345.3	(18.4)
Books & Supplies	672.3	669.4	425.3	(244.1)
Services & Operating Exp.	733.8	808.2	711.2	(97.0)
Capital Outlay	76.7	38.1	64.3	26.2
Other Outgo	54.9	54.9	99.5	44.6
Total Expenditures	\$ 6,993.9	\$ 6,994.9	\$ 6,838.3	\$ (156.6)

- Certificated Salaries are salaries for positions that require a credential issued by the Commission on Teacher Credentialing (CCTC). This includes salaries for teachers, principals and other certificated administrators.
- Classified Salaries are salaries for services that do not require a credential issued by CCTC. This includes salaries for instructional aides, office support personnel, clerical, bus drivers, custodians, maintenance workers, cafeteria workers, finance personnel and others.
- Employee Benefits include the District's employer contribution to retirement plans, social security and medicare, health and welfare benefits, state unemployment insurance, workers' compensation insurance and other benefits.
- Books and Supplies are textbooks, reference books and supplies for students, teachers and offices.
- Services and Other Operating Expenditures are for contracting services, rentals, leases, contracts, travel, insurance, utilities and other operating needs.
- Capital Outlay include expenditures for equipment, land, land improvements, buildings, building improvements and other capitalized assets.
- Other Outgo include expenditures for debt service, interfund transfers out to other funds such as deferred maintenance, and others. Reserves for anticipated underspending and for program/salary increases were budgeted under this category.

Expenditures

Projected General Fund Expenditures



Total projected Salaries and Benefits equal to 82% of the total General Fund expenditures.

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Assumptions

Revenue Assumptions—2006-07

1. Revenue Limit Sources increased by 4.16%. These revenues are used to fund increases in utilities, fuel, health and welfare benefits, salary, steps and column movements, and others.
2. Revenue Limit Average Daily Attendance (ADA) was based on the assumption that the District can take advantage of the Declining Enrollment Adjustment provision.

Revenue Assumptions—Cont.

3. The District is experiencing declining enrollment. A decline of 12,900 students was budgeted. The First Interim projected ADA decline is 15,500.
4. Federal income is based on all known specially funded programs, grants and entitlements as of October 31.
5. State and local income is based on known specially funded programs and other revenues as of October 31 or projected ADA for the current year.

Expenditure Assumptions – 2006-07

1. A 4.5% compensation increase—3% for salary and 1.5% for full funding of Health & Welfare—was included in the projected expenditures for “Certificated Salaries, Classified Salaries, and Benefits.”

Expenditure Assumptions – Cont.

2. Comparisons of actual expenditures as of October 31, 2005, October 31, 2006, and 05-06 expenditures were made to validate projections. In addition, any differences between prior year and current year spending and program initiatives have been considered.
3. Various Division and offices were consulted to determine their projected expenditures.
4. Employee Benefits projections were based on actual invoice payments through October and expected changes for the remainder of the year.

Expenditure Assumptions – Cont.

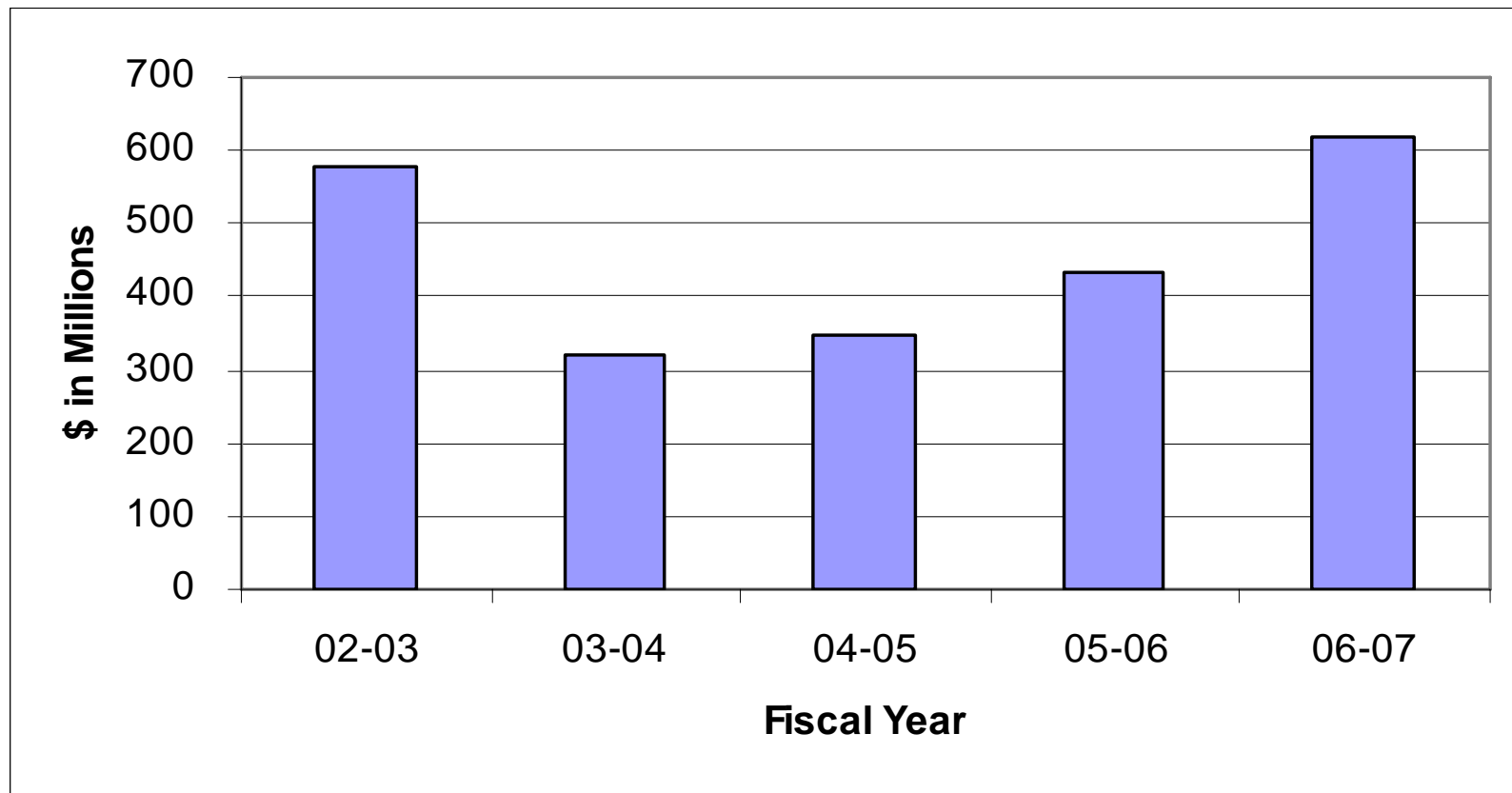
5. Lower projected expenditures in Books and Supplies were caused by new state revenues that have not been received and allocated to schools. Projected categorical grant expenditures were also lower than budgeted.
6. Lower projected expenditures for Services and Other Operating Expenses are primarily due to lower rentals and leases. In addition, categorical grant expenditures were projected to be lower.
7. Some transfers of expenditures from Regular Programs to Specially Funded Programs were projected.

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Historical Trend

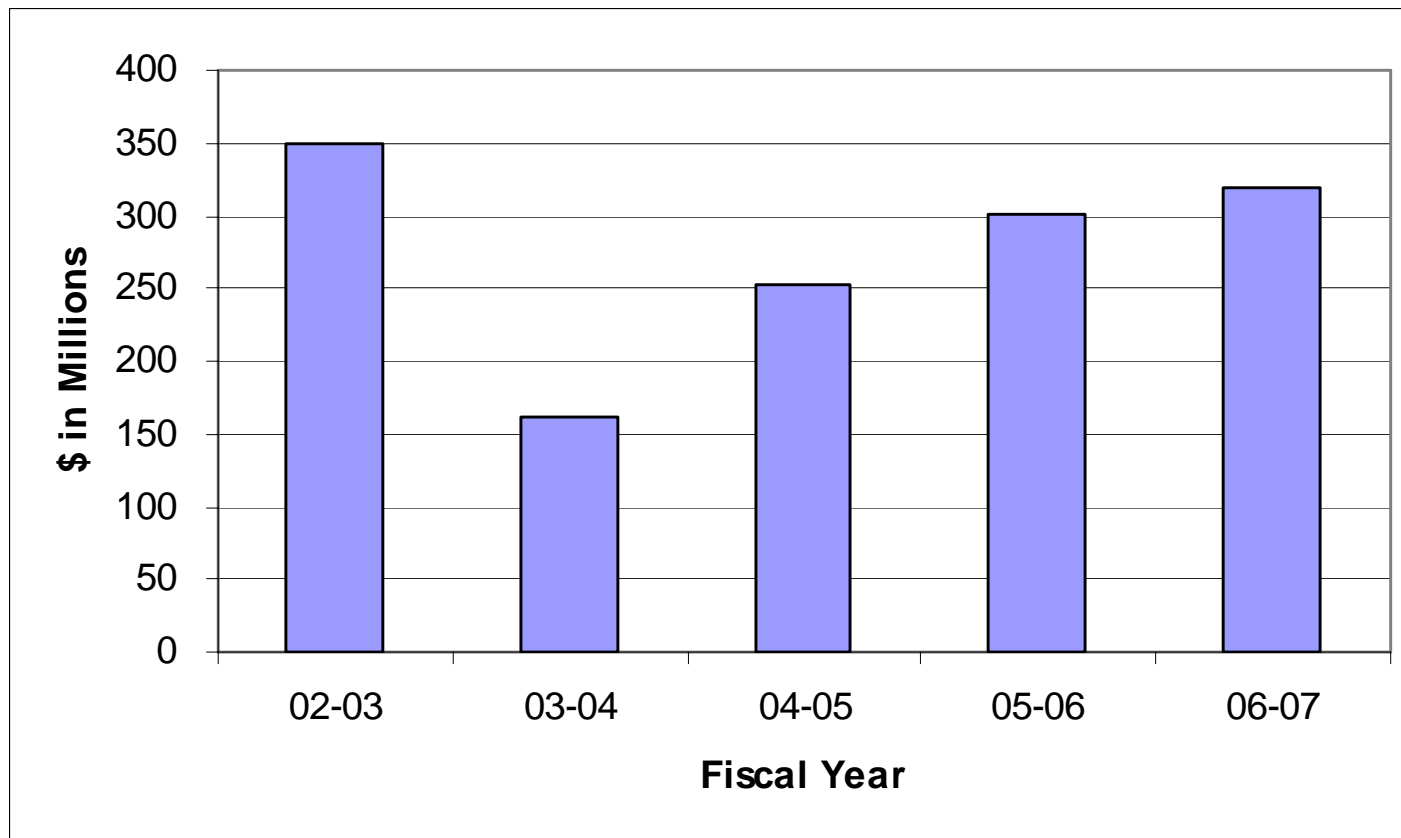
Historical Trend

General Fund Ending Balance
(Unrestricted and Restricted Combined)



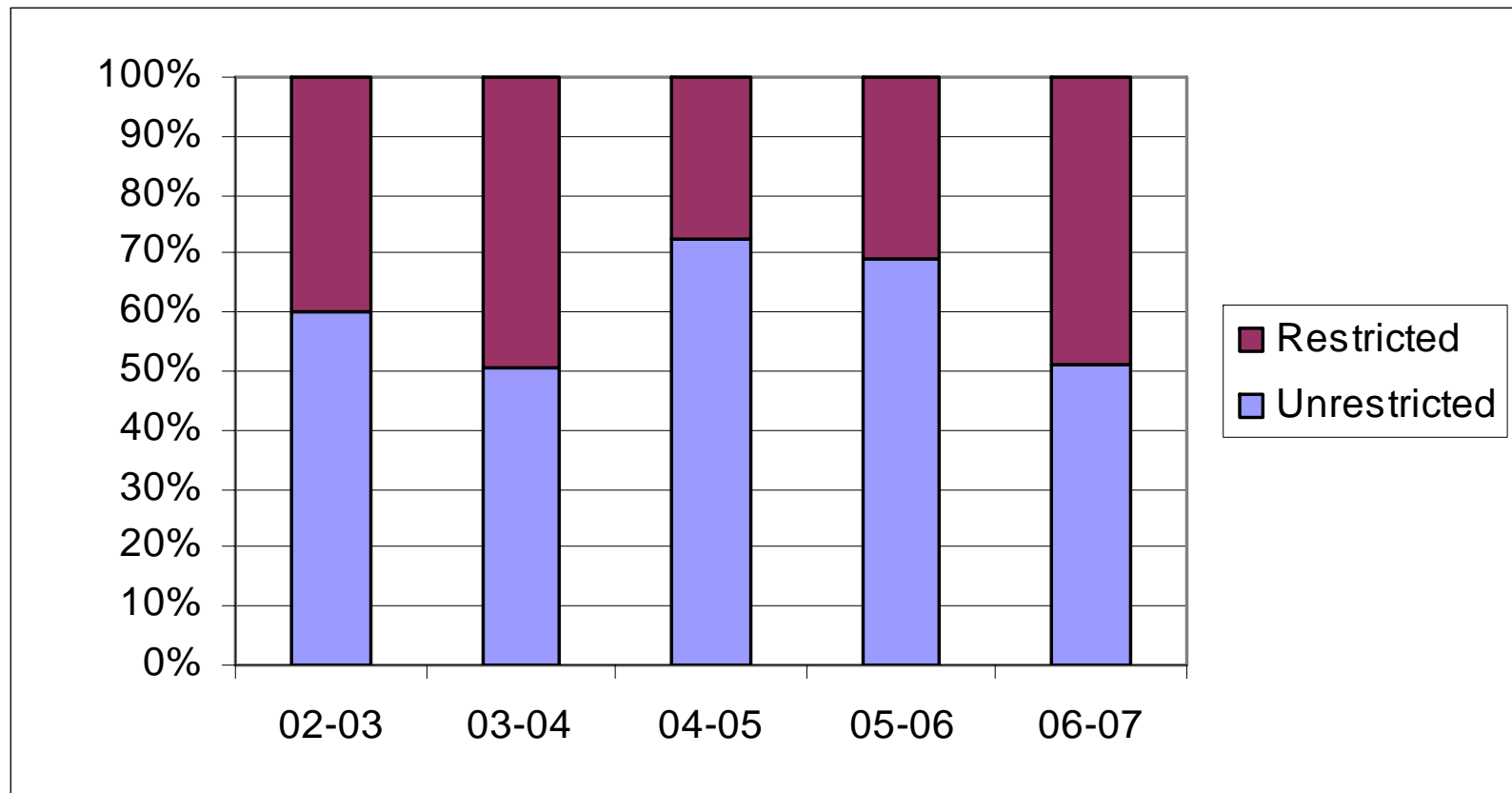
Historical Trend

Unrestricted General Fund Ending Balance



Historical Trend

General Fund Ending Balance—Unrestricted & Restricted Ratio



What Does It Mean?

- LAUSD depends on the state for the majority of its revenue. Revenue Limit sources, taxes and other state revenues equal to 86% of total revenues.
- Federal revenues are 12% of total revenues.
- Local revenues and other sources are 2% of total revenues.
- **With very limited control of its income, the LAUSD board and superintendent have managed its financial affairs in a prudent and responsible manner.**

First Interim Report

Multi-Year Projection

Multi-Year Projection

- Projected gap between revenue and expenditures for FY 2007-08 is \$122.6 million (General Fund, Regular Program). Requires reduction of fund balances.
- The FY 2008-09 projected gap between revenue and expenditures is \$71.7 million. Requires reduction of fund balances.
- However, these projections are certain to change during the coming months as we analyze the Governor's budget in January, and review changes in current year revenues or expenditure patterns, or other factors.

2007-08 Regular Program –Expenditure Changes

(Dollars in Millions)

2006-07 Expenditure Base \$5,781.4

2006-07 First Interim Projections

Estimated Changes in Expenditures

Inflationary Costs	\$30.4
New Science Textbook Adoption	30.0
Employee H& W Benefits	24.0
Step and Column	15.7
Opening New Schools	12.1
Class Size Reduction	10.0
Workers' Compensation	2.6
Routine Repair and Gen Maintenance	2.0
Savings from Declining Enrollment	-52.7
Charter Schs In-lieu of Prop Taxes	-41.1
Net of All Others	8.6
Total Changes in Expenditures	\$ 41.6

Utilities, fuel, NPS, etc.
 Fiscal Stabilization and Recovery Plan
 Maintain employee health at current level
 Preparation salary schedule
 One-time and on-going costs
 Proposed in 2007-08
 Continue addressing deficit
 Maintain at mandated 3% level
 Teachers, administrators, clerical positions.
 SB319 Charter Schools Funding
 COPs & other onetime items

2007-08 Expenditure Base \$5,823.0

2008-09 Regular Program –Expenditure Changes

(Dollars in Millions)

2007-08 Expenditure Base \$5,823.0

2007-08 MYP Projections

Estimated Changes in Expenditures

Inflationary Costs	\$30.7
New English Textbook Adoption	30.0
Step and Column	8.9
Opening New Schools	9.2
Workers' Compensation	1.0
Savings from Declining Enrollment	-50.8
Completion of One-time Items	-96.7
Net of All Others	7.7
Total Changes in Expenditures	- \$60.0

Utilities, fuel, NPS, etc.
 Fiscal Stabilization and Recovery Plan
 Preparation salary schedule
 One-time and on-going costs
 Continue addressing deficit
 Teachers, administrators, clerical positions.
 Gov's Initiatives in 2006-07, Math Txtbooks
 COPs and other requirements

2008-09 Expenditure Base \$5,763.0