



# **2007-08**

# **Second Interim Financial Report**

Los Angeles Unified School District  
Office of the Chief Financial Officer  
March 11, 2008

# Purpose of Interim Report

- Governing Boards of each local educational agency (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)
- The Second Interim Report is required to be filed within 45 days of January 31, 2008, i.e., March 17, 2008.
- The Report is based on actual income and expenditures through January 31, 2008.

# Certification Definition

- A school district, based on current projections

- will [POSITIVE CERTIFICATION]
- may not [QUALIFIED CERTIFICATION]
- will not [NEGATIVE CERTIFICATION]

meet its financial obligations for the current fiscal year and two subsequent fiscal years.

- District with qualified or negative certification at second interim:

- must file a Third Interim Report by June 1
- may not issue non-voter approved debt in that fiscal year or the next fiscal year unless County Superintendent determines District can make repayment
- may be subject to sanctions or restrictions if financial issues are not addressed
- may have impact on its credit ratings

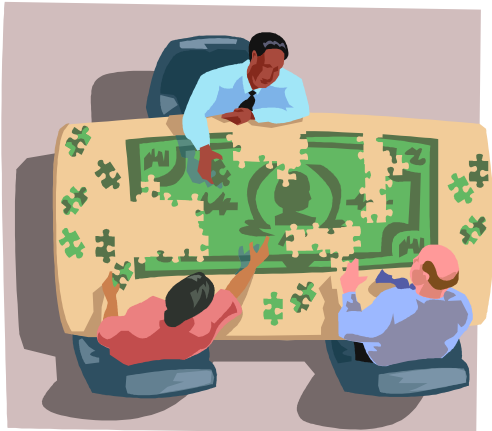
# Recommendation

Based on current available financial information and projections, it is recommended that District file a ***qualified*** certification and certify that the LAUSD will meet its financial obligations for 2007-08, but has not yet identified the revenue additions or expenditure reductions necessary to meet its financial obligations for 2008-09 and 2009-10.

# **Second Interim Report**

## **2007-08 Projections**

# Bottom Line for LAUSD



1. District will meet all current financial obligations for 2007-08.
2. The 2007-08 Ending Balance for the General Fund Regular Programs is projected to be \$485.7 million.
3. The Ending Balance reserve level for 2007-08 exceeds the minimum statutory requirement.
4. The District must identify additional revenues or expenditure reductions to meet its financial obligations in 2008-09 and 2009-10.

The District expects to end 2007-08 with a positive fund balance of \$485.7 million.

General Fund Regular Program Balances, Revenues & Expenditures – 2007-08 (Dollars in Millions)	Modified Budget ( A )	First Interim ( B )	Second Interim ( C )	Variance 2 <sup>nd</sup> Interim vs. Modified Budget ( C - A )	Variance 2 <sup>nd</sup> vs. 1 <sup>st</sup> Interim ( C - B )
Beginning Balance	\$ 592.9	\$ 592.9	\$ 592.9	\$ 0.0	\$ 0.0
Rev./Other Financing Sources	5,927.0	5,943.6	5,935.3	8.3	(8.3)
Exp./Other Financing Uses	6,071.2	6,037.0	6,042.5	(28.7)	5.5
Operating Surplus (Deficit)	(144.2)	(93.4)	(107.2)	\$37.0	(13.8)
Ending Balance	\$ 448.7	\$ 499.5	\$ 485.7	\$ 37.0	\$ (13.8)

The projected ending balance has remained in the \$400-\$500 million range from the time the budget was adopted in September.

# Components of Ending Balance – 2007-08 Cont.

## Definitions:

- **Reserves** = The portion of fund balance reflecting the value of Revolving Cash, Inventory and Prepaid Expenses
- **Legally Restricted** = Balances that an external party requires to be used under specific terms and conditions (e.g., Arts, Music and Physical Education Block Grant)
- **Reserve for Economic Uncertainties** = 1% reserve amount set aside for major unforeseen events that would otherwise jeopardize the budget plan (Ed. Code section 33128 )
- **Carryovers** = Balances in accounts that the Board allows to remain available to schools and offices in the following fiscal year
- **Available for 2008-09** = Any balances remaining that do not fall into one of the four components mentioned above. These amounts will be utilized in supporting the on-going District operations in 2008-09.



**The District shows a positive available balance of \$28.3 M  
at the end of 2007-08, as required by State law.**

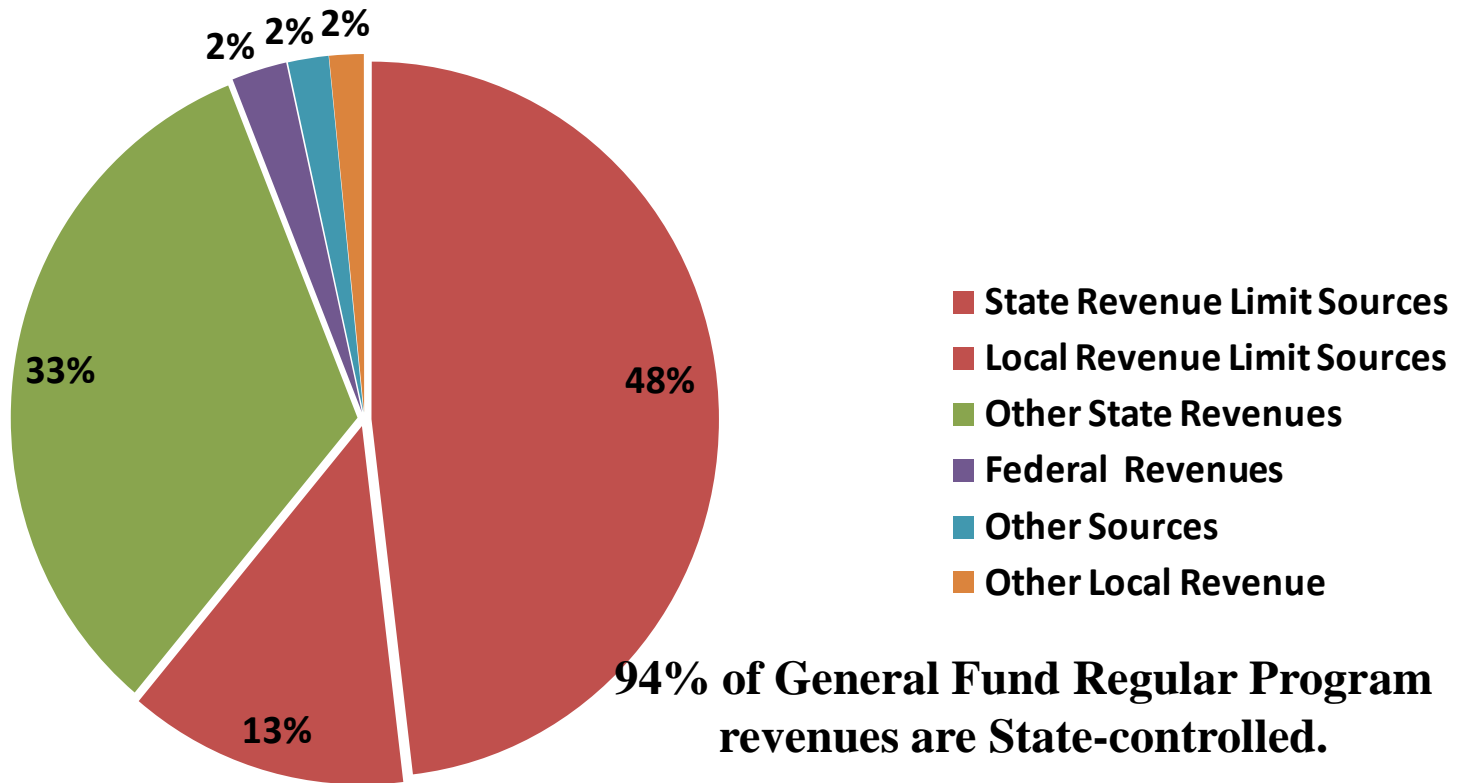
Components of General Fund Regular Program Ending Balance -2007-08 (Dollars in Millions)	Modified Budget (A)	First Interim (B)	Second Interim (C)	Variance 2 <sup>nd</sup> Interim vs. Modified Budget (C - A)	Variance 2 <sup>nd</sup> vs. 1 <sup>st</sup> Interim (C - B)
Reserves	\$ 16.2	\$ 10.9	\$ 10.9	\$ (5.3)	\$ 0.0
Legally Restricted	184.7	210.8	254.5	69.8	43.7
Reserve for Economic Uncertainties	72.4	72.4	72.4	0.0	0.0
Carryovers	76.5	135.5	119.6	43.1	(15.9)
Subtotal	349.8	429.6	457.4	107.6	27.8
Available for 2008-09 Purposes	98.9	69.9	28.3	(70.6)	(41.6)
2007-08 Ending Balance	\$ 448.7	\$499.5	\$ 485.7	\$ 37.0	\$ (13.8)

## Our overall estimate of 2007-08 revenues has been stable since September.

General Fund Regular Program Revenues 2007-08 (Dollars in Millions)	Modified Budget ( A )	First Interim ( B )	Second Interim ( C )	Variance 2 <sup>nd</sup> Interim vs. Modified Budget ( C - A )	Variance 2 <sup>nd</sup> vs. 1 <sup>st</sup> Interim ( C - B )
Revenue Limit Sources	\$3,642.5	\$3,643.6	\$ 3,625.9	\$ (16.6)	\$ (17.7)
Other State Revenues	1,952.9	1,939.5	1,949.1	(3.8)	9.6
Federal Revenues	153.1	153.1	153.3	0.2	0.2
Other Sources	77.9	103.5	111.6	33.7	8.1
Other Local Revenues	100.6	103.9	95.4	(5.2)	(8.5)
<b>Total Revenues</b>	<b>\$5,927.0</b>	<b>\$5,943.6</b>	<b>\$5,935.3</b>	<b>8.3</b>	<b>\$( 8.3)</b>

Revenue limit income is a combination of state and local revenues based on student attendance (ADA)

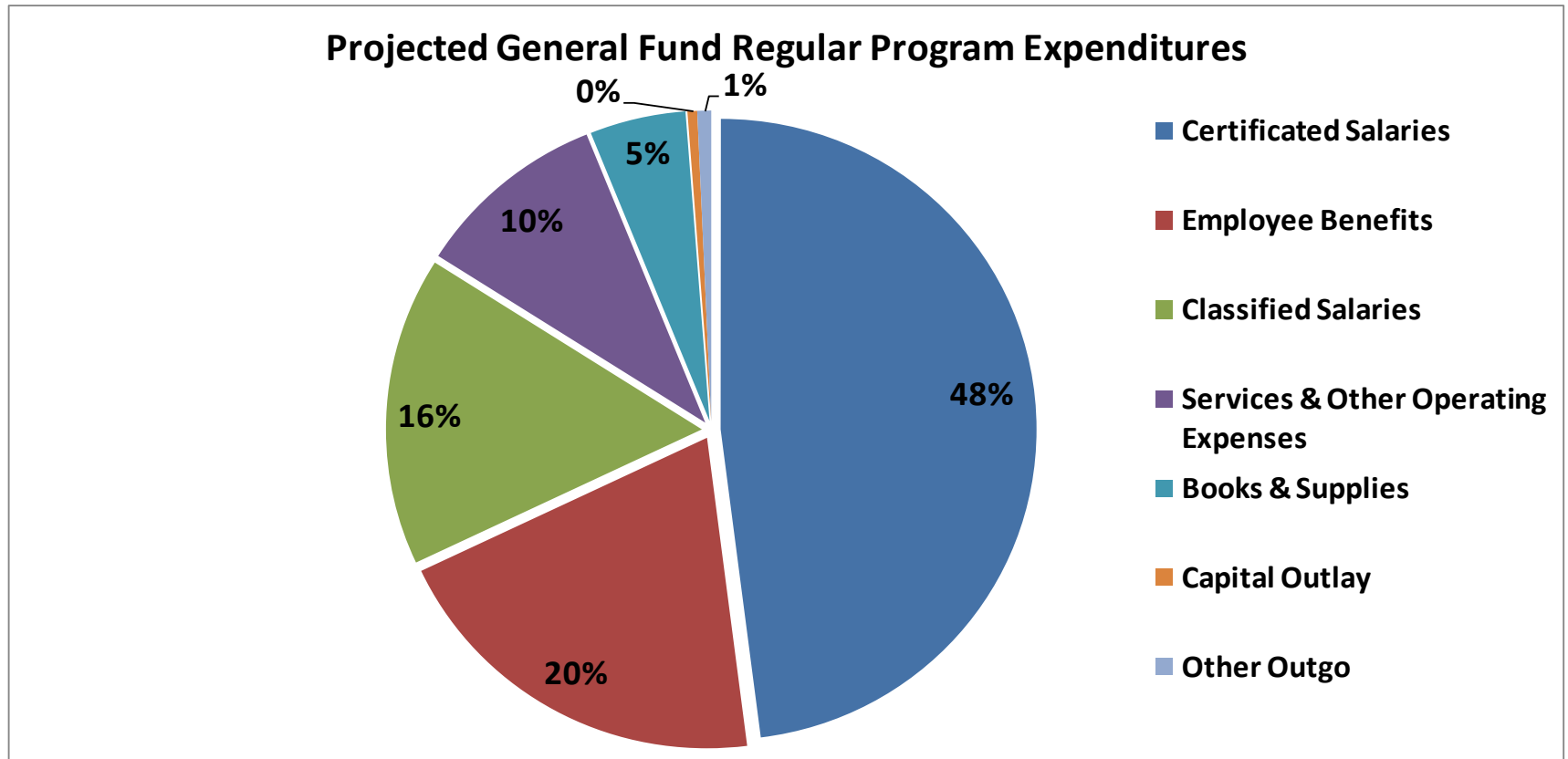
# General Fund Regular Program Revenues - 2007-08 (\$5,935.3 Million)



# Our overall estimate of expenditures is stable, but components have changed.

Expenditures – 2007-08 (Dollars in Millions)	Modified Budget ( A )	First Interim ( B )	Second Interim ( C )	Variance 2 <sup>nd</sup> Interim vs. Modified Budget ( C - A )	Variance 2 <sup>nd</sup> vs. 1 <sup>st</sup> Interim ( C - B )
Certificated Salaries	\$2,847.4	\$2,860.8	\$2,898.5	\$51.1	\$ 37.7
Employee Benefits	1,179.6	1,235.2	1,208.2	28.6	(27.0)
Classified Salaries	892.7	953.4	968.4	75.7	15.0
Services & Operating Exp.	651.0	583.3	596.4	(54.6)	13.1
Books & Supplies	359.0	322.4	298.0	(61.0)	(24.4)
Capital Outlay	80.9	30.9	30.1	(50.8)	(0.8)
Other Outgo	60.6	51.0	42.9	(17.7)	( 8.1)
Total Expenditures	\$6,071.2	\$6,037.0	\$6,042.5	\$(28.7)	\$ 5.5

# Expenditures – 2007-08 (\$6,042.5 Million)



84% of General Fund Regular Program Expenditures is employee salaries and benefits.

# Significant Variances from First to Second Interim

## 2007-08 Revenues:

- Year-Round School Incentive Grant is \$19.9 million higher.
- Revenue limit income is \$19.0 million lower because of increased charter school ADA.
- Interest revenue will be \$6.5 million lower than anticipated in the first interim.
- Civic center rentals will be \$3.3 million lower than anticipated in the first interim.

## 2007-08 Expenditures:

- Teacher salaries are \$33.4 million higher based on January 31 year-to-date expenditures.
- Health and welfare benefit costs are \$19.4 million lower.
- Transfer to Child Development is unnecessary this year, saving \$8.0 million.
- Estimated cost of legal settlements is \$6.4 million higher.

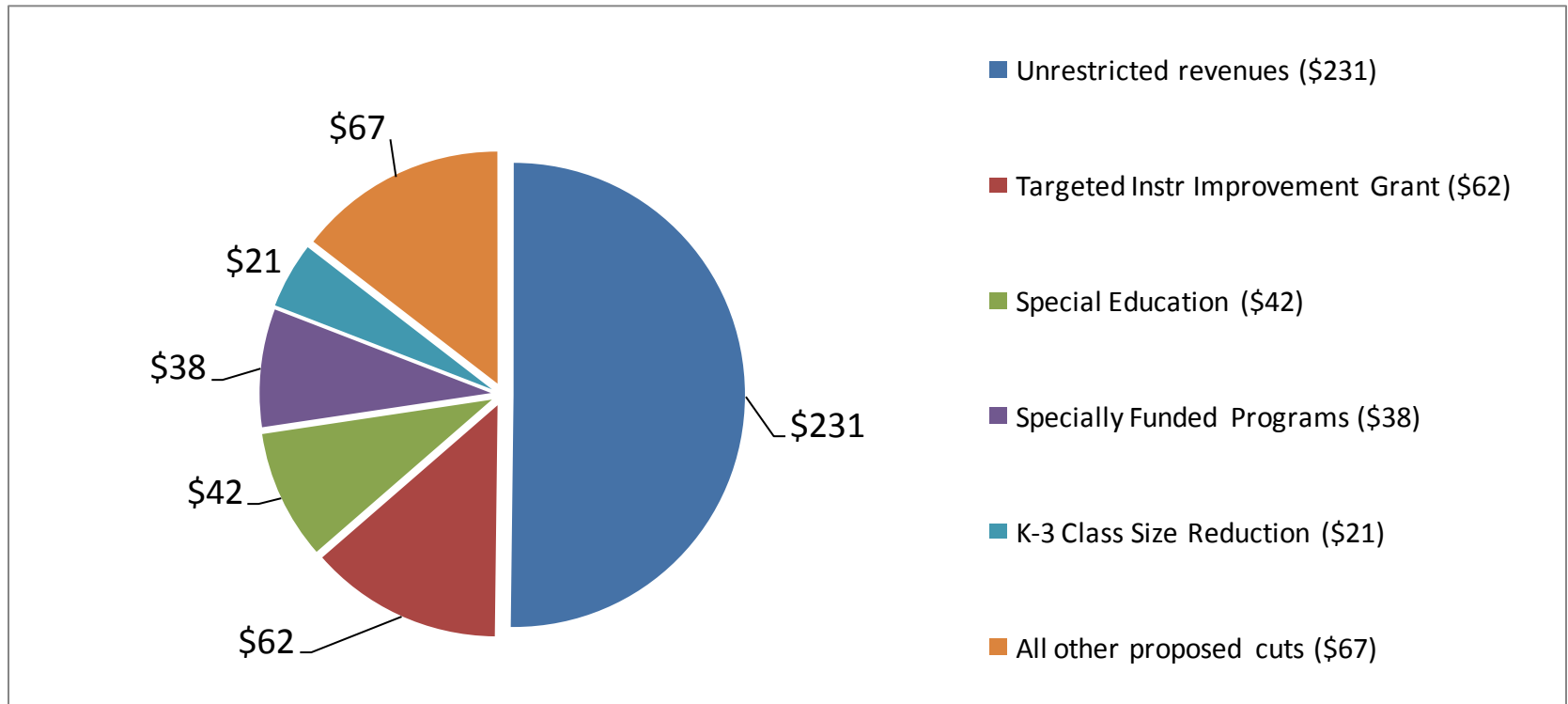
# Specially Funded Programs typically have entitlements that carry over from one fiscal year to the next.

Specially Funded Programs - 2007-08 (Dollars in Millions)	Modified Budget ( A )	First Interim ( B )	Second Interim ( C )	Variance 2 <sup>nd</sup> Int. vs. Modified Budget ( C – A )	Variance 2 <sup>nd</sup> Int. vs. 1 <sup>st</sup> Int. ( C- B )
Beginning Balance	\$ 102.3	\$102.3	\$102.3	\$0.0	\$0.0
Revenues/Other Financing Sources	1,253.1	985.6	1,015.0	(238.1)	29.4
Expenditures/Other Financing Uses	1,309.7	1,039.6	1,065.9	(243.8)	26.3
Excess/(Deficit)	(56.6)	(54.0)	(50.9)	(5.7)	3.1
<b>Ending Balance</b>	<b>\$45.7</b>	<b>\$48.3</b>	<b>\$51.4</b>	<b>\$5.7</b>	<b>\$3.1</b>

# The Governor proposes to cut \$460 million of LAUSD's revenues in 2008-09.

Categorical &  
Non Revenue  
Limit Funding  
**-\$229 million**

Unrestricted  
Revenue Limit  
**-\$231 million**





# Next Steps

## **Preliminary Budget (April 8)**

- Includes estimation of budget requirements based on:
  - Estimated revenues and expenditures through 2010-11.
  - Estimated revenues vs. authorized expenditures in 2008-09.

## **Budget Balancing Recommendations (mid-April)**

- Based on Preliminary Budget
- Timed to give schools and offices adequate notice for planning, particularly year-round schools opening July 1.

# Next Steps

## **“May Revise” (early May)**

- New estimates of State revenue and proposed State spending for 2008-09.

## **Third Interim Financial Report (June 2)**

- Required for Districts with qualified second interim.

## **LAUSD adopts Provisional Budget (June 24)**

- Provisional budget must be balanced using Governor’s spending proposals from “May Revise.”

# Next Steps

## **Close books for 2007-08 (early August)**

- Provides new basis for reviewing 2008-09 authorized and estimated expenditures

## **Final Budget presented to Board (late August)**

- The LAUSD budget must be balanced whether or not the State budget has been adopted and signed.