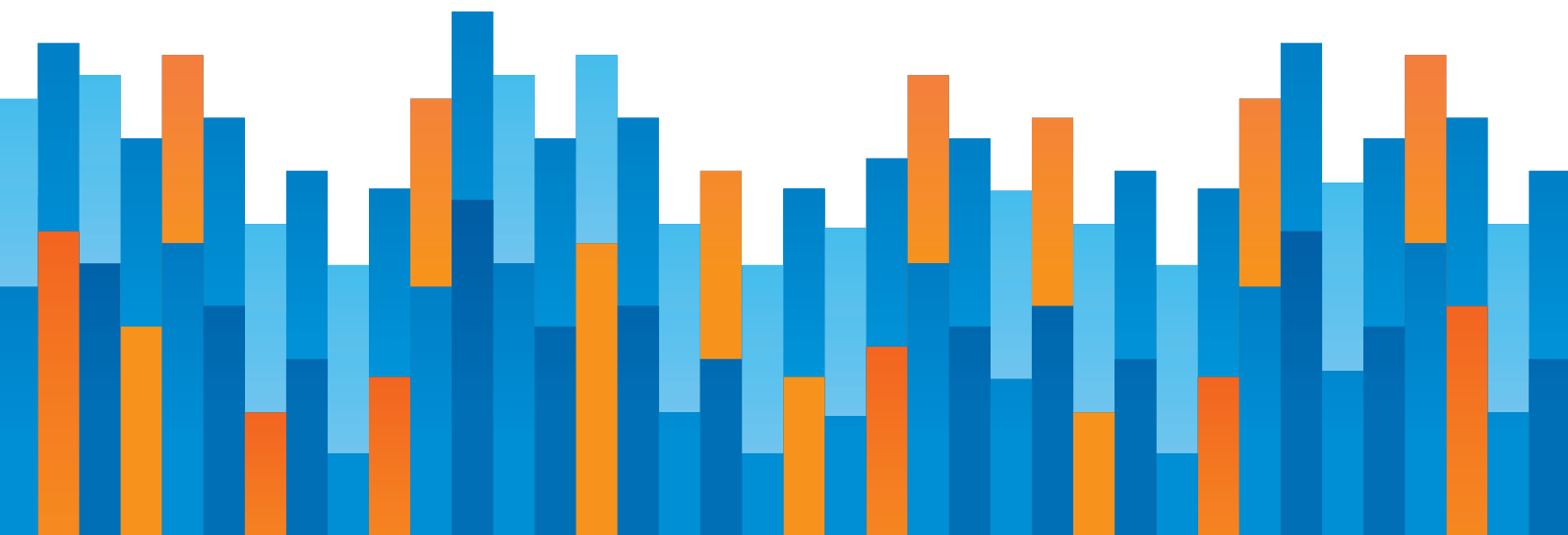




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A 2018 EVALUATION OF LAUSD'S FISCAL OUTLOOK: REVISITING THE FINDINGS OF THE 2015 INDEPENDENT FINANCIAL REVIEW PANEL

by Lisa Snell, Aaron Garth Smith, Tyler Koteskey, Marc Joffe and Truong Bui
June 2018





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EXECUTIVE SUMMARY

The Los Angeles Unified School District (LAUSD) faces immense fiscal challenges. The district has lost more than 245,000 students in the last 15 years. Deficit spending is projected to drain the district's reserve level from 11.64% of total general fund expenditures in 2016–2017 down to a projected -5.61% by 2020–2021—even assuming five years of substantial revenue growth from the state of California. The most recent audit of the school district (through June 30, 2017) found that LAUSD had liabilities that surpassed assets by \$5.1 billion and an unrestricted net position (which must be paid out of future general fund unrestricted revenue) of -\$10.9 billion.



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These numbers from the latest audit actually understate the district's liabilities because a more recent 2017 actuarial valuation report, released in April 2018, increases the district's health care benefit liabilities (aka Other Post-Employment Benefit, or OPEB, debt) from \$13.7 billion in 2015 to \$15 billion in 2018. On a per-pupil basis, the OPEB debt alone is about \$30,000 per student for each of the 500,000 students currently enrolled in LAUSD.

To put LAUSD's deficit spending in context, as of March 2017 only 39 of California's 980 school districts were designated as at risk of financial insolvency by their county offices of education, meaning the district has poor financial health and will have a hard time meeting its financial obligations in the next two years. With the recent temporary, state-funded increases in school revenue in California, most districts have managed to balance their budgets, or at least make it appear that way.



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LAUSD is unique in California and the nation because the size of its projected budget deficits and overall debt dwarfs most other urban school districts. The district's most recent budget of \$7.5 billion, approved in June 2017, projected that LAUSD will face a \$422-million shortfall by the 2019–2020 school year. In addition, in four years the combination of pension costs, health and welfare costs, and special education costs are projected to take up 57.5% of unrestricted general fund revenue (LAUSD's main operational funding), before the district spends a single dollar to run a regular school program.

This study takes a fresh look at LAUSD's fiscal health, focusing on what has happened with the district's finances since LAUSD Superintendent Ramone Cortines' highly commended and widely cited November 2015 Independent Financial Review Panel (IFRP) report warned of looming financial disaster for LAUSD.

This study reviews the district's current financial position by examining the past findings of the IFRP report and the impact of California's new education funding formula, LAUSD's enrollment decline, and the proliferation of charter schools.

This study finds that LAUSD attributes an unduly high percentage of its decline in enrollment to charter schools, which outperform the district at most every measure, instead of addressing the root causes of its own financial woes. Data projections clearly show a structural and compounding annual deficit that threatens to overwhelm the core operations of the Los Angeles Unified School District. This study finds this structural deficit forged from hiring surges, burgeoning and unaddressed pension and benefit obligations, unaddressed

low attendance, overextended facilities, and antiquated management and financial structures—all during a precipitous fall in enrollment.

Rather than constraining popular and effective charter schools, this study recommends LAUSD take the following measures to “right-size” its structure and operations to serve its students sustainably:

#1 Overhaul long-term debt obligations, and act where possible to initiate cost-saving options.

#2 Target the low-hanging fruit of improving student and staff attendance to increase funding.

#3 To right-size the district to serve fewer students, initiate staff reductions and strategic school closures.

#4 Mitigate enrollment declines by focusing on providing higher quality options, such as those offered by the more popular and academically effective charter schools.

#5 Modernize the district’s school finance system by allocating dollars directly to schools and giving principals the authority and responsibility to manage budgets. This will effect financial transparency, which will provide district leaders with crucial information to understand which schools are under-enrolled and financially unsustainable and how better to target resources to individual schools and students.

Rather than casting blame, LAUSD needs to recognize that the structural deficit demands immediate attention. In 2018, it still needs to do the difficult work outlined in the 2015 IFRP report to right-size the district.

LAUSD is once again at the edge of a fiscal cliff, as employee costs and long-term obligations continue to increase expenditures and use up the available revenue, just as new revenue begins to slow or decline. Rather than right-size the district to line up staffing positions with the reality of declining enrollment, the common narrative has been to blame charter schools for the decline and the financial crisis.

The days of district monopoly and residential assignment have given way to parent choice, forcing public schools to compete for students—a real win for families. LAUSD can do better, but first it must stop pointing fingers and get its financial house in order. This study's recommendations aim to provide helpful options to realize that goal.



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TABLE OF CONTENTS

PART 1:	INTRODUCTION.....	1
PART 2:	LAUSD'S INDEPENDENT FINANCIAL REVIEW PANEL AND THE DISTRICT'S PERPETUAL FISCAL CLIFF.....	4
PART 3:	CALIFORNIA'S FUNDING CLIMATE: HOW THE NEW FUNDING FORMULA AND NEW TAX REVENUE DEFERRED LAUSD'S FISCAL CRISIS	8
PART 4:	THE IMPACT OF ENROLLMENT AND ATTENDANCE TRENDS IN LAUSD.....	12
	4.1 Enrollment in LAUSD Schools.....	13
	4.2 Attendance Rates.....	18
PART 5:	THE BIG PICTURE: CURRENT LAUSD TRENDS IN ASSETS AND LIABILITIES AND REVENUES AND EXPENDITURES.....	20
	5.1 The District's Comprehensive Financial Audits and Net Financial Position Over Time	20
	5.2 Revenues and Expenditures in the General Fund	26
	5.3 Benchmarking LAUSD's Current Revenue and Spending.....	30
PART 6:	FACTORS DRIVING TRENDS IN EXPENDITURES.....	34
	6.1 Personnel Trends.....	34
	6.2 Services and Operations.....	39
	6.3 Special Education.....	40
	6.4 Trends in Benefit Spending.....	44
	6.5 Future Collective Bargaining Agreements Will Also Maintain and Drive Up Costs.....	55
	6.6 Crowding Out High-Needs Students.....	56
PART 7:	THE ROLE OF CHARTER SCHOOLS.....	58
	7.1 Educational performance metrics.....	58
	7.2 The Effect of Charters on LAUSD's Bottom Line.....	67
PART 8:	RIGHTSIZING LAUSD RECOMMENDATIONS FOR REFORM	72
	#1 Overhaul Long-Term Debt Obligations.....	73
	#2 Go After Low-Hanging Fruit.....	74
	#3 initiate Staff Reductions and Strategic School Closures.....	75
	#4 Mitigate Enrollment Declines by Focusing on Quality Options.....	78
	#5 Modernize the District's School Finance System.....	79
	CONCLUSIONS	84
	ABOUT THE AUTHORS	87

PART 1

INTRODUCTION

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These numbers from the latest audit actually understate the district's liabilities, because a more recent actuarial valuation report through June 30, 2017 increases the district's health

¹ Price, Scott. "Second Interim Report: Context Slides." Los Angeles Unified School District. 13 March 2018. web. <<http://laschoolboard.org/sites/default/files/03-13-18RegBdSecondInterimPresentationRevised.pdf>> 15 March 2018.

² The unrestricted net position represents the assets held by LAUSD that can be used for any purpose. This negative balance in the unrestricted net position of \$-10.9 billion reflects obligations that the district must pay out in future years on a pay-as-you-go basis. More specifically, the -\$10.9 billion reflects future liabilities related to the payment of retiree health benefits and pension obligations for various retirement plans. This is discussed in detail in Part 5 of this report.

care benefit liabilities (aka Other Post-Employment Benefit, or OPEB, debt) from \$13.7 billion in 2015 to \$15 billion in 2018.³ On a per-pupil basis, the OPEB debt alone is about \$30,000 per student for each of the 500,000 students currently enrolled in LAUSD.

To put LAUSD's deficit spending in context, as of March 2017 only 39 of California's 980 school districts were designated as at risk of financial insolvency by their county offices of education, meaning the district has poor financial health and will have a hard time meeting its financial obligations in the next two years.⁴ With the recent temporary, state-funded increases in school revenue in California, most districts have managed to balance their budgets, or at least make it appear that way.



The district's most recent budget of \$7.5 billion, approved in June 2017, projected that LAUSD will face a \$422-million shortfall by the 2019–2020 school year.



LAUSD is unique in California and the nation because the size of its projected budget deficits and overall debt dwarfs most other urban school districts.⁵ The district's most recent budget of \$7.5 billion, approved in June 2017, projected that LAUSD will face a \$422-million shortfall by the 2019–2020 school year. In addition, in four years the combination of pension costs, health and welfare costs, and special education costs are projected to take up 57.5% of unrestricted general fund revenue (LAUSD's main operational funding), before the district spends a single dollar to run a regular school program.

This study takes a fresh look at LAUSD's fiscal health, focusing on what has happened with the district's finances since LAUSD Superintendent Ramone Cortines' highly commended

³ "Actuarial Valuation Report: Los Angeles Unified School District: Post Retirement Health Benefits as of June 30 2017." 13 March 2018.

⁴ Fensterwald, John. "Fewer districts than expected say they're facing financial distress." Edsource. 28 March 2017. web. < <https://edsource.org/2017/fewer-districts-than-expected-say-theyre-facing-financial-distress/579443>>. 1 March 2018.

⁵ Ibid.

and widely cited November 2015 Independent Financial Review Panel report warned of looming financial disaster for LAUSD.

This study reviews the overall fiscal health of LAUSD by:

- Examining the past findings of the IFRP report.
- Examining the impact of California's new education funding formula on LAUSD.
- Examining the impact of LAUSD's enrollment decline and attendance trends.
- Taking a deep dive into the district's current financial position.
- Reviewing how the current fiscal obligations "crowd out" high-needs students.
- Considering the role charter schools play in the functioning of the district.
- Examining the academic performance of students in traditional and charter schools.
- Considering recommendations to "right-size" the district.

PART 2

LAUSD'S INDEPENDENT FINANCIAL REVIEW PANEL AND THE DISTRICT'S PERPETUAL FISCAL CLIFF

Los Angeles Unified School District (LAUSD) has faced years of dire warnings about the future of the district's fiscal health and the prospect of large projected budget deficits as expenditures overtake revenues. In 2008, LAUSD's own internal financial analysis warned that:

Large drops in enrollment coupled with sizeable increases in the cost of full retiree benefits (which few employers offer) could produce a condition whereby the District loses its ability to compete effectively for human resources with other Districts . . . This outcome would greatly hamper the District's ability to provide all its students with a state-of-the-art education.⁶

⁶ Ross, Randy. "Impact of Charters on the Functioning of LAUSD-Follow Up." Los Angeles Unified School District. 7 November 2008.

The most notorious and significant warning of LAUSD's future financial peril came from an Independent Financial Review Panel (IFRP) report released in November 2015, commissioned by then-Superintendent Ramone Cortines.⁷ The IFRP report is still so relevant to discussions of LAUSD's current finances that it is prominently displayed at the top of LAUSD's chief financial officer's web page, and it is referenced in almost every discussion of the district's finances, both internally and in the media.⁸ Specifically, the IFRP report detailed how "the LAUSD is facing a significant structural deficit in its operating budget that threatens the District's long-term financial viability."⁹ The report noted that the district's deteriorating financial health is largely due to a past, present, and future of declining enrollment in the district and the resulting decline in revenue, and noted several high-cost drivers of expenditures including benefits, special education services, and health care costs for employees and retirees. Much of the panel's work focused on the disconnect between expenditures that can reliably be expected to grow and revenues that are declining and will produce increasing deficits in the future. The report noted that "despite the loss of 100,000 students in the last six years, total full-time equivalents (FTEs) in the District have grown slightly, from 64,116 employees in Fiscal Year (FY) 2013 to 64,348 in the current year . . ."¹⁰



Specifically, the IFRP report detailed how "the LAUSD is facing a significant structural deficit in its operating budget that threatens the District's long-term financial viability."



The IFRP panels' chief recommendation was that staff be cut to adjust to declining enrollment: "The district's loss of 100,000 students would indicate that the district staff would

⁷ "Report of the Independent Financial Review Panel." Los Angeles Unified School District. lauds.net. 10 November 2015. Web. <www.achieve.lausd.net/cms/lib/CA01000043/Centricity/domain/328/independent%20financial%20review%20panel/LAUSD_IFRP_FINAL_REPORT%20110215.pdf> 25 October 2017.

⁸ Office of the Chief Financial Officer, Los Angeles Unified School District. <<https://achieve.lausd.net/Page/1679>>

⁹ "Report of the Independent Financial Review Panel."

¹⁰ Ibid.

need to be reduced by about 10,000 staff, including administrators, classified and certificated personnel, for a savings of about \$500 million per year.”¹¹ The IFRP report concluded that failure to make these adjustments would have dire consequences. “If the District desires to continue as a going concern beyond FY 2019–2020, capable of improving the lives of students and their families, then a combination of difficult, substantial and immediate decisions will be required. Failure to do so could lead to the insolvency of the LAUSD, and the loss of local governance authority that comes from state takeover.”¹²

While the report offered several very specific recommendations to help the district deal with the structural deficit and move toward fiscal stability, LAUSD has adopted very few of those cost-reduction strategies. Of particular note, none of the recommendations with the greatest potential to reduce the district’s expenditures—including closing or consolidating schools with low enrollment, significantly reducing staff in line with enrollment, or restructuring employee and retiree health benefits—have been implemented.



While the report offered several very specific recommendations to help the district deal with the structural deficit and move toward fiscal stability, LAUSD has adopted very few of those cost-reduction strategies.



In addition to the widely publicized IFRP report, LAUSD’s two most recent chief financial officers, Megan Reilly (2008–2017) and Scott S. Price, have repeatedly cautioned the school board about LAUSD’s deteriorating financial position, both in internal documents and in budget discussions. Former CFO Megan Reilly constantly warned that increasing student enrollment alone would not solve the structural deficit. In fact, as the publication *Los Angeles School Report* recounted, Megan Reilly talked about the fiscal cliff so often that during her final budget presentation to the school board, former school board member David Tokofsky presented Reilly with a box of Clif bars to poke fun at her repeated warnings

¹¹ Ibid.

¹² Ibid.

about the financial cliff.¹³ But as he explained, “Invariably the reports show the first year as positive and the third year is negative because of things like utility bills and pensions, but then that year comes and the worst-case scenario is pushed to the next year. It’s not a cliff, but a quest.”¹⁴ Reilly admitted that there was a *Groundhog Day* quality to the cycle.¹⁵ “We are faced with these compression issues, the ongoing trend with declining enrollment and longer term structural issues and these factors keep weighing in.”¹⁶ LAUSD’s current CFO, Scott Price, also acknowledged the looming financial deficit as recently as December 13, 2017, saying in a school board budget discussion, “Declining enrollment is hurting the district the most. Overall, we’re spending more than what we’re bringing in.”¹⁷

As discussed in the following section, LAUSD has largely been able to postpone falling off the fiscal cliff and amassing a large deficit thanks to positive changes in California’s financial health, a new state funding formula that gave significant new funding to districts like LAUSD with a large population of high-needs students, and substantial new tax revenue directed toward education that was generated by tax increases on higher-income California residents. Yet, as was originally predicted in the IFRP report, by 2019–2020, the buffer that this new revenue has provided is coming to an end and LAUSD’s expenditures and fiscal obligations are more than the district’s anticipated revenue. As a result, the district’s financial reserves are shrinking and pushing LAUSD back to the brink of fiscal disaster.

¹³ Szymanski, Mike. “Fiscal realignment likely to stave off \$1.6 billion LAUSD deficit in three years, CFO reports in her swan song.” *LA School Report*. laschoolreport.com. 15 March 2017. Web. < <http://laschoolreport.com/fiscal-realignment-likely-to-stave-off-1-6-billion-laUSD-deficit-in-three-years-cfo-reports-in-her-swan-song/> > 15 December 2017.

¹⁴ Ibid.

¹⁵ From the 1993 movie *Groundhog Day*, where the main character keeps reliving the same day over and over again.

¹⁶ “Fiscal realignment likely to stave off \$1.6 billion LAUSD deficit in three years.”

¹⁷ Szymanski, Mike. “A little good news on the budget—and 6 more things to know about LAUSD’s school board meeting.” *LA School Report*. Laschoolreport.com 13 December 2017. Web. < <http://laschoolreport.com/no-class-size-increases-for-now-and-6-more-things-to-know-about-laUSDs-school-board-meeting/> > 27 December 2017.

PART 3

CALIFORNIA'S FUNDING CLIMATE: HOW THE NEW FUNDING FORMULA AND NEW TAX REVENUE DEFERRED LAUSD'S FISCAL CRISIS

In the past few years, surges in state revenue from new taxes on high-income California residents were dedicated to education. This funding and changes to the state's funding formula have allowed LAUSD to postpone some of the worst predictions from the IFRP report about imminent financial decline. The improving economy and education funding increases to LAUSD have offered a temporary cushion from the district's rising structural costs such as special education, pensions, and health care benefits for retirees and their families. However, these new revenues were short-term increases in education funding that have now plateaued and are expected to begin declining in the 2018–2019 academic year due to the district's declining enrollment.



However, these new revenues were short-term increases in education funding that have now plateaued and are expected to begin declining in the 2018–2019 academic year due to the district’s declining enrollment.



In 2013–2014, California adopted the Local Control Funding Formula (LCFF) to fund both districts and charter schools and to provide for a more streamlined and equitable school finance system over a seven-year implementation period. The new formula was projected to cost California approximately \$20 billion in new funding revenue. The LCFF delivers funding to districts based on a weighted-student formula, which provides grade-specific foundational allotments, plus districts receive additional funds based on the number of low-income students, English language learners, and foster care children who attend district or charter schools.¹⁸ At full implementation, when the formula is 100% funded, all districts’ per-student funding will be *at least* what they received in 2007–2008, offering districts the pre-recession level of funding and purchasing power, adjusted for inflation.¹⁹ However, most districts will exceed that 2007–2008 level of purchasing power because of the supplemental and concentration weights for high-needs students.

Districts receive a “supplemental grant” equal to an additional 20% of the base grant for each high-needs student.²⁰ In addition, when high-needs students comprise more than 55% of the district’s total student population, districts receive a “concentration grant” for each student above the 55% threshold equal to 50% of the LCFF base grant per student. Table 1 shows the grade-span base amounts per student for the 2017–2018 academic year.

¹⁸ “LCFF Frequently Asked Questions.” California Department of Education. *Cde.ca.gov*. 2015. Web. <<https://www.cde.ca.gov/fg/aa/lc/lcfffaq.asp#FC>> 20 Oct 2017.

¹⁹ Ibid.

²⁰ An unduplicated count of low-income, ELL, and foster care students.

TABLE 1: LCFF BASE GRANT FUNDING, 2017–2018 BY GRADE

Grade Span	LCFF Base Grant Funding 2017–2018
K–3	\$7,941
4–6	\$7,301
7–8	\$7,518
9–12	\$8,939

Source: California Department of Education, *Funding Rates and Information, Fiscal Year 2017–2018*

In LAUSD, about 84% of the student population qualifies for the 20% supplemental weight.²¹ In 2017–2018, about 412,000 LAUSD students qualified for a 20% bump over the base formula, and about 136,000 qualified for the 50% bump from the poverty concentration grant.²² These high-needs students generate over \$1 billion a year in revenue for the district.

Originally, Governor Brown and the legislature forecast that the LCFF would reach full funding by 2020–2021. However, because of new taxes from high-income earners in California, surging state revenues have accelerated the implementation and funding of the LCFF.²³ Governor Brown’s final budget for 2018–2019 fully funded the LCFF, and he has increased K-14 education funding in California by 66% since 2012.²⁴ Unless the next governor explicitly raises the LCFF base grant amounts, going forward the base grants are at 100% and will only increase by yearly cost of living adjustments.

The funding formula change sought to improve academic outcomes by targeting more revenue to school districts like LAUSD that serve a large high-needs student population. The

²¹ “Comprehensive Annual Financial Report 2015-2016.” Los Angeles Unified School District. <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202015-16/LosAngelesUnifiedRpt16.pdf>. 13 December 2016.

²² Targeted Student Population Budget.” 2017-2018 Superintendent’s Final Budget. Los Angeles Unified School District. [lauds.net. Web. <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/123/09_2017-18%20Targeted%20Student%20Population%20Budget.pdf>](https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/123/09_2017-18%20Targeted%20Student%20Population%20Budget.pdf) 27 December 2017.

²³ “Governor’s Budget Summary 2018-2019.” Governor Edmund G. Brown Jr. [ebudget.ca.gov](http://www.ebudget.ca.gov). 10 January 2018. Web. <<http://www.ebudget.ca.gov/FullBudgetSummary.pdf>> 15 January 2018.

²⁴ Ibid. K-14 education funding includes community colleges.

new funding formula also gave districts more flexibility and authority to decide how to spend state-level education dollars by ending most of California's state-level restricted revenue categorical programs and redirecting most state-level funding into the per-student base allocation. In other words, the new base funding acted like a funding increase to districts' general unrestricted revenue because they no longer had to spend the money on special programs.

The weighted revenue follows the students to the district but does not follow high-needs students to their individual schools within LAUSD. The money is unrestricted, but districts do have to justify, through their accountability plans, how they are targeting this new revenue to their high-need student population to improve academic outcomes for these students.

The LCFF formula changes have benefited LAUSD and increased recent district revenue since the formula's implementation in 2013–2014. Yet, LAUSD now nears the end of the LCFF revenue increases as the program becomes fully funded in the 2018–2019 academic year. As LAUSD's CFO Scott S. Price wrote in his explanation of the district's financial standing in the First Interim Financial Report for 2017–2018, "The steep increase in revenue from 2013–2014 to 2017–2018 is estimated to slow down as the formula becomes 100% funded. This slowdown in increased revenue, coupled with continuing enrollment decline, results in a downward trend for the District's revenue estimates."²⁵ In sum, the year-to-year increases in LCFF revenue have buffered LAUSD from the fiscal realities of rising long-term obligations in pension and health care, and the consequences of increased hiring in the face of declining enrollment.

In other words, for LAUSD the era of new revenue is over. Data projections clearly show that past management decisions responsible for creating a structural and compounding annual deficit threaten to overwhelm the core operations of the Los Angeles Unified School District. Our findings and conclusions point the way out of this financial quagmire to put LAUSD on a more sustainable financial footing.

²⁵ Price, Scott. "2017-2018 First Interim Financial Report, Multi-Year Projections, And Fiscal Stabilization Plan." Los Angeles Unified School District. lausds.net. 11 December 2017. 2. Web. <<https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202017-18/First%20Interim%20Financial%20Report%202017-18%2020171215.pdf>> 27 December 2017.

PART 4

THE IMPACT OF ENROLLMENT AND ATTENDANCE TRENDS IN LAUSD

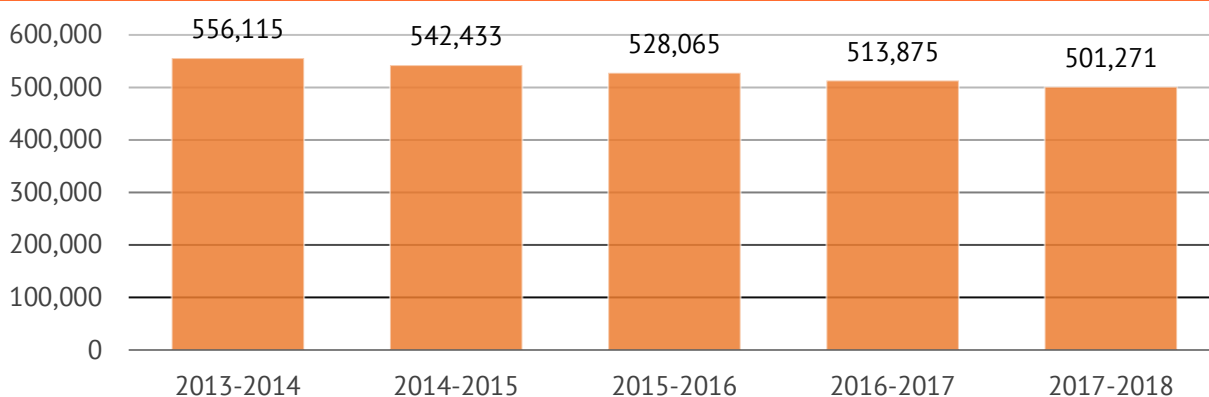
Enrollment and attendance trends greatly affect LAUSD's fiscal health. In California, average daily attendance (ADA) drives the allocation of most state and local revenues to the district, ultimately determining LAUSD's funding. In California, ADA reflects the total number of days of student attendance divided by the total number of days taught. Districts take daily attendance, averaging them all to arrive at an annual district student count. This ADA-based funding encourages districts to increase attendance at individual schools. Every day an enrolled student is absent, the district loses a portion of potential funding from the state. As the Los Angeles Unified School District Advisory Task Force reported, "in School Year 2016–2017 (SY16–17), over 80,000 LAUSD students, 14.3 percent, were chronically absent. That percentage increases to almost one-third of LAUSD students missing significant amounts of school if one adds the 17.9 percent of students who missed 8–14 days."²⁶ Given the significant role student enrollment and attendance contribute to LAUSD's financial health, the next section first considers enrollment trends in LAUSD (students can't attend if they are not enrolled!) and then discusses LAUSD's student attendance trends.

²⁶ Beutner, Austin. "LAUSD Advisory Task Force Attendance Recommendations." Los Angeles Unified School District. laschoolboard.org. 5 December 2017. Web. < <http://laschoolboard.org/sites/default/files/12-05-17SpclBdChartersLAUSDAdvisoryTask-ForceAttendanceRecommendations.pdf> > 27 December 2017. 2.

4.1

ENROLLMENT IN LAUSD SCHOOLS

Since the 2002–2003 academic year's peak enrollment of 746,831 students, the LAUSD has lost 245,560 students and has not experienced a net gain of students since then.²⁷ In the last five years, since the implementation of the Local Control Funding Formula in 2013–2014, LAUSD lost close to 55,000 students between FY 2014 and FY 2018,²⁸ as shown in Figure 1.

FIGURE 1: ENROLLMENT DECLINE, LAUSD, 2014–2018

Source: District Enrollment Trends: Superintendent's Final Budget 2017–2018

In addition, LAUSD predicts that by the 2020–2021 school year the district will have lost another 45,000 students.²⁹

DEMOGRAPHIC TRENDS IN LOS ANGELES

Demographic trends have underpinned LAUSD's declining enrollment. The Los Angeles County birth rate declined by one-third between 1990 and 2010, from above to below both

²⁷ "District Enrollment Trends: Superintendent's Final Budget 2017-2018." Los Angeles Unified School District. https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/123/13_Enrollment%20Trends%20and%20Projections%202017-18%2006-05-2017.pdf. June 17, 2017. 1.

²⁸ Ibid; "Superintendent's Budget Update." October 10, 2017. <https://boe.lausd.net/sites/default/files/10-10-17RegBdSuptBudgetUpdate.pdf>.

²⁹ "Second Interim Report: Context Slides." Los Angeles Unified School District.

the California and national averages.³⁰ Accordingly, the populations of the city of Los Angeles, the area within the LAUSD, and Los Angeles County overall each declined shortly after 2008, likely influenced by five years of sustained double-digit unemployment in the wake of the financial crisis, though the county is now recovering.³¹ As a result, Los Angeles County's estimated child population steadily declined from 2,694,000 in 2003 to 2,324,000 in 2016.³² Additionally, the county's birthrate fell from an estimated 67.7 live births per 1000 mothers in 2003 to 59.3 per 1000 in 2013.³³ Despite economic recovery, the LAUSD's 2017–2018 proposed budget notes that the number of births in Los Angeles County declined about 20,000 in the past six years, from roughly 150,000 in 2010–2011 to about 130,000 in 2016–2017.³⁴ This suggests that in future years LAUSD will continue to have declining enrollment due to demographic trends.

THE EFFECT OF CHARTER SCHOOLS ON ENROLLMENT

While a variety of factors has influenced the LAUSD's declining enrollment trend, the IFRP report attributed roughly 50% to competition from independent charter schools.³⁵ Between 2009 and 2016, the number of L.A. charter schools, both independent and financially affiliated with the LAUSD, has nearly doubled, from 153 to 292 campuses. At the same time, the Los Angeles charter sector has increased student enrollment more than two-and-a-half-fold, from roughly 60,000 in 2008–2009, to over 150,000 in 2015–2016.³⁶ Independent charter schools, which are directly funded and are not included in LAUSD's audited K-12

³⁰ "Recent Birth Trends in Los Angeles County." Office of Health Assessment & Epidemiology, County of Los Angeles Public Health. http://www.publihealth.lacounty.gov/epi/docs/Birth_Trends_Health_Brief_Final.pdf. April 2015. 2.

³¹ "Comprehensive Annual Financial Report 2015-2016." Los Angeles Unified School District. <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202015-16/LosAngelesUnifiedRpt16.pdf>. 13 December 2016. 158.

³² "Child Population, by County: Los Angeles." Kidsdata.org. Lucile Packard Foundation for Children's Health. <http://www.kidsdata.org/topic/32/childpopulation/trend#fmt=139&loc=2,364&tf=13,88>. 2017.

³³ "Births: Los Angeles, California, United States." Kidsdata.org. Lucile Packard Foundation for Children's Health. <http://www.kidsdata.org/topic/610/fertility-rate/trend#fmt=1195&loc=364,1,2&tf=13,73>. 2017.

³⁴ "District Enrollment Trends: Superintendent's Final Budget 2017-2018." 3.

³⁵ "Comprehensive Annual Financial Report 2015-2016." Los Angeles Unified School District. <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202015-16/LosAngelesUnifiedRpt16.pdf>. 13 December, 2016. 6.

³⁶ CCSA LAUSD Spotlight. 5.

enrollment figures, grew by 76,867 pupils over the last 11 years between FY 2007 and FY 2017. In the current academic school year of 2017–2018, an estimated 114,000 students enrolled in independent charter schools.³⁷ To be clear, most discussions of the fiscal impact of charter schools on LAUSD are referring to only independent charter schools.³⁸



However, the total number of students enrolled in independent charter schools is not equivalent to the total number of students who have left LAUSD for charter schools.



However, the total number of students enrolled in independent charter schools is not equivalent to the total number of students who have left LAUSD for charter schools. Los Angeles charter schools have gained some enrollment from students outside of LAUSD boundaries and from Los Angeles private schools. In fact, the May 2016 report from the United Teachers Los Angeles (UTLA—the teachers’ union)—“Review: The Fiscal Impact of Charter Schools on LAUSD” (in a later section we dispute the report’s findings on the financial impact of charters on the district) admits that only 75% of charter enrollment would have attended LAUSD, and that 25% are non-LAUSD students.³⁹ Similarly, an internal LAUSD report on the impact of charter schools on LAUSD cited anecdotal evidence in support of the claim that 25% of charter students live outside LAUSD boundaries.⁴⁰ In addition, some charter school enrollment growth can be attributed to private school students who were never enrolled in LAUSD, especially because, since 2002, private school enrollment in

³⁷ “District Enrollment Trends: Superintendent’s Final Budget 2017-2018.” 4.

³⁸ “Portrait of the Movement 2017: Los Angeles Spotlight. A Closer Look at Charters in the Los Angeles Unified School District.” California Charter Schools Association. May 2017. 2.

³⁹ Zoller, Susan. “Review: Fiscal Impact of Charters on LAUSD.” MGT of America, 2016. Web. <<http://thecostofcharterschools.org/ccs/eir/>> 25 Oct 2017.

⁴⁰ Ross, Randy. “Impact of Charters on the Functioning of LAUSD.” Los Angeles Unified School District. 10 October 2017. 7.

Los Angeles County has also dropped by 29%.⁴¹ This means that, while Los Angeles private schools have lost enrollment because of the same demographic factors that impact LAUSD, at least some of it is likely due to private school students now attending independent charter schools in Los Angeles.⁴² The 75% estimate translates to about 85,336 students leaving LAUSD for charter schools, or 35% of the district's total enrollment loss since peak enrollment in the 2002–2003 academic year. In addition, LAUSD receives small funding allocations from 1% to 3% of per-pupil funding and special education contributions for many students in Los Angeles charter schools who would have never enrolled in the district because they live outside district boundaries or would have enrolled in private schools.

As students continue to leave LAUSD, charter school enrollment growth accounts for smaller percentages of LAUSD's declining enrollment than in the past. If we continue to use the 75% assumption, in 2013–2014, charter schools accounted for 45% of the district's enrollment loss. Yet, according to LAUSD charter school enrollment projections by FY 2017–2018 (see Figure 2) using the 75% assumption, new charter students would account for less than 13% of the district's enrollment loss.⁴³ Overall enrollment for LAUSD has dropped about 33% since FY 2003, and even if 100% of independent charter students were living within LAUSD boundaries and attending district schools, enrollment in LAUSD would have still declined by approximately 132,000 students, or 18%, since the district's peak enrollment in the 2002–2003 academic year. These students did not enroll in charter schools in Los Angeles and represent district enrollment decline due to other reasons including demographic changes, family migration patterns, or other school options such as homeschooling. Even absent charter competition, the LAUSD would have had to reconcile its budget with declining enrollment.

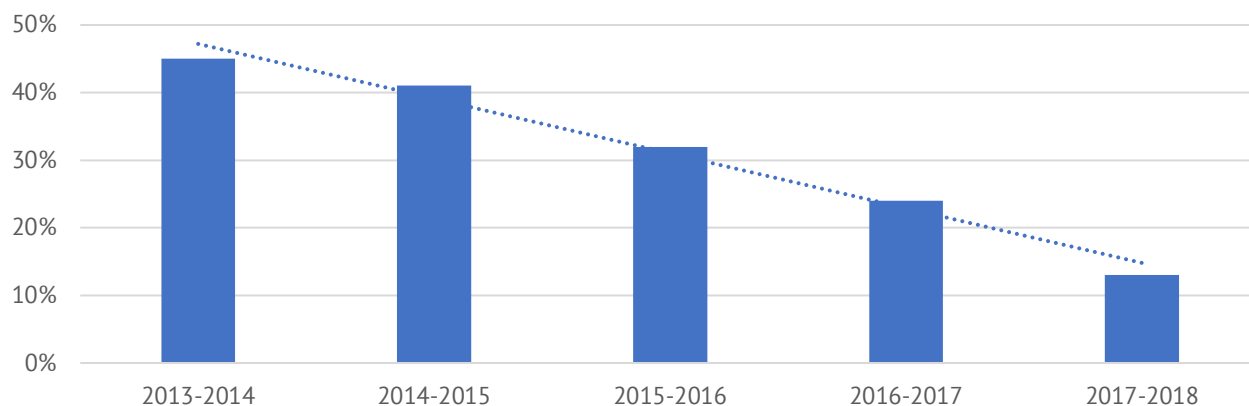
As the IFRP report echoed in 2015, “Even if LAUSD had no more new charter schools, its enrollment would continue to decline due to demographic factors, factors that are not within its control, and that are unlikely to reverse in the coming years. All District departments must properly plan for the continued and possibly accelerated decline of student enrollment, and the Board must act accordingly.”⁴⁴

⁴¹ “Enrollment in Private Schools is also Shrinking.” Web blog post. *School Data Nerd* 21 May 2017. Web. <www.schooldatanerd.com/2017/05/21/enrollment-in-private-schools-is-also-shrinking/> 5 January 2018.

⁴² Ibid.

⁴³ “District Enrollment Trends, Superintendent's Final Budget 2017-2018.”

⁴⁴ “Report of the Independent Financial Review Panel.” 10.

FIGURE 2: CHARTER SCHOOLS AS A PERCENTAGE OF LAUSD ENROLLMENT LOSS

Source: District Enrollment Trends, Superintendent's Final Budget 2017-2018

OUT-MIGRATION OF K-12 STUDENTS TO OTHER CALIFORNIA COUNTIES

In its 2009 report “Southern California School Enrollment Trends and Forecasts,” LAUSD’s Master Planning and Demographics Unit warned that continuing declines in birth cohorts and prolonged family out-migration to neighboring counties would reduce the K-12 enrollment in Los Angeles County by 221,000 over the next decade.⁴⁵ The report also projected enrollment gains in Riverside County of 180,000 students, followed by Kern and San Bernardino counties that would each add over 47,000 students. The most recent Census county-to-county migration trends show that between 2011 and 2015 more than 112,000 people left Los Angeles County for Riverside, San Bernardino, Kern, and Orange counties.⁴⁶ This trend of out-migration continues more broadly, as the Census reported in 2016 that about 75,000 more people left Los Angeles County than moved here from other places in the United States. That rate of “negative domestic migration” is 21% more than in 2015.⁴⁷ In addition, state data from California’s Department of Finance (DOF) show that between

⁴⁵ Edwards, Valerie and Mary Ehrenthal Prichard. “Southern California School Enrollment Trends and Forecasts.” LAUSD Master Planning and Demographics Unit. Los Angeles Unified School District. 1 June 2009. Web. http://www.laschools.org/documents/download/mpd%2Fmpd_document_repository%2Fanalysis_and_reports%2FSoCal_School_Trends_and_Forecasting_USC-SCAG_Demog_6_1_09_FINAL_public.pptx 24 January 2018.

⁴⁶ County-to-County Migration Flows 2011-2015. United States Census Bureau. Census.gov Web. <https://www.census.gov/topics/population/migration/guidance/county-to-county-migration-flows.html> 24 January 2018.

⁴⁷ Khouri, Andrew. “leaving coastal California ‘no brainer’ for some as housing costs rise.” *Los Angeles Times*. latimes.com. 14 April 2017. Web. <www.latimes.com/business/la-fi-leaving-socal-20170414-story.html> 24 January 2018.

2003, when LAUSD was at peak enrollment, and 2018, Los Angeles County (not the school district) lost 196,275 K-12 students. On the other hand, Kern, Riverside, and San Bernardino counties gained close to 120,000 students.⁴⁸ The DOF projects that in the next decade Los Angeles County will lose another 119,000 K-12 students—more than any other county in California.⁴⁹

In conclusion, these out-migration patterns for K-12 students in Los Angeles, where families have moved out of LAUSD boundaries and into other school district boundaries, constitute a large portion of LAUSD's declining enrollment. Yet, the popular narrative holds charter schools responsible for enrollment decline, even though there is little difference between a family choosing a charter school or another public school outside of LAUSD boundaries.

4.2

ATTENDANCE RATES

Relative to other districts in California, students in LAUSD have below average attendance rates and high rates of chronic absenteeism. The IFRP report noted that LAUSD's average daily attendance (ADA) was below the statewide average of 95.2%.⁵⁰ The IFRP report argued that moving from its current ratio of 94% to the statewide average of 95.2% would generate an additional \$45 million per year in LCFF revenue for LAUSD.⁵¹ However, the LAUSD attendance rate has remained flat at 94% of enrollment since the IFRP recommended reducing student absenteeism.⁵² The district's goal for attendance is to have all students attend school at least 96% of the time, which is equivalent to 172 days or more a

⁴⁸ "California Public K-12 Graded Enrollment and High School Graduate Projections by County—2017 Series." State of California Department of Finance. [Dof.ca.gov](http://www.dof.ca.gov). December 2017. Web. http://www.dof.ca.gov/Forecasting/Demographics/Projections/Public_K-12_Graded_Enrollment/ 24 January 2018.

⁴⁹ Ibid.

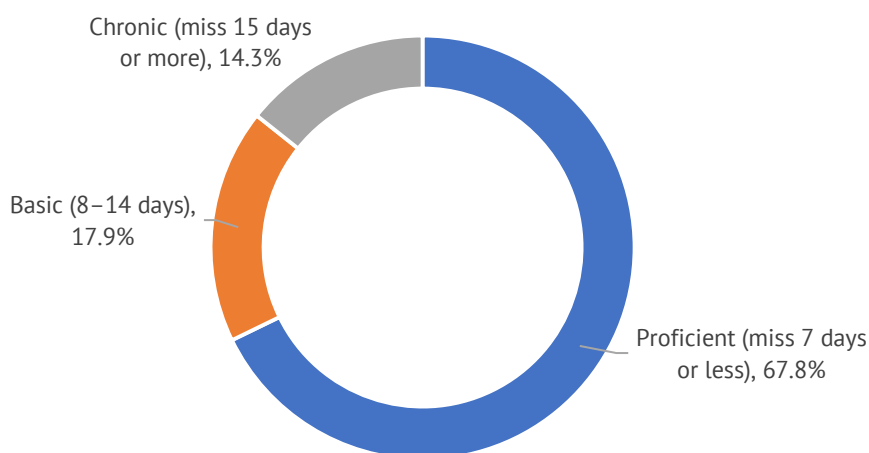
⁵⁰ "Report of the Independent Financial Review Panel."

⁵¹ Ibid.

⁵² "Audited Annual Financial Report for Fiscal Year Ended June 30, 2017." Los Angeles Unified School District. lausd.net. 14 December 2017. Web. <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202016-17/LosAngelesUnifiedRpt17.pdf>. 2 January 2018.

year out of 180 days.⁵³ For fiscal year 2017, the district budgeted that 73% of students would attend class for 172 days. The actual result was 68%, resulting in lost revenue of \$20 million.⁵⁴ In fact, in the academic year 2016–2017, over 80,000 LAUSD students, or 14.3%, were chronically absent, missing 15 or more days of school. Another 18% of LAUSD students missed between eight and 14 days of school.⁵⁵ In comparison, California's statewide chronic absenteeism rate is 7%.⁵⁶ A 14% chronic absence rate means the district lost out on a total of \$630 million in revenue last year—more than \$1,200 per student—which would be the amount generated if the district had zero student absences.⁵⁷ While this is obviously an unrealistic goal, it offers context to the huge cost of student absenteeism to the district's potential revenue. If every child in LAUSD attended one more day of school, the district would have approximately \$30 million more to invest in the classroom.⁵⁸

FIGURE 3: LAUSD ATTENDANCE RATES, SCHOOL YEAR 2016–2017



Source: LAUSD Advisory Task Force Attendance Recommendations, December 5, 2017

⁵³ “LAUSD LCAP 2017-2020 Final.” Los Angeles Unified School District. lauds.net. 15 October 2017. Web. <<https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/358/lcap2017-59.pdf>> 27 November 2017.

⁵⁴ LAUSD Advisory Task Force Attendance Recommendations.”.

⁵⁵ Ibid.

⁵⁶ Favot, Sarah. “Students: How Rising Chronic Absenteeism Cost LAUSD \$45 Million.” The 74. The74million.org. 10 July 2017. Web. < www.the74million.org/article/lausd-loses-ground-in-its-fight-against-chronic-absenteeism-but-foster-youth-attendance-is-up/> 27 November 2017.

⁵⁷ “Students: How Rising Chronic Absenteeism Cost LAUSD \$45 Million.”

⁵⁸ LAUSD Advisory Task Force Attendance Recommendations.

PART 5

THE BIG PICTURE: CURRENT LAUSD TRENDS IN ASSETS AND LIABILITIES AND REVENUES AND EXPENDITURES

5.1

THE DISTRICT'S COMPREHENSIVE FINANCIAL AUDITS AND NET FINANCIAL POSITION OVER TIME

When examining the overall fiscal outlook of LAUSD, the place to start is with LAUSD's Comprehensive Annual Financial Report (CAFR). The CAFR is a yearly independent audit of the district's finances that closes the books on each LAUSD fiscal year ending June 30.

Most of LAUSD's financial reports and documents, like the district's budget, for example, contain financial statements of revenue and expenditures arranged around specific funds.

LAUSD's most significant fund is the general fund, which details the district's main operating budget, including the funding and spending used to educate the district's students annually.

On the other hand, the CAFR report ignores the partitions between funds as disparate as the general fund and the cafeteria fund. Rather, it brings the district's financial activity together in one place using an accrual-based accounting method where expenses are counted when they occur, not when they are paid. Therefore, the annual audited financial statement puts all the district assets and liabilities (even liabilities that will be paid in future years like pension debt) into one financial statement. This results in a net or bottom line financial position for the district. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of LAUSD is improving or deteriorating.

The latest independent audit of LAUSD for the academic year ending June 30, 2017 (which also represents LAUSD's fiscal year) reported liabilities surpassing assets by \$5.1 billion—a half a billion dollar increase from the previous fiscal year.⁵⁹ Table 2 shows the district's overall revenue and expenditures from the annual financial audits for 2014–2017. In every year expenditures have surpassed revenues, creating a year-on-year compounding structural deficit that erodes the district's net position. In other words, every year that the district's overall expenditures are more than the district's revenue forges a negative change in net position that swells the district's overall liabilities as demonstrated by the final net position.⁶⁰

⁵⁹ “Audited Annual Financial Report for Fiscal Year Ended June 30, 2017.” Los Angeles Unified School District. lausd.net. 14 December 2017. Web. <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202016-17/LosAngelesUnifiedRpt17.pdf>. 2 January 2018.

⁶⁰ In Table 2 in 2014 the district had a large change in the district's net position because, for the first time, all long-term liabilities were required to be reported as part of the district expenditures because of GASB rules. The negative net position reflects the cumulative increase in unfunded liabilities for other post-employment benefits (OPEB) and the recognition of net pension liability because of the adoption of Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.

TABLE 2: LOS ANGELES UNIFIED SCHOOL DISTRICT'S TOTAL REVENUE & EXPENDITURES AND NET POSITION 2014-2017 (IN THOUSANDS)

Fiscal Year	Total Revenue	Total Expenditures	Change in Net Position	Net Position
2013–2014	\$7,446,387	\$13,226,116	\$(5,779,729)	\$(3,595,804)
2014–2015	\$7,971,620	\$8,554,813	\$(573,193)	\$(4,168,957)
2015–2016	\$8,742,203	\$9,158,716	\$(416,513)	\$(4,585,510)
2016–2017	\$8,889,469	\$9,402,091	\$(512,622)	\$(5,098,132)

Source: Los Angeles Unified School District Comprehensive Annual Financial Reports 2014-2017

Table 3, taken from LAUSD's 2017 financial audit, accounts for the district's net position.

TABLE 3: LAUSD'S 2017 STATEMENT OF NET ASSETS (IN THOUSANDS)

Net Position	
• Net investment in capital assets	\$4,981,898.00
Restricted for:	
• Debt service	\$78,108.00
• Program activities	\$697,845.00
• Unrestricted	(\$10,855,983.00)
Total Net Position	(\$5,098,132.00)

Source: Los Angeles Unified School District, Audited Annual Financial Report for Fiscal Year Ended June 30, 2017

A district's statement of net assets is divided into three components. First, "net investment in capital assets" reflects the value of capital assets (land, buildings and equipment) after subtracting the outstanding debt to finance those capital assets. This is a bit like the equity available in a home, which is the value of the home less the amount outstanding on any loans secured against that home, such as a mortgage. LAUSD has approximately \$5 billion in free and clear "net investment in capital assets."

The second component of net assets is “restricted” assets, which represent resources that are already committed to a purpose by the school district. In LAUSD’s case, restricted assets are already committed to debt service and program activities.

Finally, the “unrestricted” net assets are all the assets that are considered usable for any purpose. It is common to see an unrestricted net asset deficit for school districts because long-term liabilities that the district owes in future years show as accumulated debt on this statement. In reality, the school district pays off this debt on a pay-as-you-go basis each year, but the whole owed sum is reflected in the negative unrestricted net asset value.



What we learn from this statement of net position in Table 3 is that LAUSD’s liabilities exceeded its assets at the close of the most recent fiscal year by \$5.1 billion.

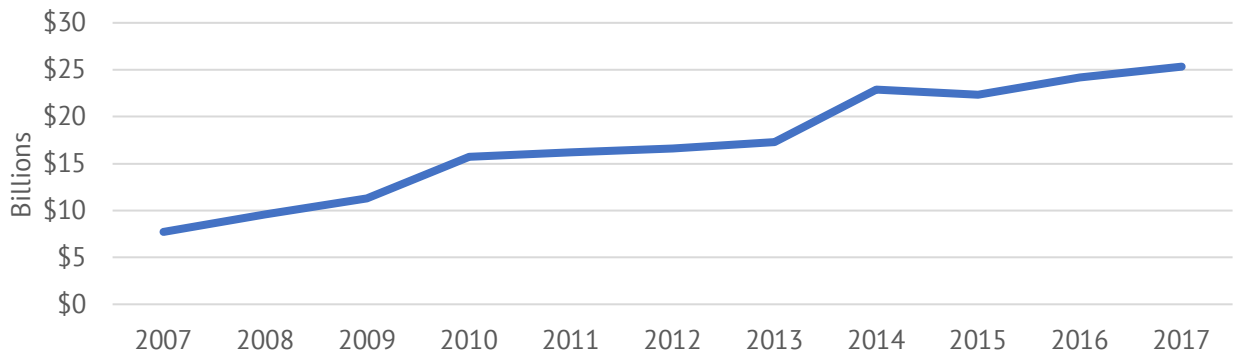


What we learn from this statement of net position in Table 3 is that LAUSD’s liabilities exceeded its assets at the close of the most recent fiscal year by \$5.1 billion. However, more concerning to the district’s long-term fiscal health is its “unrestricted” net position, which shows a \$10.9 billion deficit. This deficit reflects obligations that the district must pay out in future years using future district revenue. More specifically, the \$10.9 billion reflects future liabilities related to the payment of retiree health benefits and pension obligations for various retirement plans.⁶¹ These “unrestricted” net assets are more significant than the final net position because, although \$5 billion in capital assets are subtracted from the district’s unrestricted deficit of \$10.9 billion for a final deficit of \$5.1 billion, the capital assets themselves cannot be used to repay the unrestricted deficit of \$10.9 billion unless they are sold. The \$5.0 billion in capital assets—the school buildings themselves, campus real estate and equipment—are currently in use by the staff and students who are attending schools in the district every day. Unless some of these assets are sold, the resources to pay the \$10.9 billion debt must be found from other sources and will ultimately be paid from the district’s operating budget.

⁶¹ Ibid.

As these negative unrestricted assets (long-term liabilities) grow over time, the district's current operating budget must pay the portion of this liability that is due each year. In a decade alone, the total long-term liability of LAUSD has more than tripled, from under \$8 billion in 2007 to more than \$25 billion in 2017. See Figure 4.

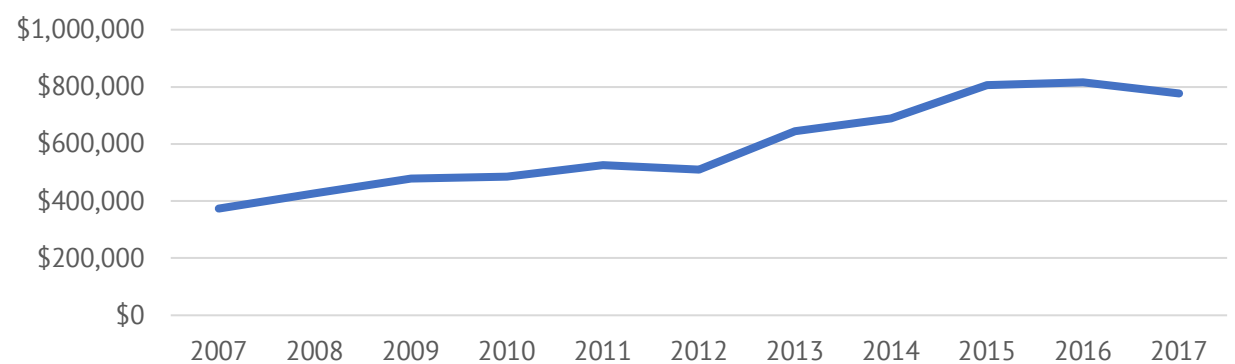
FIGURE 4: GROWTH IN LAUSD LONG-TERM LIABILITIES 2007–2017



Source: LAUSD CAFR 2007-2017

Each year's audited financial statements delineate the portion of long-term liability due within one year in a single line-item. Eleven years ago, in 2007, the district owed less than \$400 million within one year for long-term obligations; by 2017 the portion of long-term liabilities due within one year had increased to \$800 million, more than 100% growth in actual dollars.⁶² See Figure 5.

FIGURE 5: LONG-TERM LIABILITY: PORTION DUE WITHIN ONE YEAR (IN THOUSANDS)



Source: LAUSD CAFR 2007–2017

⁶² Even in inflation-adjusted dollars, the amount the district must pay has grown by 80%.

The district must take this money out of current-year revenue that is generated by current student enrollment to operate schools and serve students. Therefore, the unrestricted net assets tell us important information about LAUSD's long-term financial health, as this debt is likely to encroach on its ability to educate its current students, meet its year-to-year obligations, and pay its bills.

In conclusion, the district has unrestricted net asset deficits because LAUSD (like many government agencies) has long-term liabilities that it funds on a pay-as-you-go basis, appropriating revenue each year as payments come due, rather than accumulating assets to cover future liabilities. LAUSD's fundamental problem, which we will discuss throughout this report, is that every year a larger portion of these long-term liabilities comes due, eroding the financing of day-to-day district operations. The more unrestricted negative assets a district accumulates over time, the more likely the general fund is in a deteriorating fiscal position, compromising the district's ability to meet its core function of educating students.

TABLE 4: LAUSD GENERAL FUND REVENUE AND EXPENDITURES FY 2008–2020 (IN THOUSANDS)

Fiscal Year	Revenues	Expenditures
2007–2008	\$6,808,664	\$6,928,396
2008–2009	\$6,649,743	\$6,585,591
2009–2010	\$6,208,625	\$6,164,809
2010–2011	\$6,328,532	\$6,117,604
2011–2012	\$5,883,516	\$5,845,488
2012–2013	\$5,671,594	\$5,784,020
2013–2014	\$5,853,648	\$5,660,706
2014–2015	\$6,420,069	\$6,205,730
2015–2016	\$7,161,449	\$6,633,257
2016–2017	\$7,176,151	\$6,758,572
2017–2018*	\$7,178,986	\$7,113,123
2018–2019*	\$7,035,345	\$7,240,082
2019–2020*	\$7,048,208	\$7,314,518

*Projected

LAUSD: CAFR 2009-2017: Schedule of Financial Trends and Analysis

5.2 REVENUES AND EXPENDITURES IN THE GENERAL FUND

California school districts use an accounting system called “fund accounting,” in which all revenue and expenditures are placed in one of several funds. The most significant fund and the one that the district budget is built upon is called the general fund. The general fund records LAUSD’s day-to-day operations in terms of revenue and expenditures. The majority of the district’s financial transactions flow through the general fund. The general fund is where all local, state and federal revenues are reported on a yearly basis and where all yearly expenditures to operate the schools in LAUSD are detailed. Because it reflects actual operational expenses, the general fund incorporates the most useful evidence about the overall fiscal health of a school district.

In California, the new LCFF (Local Control Funding Formula) was designed to restore school districts’ purchasing power to the equivalent of funding levels in 2007–2008, i.e. before the California recession. To really understand the district’s financial trends, we must first look at the trends before and after the recession. LAUSD general fund revenue began to decline after FY 2009 and then hit a low in 2011 and 2012 as state revenue for education declined because of lower state tax revenues (see Table 4). However, beginning in 2014 LAUSD’s general fund revenue began to rebound as the LCFF was implemented. But from this year forward, as the LCFF becomes 100% funded and as the district continues to lose enrollment, LAUSD’s financial buffer resulting from increases in new revenue taper off and revenue begins to decline again.

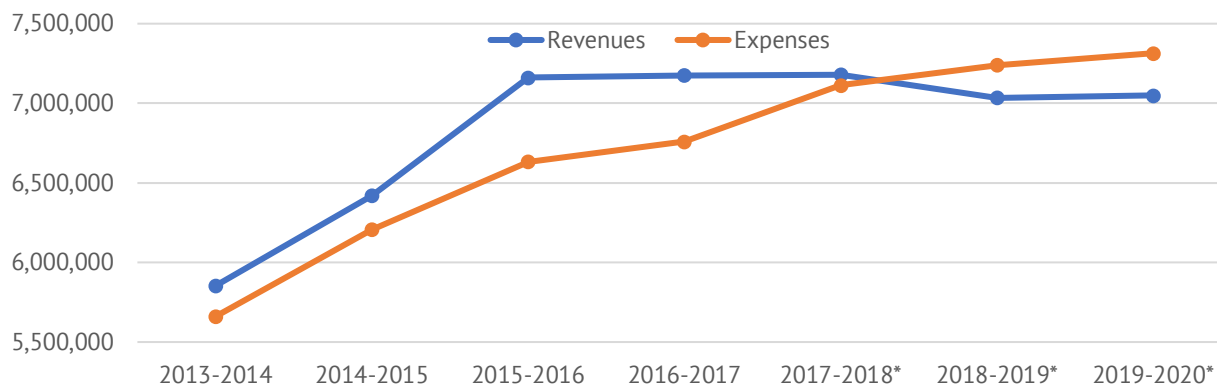
The trends in revenue and expenditures for LAUSD support the notion that the district was able to partially forestall its financial crisis because of substantial new revenue from the LCFF. As can be seen in Figure 6, which details general fund revenue and expenditures and projected revenue and expenditures since the implementation of the LCFF in 2014, LAUSD’s general fund revenue increased by 20% and expenditures increased by 29%. In other words, LAUSD’s spending has grown faster than the new available revenue. After 2018, this phenomenon is expected to accelerate as revenue is projected to decline in 2018–2019.

The *Superintendent’s Budget Update* on November 17, 2017 reaffirms that spending is quickly outpacing revenue and offers a detailed illustration of the district’s committed new expenditures versus new revenue.⁶³ For example, new costs such as the ACLU settlement to

⁶³ “Budget Update.” Los Angeles Unified School District. 14 November 2017. Web. <<http://laschoolboard.org/sites/default/files/11-14-17BudgetUpdate.pdf>>.

send \$150 million to high-needs schools, health benefits, and pension costs far exceed the new revenue the district will receive as the LCFF becomes fully funded.⁶⁴ New expenditures exceed new revenues, which compounds the structural deficit.

**FIGURE 6: LAUSD GENERAL FUND REVENUE AND EXPENSES (FY 2014–2020)
(IN THOUSANDS)**



*Projected

LAUSD: CAFR 2009-2017: Schedule of Financial Trends and Analysis

DECLINING BUDGET RESERVES

Another important LAUSD fiscal health indicator from the general fund is the amount of financial reserves a school district has available in case of a financial emergency. Budget reserves represent a district's ability to weather unanticipated fiscal pressures. For example, if the state of California were to revise its budget revenue projections mid-year and require cuts in education funding statewide (which happened during the recession), the reserves are designed to help the school district pay its bills.

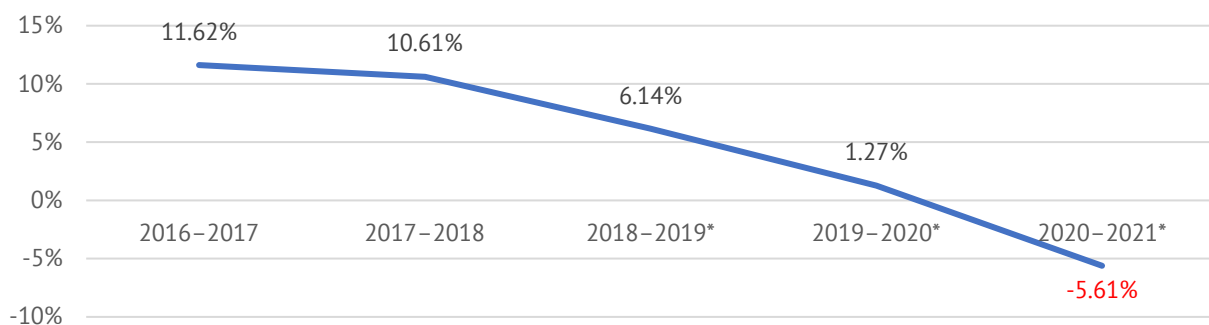
More specifically, a reserve represents unassigned and unrestricted assets that the district has in its ending balance at the close of each fiscal year on June 30. To protect the district from financial insolvency and preserve the district's credit rating, the state of California requires LAUSD to have 1% of its annual expenditures available as reserves, and LAUSD's internal budget and finance policy requires it to have 5% of general fund expenditures in reserve. In addition, in 2017 Governor Brown signed into law SB 751, which set a new stand-

⁶⁴ Ibid.

ard for the recommended level of the statutory reserve limit from 6% to 10% so that California districts can better save for budget uncertainty and state financial downturns.⁶⁵ If California has a financial downturn, LAUSD will have very limited reserves to meet the district's financial obligations.

In Figure 7, projected declines in these available reserves from 2017 to 2021 stem from the district's anticipated annual expenditure increases outpacing its annual revenue increases as mandatory bills rise and revenue increases taper off. Based on the state's 2018–2019 budget projections, Figure 7's reserve amounts account for the significant new funding increases announced in January 2018 and full funding of the Local Control Funding Formula.⁶⁶ LAUSD's bottom line going forward is that expenditures will continue to grow, and revenue will be flat or shrinking. With ongoing spending exceeding the revenues available, LAUSD will be forced to use these ever-meager budget reserves to close the gap.⁶⁷

FIGURE 7: LAUSD ENDING BALANCE RESERVES AS A PERCENTAGE OF TOTAL EXPENDITURES FY 2017–2021



* projected

Source: Second Interim Report: Context Slides, Los Angeles Unified School District, Scott S. Price Ph.D., March 13, 2018.

⁶⁵ Factsheet for SB 751: School Reserve Cap. http://sd13.senate.ca.gov/sites/sd13.senate.ca.gov/files/sb751_factsheet_final.pdf

⁶⁶ California has adjusted these revenue targets to reflect inflation plus cost of living increases. Per-pupil revenue amounts today are intended to reflect purchasing power from 2007–2008. Education revenue has increased 66% statewide since 2011. The reserve percentages are from the LAUSD budget communication: “Los Angeles School Board Budget Update.” 16 January 2018. Web. <http://laschoolboard.org/sites/default/files/01-16-18RegBdBudgetUpdate.pdf>

⁶⁷ Figure 7 reflects numbers from the 2nd interim financial report In March 2018. Price, Scott. “Second Interim Report: Context Slides.” Los Angeles Unified School District. 13 March 2018. web. <<http://laschoolboard.org/sites/default/files/03-13-18RegBdSecondInterimPresentationRevised.pdf>>. 15 March 2018.

COUNTY OFFICE OF EDUCATION CERTIFICATION OF FINANCIAL HEALTH

The final big picture negative indicator for LAUSD's fiscal health is the review of LAUSD's interim budgets by the Los Angeles County Office of Education. The LA County superintendent issues one of three certifications regarding a district's ability to meet its financial obligations for the current fiscal year and the next two years.

- Positive = The district will meet its obligations.
- Qualified = The district **May Not** meet its obligations.
- Negative = The district will be unable to meet its obligations.

On December 11, 2017 LAUSD's CFO Scott S. Price asked the Los Angeles School Board to approve the submittal of the district's *First Interim Financial Report* to the Los Angeles County Office of Education with a "qualified" certification, "meaning that the district may not be able to meet its financial obligations in the subsequent two years."⁶⁸ LAUSD has received a "qualified" status from the county every budget reporting term since 2008.⁶⁹ The most recent "qualified" certification shows that LAUSD may not meet its financial obligations for fiscal year 2018–2019, or 2019–2020.⁷⁰

When LAUSD receives a "qualified" certification, the district must provide the county a fiscal stabilization plan to demonstrate how the district will manage its deficit spending and avoid a negative balance in the general fund. Since 2008, LAUSD has been able to pull back from the brink of financial disaster and has never actually had a negative unrestricted ending balance in the general fund. Each year a fiscal stabilization plan has allowed the district to maintain a positive ending balance and address the projected deficit to restore and maintain reserves at the required statutory level of at least 1% of general fund expenditures. This is where the *Groundhog Day* movie theme comes into play. The district shows budget deficits in its multi-year projections that to date it has been able to remedy by taking corrective action to reallocate resources and prevent the looming deficit.

Yet, a positive ending balance doesn't necessarily mean that the fiscal stabilization plan for each "qualified" certification has fixed the district's deficit spending or is fiscally sound. At

⁶⁸ "2017-2018 First Interim Financial Report, Multi-Year Projections, And Fiscal Stabilization Plan." 1.

⁶⁹ For a historical list of district certifications of "negative" or "qualified" see the California Department of Education Interim Status reports at <https://www.cde.ca.gov/fg/fi/ir/interimstatus.asp>.

⁷⁰ "2017-2018 First Interim Financial Report, Multi-Year Projections, And Fiscal Stabilization Plan."

best LAUSD's fiscal stabilization plans have been a short-term fix. For example, in the most recent fiscal stabilization plan to balance the budget and have a positive ending balance through 2020, the district will suspend a \$200 million payment to its OPEB Trust for future costs of retiree health care benefits, and reallocate and redirect \$100 million in school-site carryover funds that schools would have had available to manage their school-level spending.⁷¹ In addition, even after implementing the items in the most recent fiscal stabilization plan, the district would still close out 2020 with only 1% of expenditures in reserves—well below LAUSD's internal reserve policy of 5% of expenditures. In LAUSD, deficit spending continues with yet another negative ending balance projected for 2021.

5.3

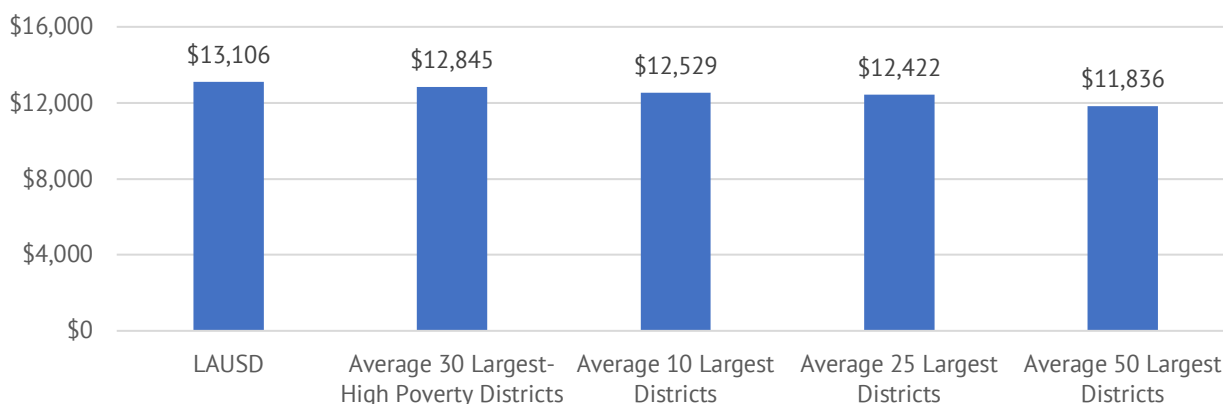
BENCHMARKING LAUSD'S CURRENT REVENUE AND SPENDING

When examining LAUSD's fiscal health, it is important to understand where the district stands in terms of per-pupil revenue and expenditures compared to other districts in California and the nation. One issue raised in the 2015 IFRP report was that Los Angeles Unified had less revenue and spends less than other similar districts in California and the nation. The independent panel wrote, "it is clear that the effect of California's ranking near the bottom of the nation in per-student funding has taken its toll on LAUSD finances. Even in the current more positive environment, in which revenues to education are recovering, LAUSD funding still ranks well below the levels enjoyed by large urban districts in other states."⁷²

However, since the implementation of the Local Control Funding Formula, whereby districts with high percentages of disadvantaged students receive extra weighted resources, LAUSD's overall per-pupil revenue and spending position has improved relative to the state average and compared to other districts in the nation (see Figure 8). LAUSD has slightly higher per-pupil revenue than the 30 largest high-poverty districts, and almost \$1,300 more per-pupil than the average of the 50 largest districts in the U.S.

⁷¹ Ibid.

⁷² Report of the Independent Financial Review Panel.

FIGURE 8: LAUSD PER-PUPIL REVENUE VS. SIMILAR U.S. DISTRICTS, FY 2014

Source: National Center for Education Statistics, “Revenue and Expenditures for Public Elementary and Secondary School Districts: School Year 2013-2014.” February 2017. 7-8; Digest of Education Statistics, Table 215.30, Enrollment, poverty, and federal funds for the 120 largest school districts, by enrollment size in 2013: Selected years, 2012-13 through 2015.

In addition, according to the California Department of Education, LAUSD’s per student revenue went up 33% between FY 2012 and FY 2016. The district also received \$2,209 more than the average of all districts in the state of California in FY 2016 (see Table 5).

TABLE 5: LAUSD PER-STUDENT REVENUE, 2012–2016

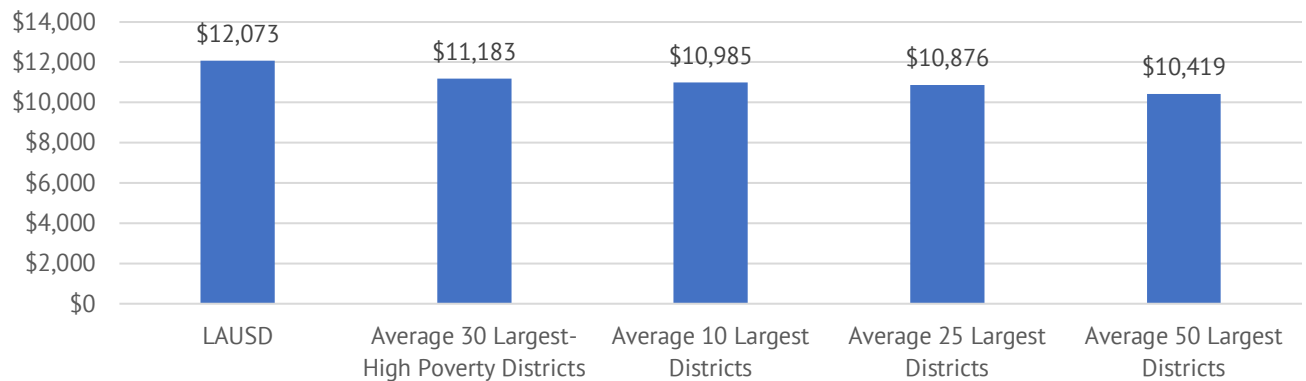
FY 2012–2016	LAUSD	All California Districts Average
2011–2012	\$10,738.00	\$8,832.00
2012–2013	\$10,616.00	\$8,794.00
2013–2014	\$11,110.00	\$9,348.00
2014–2015	\$12,431.00	\$10,288.00
2015–2016	\$14,259.00	\$12,050.00

Source: California Department of Education, School Fiscal Services Division: SACS Unaudited Actual Data.

LAUSD also does well in terms of spending compared to other districts in California and the nation. Data from the *U.S. Census Public Education Finances 2015* released on June 14, 2017, report that LAUSD spends \$12,073 per pupil, which is \$1,600 more than the average of the top 50 school districts (even including the outlier of New York City at \$22,000). In 2015,

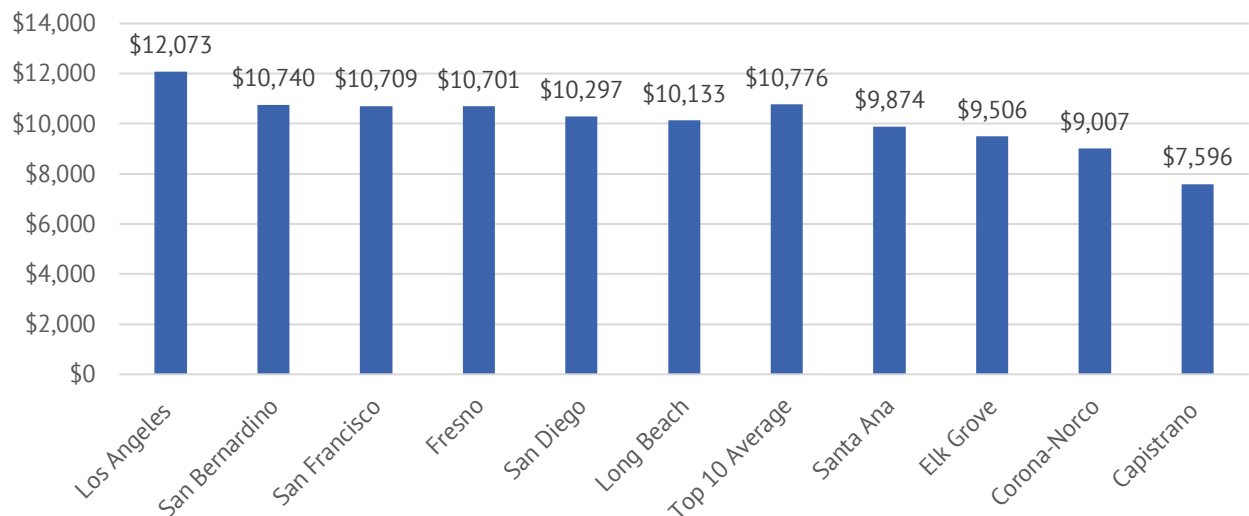
LAUSD also spent \$900 more than the average of the 30 largest high-poverty districts. Finally, LAUSD spends \$1,088 more than the top 10 largest school districts in the nation and \$1,300 more than the top 10 largest California school districts (Figures 9 and 10).

FIGURE 9: LAUSD PER-PUPIL EXPENDITURES VS. SIMILAR U.S. DISTRICTS, 2015



Source: U.S. Census, *Public Education Finances 2015*, June 14, 2017. 37; *Digest of Education Statistics*, Table 215.30, Enrollment, poverty, and federal funds for the 120 largest school districts, by enrollment size in 2013: Selected years, 2012-13 through 2015.

FIGURE 10: LARGEST PER-PUPIL SPENDING—TOP 10 CALIFORNIA DISTRICTS FISCAL YEAR 2015



Source: U.S. Census. *Public Education Finances 2015*. June 4, 2017. 37.

The point of benchmarking LAUSD's revenues and expenditures to other districts in California and the nation is not to claim that the district is spending too much per student or more than other school districts. Instead it confirms that LAUSD has had increases in revenue since the implementation of the LCFF in 2013 and shows that the district no longer ranks in the very bottom of the nation for per-pupil funding and spending. While the IFRP report attributed some of LAUSD's fiscal distress to below-average per-pupil funding, this section demonstrates that even with recent increases in funding, which put LAUSD more on par with other districts, the district still suffers from a structural deficit that will not be solved by simply allocating more revenue to the district.

PART 6

FACTORS DRIVING TRENDS IN EXPENDITURES

6.1

PERSONNEL TRENDS

By far the biggest cost driver for any school district is personnel. The first evidence to look at when considering general trends about LAUSD's personnel is the raw numbers of students and staffing as reported in the *Comprehensive Annual Financial Reports*. These raw numbers, detailed in Table 6, confirm LAUSD's increased staffing levels while facing ongoing declining enrollment. In the last five years (2013–2017), K-12 enrollment has declined by 9% and the absolute number of district employees has increased by 5%. To put this into context, the IFRP report called for a reduction of 10,000 full-time positions to meet the shrinking level of student enrollment. Although the district has little control over some personnel costs, such as pension contributions, to the extent that LAUSD continues to add personnel during periods of severe enrollment decline, both short-term and long-term district expenditures will increase as revenue declines.

TABLE 6: LAUSD ENROLLMENT AND DISTRICT EMPLOYEES, 2013–2017

Fiscal Year	Enrollment	District Employees
2012–2013	566,604	75,633
2013–2014	556,115	76,743
2014–2015	542,433	76,425
2015–2016	528,065	77,949
2016–2017	513,875	79,479

Source: Los Angeles Unified School District, Comprehensive Annual Financial Reports 2013-2017

Salary and benefits currently account for 82% of general fund spending. From FY 2014 to FY 2018 total salary and benefit expenditures increased by 22% (Tables 7–9).

TABLE 7: LAUSD TOTAL SALARY AND BENEFITS, 2014–2018

Fiscal Year	Total Salary and Benefits	Percent of Revenue Expenditures
2013–2014	\$4,771,421,024.65	84%
2014–2015	\$5,194,630,621.96	84%
2015–2016	\$5,500,947,966.40	83%
2016–2017	\$5,651,596,411.44	84%
2017–2018	\$5,829,713,532.00	82%

Source: LAUSD Unaudited Actuals Financial Reports, FY2014–2017; First Period Interim Financial Report Fiscal Year 2017–2018.

Certificated salary expenditures for licensed employees such as teachers, counselors, and librarians increased by 10% over five years and classified salaries for support staff such as clerical, paraprofessionals, and custodians increased by 24%.

TABLE 8: LAUSD TOTAL SALARY EXPENDITURES, CERTIFICATED EMPLOYEES, 2014–2018

	Certificated Salaries
2013–2014	\$2,585,366,845
2014–2015	\$2,782,543,592
2015–2016	\$2,842,265,013
2016–2017	\$2,861,862,917
2017–2018	\$2,838,022,810

Source: LAUSD Unaudited Actuals Financial Reports, FY2014–2017; First Period Interim Financial Report Fiscal Year 2017–2018.

TABLE 9: LAUSD TOTAL SALARY EXPENDITURES, CLASSIFIED EMPLOYEES, 2014–2018

	Classified Salaries
2013–2014	\$800,322,500
2014–2015	\$847,219,938
2015–2016	\$927,432,715
2016–2017	\$963,790,888
2017–2018	\$989,779,400

Source: LAUSD Unaudited Actuals Financial Reports, FY2014–2017; First Period Interim Financial Report Fiscal Year 2017–2018.

Over the past five fiscal years, spending on certified supervisors and administrator (for example principals and assistant principals) salaries and classified supervisors and administrator (for example food service supervisors or workers compensation supervisors) salaries went up by 18% (Tables 10 and 11).⁷³

In addition to overall expenditures on personnel increasing by 22% over the last five years, state and district data continue to point to a staffing surge rather than employee reductions. According to California Department of Education (CDE) records, the district added nearly 2,700 Full-Time-Equivalent (FTE) certificated employees between 2013–2014 and 2016–2017.⁷⁴ What's more, LAUSD is on track to raise its total number of staff yet again for 2017–2018,⁷⁵ with the district's former Superintendent Michelle King explaining the need for new staff as recently as 2016.⁷⁶

⁷³ Here is a long list of LAUSD classified personnel with many types of supervisory positions: <http://www.lausd.k12.ca.us/lausd/offices/personnel/class/class_comp/cds/indexcd.html>.

⁷⁴ "Full-Time Equivalent (FTE) of Classified Staff: Los Angeles Unified." California Department of Education. <https://data1.cde.ca.gov/dataquest/DQ/FTEClassifiedStaff.aspx?shortyear=1617&TheYear=2016-17&ReportCode=DstClassf&Agency=Los+Angeles+Unified&CountyCode=19&DistrictCode=64733&Level=District>. 2017.

⁷⁵ Syzmanski, Mike. "Exclusive: LAUSD continues to add employees as enrollment drops." *LA School Report*. <http://laschoolreport.com/exclusive-lausd-continues-to-add-employees-as-enrollment-drops/>. 28 August, 2017.

⁷⁶ Syzmanski, Mike. "LAUSD keeps hiring as enrollment declines and financial crisis looms." <http://laschoolreport.com/lausd-keeps-hiring-as-enrollment-declines-and-financial-crisis-looms/>. 29 August 2017.

TABLE 10: LAUSD TOTAL SALARY EXPENDITURES, CERTIFICATED SUPERVISORS AND ADMINISTRATORS, 2014–2018

	Certificated Salaries
2013–2014	\$262,872,413
2014–2015	\$293,448,282
2015–2016	\$313,981,560
2016–2017	\$315,066,420
2017–2018	\$310,140,763

Source: LAUSD Unaudited Actuals Financial Reports, FY2014–2017; First Period Interim Financial Report Fiscal Year 2017–2018

TABLE 11: LAUSD TOTAL SALARY EXPENDITURES, CLASSIFIED SUPERVISORS AND ADMINISTRATORS, 2014–2018

	Classified Salaries
2013–2014	\$21,779,459
2014–2015	\$24,101,572
2015–2016	\$25,737,722
2016–2017	\$25,205,532
2017–2018	\$25,747,186

Source: LAUSD Unaudited Actuals Financial Reports, FY2014–2017; First Period Interim Financial Report Fiscal Year 2017–2018

This dynamic of increasing staff as enrollment declines has played out longer term across various staffing roles. In six out of 10 academic years of declining enrollment between 2006–2007 and 2015–2016, the LAUSD's student-teacher ratio dropped from the previous year. This means that despite reduced staffing needs because of fewer students, the district managed to have more teachers per student than the previous year, either because of additional hires or because the district reduced its staff more slowly than the rate of enrollment decline.⁷⁷ Accordingly, the cost per student for the teaching staff also increased significantly between 2007 and 2016.⁷⁸

TABLE 12: LAUSD TEACHER COST PER STUDENT AND STUDENT-TEACHER RATIO, 2007–2016

Academic Year	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Student-Teacher Ratio	25.22 : 1	22.23 : 1	23.98 : 1	22.75 : 1	23.14 : 1	23.77 : 1	22.38 : 1	22.19 : 1	20.85 : 1	20.66 : 1
Cost Per Student	\$9,126	\$11,107	\$11,324	\$10,857	\$11,253	\$11,475	\$13,456	\$13,111	\$14,360	\$15,964

Source: Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016. Los Angeles Unified School District

⁷⁷ *Comprehensive Annual Financial Report 2015-2016*. Los Angeles Unified School District. <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202015-16/LosAngelesUnifiedRpt16.pdf>. 13 December 2016. 168.

⁷⁸ *Ibid.*

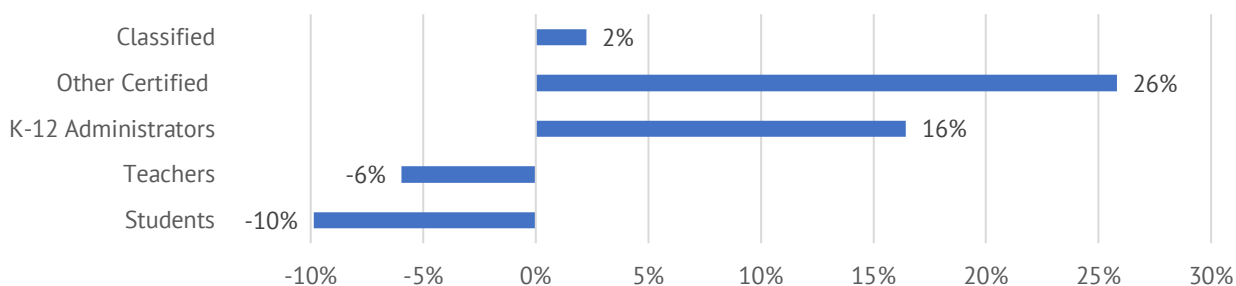
The personnel mismanagement applies to administrators as well. During 12 academic years of declining enrollment between 2004–2005 and 2015–2016, the LAUSD hired more administrators than the year previous in seven of them.⁷⁹ In addition, Table 13's data from the LAUSD's Finger Tip Facts on the district website confirms an increase in K-12 employees over the last five years, but also a 5% decline in the number of teachers since 2014. Despite the decline in the number of teachers, the total number of employees has steadily risen each year between 2014 and 2018 (See Table 13 and Figure 11).

TABLE 13: LAUSD K-12 PERSONNEL FY 2014–2018

FTE Positions	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018
K-12 Teachers	26,364	25,906	25,566	25,276	24,794
K-12 Administrators	2,036	2,113	2,366	2,407	2,371
Other Certified Staff	3,657	3,783	4,170	4,498	4,601
Regular Classified	26,534	26,311	26,370	26,636	27,128
Total K-12 Employees	58,591	58,113	58,472	58,817	58,894

Source: LAUSD Fingertip Facts 2014-2018

FIGURE 11: GROWTH IN STUDENTS AND PUBLIC SCHOOL PERSONNEL LOS ANGELES UNIFIED FY 2014–2018



Source: LAUSD Finger Tip Facts 2014-2018

Overall, the bottom line is that LA Unified has had a staffing surge. Enrollment has declined by 10% since 2014, and while the number of K-12 teachers has declined by 5%, other staff positions, including those in administration have increased.

“Other certified staff” including positions such as nurses, counselors, speech therapists, and school psychologists, grew the fastest at 26% from 3,657 to 4,601 employees by the 2017–

⁷⁹ California Department of Education LAUSD staffing data.

2018 academic year. This growth reflects an explicit effort by the school district to restore these staff positions, which were cut during the recession.⁸⁰

In California the state standardized the number of administrators per 100 teachers to prevent large, centralized district offices and the hiring of too many employees that do not work directly with students. LAUSD exceeds the maximum ratio of eight administrative employees to each 100 teachers with a ratio of 8.52 per 100 teachers.⁸¹ The district would have been fined \$24 million in 2016–2017 but “AB-99 School Finance: Education Omnibus Trailer Bill” offered an exemption to school districts with enrollment of ADA students above 400,000 and offered a waiver of the fine for 2016–2017 and 2017–2018. However, according to LAUSD’s “First Interim Financial Report” for fiscal year 2017–2018, the district is facing a \$35 million fine for 2018–2019 and 2019–2020 for exceeding the administrator-to-teacher ratio. While these dollar amounts are small compared to many of LAUSD’s other cost drivers, they offer more evidence that the district’s administrative personnel costs are too high and not keeping pace with declines in enrollment.

6.2

SERVICES AND OPERATIONS

As Table 14 shows, LAUSD services and operations spending increased by 25% over five years. These expenses include a wide variety of district operating costs such as travel and conferences, insurance, dues and membership, and professional and consulting services.

For example, under services and operations expenditures, the category of “Professional Services and Consulting” expenditures has increased by 110%

TABLE 14: LAUSD TOTAL EXPENDITURES, SERVICES AND OPERATIONS, 2014–2018

Services and Other Operating Expenditures	
2013–2014	\$667,514,838
2014–2015	\$712,470,443
2015–2016	\$859,628,907
2016–2017	\$800,811,255
2017–2018	\$833,988,349

Source: LAUSD Unaudited Actuals Financial Reports, FY2014–2017; First Period Interim Financial Report Fiscal Year 2017–2018

⁸⁰ Fensterwald, John. “L.A. Unified diverts funding for neediest students, report charges. Edsource. edsource.org. 20 March 2017. Web. <https://edsource.org/2017/la-unified-diverts-funding-for-neediest-students-report-charges/579054> 27 December 2017; Szymanski Mike. “LAUSD continues to add employees as enrollment drops.” LA School Report. Laschoolreport.com 28 August 2017. <http://laschoolreport.com/exclusive-laUSD-continues-to-add-employees-as-enrollment-drops/> 27 December 2017.

⁸¹ Audited Annual Financial Report for Fiscal Year Ended June 30, 2017.

over five years. Professional and consulting services are done by expert personnel who are not employees of LAUSD and are paid on a fee basis to supplement the expertise of LAUSD personnel.

TABLE 15: LAUSD TOTAL EXPENDITURES FOR PROFESSIONAL/CONSULTING SERVICES, 2014–2018

	Professional/Consulting Services
2013–2014	\$112,645,633
2014–2015	\$132,956,201
2015–2016	\$297,170,826
2016–2017	\$204,310,691
2017–2018	\$236,741,637

Source: LAUSD Unaudited Actuals Financial Reports, FY2014–2017; First Period Interim Financial Report Fiscal Year 2017–2018

6.3

SPECIAL EDUCATION

Another significant cost driver is special education funding. As enrollment has declined in LAUSD, the percentage of students designated as special education has increased. In 2002–2003 at the peak of district enrollment, special education students were 11.5% of the student population.⁸² By fiscal year 2016–2017 special education students were 14% of the student population.⁸³ In addition, special education students with moderate to severe disabilities made up 22% of the special education population in 2003 but by 2017 this proportion had risen to more than 30% of the special education student population.⁸⁴ Much of this increase is because of the rising number of students diagnosed with autism, from 13% in

⁸² “Special Education.” Los Angeles Unified School District. [laschoolboard.org](http://laschoolboard.org/sites/default/files/05-17-16SpclBdSpecialEducation.pdf). 17 May 2016. Web. <<http://laschoolboard.org/sites/default/files/05-17-16SpclBdSpecialEducation.pdf>> 15 December 2017.

⁸³ “District Enrollment Trends: Superintendent’s Final Budget 2017-2018.” 6.

⁸⁴ “Special Education.” 13.

2011 to 19% in 2018. All other moderate to severe student eligibilities have remained relatively stagnant. In 2016, the average cost to educate a special education student was \$8,275 more than a general education student.⁸⁵



Despite the large amount of district resources devoted to special education services, the district is still out of compliance with the federal special education law.



Despite the large amount of district resources devoted to special education services, the district is still out of compliance with the federal special education law. LAUSD has been under a consent decree requiring federal oversight of the quality of special education programming since 1996 because of a class-action lawsuit that accused the district of non-compliance with federal law. As part of the settlement, an independent monitor was appointed in 2003 to oversee the district's ongoing compliance with the consent decree under a new modified consent decree (MCD). A 2015 report by the independent monitor criticized the district for still being out of compliance with the Americans with Disabilities Act, stating that the district "shows a lack of urgency in making services, programs, and activities accessible at schools. It shows little interest in disengagement from the MCD and seems to be driven by other priorities and agendas."⁸⁶ The original deadline set for the district to be removed from the MCD was 2006.

The most recent report from the independent monitor in October 2017 commends the district for making some progress on special education services but reports that LAUSD is still far from satisfying many of the issues needed to comply with the MCD—from making school buildings accessible to disabled students to having enough special education staff to serve

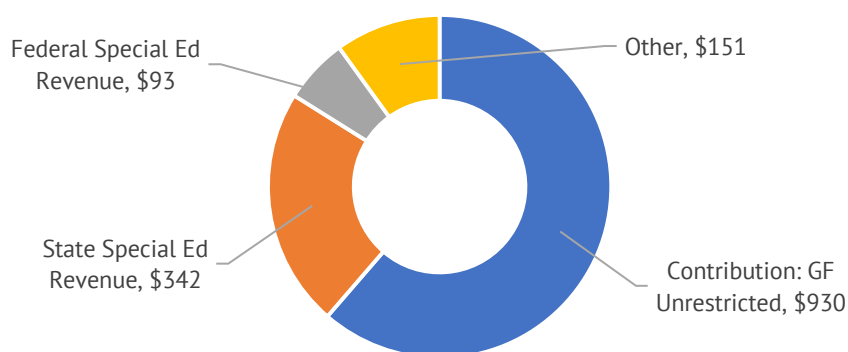
⁸⁵ Ibid. 7, 10.

⁸⁶ Clough, Craig. "LAUSD has 'lack of urgency' and is \$695 million short on plan to comply with American with Disabilities Act, report says." *LA School Report*. 1 August 2016. Web. <<http://laschoolreport.com/lausd-lack-urgency-695-million-short-plan-comply-americans-disabilities-act-report-says/>> 15 March 2018.

the needs of current special education students.⁸⁷ Serving current special education students and meeting the obligations of the consent decree will continue to put even more fiscal pressure on the district. The ongoing investments needed to provide higher-quality special education services present another compelling reason the district needs to focus on cutting costs where it has the most control, including bringing staffing in line with student enrollment and reducing other discretionary costs.

In 2017–2018 the general fund contribution to special education costs (60% of total special education costs) was 16% percent of unrestricted general fund revenue (see Figure 12).⁸⁸

FIGURE 12: SPECIAL EDUCATION REVENUE FROM UNRESTRICTED GENERAL FUND, 2016 (UNRESTRICTED GENERAL FUND COVERS OVER 60% OF COSTS) \$MILLIONS



Source: LAUSD, Special Education Board Report, May 17, 2016

The IFRP report also noted that “the district serves one of the largest populations of Special Education students in the country. Data imply there is an over-identification of students in LAUSD’s special education program.”⁸⁹ The IFRP report went on to say that students may be

⁸⁷ “Report on the Progress and Effectiveness of the Los Angeles Unified School District’s Implementation of the Modified Consent Decree during the 2017-2018 School Year-Fall 2017.” Office of the Independent Monitor. Los Angeles Unified School District. 25 October 2017. Web. < <http://www.oimla.com/pdf/20171025/AnnualReport201718.pdf>>. 15 March 2018.

⁸⁸ “2017-2018 Unrestricted Revenue and Expenditures.” Los Angeles Unified School District. lauds.net. 9 March 2017. Web. < <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202017-18/201718%20Unrestricted%20Revenue%20and%20Expenditures%20Provisional%20Budget.pdf>> 27 December 2017.

⁸⁹ “Report of the Independent Financial Review Panel.” 19.

over-identified “as a result of inadequate and/or inconsistent regular education instruction systems for both academic and behavior deficiencies in students.”⁹⁰ LAUSD students were more likely to be placed in special education programs than students statewide.⁹¹ According to the Department of Education, in 2013–2014 district students were identified as needing special education at a 12.7% higher rate than the statewide average, 13.3% more frequently than Los Angeles County’s average, and 11% higher than each of the four other largest school districts in California.⁹²

LAUSD reports that in fiscal year 2014–2015, one out of every 38 students was referred for a special education assessment. Of those 12,000 students, 86% were found eligible for special education. African-American males were found to be disproportionately placed in more restrictive and expensive segregated settings. The district’s special education school board report noted that this trend will continue: “We are likely to be determined to be disproportionate in the next few years unless there is a paradigm shift in how we educate African American students, particularly males in our schools.”⁹³

“

The IFRP report and internal district special education reports find that most students identified for special education never exit the program.

”

The IFRP report and internal district special education reports find that most students identified for special education never exit the program.⁹⁴ The IFRP report recommended that the district study how to help more students exit the special education designation and work on strategies for early-learning interventions to help avoid over-identification.⁹⁵ The

⁹⁰ Ibid.

⁹¹ Himes Thomas. “Nearly 14% of LAUSD students in special education programs.” *Los Angeles Daily News*. dailynews.com 20 June 2015. Web. <https://www.dailynews.com/2015/06/20/nearly-14-of-laUSD-students-in-special-education-programs/> 27 January 2018.

⁹² Ibid.

⁹³ Special Education. 15.

⁹⁴ “Report of the Independent Financial Review Panel.” 20.

⁹⁵ Ibid.

district has taken some initial steps to implement more early interventions such as establishing Accelerated Learning Academies for students in K-3 grade who are at risk of illiteracy.⁹⁶ It has also implemented more internal controls and a tighter review process for special education identification. However, the district has not yet experienced an overall reduction in the special education population.⁹⁷

In fact, LAUSD projects that the trend of enrollment declining with the percentage of students identified for special-education services increasing will continue. And students with more-severe disabilities are projected to be a larger portion of those special education students.⁹⁸ By fiscal year 2020–2021, LAUSD projects that special education costs will compose 20% of unrestricted general revenue.⁹⁹

6.4

TRENDS IN BENEFIT SPENDING

Overall, the cost of employee benefits increased by 44% over five years since 2014 (Table 16).

TABLE 16: LAUSD TOTAL EXPENDITURES FOR EMPLOYEE BENEFITS, 2014–2018 (IN NOMINAL DOLLARS)

Year	Benefits
2013–2014	\$1,385,731,679
2014–2015	\$1,564,867,092
2015–2016	\$1,731,250,239
2016–2017	\$1,825,942,606
2017–2018	\$2,001,911,322

Source: LAUSD Unaudited Actuals Financial Reports, FY2014-2017; First Period Interim Financial Report Fiscal Year 2017–2018

⁹⁶ “Special Education.”22.

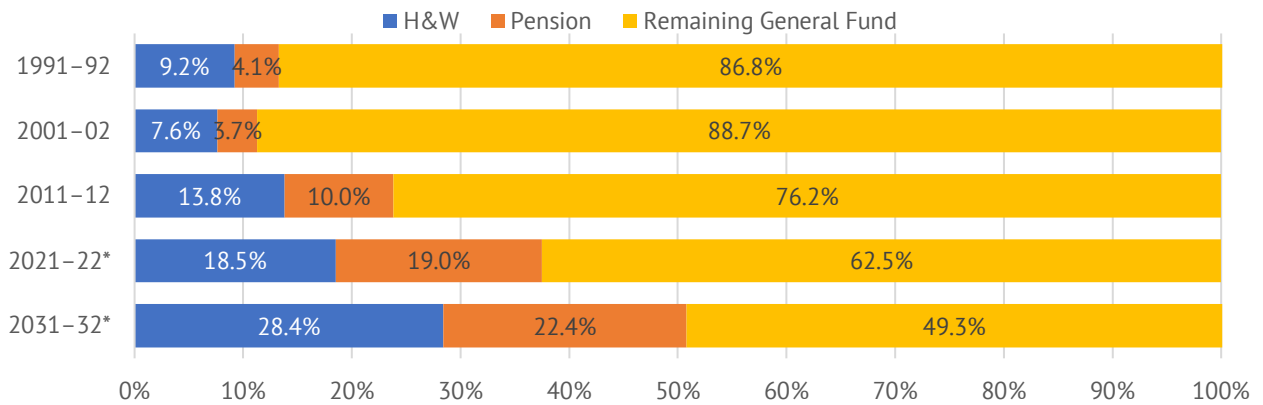
⁹⁷ Ibid. 23.

⁹⁸ Ibid. 13.

⁹⁹ Ibid. 5.

And the LAUSD Board has been circulating this graphic about the apocalyptic role that benefits will play in the future of LAUSD’s finances as health costs and pensions take up a larger percentage of general fund revenue (Figure 13).¹⁰⁰

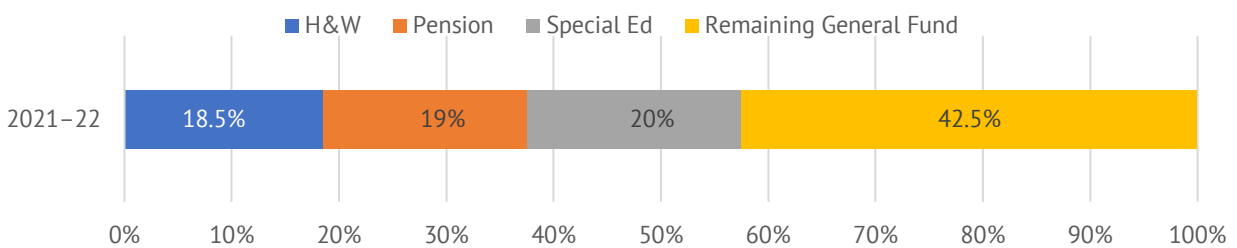
FIGURE 13: LAUSD BENEFIT COSTS AS A PERCENTAGE OF GENERAL FUND REVENUE



***Projected**
Source: LAUSD: Health and Welfare Board Retreat, August 29, 2017.

As Figure 14 illustrates, if we add in the special education costs at 20%, by 2021–2022 57.5% of general fund revenue will be directed at three top costs before spending any general fund revenue on the regular education program.

FIGURE 14: LAUSD PROJECTED GENERAL FUND BREAKDOWN, FY 2021–2022



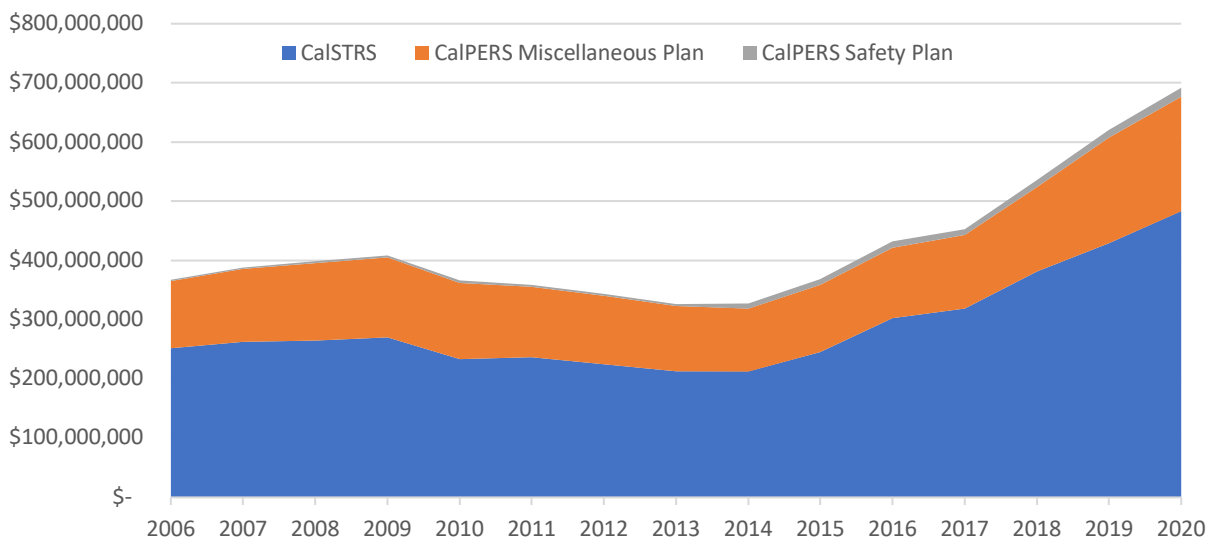
Source: LAUSD: Health and Welfare Board Retreat, August 29, 2017; LAUSD, Special Education Board Report, May 17, 2016

¹⁰⁰ “Health and Welfare Board Retreat.” Los Angeles Unified School District. lausd.net. 29 August 2017. Web. < https://boe.lausd.net/sites/default/files/08-29-17HealthandWelfarePresentationFinal_0.pdf > 27 December 2017.

PENSION CONTRIBUTIONS

LAUSD employees are enrolled in one of three major defined benefit (DB) pension plans. Teachers and other certificated employees participate in the California State Teacher’s Retirement System. School police participate in a CalPERS safety plan. Other classified employees participate in the CalPERS miscellaneous plan. As Figure 15 shows, the district’s aggregate contributions to these three plans started to escalate in FY 2014–2015 and are projected to continue doing so through 2019–2020.

FIGURE 15: LAUSD ACTUAL AND PROJECTED PENSION PLAN CONTRIBUTIONS



Sources: LAUSD CAFR 2006-2017; LAUSD Superintendent’s Final Budget 2006-2017; SAFETY PLAN OF THE LOS ANGELES UNIFIED SCHOOL DISTRICT (CalPERS ID: 3614620780) Annual Valuation Report 2014-2016.

Since LAUSD participates in state-sponsored plans, the Board has limited control over employer contribution rates; these are determined by legislation and actuarial assumptions made by CalPERS and CalSTRS. The sharp increase in contribution rates is largely the result of poor investment returns in the 2014–2015 and 2015–2016 fiscal years, the use of lower assumed rates of return in future years, and a statewide CalSTRS pension reform that requires the state and school districts to share the burden of paying off unfunded pension liabilities over a 30-year period.

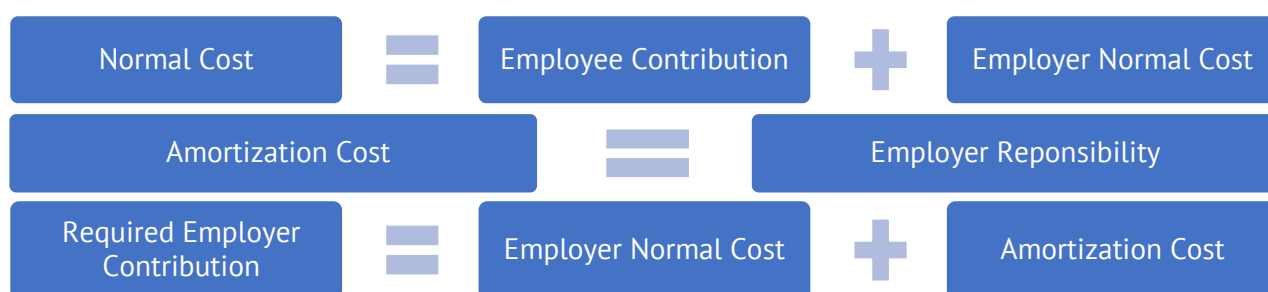
ANALYZING AND PROJECTING FUTURE PENSION COSTS

Reason's Pension Integrity Team reviewed CalSTRS and CalPERS actuarial reports to make a projection of LAUSD's future pension costs. In this section, we discuss the relevant pension math and then present the results of our analysis.

In defined benefit systems, the employer (ER) contribution is a function of the total pension cost. Each year, the pension cost is composed of two components: the normal cost and the unfunded liability amortization cost. The **normal cost** represents the value of benefits earned by the employees in a given year. The **amortization cost** is the cost to pay down the unfunded liability, which is the difference between the pension liability and the pension assets. The difference can be caused by many factors, including actuarial experiences differing from assumptions, assumption changes, and insufficient contributions.

The normal cost is often a shared responsibility between the employer and the employees. However, the employer is typically solely responsible for the amortization cost in a DB plan.

In a perfect world, the total pension cost would be the normal cost, since all actuarial assumptions would be perfectly realized and there would be no unfunded liability. Because the actual pattern of retirements, deaths and investment returns cannot be precisely forecast, unfunded liabilities are likely to arise in certain years. When they do, the fiscally responsible practice is to pay them down over time (i.e., to amortize them) so that the plan is fully funded in the long run.



Like most pension plans nationally, CalPERS and CalSTRS have been allowed to become chronically and severely underfunded due to the use of unrealistic actuarial assumptions—most notably overly optimistic rates of return. California pension reforms have included lowering the assumed rate of return (although we would argue that it remains too high) and, in the case of CalSTRS, providing increased state subsidies.

To project future pension costs, we need to project both the pension liability and the pension assets. These can be calculated using the following formulas:

$$\begin{array}{l}
 \text{Pension Liability}_{t+1} = \text{Pension Liability}_t + \text{Interest}_{t+1} + \text{Normal Cost}_{t+1} - \text{Benefit Payments}_{t+1} - \text{Refunds}_{t+1} + \text{Other Changes} \\
 \text{Pension Assets}_{t+1} = \text{Pension Assets}_t + \text{Investment Returns}_{t+1} + \text{Pension Contributions}_{t+1} - \text{Benefit Payments}_{t+1} - \text{Refunds}_{t+1} + \text{Other Cash Inflows / Outflows}
 \end{array}$$

Since the normal cost tends to be stable, we project it as a fixed rate into the future, based on its recent historical levels. For the amortization cost, we project it based on the relevant unfunded liability level, taking into account the payroll growth rate, the discount rate, the amortization period, and the amortization method (level % or level dollar, over a closed or an open period).

Amortization Method, **Level-Dollar**: Unfunded liabilities can be amortized over a fixed (closed) or open number of years such that the plan expects to pay the same dollar amount each year of the schedule.

Amortization Method, **Level-Percent**: Unfunded liabilities can be amortized over a fixed (closed) or open number of years such that the plan expects to pay the same percentage of payroll each year of the schedule.

Amortization Method, **Closed**: If an amortization schedule is “closed” that means the plan has a particular date it is targeting to eliminate unfunded liabilities. Each year the plan pays off a portion of the unfunded liabilities, the schedule moves one year closer to its end date. If the plan experiences additional actuarial losses during the schedule that add to the unfunded liabilities that need to be paid down, then the plan could either create a separate amortization schedule for that new debt (known as an amortization “layer”) or simply add the new amounts owed to the existing debt and increase the payment in each year of the schedule without the number of years in the schedule increasing.

Amortization Method, **Open**: If an amortization schedule is “open” that means the amortization payments are reset each year, like refinancing a mortgage each year. This approach guarantees the pension debt will never be paid off and often can mean contributions toward unfunded liabilities each year don’t even cover the interest on the debt.

Investment returns affect the levels of pension assets. Lower than assumed returns increase the unfunded liability while higher than assumed returns reduce the unfunded liability. As a result, investment returns affect the amortization cost, which in turn affects the employer contribution rate. Our model allows us to project employer contribution rates with different investment return levels.

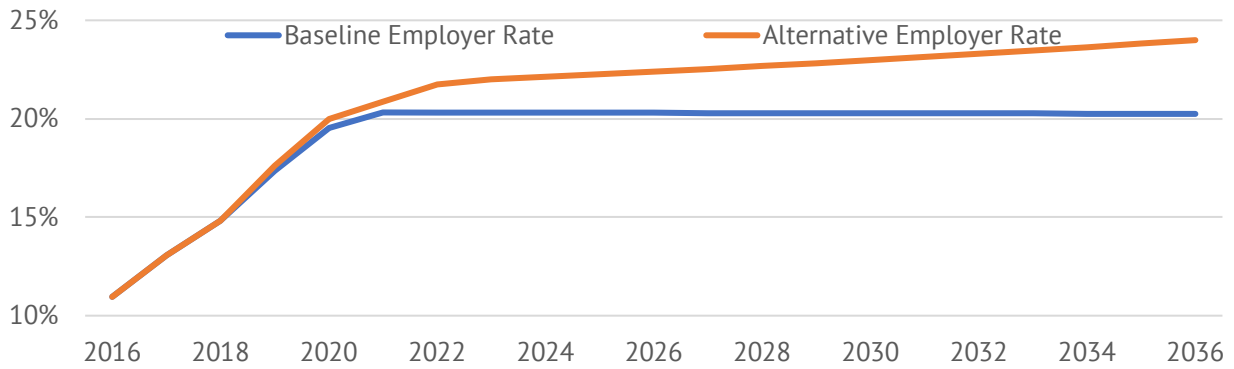
Without further information, our projections assume that all other actuarial assumptions (besides the return assumption) will remain the same and will be realized as planned during the projection period.

For the CalPERS Safety and Miscellaneous Plans, the projected employer contribution rate is the required employer contribution rate (which equals Employer Normal Cost + Amortization Cost). For the teacher's plan (CalSTRS), things are a bit different. CalSTRS' employer contributions are influenced by statutes that place a number of constraints on how much the contribution rate can be adjusted per year as well as the maximum rate allowed.¹⁰¹ Another complication is that there are three parties, not two, that pay into the CalSTRS' defined benefit plan: the employees, the participating employer, and the state of California. Our model for the CalSTRS' plan takes into account these additional factors to project the appropriate employer contributions. We provide two models for CalSTRS, both with the legal cap of 20.25%—the rate cap that was part of CalSTRS reform measure AB 1469 in 2015—the future employer contribution rate. While the baseline scenario assumes that future returns match the plan's assumption, the alternative scenario uses a 2% lower future rate of return than the baseline scenario.

In our pension analysis (see Figure 16) we see significant rises in the projected employer rates in the near term for all three plans in the Baseline Employer Rate. The projected rates increase even further in the Alternative Employer Rate.

¹⁰¹ For more detail see: *Comprehensive Annual Financial Report*. CalSTRS. Calstrs.com 30 June 2016. 48. Web. < <https://www.calstrs.com/sites/main/files/file-attachments/cafr2016.pdf> > 27 January 2018.

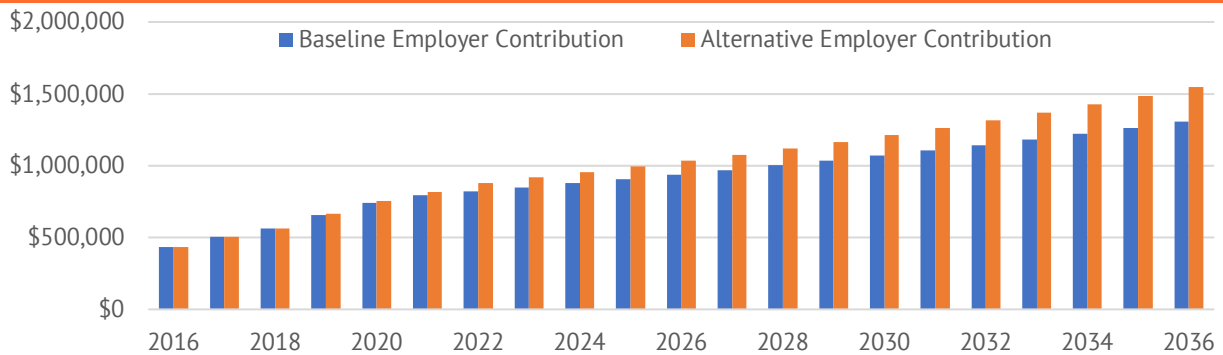
FIGURE 16: LAUSD PROJECTED EMPLOYER PENSION CONTRIBUTION RATES (2016–2036)



Source: Reason Foundation pension model using data from CalSTRS and CalPERS 2016 Actuarial Valuation Reports and the LAUSD Superintendent’s 2017-2018 Budget.

In 2016, LAUSD’s pension contributions to CalSTRS, the CalPERS Schools Pool and the CalPERS plan for LAUSD safety employees totaled roughly \$432 million. As shown in Figure 17, by 2020 the district contribution will be over \$700 million. By 2036 it is expected to reach \$1.3 billion under the baseline employer contribution projection, and about \$1.55 billion under the alternative employer contribution projection (in nominal dollars).

FIGURE 17: LAUSD PROJECTED EMPLOYER PENSION CONTRIBUTION AMOUNTS (2016–2036) IN NOMINAL USD (IN THOUSANDS)



Source: Reason Foundation pension model using data from CalSTRS and CalPERS 2016 Actuarial Valuation Reports and the LAUSD Superintendent’s 2017-2018 Budget.

A recent Stanford study, which projected LAUSD pension costs through 2030, reached similar conclusions to ours.¹⁰² It also reported that pension contributions as a percentage of

¹⁰² Nation, Joe. “Pension Math: Public Pension Spending and Service Crowd Out in California 2003-2030.” Stanford Institute of Economic and Policy Research. 2017. <https://siepr.stanford.edu/sites/default/files/publications/17-023.pdf>

LAUSD general fund expenditures have risen from 6% in 2002–2003 to 9% in 2015–2016 and forecast a further increase to between 12% and 13% by 2030. As a result, pension costs are crowding out other spending priorities.

For LAUSD, the “crowd out” phenomenon would likely impact high-needs students who generate supplemental and concentration revenue for the district.¹⁰³ This revenue has been diverted to pay for general district operations from special education to increasing the number of librarians in schools. To the extent that pension obligations crowd out general operating revenue, the district is likely to divert revenue from high-needs students to cover these general costs.

HEALTH AND WELFARE

LAUSD’s health care benefits, including Other Post-Employment Benefits (OPEB), are among the most generous in the nation.¹⁰⁴ Employees—and their dependents—pay no premiums, have no deductibles, and have lifetime benefits. In 2016, the district expanded health care offerings by extending benefits to teacher assistants and playground aides even though the SEIU agreement clearly stated that these new benefit costs would push the district reserves into the red by half a billion dollars within two years.¹⁰⁵ Overall, health care benefits for employees, retirees and dependents account for 15% of the district’s \$7.5 billion budget.

Unlike many other local governments, LAUSD pays the full insurance premium for retirees and their dependents. By contrast, the City of Los Angeles, San Diego Unified and Chicago Public Schools only provide limited premium subsidies.¹⁰⁶ Oakland Unified in northern California does not contribute to retiree health benefits at all.¹⁰⁷

¹⁰³ Ibid.

¹⁰⁴ <http://laschoolreport.com/lausd-looks-at-ways-of-saving-money-by-adjusting-health-benefits/>

¹⁰⁵ <http://laschoolreport.com/exclusive-new-health-benefits-help-push-laUSD-into-debt-document-shows/>

¹⁰⁶ LAUSD Health and Welfare Board Retreat. August 29, 2017. https://boe.lausd.net/sites/default/files/08-29-17_HealthandWelfarePresentationFinal_0.pdf

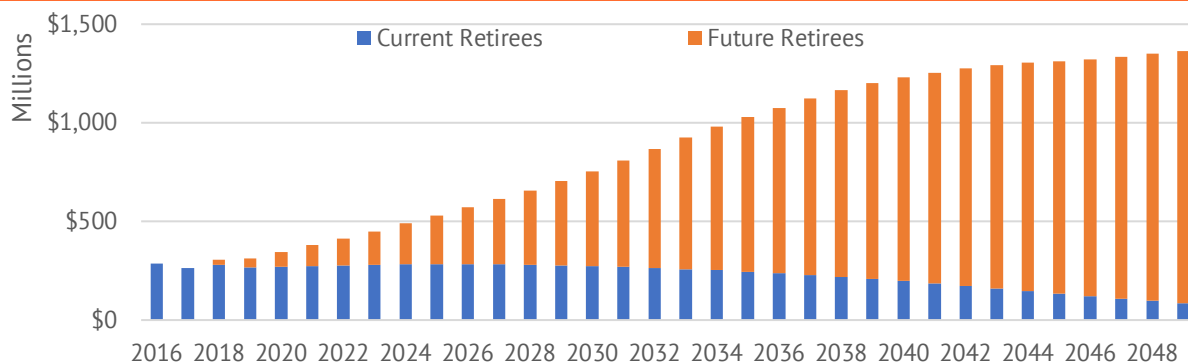
¹⁰⁷ Joffe, Marc. “School districts spending more and more on retirees.” *Orange County Register*, December 19, 2017. <https://www.ocregister.com/2017/12/19/school-districts-spending-more-and-more-on-retirees/>

Actuarial projections as of March 2018 show annual OPEB costs increasing from about \$300 million currently to \$1.4 billion in 2049 (Table 17 and Figure 18). Table 17 shows the growth of projected OPEB costs, which are likely to expand faster than general fund revenue.

TABLE 17: LAUSD PROJECTED OPEB PAYMENTS, 2016–2049 (IN NOMINAL \$USD)

	Current Retirees	Future Retirees	Total
2016	\$287,704,000		\$287,704,000
2017	\$264,763,000		\$264,763,000
2018	\$280,928,472	\$24,592,233	\$305,520,705
2019	\$266,206,277	\$47,508,312	\$313,714,589
2020	\$269,260,447	\$74,518,628	\$343,779,075
2021	\$273,739,536	\$106,103,791	\$379,843,327
2022	\$276,632,363	\$137,580,978	\$414,213,341
2023	\$279,063,081	\$171,077,429	\$450,140,510
2024	\$282,160,438	\$207,442,906	\$489,603,344
2025	\$284,074,998	\$247,283,296	\$531,358,293
2026	\$284,120,388	\$287,841,444	\$571,961,833
2027	\$282,502,736	\$330,511,618	\$613,014,354
2028	\$279,661,908	\$376,620,328	\$656,282,236
2029	\$276,561,357	\$427,729,203	\$704,290,560
2030	\$272,711,288	\$482,408,315	\$755,119,603
2031	\$268,744,077	\$541,652,546	\$810,396,623
2032	\$263,959,591	\$604,700,261	\$868,659,853
2033	\$258,667,937	\$666,902,953	\$925,570,889
2034	\$252,470,749	\$726,811,508	\$979,282,257
2035	\$245,490,259	\$783,481,839	\$1,028,972,098
2036	\$237,534,669	\$837,887,925	\$1,075,422,594
2037	\$228,592,528	\$894,646,340	\$1,123,238,868
2038	\$219,108,547	\$946,426,865	\$1,165,535,412
2039	\$208,576,101	\$993,810,312	\$1,202,386,413
2040	\$197,503,340	\$1,034,071,642	\$1,231,574,982
2041	\$185,659,409	\$1,068,721,826	\$1,254,381,235
2042	\$173,286,976	\$1,103,075,176	\$1,276,362,151
2043	\$160,595,657	\$1,130,706,294	\$1,291,301,951
2044	\$147,740,431	\$1,156,692,169	\$1,304,432,600
2045	\$134,773,369	\$1,177,095,913	\$1,311,869,282
2046	\$121,977,059	\$1,198,045,521	\$1,320,022,580
2047	\$109,323,444	\$1,226,441,663	\$1,335,765,106
2048	\$97,141,862	\$1,252,289,758	\$1,349,431,620
2049	\$85,500,696	\$1,279,174,573	\$1,364,675,270

Source: Actuarial Valuation Report: Los Angeles Unified School District Postretirement Health Benefits, As of June 30, 2017.

FIGURE 18: PROJECTED LAUSD OPEB COSTS

Source: Actuarial Valuation Report: Los Angeles Unified School District Postretirement Health Benefits, As of June 30, 2017.

The actuaries projected that LAUSD’s OPEB costs will increase 4.95% annually, and, as a result, the district is expected to pay a total of almost \$29 billion in retiree health care premiums between 2018 and 2049. After discounting future costs to their present value, the actuaries determined that LAUSD has a \$15 billion unfunded liability for retiree health care by 2049.¹⁰⁸

Historically LAUSD has covered retiree health care benefits on a “pay-as-you-go” basis, which is a common practice in the public sector, but in fiscal year 2013–2014, the district established and began contributing to an irrevocable OPEB trust,¹⁰⁹ governed under Section 115 of the federal Internal Revenue Code. Any funds deposited into the trust must be dedicated to retiree health, dental and vision benefits. As of June 30, 2017, the trust had a balance of \$244 million, representing about 1% of the present value of future OPEB benefits.

While prefunding retirement benefits is a good practice, this particular trust raises a couple of concerns. First, the use of an irrevocable trust effectively locks in health benefits for future retirees, when it may be advisable to reduce or even eliminate these benefits. Trusts cannot be unilaterally liquidated by their creators (in this case, the district); beneficiaries also have a say in the matter.

Another concern would arise if California implements a single-payer health system. In 2017, the State Senate passed SB562, the Healthy California Act, which would make the

¹⁰⁸ “Actuarial Valuation Report: Los Angeles Unified School District: Post-retirement Health Benefits as of June 30 2017.” 13 March 2018.

¹⁰⁹ Whitworth, Brian. LAUSD OPB Trust: Overview for Budget, Facilities and Audit Committee. April 17, 2014. <http://laschoolboard.org/sites/default/files/04-17-14BFALAUSDOPEBTrust.pdf>

state solely responsible for health care funding.¹¹⁰ Although SB562 is unlikely to become law, single-payer health care will be an issue in the 2018 campaign. If single payer was adopted by the next legislature and governor, most retiree health benefits would become unnecessary because they would be paid by the state. But it is unclear whether LAUSD could recover funds from the trust to pay for educating students: nothing in the text of SB562 addresses this issue.

Recently the school board has proposed to draw down the OPEB trust fund as a way of temporarily halting the rise in district retiree health care expenditures. But, as the *Los Angeles Times* pointed out in a November 24, 2017 editorial, this approach simply kicks the can down the road because it does not reduce benefits or ask retirees to share costs.¹¹¹

LAUSD has tightened eligibility for retiree health benefits several times in the past. Prior to 1984, any employee retiring after five consecutive years of service was eligible. By 2009, new employees other than school police, had to have 25 consecutive years of service and had to meet the “Rule of 85,” meaning that their age and years of service must total at least 85. For new school police officers, the requirements were somewhat lower: 20 consecutive years of service and Rule of 80.

Thus, there are precedents in which LAUSD acted to reduce retiree health care costs, but the eligibility adjustments it made only affected new hires. Any further tightening of eligibility requirements would not affect the district’s OPEB cost trajectory for many years. At this point, LAUSD can only bend its OPEB cost curve in the near future by asking new and/or current retirees to accept reduced benefits or to pay for a portion of these benefits.

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¹¹⁰ https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB562

¹¹¹ Los Angeles Times Editorial Board. “L.A. Unified can’t afford to lurch from one financial crisis to another.” November 24, 2017. <http://beta.latimes.com/opinion/editorials/la-ed-laUSD-pension-costs-20171123-story.html>

6.5

FUTURE COLLECTIVE BARGAINING AGREEMENTS WILL ALSO MAINTAIN AND DRIVE UP COSTS

LAUSD's contract with the United Teachers Los Angeles and the Service Employees International Union (teacher aides, custodians, cafeteria workers, etc.) expired in June 2017.¹¹² Negotiations on a new contract are under way and are expected to go on for several months. On January 18, 2018 UTLA and LAUSD reached a tentative three-year health care agreement for active and retired members that preserved all current health care benefits at no additional cost to employees and offers no new two-tier system with lower benefits for new employees.¹¹³ The new health care contract maintains the status quo and will offer no help to the district as it tries to manage current health care costs and rising pay-as-you-go costs for OPEB liabilities. The contract would establish a subcommittee between the district and UTLA representatives to study how to deal with escalating health care costs.¹¹⁴

UTLA's first proposal for a salary increase in the new contract is a 7% increase for all certificated employees retroactive to July 1, 2016.¹¹⁵ Based on LAUSD's 2018 certificated salary expenditures, a 7% salary increase would add approximately \$200 million per year in new costs excluding benefits.¹¹⁶ While there may be months of negotiations to go before the new collective bargaining agreement is settled, it is likely that the next three-year contract LAUSD signs with its unions will add rather than subtract costs to the district's structural

¹¹² All updates on LAUSD and UTLA bargaining contracts including proposals and counterproposals from both sides can be found at <https://www.utla.net/members/bargaining>

¹¹³ "2018-2020 Health Benefits Bargaining Agreement between the Los Angeles Unified School District and the Unions/Associations Representing District Employees." United Teachers Los Angeles. UTLA.net. 18 January 2018. Web. < www.utla.net/sites/default/files/healthcare_ta011818.pdf > 18 January 2018.

¹¹⁴ Ibid.

¹¹⁵ "United Teachers Los Angeles Bargaining Proposal." United Teachers Los Angeles. UTLA.net. 12 October 2017. Web. < www.utla.net/sites/default/files/Salaries-Article%20XIV-UTLA%20Bargaining%20Proposal%20%2810-12-17%29.pdf > 18 January 2018.

¹¹⁶ Calculation based on 7% of LAUSD's 2018 certificated salaries as reported in LAUSD's 2017-2018 First Interim Financial Report. "First Period Interim Financial Report Fiscal Year 2017-2018." Los Angeles Unified School District. lauds.net. 12 December 2017. Web. < <https://achieve.lausd.net/cms/lib/CA01000043/Centricity/Domain/328/Fiscal%20Year%202017-18/First%20Interim%20Financial%20Report%202017-18%2020171215.pdf> > 27 December 2017.

deficit. The last contract approval in April 2015 included a 10% salary increase over two years, adding \$250 million a year in costs to the district.¹¹⁷

6.6 CROWDING OUT HIGH-NEEDS STUDENTS

High-needs students have generated large amounts of new revenue for the district. LAUSD now receives more than \$1 billion a year in extra resources for disadvantaged students from California's Local Control Funding Formula—money that is supposed to be spent on the district's high-needs students to improve academic outcomes. But the Stanford pension study (mentioned earlier in the pension section of this report) found that pensions are crowding out spending on high-needs students. This reflects a general LAUSD fiscal pattern whereby long-term obligations are increasingly “crowding out” education services for all students and especially high-needs students.

Such diversion has not gone unnoticed. LAUSD recently lost a lawsuit filed by the ACLU, *Community Coalition v. Los Angeles Unified School District*, charging that LAUSD misallocated \$450 million of state education funds under the Local Control Funding Formula to special education services that were part of the district's regular educational program and diverted it away from high-needs students. In other words, LAUSD has been spending its extra resources provided solely for students in poverty, English Language Learners, and foster-care students on district-wide expenses. The settlement obligates LAUSD to now pay \$150 million of additional funds to its 50 highest-needs schools over the next three years. The lawsuit demonstrated that LAUSD spends money earmarked for high-needs students on general operations and services that benefit all students.

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¹¹⁷ Himes, Thomas. “LAUSD reaches deal, 10 percent pay raise for teachers.” *Los Angeles Daily News*. dailynews.com. 18 April 2015. Web. < www.dailynews.com/2015/04/18/lausd-reaches-deal-10-percent-pay-raise-for-teachers-2/> 5 January 2018.

In FY 2017, high-needs students generated more than \$1.1 billion in revenue for the district through their supplemental and concentration weights.¹¹⁸ Yet, recent reports by the United Way and the Partnership for Los Angeles Schools demonstrate that schools serving higher concentrations of poor students, English learners, and those in foster care that generate revenue for the district did not receive proportionate budget increases over the first three years of LAUSD's implementation of the LCFF.¹¹⁹

In fact, in many cases schools with lower concentrations of high-needs students received more revenue. For example, the United Way report found that "student composition bears little association with gains in per pupil spending. Schools serving fewer than 60 percent TSP [target student population] students had a 20 percent gain in spending per pupil, compared to schools with over 90 percent enrollment of TSP students, which saw a 14 percent increase over two years."¹²⁰ The United Way study concludes that "The LAUSD Board and Superintendent must develop policy and budgeting practices that target schools and students based on the varying degrees of need across the district.

In addition, a February 2018 report by Partnership for Los Angeles Schools found that "only a quarter of a percent of LA Unified's \$8 billion operating budget was allocated based on a school's ranking on the Student Equity Need Index. In fact, in many cases in 2016-17, schools ranked as having lower needs on LA Unified's Student Equity Need Index received more supplemental funding per student than several of the highest-need schools in the district."¹²¹ Governor Brown's stated intent is to lift low-performing students. But the district's leadership has yet to specify a budget strategy that moves resources to schools that serve disadvantaged pupils in a strategic and comprehensive way."¹²²

¹¹⁸ "Incremental Progress Toward Equity: Tracking the Distribution of \$3.8 Billion LCFF Dollars in the Los Angeles Unified School District Since 2013." United Way of Greater Los Angeles and Class. Year 4 Local Control Funding Formula Interim Report Card, 2017. web. <https://d3n8a8pro7vhmx.cloudfront.net/unitedwayla/pages/1640/attachments/original/1495673792/LAUSD_CLASS_Interim_Report_Brief.pdf?1495673792>.

¹¹⁹ "Seizing the Opportunity: Equitable School Funding in Los Angeles." Partnership for Los Angeles Schools. February 2018. web. < https://partnershipla.org/wp-content/uploads/2018/02/Student-NeedIndex_18_final.pdf> 15 March 2018; "Incremental Progress Toward Equity: Tracking the Distribution of \$3.8 Billion LCFF Dollars in the Los Angeles Unified School District Since 2013."

¹²⁰ "Incremental Progress Toward Equity: Tracking the Distribution of \$3.8 Billion LCFF Dollars in the Los Angeles Unified School District Since 2013."

¹²¹ "Seizing the Opportunity: Equitable School Funding In Los Angeles."

¹²² "Incremental Progress Toward Equity: Tracking the Distribution of \$3.8 Billion LCFF Dollars in the Los Angeles Unified School District Since 2013."

PART 7

THE ROLE OF CHARTER SCHOOLS

7.1 EDUCATIONAL PERFORMANCE METRICS

Despite these many facets of resource mismanagement and head-in-sand approaches to imminent financial distress, LAUSD considers the popular rise of charter schools a major threat to its financial solvency. To understand the extent of charter schools' effect on LAUSD budgets it's important to understand the widespread appeal of this more-flexible educational paradigm and the results it has achieved.

Increasing enrollment for charters in Los Angeles tells a story of increased parental demand for higher-quality educational options. With an estimated charter school waitlist of 41,830 students in the LAUSD as of 2014–2015—that averages to 155 per school—it's clear that there is a massive unmet demand for charter schools.¹²³ With Los Angeles charters outperforming the district across a broad variety of metrics, it's easy to see why many parents prefer them.¹²⁴

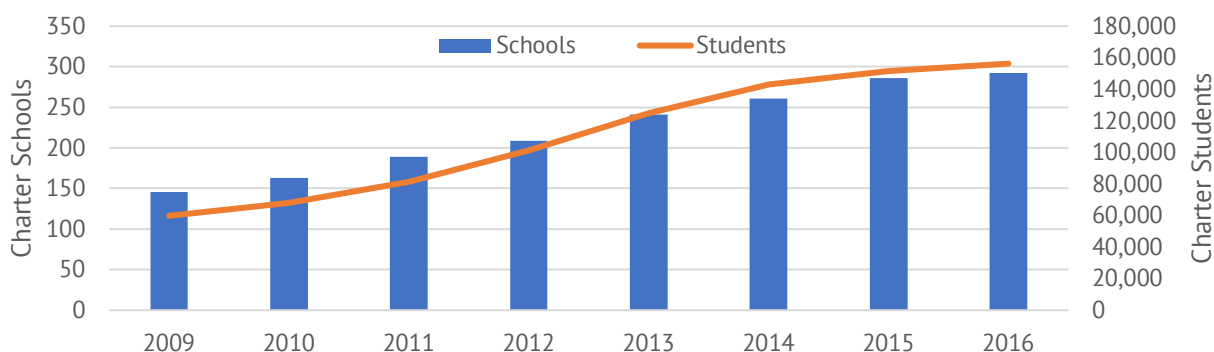
¹²³ “2015 Waitlist Data & Methodology.” California Charter Schools Association. http://www.ccsa.org/blog/2015_Waitlist_Methodology-1May2015.pdf, 1 May, 2015. 4.

¹²⁴ Portrait of the Movement 2017: Los Angeles Spotlight.” California Charter Schools Association. May 2017.

Since 2015, California has used the Smarter Balanced Assessments (SBAC), a computer-based test measuring English/language arts and mathematics proficiency for students in grades 3–8 and 11. The California Department of Education reports SBAC results in the form of students’ individual “scale scores” as well as the broader performance levels of schools and districts, based on the percentage of students scoring below, nearly meeting, meeting, or exceeding proficiency standards. In analyzing the SBAC results, the California Charter School Association (CCSA) calculated weighted averages of school performance on the SBAC, called the “Average Point Difference” (APD). This measure shows the average student’s distance from the Level 3, or “meets standard” score.

The CCSA compared the 2015–2016 APD scores of traditional public schools in the LAUSD alongside independent charters, ranking them on a percentile basis against the state average. Overall, and among all subgroups, including English language learners, students with disabilities, low-income students, and students of all ethnicities, those in Los Angeles charter schools outperformed their counterparts. In many areas, both LA charters and traditional public schools have progress to make, but the key is that charters are consistently providing a better learning alternative for most students.

FIGURE 19: CHARTER SECTOR GROWTH IN LAUSD, 2009 TO 2016



Note : Counts include both fiscally independent and affiliated charters.

Source: California Charter Schools Association, *Portrait of the Movement 2017: Los Angeles Spotlight*, May 2017

The CCSA also uses the Similar Students Measure (SSM), designed to monitor schools’ performance based on the demographics of the students they serve. This measure helps eliminate non-school variables like economic status or parent education level that can influence student performance to gather a more accurate picture of schools’ impacts. Controlling for

student demographics, SSM data (shown in Table 18) reveal that Los Angeles charters exceed their expected scores, given their demographics, with 48% performing in the top 25% of all schools statewide.¹²⁵ In comparison, only 19% of LAUSD traditional public schools make the top 25% of schools statewide under the SSM index. Similarly, 16% of LAUSD charters rank in the top 5% in state achievement under the SSM, while only 4% of traditional LAUSD public schools do.¹²⁶

TABLE 18: LAUSD VS. LA CHARTERS SCHOOLS, SSM INDEX

		Bottom 5%	Bottom 10%	Bottom 25%	Top 25%	Top 10%	Top 5%	Total Number of Schools
Traditional Public Schools	%	6%	12%	30%	19%	8%	4%	622
	#	37	75	187	118	50	25	
Independent Charters Authorized by LAUSD	%	3%	7%	15%	48%	22%	16%	201
	#	6	14	30	96	44	32	

Source: California Charter Schools Association, *Portrait of the Movement 2017: Los Angeles Spotlight*, May 2017

The CCSA also converted its APD and SSM data into decile ranks, giving a sense of how charter and traditional public schools in the LAUSD perform, comparing on a percentile basis to other schools across the state with similar demographics.¹²⁷ The data revealed that, compared to other schools across the state with similar students, the median Los Angeles charter school performed in the 8th decile (roughly the 70–79th percentile) of schools statewide. In comparison, the median LAUSD traditional public school ranking only reached the 5th decile among similar students.

Looking at Los Angeles charter and traditional public schools' median state ranks based on their APD scores paints a similar picture. Despite serving students with similar demographics as the rest of the LAUSD (see Table 19), Los Angeles charters had a median rank of 5. The LAUSD fared far worse, with a median rank in the 3rd decile (roughly the bottom 20–29th percentile of achievement) statewide.

¹²⁵ "Portrait of the Movement 2017: Los Angeles Spotlight." California Charter Schools Association. May 2017. 10.

¹²⁶ Ibid.

¹²⁷ Ibid.

TABLE 19: 2016–2017 STUDENT DEMOGRAPHICS, LAUSD VS. INDEPENDENT CHARTERS

	Latino	Percent American Indian or Alaska Native	Percent Asian	Percent Pacific Islander	Percent Filipino	Percent African American	Percent White	Percent English Learner	Low-income	Percent Special Ed
LAUSD	73.8	0.2	3.9	0.3	2	8.1	10.2	25.4	80.8	12.3
Independent Charter Schools	74.8	0.3	2.5	0.1	1.4	9.4	9.3	22.3	80.5	10.6

Source: LAUSD Charter Schools Division Update, October 3, 2017

In addition, the California Charter Schools Association has also completed an April 2018 analysis of public charter schools' African American and Latino student performance on California's 2017 Smarter Balance Assessment (SBAC).¹²⁸ These students make up almost 85% of Los Angeles independent charter school enrollment. On the 2017 assessment, African American and Latino charter students met or exceeded state standards in English Language Arts (ELA) and math at higher rates than similar students in LAUSD's traditional public schools.¹²⁹ For example, in Figure 20, 40% of African American students in Los Angeles charter schools met or exceeded state standards in English Language Arts while only 29% of African American students in LAUSD's traditional schools met the ELA standards.¹³⁰ Similarly, 46% of Latino students in Los Angeles charter schools met or exceeded the ELA standards while only 36% of Latino students enrolled in LAUSD traditional schools met the standard.¹³¹ This pattern also holds true for student performance in math.¹³²

¹²⁸ "Overview: African American Student Performance in Charter Schools 2018." California Charter Schools Association. 5 April 2018. web. <<http://www.ccsa.org/African%20American%20Student%20Performance%20in%20Charters%20Fact%20Sheet%20-%20FINAL%204.5.2018.pdf>>; "Overview: Latino Student Performance in Charter Schools 2018." California Charter Schools Association. 5 April 2018. web. <<http://www.ccsa.org/2018/02/overview-latino-student-performance-in-charter-schools---2018.html>>

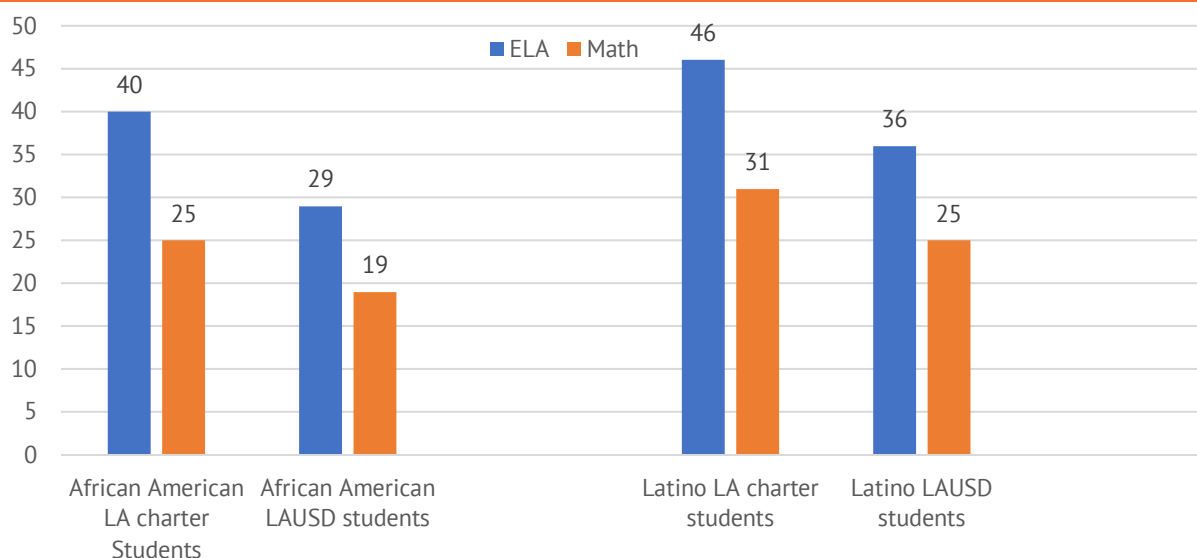
¹²⁹ Ibid.

¹³⁰ Ibid.

¹³¹ Ibid.

¹³² Ibid.

FIGURE 20: 2017 SBAC % AFRICAN AMERICAN AND LATINO CHARTER SCHOOL STUDENTS MET/EXCEED STANDARDS IN ELA AND MATH

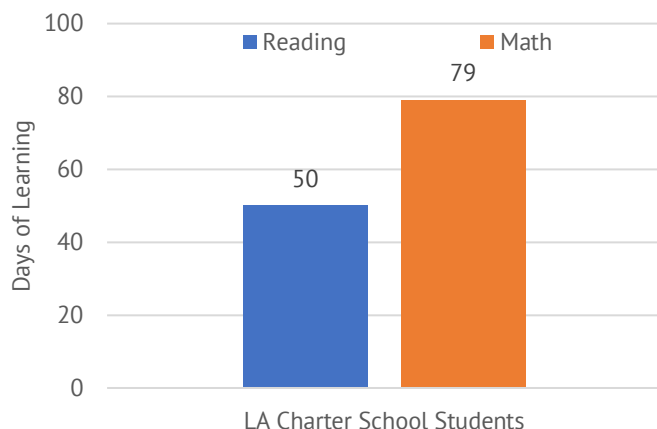


Source: California Charter Schools Association: Overview: African American Student Performance in Charter Schools 2018; Overview: Latino Student Performance in Charter Schools 2018.

This trend of Los Angeles charter schools' superior performance was corroborated in a 2014 study by Stanford University's Center for Research on Educational Outcomes (CREDO). The study compared pairs of students in charter and traditional public schools in LA described as "virtual twins," matched by a variety of factors such as grade-level, gender, race or ethnicity, low-income status, English-language learning ability, special education status, prior scores on state achievement tests, and attendance at similar feeder schools before enrolling in a charter.¹³³ CREDO analyzed achievement data from 2010–2012, finding that, over the course of a year, the typical Los Angeles charter student gained the equivalent of 50 extra days of learning in reading and 79 days of math over their public counterpart (see Figure 21).

¹³³ "Charter School Performance in Los Angeles." *Center for Research on Education Outcomes*. Stanford University. https://credo.stanford.edu/pdfs/Los_Angeles_report_2014_FINAL_001.pdf. 7-8.

FIGURE 21: INCREASED DAYS OF LEARNING IN READING AND MATH FOR LA CHARTER SCHOOL STUDENTS



Source: "Charter School Performance in Los Angeles." *Center for Research on Education Outcomes*. Stanford University.

This means students gain about a third of a 180-day academic year's worth of reading, and nearly four school months' worth of extra math. What's more, these positive effects for Los Angeles charters hold up across all grade levels, and particularly benefit Black and Latino students, especially those in poverty.¹³⁴

Finally, Los Angeles public charter school students are also outperforming students in LAUSD traditional schools on math and reading on the National Assessment of Educational Progress (NAEP), also

known as the *Nation's Report Card*. On the most recently administered tests in 2015 and 2017, 4th and 8th grade students in Los Angeles charter schools outperformed students in LAUSD, the state of California, and the nation (see Figures 22 and 23).¹³⁵

In 2015, 4th graders in LA charter schools scored (see Figure 22) 37 points higher in reading than students in traditional LAUSD schools, and 4th grade charter students scored 28 points higher in math than students in traditional LAUSD schools.¹³⁶ Similarly, on the 2017 NAEP 8th grade charter students outscored LAUSD traditional students (see Figure 23) by 26 points in reading and 28 points in math.¹³⁷ In addition, because of the higher scale scores Los Angeles charter schools also had a higher percentage of students who were proficient in reading and math than traditional LAUSD schools (See Figures 22 and 23).¹³⁸

¹³⁴ Ibid, 41.

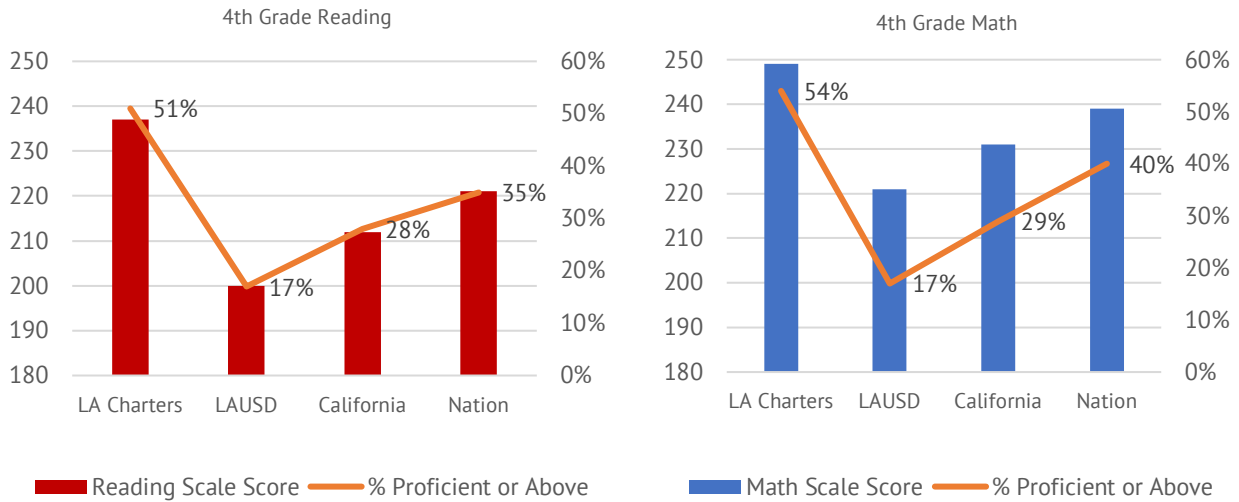
¹³⁵ *The Nation's Report Card: 2015 NAEP Mathematics & Reading Assessments*. web. <https://www.nationsreportcard.gov/reading_math_2015/#?grade=4>; *The Nation's Report Card: 2017 NAEP Mathematics & Reading Assessments*. web. <https://www.nationsreportcard.gov/reading_math_2017_highlights/>

¹³⁶ Ibid.

¹³⁷ *The Nation's Report Card: 2017 NAEP Mathematics & Reading Assessments*.

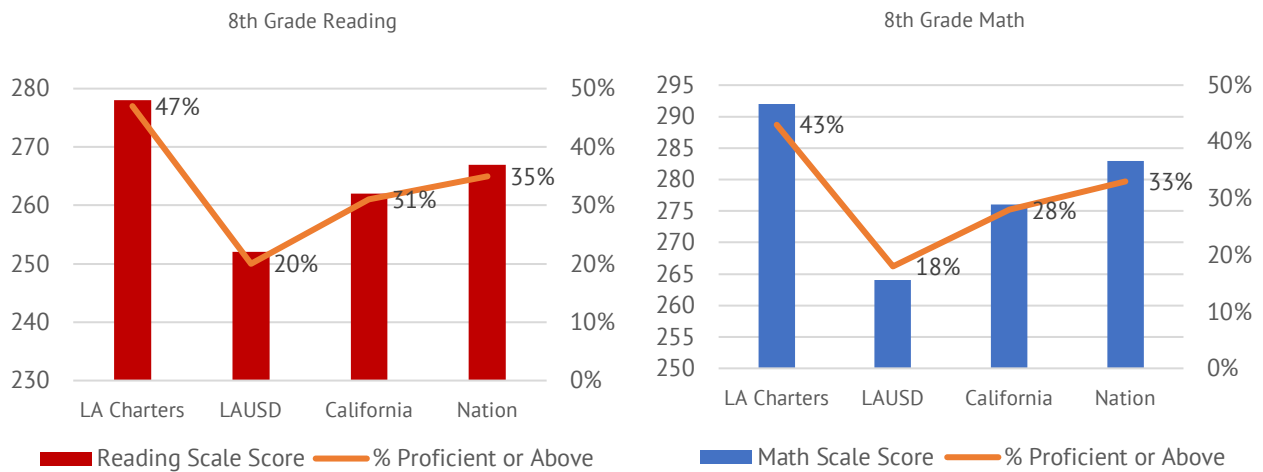
¹³⁸ *The Nation's Report Card: 2015 NAEP Mathematics & Reading Assessments*; *The Nation's Report Card: 2017 NAEP Mathematics & Reading Assessments*.

FIGURE 22: 2015 4TH GRADE NAEP READING AND MATH SCALE SCORES AND % OF STUDENTS PROFICIENT OR ABOVE



Source: *The Nation's Report Card: 2015 NAEP Mathematics & Reading Assessments.*

FIGURE 23: 2017 8TH GRADE NAEP READING AND MATH SCALE SCORES AND % OF STUDENTS PROFICIENT OR ABOVE



Source: *The Nation's Report Card: 2017 NAEP Mathematics & Reading Assessments.*

An April 2018 analysis by the California Charter Schools Association put the Los Angeles charter school scores into perspective: “In fact, in 2015 and 2017, Los Angeles charter schools were on par with the state of Massachusetts, which is the highest scoring state in the nation. This is particularly impressive given that Los Angeles charter schools are

achieving these results while serving a much larger proportion of socioeconomically disadvantaged students than in Massachusetts.”¹³⁹

The difference is apparent beyond testing as well. Los Angeles charters consistently outperform their LAUSD counterparts in graduation rates, eligibility for University of California college admissions, and acceptance into the UC system, both on a school-wide basis and across subgroups of students. Independent charters in Los Angeles have a higher graduation rate among four-year cohorts of students than LAUSD traditional public schools (89% vs. 80%).¹⁴⁰ This pattern holds up among subgroups of students by ethnicity and disadvantage as well.

Even when a student graduates from high school, they may not have met the requirements to be college-bound. The University of California and California State University systems require each accepted student to earn at least a “C” grade in 15 college preparatory courses across seven categories, known as the “A–G” requirements. In 2014, the LAUSD changed its high school graduation requirements to raise the proportion of students eligible for UC or CSU admission. However, after raising these standards threatened to significantly reduce the LAUSD’s graduation rate, the district slackened graduation requirements so that students could earn diplomas with only a “D” or better in A–G courses, grades which would disqualify students from UC or CSU admission.¹⁴¹ By contrast, Los Angeles charter schools have left their students on a significantly better footing to pursue college in California. Whereas less than half of LAUSD traditional public school students in the class of 2015 had passed their A–G requirements, 85% of Los Angeles charter students had.¹⁴² As shown in Figure 24, this trend holds among all ethnicities, most prominently among African-American students, who are 45% more likely to have completed A–G requirements in a charter school compared to the LAUSD (81% to 36% respectively).

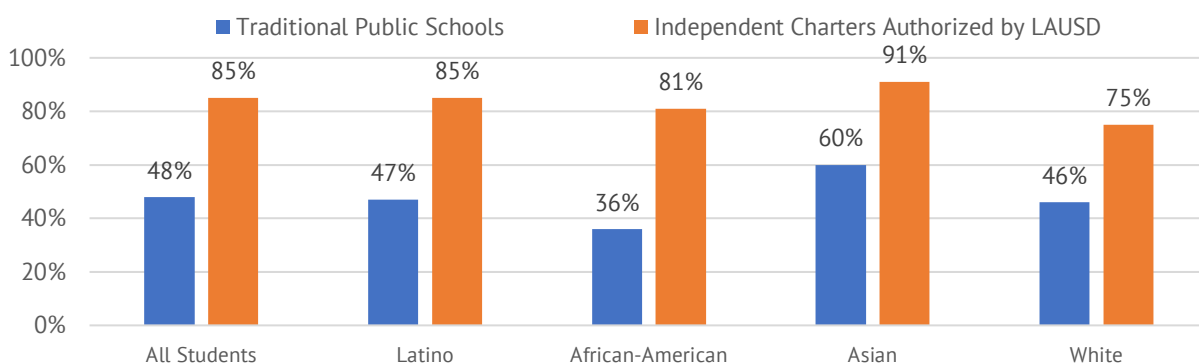
¹³⁹ “Press Release: Los Angeles Charter Schools Outperforming Traditional Public Schools.” California Charter Schools Association. 17 April 2018. web. < <http://www.ccsa.org/blog/2018/04/press-release-los-angeles-charter-schools-outperforming-traditional-public-schools-1.html>>.

¹⁴⁰ “Portrait of the Movement 2017: Los Angeles Spotlight.” California Charter Schools Association. May 2017. 12.

¹⁴¹ Baldonado, Kim. “LAUSD Votes to Lower College Prep Grade Requirements.” NBC Los Angeles. <https://www.nbclosangeles.com/news/local/LAUSD-Votes-to-Lower-College-Prep-Grade-Requirements-306734401.html>. 9 June, 2015.

¹⁴² Ibid. 13.

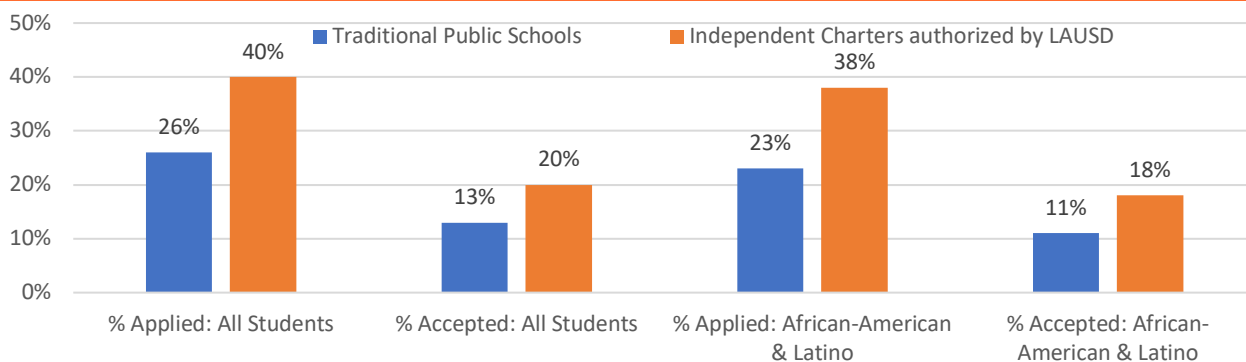
FIGURE 24: SUBGROUP PERCENT OF GRADUATES COMPLETING A-G COURSES IN 2015, LAUSD TRADITIONAL PUBLIC SCHOOLS VS. LAUSD INDEPENDENT CHARTER SCHOOLS



Source: California Charter Schools Association. “Portrait of the Movement 2017: Los Angeles Spotlight.” May 2017.

As for the college admissions process itself, independent charters in Los Angeles have helped their students both apply and be accepted in greater proportions than LAUSD traditional public schools. Figure 25 shows that in 2013, the most recent year of data collected by the CCSA, 40% of Los Angeles charter students applied to the UC system, compared to just over a quarter of LAUSD students.¹⁴³ Only 13% of the district’s students were accepted, while a fifth of Los Angeles charter students earned admission to the UC system.¹⁴⁴ This trend was consistent among Latino and African-American students as well, who surpassed the LAUSD’s overall UC acceptance rate, with a rate of 18% themselves.¹⁴⁵

FIGURE 25: APPLICATION AND ACCEPTANCE RATES TO UC SYSTEM IN 2013, LAUSD TRADITIONAL PUBLIC SCHOOLS VS LAUSD INDEPENDENT CHARTER SCHOOLS



Source: California Charter Schools Association. “Portrait of the Movement 2017: Los Angeles Spotlight.” May 2017

¹⁴³ Ibid. 13–14.

¹⁴⁴ Ibid.

¹⁴⁵ Ibid, 14

7.2

THE EFFECT OF CHARTERS ON LAUSD'S BOTTOM LINE

To evaluate the extent to which charters are contributing to LAUSD's fiscal problems, it is important to first understand what happens financially when a student leaves the district. Both districts and charters are funded through California's Local Control Funding Formula (LCFF), which was implemented in 2013–2014 to provide for a more streamlined and equitable school finance system. LCFF delivers funding to the district based on a weighted-student formula, which provides grade-specific foundational allotments plus supplemental and concentration grants for student characteristics such as English-learners and low-income.¹⁴⁶ Under this system, operational dollars largely follow the child to the district or to the charter school, such that an individual student receives the same funding allotment regardless of whether they attend a district school or a charter school.¹⁴⁷ However, LAUSD and other school districts in California do not send the allotment to the individual school based on student characteristics. So when a student leaves a district school or a charter, the institution they left no longer receives the operational funding that is attached to that child.¹⁴⁸

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Because money follows the child—and families are increasingly choosing charters over district schools—it is often claimed that charters “drain” money from these students’ home districts.

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Because money follows the child—and families are increasingly choosing charters over district schools—it is often claimed that charters “drain” money from these students’ home districts. While it is true that most California districts experience revenue declines in direct

¹⁴⁶ “LCFF Frequently Asked Questions.” California Department of Education. *Cde.ca.gov*. 2015. Web. <<https://www.cde.ca.gov/fg/aa/lc/lcfffaq.asp#FC>> 20 Oct 2017.

¹⁴⁷ A provision in LCFF caps the amount of concentration funding that charters can receive, lowering funding by about \$450 per pupil for one-third of California's charter students. For more information see <http://www.ppic.org/publication/charter-schools-and-californias-local-control-funding-formula/>

¹⁴⁸ The district loses the allotment for each child that leaves a district school.

proportion to enrollment changes, such assertions are entirely misleading and in LAUSD's case have often been used as a scapegoat for substantial budget deficits and poor leadership decisions. One prominent example is a recent report that was funded by United Teachers Los Angeles (UTLA), which concluded that LAUSD "has a nearly \$600 million impact from independent charter schools."¹⁴⁹

Several of the calculations used to arrive at the \$600 million figure were discredited by organizations such as Associated Administrators of Los Angeles¹⁵⁰ and California Charter Schools Association (CCSA).¹⁵¹ Even LAUSD officials have raised concerns about aspects of the report.¹⁵² For example, the report claims that the oversight fees districts collect from charter schools do not cover the district's Charter Schools Division's (CSD) incurred costs for oversight, when in fact revenue from this funding source actually exceeds CSD's annual expenditures.¹⁵³ But most problematic is the report's implication that LAUSD loses more than \$508 million annually due to the students who are enrolled in charters within the district.¹⁵⁴ According to the UTLA report:¹⁵⁵

By far, the most significant financial impact to LAUSD is in the area of declining enrollment lost to charter schools. To demonstrate this, assuming all students who attended direct-funded charter schools in 2014-15 would otherwise have attended a district school, LAUSD experienced a net loss over \$508 million, as shown below. This number is a measure of how many more "net" revenue dollars would be available to the district if all of the current 102,538 students in charter schools were enrolled in the district.

¹⁴⁹ Zoller, Susan. "Review: Fiscal Impact of Charters on LAUSD." MGT of America, 2016. Web. <<http://thecostofcharterschools.org/ccs/eir/>> 25 Oct 2017.

¹⁵⁰ Favort, Sarah. "Internal document shows LA Unified disputes some findings of UTLA-funded study on charter schools." *laschoolreport.com*, LA School Report. 21 June 2016. Web. <<http://laschoolreport.com/internal-document-shows-la-unified-disputes-some-findings-of-utla-funded-study-on-charter-schools/>> 5 Nov 2017.

¹⁵¹ "Letter to Los Angeles Unified School District Board of Education." California Charter Schools Association. *CCSA.org*. 2016. Web. <<https://calcharters.app.box.com/s/yopv21zluml5ynhoalmlbzu0lm7v22tg>> 25 Oct 2017.

¹⁵² Favort. "Internal document shows LA Unified disputes some findings of UTLA-funded study on charter schools."

¹⁵³ "Letter to Los Angeles Unified School District Board of Education." California Charter Schools Association.

¹⁵⁴ The UTLA report's \$600 million amount includes other costs to the district from charter schools; the \$508 million is UTLA's estimate of revenue loss due to LAUSD student enrollment declines UTLA attributes to charters.

¹⁵⁵ Zoller. "Review."

<i>Charter School Enrollment in 2014–15</i>	102,538
<i>X Net Financial Impact (Loss) per Student</i>	\$4,957
<i>Equals Total Net Revenue Loss in 2014–2015</i>	\$508,280,866

Source: Zoller, Susan. “Review: Fiscal Impact of Charters on LAUSD.”

The report’s author derived this figure by assuming that when a student leaves, the district loses its full funding allotment—about \$8,851/ADA—but only sheds a fraction of this in expenses due to fixed costs, with the resulting difference between these two figures representing a “loss” to the district. In the realm of education, fixed costs are expenses for inputs that do not vary with student enrollment. For example, a school incurs the same expense for things like building maintenance and electricity whether it serves 1,000 students or 975 students. Everything that’s not a fixed cost is a variable cost, an expense that can vary directly with enrollment such as teachers and classroom supplies. But the UTLA report makes unrealistic assumptions and doesn’t recognize that all costs are variable. The following two sections explain these two problems in detail.

THE UTLA REPORT ASSUMES UNREALISTICALLY HIGH FIXED COSTS PER STUDENT

UTLA’s report assumes that 56% of LAUSD’s costs are fixed, such that it can only reduce costs by 44% or \$3,894 for each departing student.¹⁵⁶ This means that the district is supposedly left with a net loss per pupil of \$4,957 in expenses that are no longer covered by a departing student’s funding allotment. According to a footnote in the report, the 56% figure was chosen based on “limited data received from the district” and that it is a “conservative” assumption, but research suggests otherwise.¹⁵⁷ An analysis by Dr. Benjamin Scafidi of Kennesaw State University found that fixed costs across states range from a low of 26.1% in Rhode Island to a high of 52% in D.C, with the U.S. average at 36%.¹⁵⁸ Importantly, Scafidi stressed that he sought to create an “overestimate” of fixed costs in his research. Although there is certainly variation among districts within states, these figures suggest that a 56% fixed cost assumption is far from conservative and that LAUSD’s actual fixed costs ratio is likely closer to Scafidi’s estimate for California: 37.1%.¹⁵⁹ If we use Scafidi’s 37.1%

¹⁵⁶ Zoller. “Review.”

¹⁵⁷ Ibid.

¹⁵⁸ Scafidi, Benjamin. “The Fiscal Effects of School Choice Programs on Public School Districts.” The Friedman Foundation for Educational Choice. 2012. Web. <<https://www.edchoice.org/wp-content/uploads/2015/07/The-Fiscal-Effects-of-School-Choice-Programs.pdf>> 25 Oct 2017.

¹⁵⁹ Ibid.

fixed cost estimate and we assume that 75% of the students in 2018 in Los Angeles independent charters schools (75% of 113,781) are students who would have enrolled in LAUSD, the yearly cost is closer to \$283 million.



However, even with the new cost estimate, the faulty assumption is that LAUSD can never recover from fixed costs from losing students.



However, even with the new cost estimate, the faulty assumption is that LAUSD can never recover from fixed costs from losing students. Using this logic, the LAUSD would also have fixed costs from every lost student caused by lower birthrates or from students moving to the Inland Empire. The district would be forced to maintain its fixed costs at its peak level of enrollment and could never adapt.

THE UTLA REPORT FAILS TO RECOGNIZE THAT ALL COSTS ARE VARIABLE IN THE LONG RUN

The use of the LAUSD charter population (102,538 students in 2013–2014) as a single, homogeneous unit is also flawed. Using this figure rests on the assumption that fixed costs are set in perpetuity and it thus makes no difference when students left the district. In actuality, all costs are variable in the long run, as Scafidi explains:¹⁶⁰

While I treat expenditures on capital, interest, general administration, school administration, operations and maintenance, transportation, and “other” support services as fixed costs in the short-run for the present analysis, all of these costs are variable in the long run. Public schools can make new strategic decisions in these areas in response to permanent changes in their student counts.

The fact is that students who left LAUSD for charters did so across a range of time. For example, some 12th grade charter students might have left LAUSD after the 5th grade while others might have joined in the last year or so. The UTLA report treats these two groups identically and assumes that none of the fixed costs associated with the former group could

¹⁶⁰ Ibid.

have been eliminated when, in fact, district officials have had more than enough time to adjust to a new reality. To be sure, if all 102,538 students had left LAUSD at once, the district would indeed need time to adjust its fixed costs. However, this wasn't the case. With proper strategic planning and leadership LAUSD officials could have right-sized the district, regardless of how many students left for charters. This assertion is supported by a 2008 analysis in an internal LAUSD report:¹⁶¹

If the District's ordinary "fixed" costs could be varied over time, then the District could function satisfactorily at relatively low levels of enrollment (e.g., less than 200,000 students). The logic here is that, aside from LAUSD, no other California district enrolls more than 150,000 students. The vast majority of these districts operate satisfactorily. Thus, we are confident that under ordinary conditions (planned expenditure reductions and normal fixed costs), LAUSD could function satisfactorily if its enrollment fell as low as 300,000 students.

“

Quite simply, districts across California and the U.S. operate at all sizes and there is no reason a district can't achieve financial stability with fewer students.

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Quite simply, districts across California and the U.S. operate at all sizes and there is no reason a district can't achieve financial stability with fewer students. The 2008 district analysis went on to note that LAUSD's "extraordinary" fixed costs can complicate this analysis, concluding "The District needs to secure a strategy for addressing the problem of retiree benefits—both for current retirees and future retirees,"¹⁶² a warning that district officials have largely ignored for nearly a decade. While it is true that LAUSD loses revenue when students leave for charter schools, the cause of the district's financial quagmire isn't losing students to charters, but rather its unwillingness to right-size in response to enrollment declines and unsustainable financial obligations. UTLA's \$508 million figure is thus not only misleading, but a harmful distraction from the real problems district officials should be addressing.

¹⁶¹ Ross, Randy. "Impact of Charters on the Functioning of LAUSD." 2008. Web. <<http://laschoolreport.com/wp-content/uploads/2016/05/03-15-16BFAIAU-dragged.pdf>> 25 Oct. 2017.

¹⁶² Ibid.

PART 8

RIGHT-SIZING LAUSD RECOMMENDATIONS FOR REFORM

From the Independent Financial Review Panel's report of Los Angeles Unified School District emerges a dire picture that should alarm parents, educators and community stakeholders alike. It found that maintaining the status quo would grow the budget deficit to about \$600 million by 2019–2020,¹⁶³ concluding that failure to act would have real ramifications for the district's 550,000 students including financial insolvency and even state takeover.¹⁶⁴ For years district officials have avoided substantive reforms, but the warnings of distant fiscal calamity have now become a reality that leaders must address head-on. While the path ahead involves many difficult decisions and political headwinds, the process of right-sizing LAUSD presents an opportunity to lay the foundation for a 21st century education system that's productive, agile, and responsive to the needs of students and communities. In other words, right-sizing isn't about budget cuts and layoffs, but rather optimizing all facets of operations with the goal of providing high-quality options to all students at a cost that aligns with revenues. To do this, LAUSD leaders should focus on five key reforms.

8.1

¹⁶³ "Report of the Independent Financial Review Panel."

¹⁶⁴ Ibid.

#1 OVERHAUL LONG-TERM DEBT OBLIGATIONS

LAUSD has little control over rising pension contributions because reducing these obligations requires state-level reforms. However, general staffing surges that are not supported by enrollment can increase pension costs, since the district must make pension contributions for each new hire.

Further, LAUSD does have discretion over OPEB costs as well as health and welfare benefits for active employees. The district has several significant cost-saving options available to it, ranging from ending retiree health care benefits altogether to engaging in a variety of cost-sharing and cost-reducing strategies.

At its August 2017 board retreat on reducing health care costs, LAUSD staff presented five cost-saving options, as shown in Table 20.

TABLE 20: LAUSD HEALTH CARE COST-SAVING OPTIONS

Cost-Saving Option	Annual Estimated Cost Saving - Employees	Annual Estimated Cost Saving - Retirees (OPEB)	Total Savings
Limit free coverage to employees and retirees only; dependents would have to cover their own costs.	\$345.9m	\$88.1m	\$ 434.0m
Limit free coverage to employees and retirees plus one dependent	\$128.0m	\$ 10.3m	\$ 138.3m
Require employees and retirees to pay 20% of premiums	\$138.8m	\$ 56.2m	\$ 195.0m
Limit coverage to the cost of the most inexpensive option; employees and retirees would pay the cost differential for more expensive plans	\$72.0m	\$ 89.2m	\$161.2m
Require age 65+ retirees to enroll in a 50-state Medicare Advantage Plan	---	\$ 40.6m	\$40.6m

Ultimately the board upheld the status quo for health care benefits for another three years at an annual cost approaching \$1 billion.

8.2

#2 GO AFTER LOW-HANGING FRUIT

It should come as no surprise that LAUSD can become more efficient, but what's less obvious is how relatively minor changes in operations can result in substantial savings that can put a dent in the district's budget deficit. In fact, the Independent Financial Review Panel's report found over \$143 million¹⁶⁵ in potential savings outside of staffing and long-term obligations, including:

Improve student attendance (\$45 million): Because the state of California provides revenue based on Average Daily Attendance, LAUSD loses money with every student absence from school. Increasing the district's attendance to just the statewide average—a relatively low bar to achieve—would generate an additional \$45 million per year.¹⁶⁶ Of course, this would not only help boost LAUSD's bottom-line but also improve academic outcomes such as graduation rates and college and career readiness. In 2009–2010, Long Beach Unified shifted 10 of its social workers and counselors to working with campuses on truancy issues to increase student attendance.¹⁶⁷ The chronic absence rate in Long Beach Unified dropped from 19.8% in 2011 to 10% by 2014. By 2015, the school district's overall attendance rate was 96.17% up from 96.01% in 2014 and above the state average.¹⁶⁸

Improve staff attendance (\$15 million): Currently, only 75% of LAUSD staff members have strong attendance as defined by the district.¹⁶⁹ Bolstering this number to 90% would save about \$15 million on substitute teachers while also providing students with more stable classroom environments.¹⁷⁰ To save even more money, LAUSD could require select administrators to substitute teach five days per year, a policy that saved Scottsdale, Arizona about 7% of their substitute budget and also allowed district staff to stay connected to the classroom.¹⁷¹

¹⁶⁵ Based on calculations from data obtained from “Report of the Independent Financial Review Panel.” Los Angeles Unified School District.

¹⁶⁶ Ibid.

¹⁶⁷ Kronholz, June. “What’s Happening in the States?” *Stretching the School Dollar*. Eds. Frederick M. Hess and Eric Osberg. Cambridge: Harvard Education Press, 2010. 67. Print.

¹⁶⁸ “State Lauds Boost in Attendance Here.” Long Beach Unified School District. lbsschools.net. 16 April 2015. Web. < <http://www.lbschools.net/Departments/Newsroom/article.cfm?articleID=1996> > 27 January 2018.

¹⁶⁹ “Report of the Independent Financial Review Panel.” Los Angeles Unified School District.

¹⁷⁰ Ibid.

¹⁷¹ Calculations based on data obtained from Kronholz, June. “What’s Happening in the States?” *Stretching the School Dollar*. Eds. Frederick M. Hess and Eric Osberg. 57.

8.3

#3 INITIATE STAFF REDUCTIONS AND STRATEGIC SCHOOL CLOSURES

The reality is that LAUSD's financial quagmire requires district leaders to make substantive cutbacks in both staffing and schools. Even though its declining enrollment has necessitated a reduction of about 10,000 staff, LAUSD has actually *increased* staffing levels in recent years while seeing costs associated with salaries and benefits also rise.¹⁷² This problem will only magnify if projected enrollment declines continue to hold true.

To start, LAUSD must recognize that the lion's share of new hires have been administrative staff, even during declining enrollment. Therefore, district officials should first evaluate every central office staff position as part of its school finance overhaul.

Next, teacher layoffs are unavoidable but LAUSD can approach them in a manner that will help increase student outcomes even as overall staffing levels decrease. Importantly, district and union officials should work together to review and renegotiate factors that hamstring flexibility and do nothing to further student achievement, such as automatic pay increases, rigid staffing requirements, and termination provisions that favor costly teachers with seniority. For example, Boston Public Schools replaced a seniority-driven system by renegotiating its collective bargaining contract to give more autonomy over staffing to school leaders, and Hartford Public Schools' contract now provides principals with more flexibility over things such as scheduling.¹⁷³ Increasing district and school-level flexibility will not only minimize staff reductions and protect against future layoffs, but also help ensure that the district retains its highest-performing talent in the process. LAUSD should also follow the Independent Financial Review Panel's guidance by offering early retirement incentives to senior staff and help reduce the percentage of teachers who have reached the maximum salary level, which is currently 10% higher than the state-wide average.¹⁷⁴

Lastly, underutilized schools are costly for districts to maintain as fixed costs such as facilities, school administration, and custodial services increase per-pupil expenses as enrollment declines. This means that schools that are at or near capacity—which are often higher-performing—essentially subsidize schools with declining enrollment and have less funding to expand programs, services and enrollment as a result. Undoubtedly, closing

¹⁷² Ibid.

¹⁷³ Snell, Lisa. "A Handbook for Student-Based Budgeting, Principal Autonomy and School Choice."

¹⁷⁴ "Report of the Independent Financial Review Panel." Los Angeles Unified School District.

schools is a difficult yet necessary process for LAUSD to undertake, but district officials should prioritize closing underperforming schools and proactively engage communities throughout the process in order to maximize transparency and build understanding. Kansas City Public Schools closed 26 schools and laid off about 1,000 staff members in 2010, which ultimately helped the district close its budget deficit, improve academically, and reverse enrollment declines, as students transferred to higher performing schools.¹⁷⁵ According to Superintendent R. Stephen Green, “When you close a number of facilities, it creates a bit of disruption, but it was a much-needed process to go through, given the financial stability that was needed for the district.”¹⁷⁶

Los Angeles also has declining enrollment without ensuring that all school sites are self-sustaining. While many other large urban districts with significant enrollment declines have worked to close and realign some schools to save money, LAUSD continues to keep under-enrolled schools open, even as it has opened many new schools over the last decade. In some areas of the district where school sites are very close to one another, the older schools have lost enrollment to newer schools. The district has not released a transparent recent report about the current capacity from one school to another or identified which schools may be under-enrolled and subsidized by the district.

The key question is to examine whether a school has enough enrollment to sustain the cost of running the school. In 2008, the district estimated that its schools would have a 16% vacancy rate by 2012. It predicted it would have the capacity to seat 670,000 students, but only 560,000 were expected to enroll.¹⁷⁷ A *Los Angeles Times* analysis in 2008 noted that “the district plans to build campuses that will take hundreds of students from those schools, further reducing their enrollment. By the time the building program is completed in 2012, there will be tens of thousands of empty seats at dozens of once-crowded schools.”¹⁷⁸

If we assume that LAUSD still has the capacity for 670,000 seats, then the current enrollment level of 500,000 students means that it is past time for the district to do a transparent

¹⁷⁵ DeNisco, Alison. “School districts get creative when enrollment drops.” *districtadministration.com*, District Administration. Jun. 2013. Web. <<https://www.districtadministration.com/article/school-districts-get-creative-when-enrollment-drops>> Accessed 30 Oct. 2017.

¹⁷⁶ Ibid.

¹⁷⁷ Larrubia, Evelyn. “L.A. Unified Schools Won’t Lack for Space,” *Los Angeles Times*, June 23, 2008. Web. 27 December 2017. <http://articles.latimes.com/2008/jun/23/local/me-seats23>

¹⁷⁸ Ibid.

audit of school capacity and how it might save money by closing the most under-enrolled schools. Independent charter schools have used some of this excess capacity for their students, but a transparent examination would ensure that the district can accurately assess all its financial options. In addition, evidence shows that closing the lowest performing and most under-enrolled schools can improve the quality of education for the most disadvantaged students.

A growing body of research indicates that school closure increases educational opportunity so long as students have access to better schools. Closure students who attended better schools tended to make greater academic gains than did their peers from low-performing schools in the same sector that remained open.¹⁷⁹

A new report on LAUSD's real estate assets by the LAUSD Advisory Task Force calls for the district to "analyze the current occupancy of core District assets to determine whether consolidation of and/or relocation of certain tenants to more optimal locations could create savings, maximize revenue, and/or reduce functional obsolescence."¹⁸⁰ With a more thoughtful approach to managing individual school sites and vacant property, the district could actually raise money with long-term leases to charter operators or with other commercial or community uses of their underutilized real estate assets. In addition, school consolidation could help ensure every school has more qualified staff, rather than distributing LAUSD's scarce resources over too many school sites.

When LAUSD keeps open schools that are under-capacity, district-wide personnel may continue to grow while individual school communities feel staff shortages at the school level. This is because each school, independent of enrollment, requires a certain fixed number of staff positions, some of which may be vacant as enrollment shrinks. As the *Los Angeles School Report* noted in a May 2016 feature, former Superintendent Michelle King cited feedback from a principals' survey she received that "showed principals expressing frustration with a lack of clerical staff, a lack of time to complete tasks and limited opportunities for instructional training. 'Principals say there are not enough hours in the day to get every-

¹⁷⁹ "Lights Off: Practice and Impact of Closing Low Performing Schools 2017," CREDO at Stanford University, <http://credo.stanford.edu/closure-virtual-control-records>

¹⁸⁰ Beutner, Aaron. "LA Unified Real Estate Report." Los Angeles Unified Advisory Task Force. March 2018. Web. < <http://www.lausdtaskforce.com/wp-content/uploads/2018/03/Task-Force-LAUDS-Real-Estate-Report-FINAL-Mar-2018.pdf>>.

thing they need done and improve teaching and learning due to a lack of sufficient personnel,' King said."¹⁸¹ In this way, the district can have too many employees that are unsustainable given the current level of enrollment and district revenue, while individual schools can also be under-staffed and stretched thin.

But when schools consolidate, fewer fixed staff positions are needed and are more likely to be filled. The district is staffing too many schools at an inadequate level and could increase staff and school support at individual schools by consolidating and closing some schools. LAUSD needs to make a transparent accounting of site-based enrollment, spending, and revenue based on the students who are enrolled at each site, examine how each school uses resources, and determine how that impacts the district as a whole. Until that is accomplished, the district will continue to have too many staff members that are not effectively deployed to best serve the needs of students.

8.4

#4 MITIGATE ENROLLMENT DECLINES BY FOCUSING ON QUALITY OPTIONS

Over a six-year period, LAUSD's enrollment fell by nearly 100,000 students, about half of which is due to families choosing charter schools, with many others opting to enroll in traditional public schools outside of the district.¹⁸² With forecasted student attrition of 2.8% per year and lackluster outcomes in many of LAUSD's schools, fundamental changes within classrooms are clearly in order.¹⁸³ The Independent Financial Review Panel found that "there may be lessons to be learned from the migration of students to charter schools" and "it is very important that the District carefully analyze charter programs and focus on which students are leaving and why" so that LAUSD can ultimately improve its programmatic offerings for families.¹⁸⁴ More bluntly, the days of district monopoly and residential assignment are coming to an end, and if LAUSD is going to attract and retain students then officials must be more responsive to parent needs. Fortunately, numerous districts across the

¹⁸¹ Szymanski, Mike. "LAUSD administrative staff jumps 22 percent even as enrollment drops." *LA School Report*. 18 May 2016. web. < <http://laschoolreport.com/administrative-staff-jumps-22-percent-even-as-enrollment-drops-at-laUSD/> > 15 March 2018.

¹⁸² "Report of the Independent Review Panel." Los Angeles Unified School District.

¹⁸³ Ibid.

¹⁸⁴ Ibid.

U.S. have already undertaken substantive reforms to adapt to this new operating environment, and LAUSD has much to learn from them. One prominent example is Denver Public Schools (DPS).

DPS has adopted “portfolio management,” a model in which a district’s primary role is to approve operators, provide support, and evaluate school outcomes. Portfolio management is based on the belief that school-level autonomy drives performance by allowing school leaders and teachers to more effectively meet student needs. While traditional districts tend to prescribe a one-size-fits-all model by mandating inputs (e.g. staffing ratios, curriculum, etc.) portfolio management recognizes that each school has unique challenges and is thus more concerned with holding educators accountable for outcomes rather than how they operate. Ultimately, this helps promote a diverse supply of schools that, when combined with a strong intra-district choice policy, can give parents more meaningful options that in turn help improve overall satisfaction and retention. As part of its strategic roadmap, *The Denver Plan 2020*, DPS is striving to have 80% of its students attending a high-performing school by 2020.¹⁸⁵

New data by the advocacy group Parent Revolution show that [234](#) LA Unified schools scored in the bottom two levels – orange or red – for both English and math on the California accountability dashboard. In the 2016–2017 school year, 155,779 students were enrolled in those 234 schools.¹⁸⁶ LAUSD has 34 schools that are red in both English and math. Last year those schools enrolled 26,400 students. At a minimum, 30% of LAUSD students could use a higher-performing school.¹⁸⁷

8.5

#5 MODERNIZE THE DISTRICT'S SCHOOL FINANCE SYSTEM

Currently, LAUSD employs an antiquated school finance system. Instead of providing principals with actual dollars based on students, it allocates staffing positions that are determined using rigid ratios and district-wide average salaries. As Marguerite Roza of

¹⁸⁵ Zubrzycki, Jaclyn. “Denver school board sets course toward more decentralized district.” *Chalkbeat.org*, Chalkbeat. May 2015. Web. < <https://co.chalkbeat.org/posts/co/2015/05/12/denver-school-board-sets-course-toward-more-decentralized-district/#.VWzLBo1FDX7>> Accessed 27 Oct. 2017.

¹⁸⁶ Litt, Seth. “Much more, much better is possible right now.” *LA School Report*. 19 February 2018. Web. < <http://laschoolreport.com/parent-revolutions-seth-litt-much-more-much-better-is-possible-right-now/>>.

¹⁸⁷ Ibid.

Georgetown University's Edunomics Lab explains, "The district sends out teachers, principals, administrative assistants, lunch room staff, librarians, and the like, and pays the bills out of the district coffers. Schools do not have their own bank accounts, nor do they receive reports that show the true costs of the resources that land in their buildings."¹⁸⁸ As well, according to Harvard researcher and former LAUSD budget director Jon Fullerton, the district's budgeting systems "do not connect automatically with accounting systems, and both may be isolated from the human-resources systems that track who is hired, when, and for how much."¹⁸⁹ As a result, funding is delivered to schools in a manner that is non-transparent, inequitable, and less responsive to enrollment changes. This makes it difficult to provide leaders with valuable data that could help the district become more productive with its education dollars.

STUDENT-BASED BUDGETING

To modernize its school finance system, LAUSD should allocate dollars on a per-pupil basis by adopting student-based budgeting, a funding portability framework that sends dollars to schools rather than staffing positions. This not only promotes equity and portability across schools within the district, but it also empowers principals to have more decision-making authority over how dollars are ultimately spent. Allocating funding to schools in per-pupil terms would promote greater efficiency by allowing dollars to grow and contract in direct proportion to student needs. In this way, student-based budgeting would allow principals to make their schools more responsive to parents' needs, increasing the likelihood of higher enrollment and potentially generating new revenue at the school level.

Moreover, when money goes directly to schools on a per-pupil basis, it becomes clear which schools are unable to financially sustain themselves and which schools may be candidates for consolidation to avoid insolvency. As part of this shift, LAUSD can also empower principals to purchase certain services from either the district or external vendors to optimize pricing and quality, which are often constrained by district contracts. This allows school leaders to make better use of their budgeted dollars while also helping to address central office bloat. Given LAUSD's financial position and need to reduce personnel, student-based budgeting would allow school-level staffing based on the funding resources generated by the students in the school.

¹⁸⁸ Roza, Marguerite. *Educational Economics: Where do School Funds Go?*. Washington, D.C.: The Urban Institute Press, 2010. 20. Print.

¹⁸⁹ West, Marty R. "Overcoming the Political Barriers to Change." *Stretching the School Dollar*. Eds. Frederick M. Hess and Eric Osberg. Cambridge: Harvard Education Press, 2010. 269. Print.

Student-based budgeting is based on five key principles:¹⁹⁰

1. Funding systems should be as simple and transparent as possible.
2. Per-pupil funding should be based on the needs of each student.
3. Per-pupil funding should follow the student to the public school of their choice.
4. Principals should receive actual dollars—not staffing positions or other allotments—to spend flexibly based on school needs.
5. Funding allocation principles should apply to all sources of education revenue.

It requires a shift in mindset from top-down compliance to supporting autonomous school leaders, and some roles will fundamentally change or become obsolete in this new environment as a result. As one educator who participated in an Education Resource Strategies summit on school-level budgeting explained:

*There has been a philosophical change: the principal is the CEO of the school. The central office is there to support them. We inverted the pyramid so that the principal is on top, telling the central office what they need, rather than on the bottom. That's required a cultural change and huge structural changes in the district.*¹⁹¹

LAUSD has already laid the foundation for this reform by piloting autonomous schools through its Belmont Pilot Schools Network, which started in the 2007–2008 school year.¹⁹² In the 2017–2018 academic year LAUSD allocates \$46 million to 83 schools that receive their resources based on a per-pupil formula that is allocated directly to schools. In these schools principals have more autonomy to purchase school-based staffing and differentiated district support.¹⁹³ LAUSD should take the next step by adopting a district-wide program as numerous districts such as Boston Public Schools, Houston Independent School District, and New York City Department of Education have already done.

¹⁹⁰ Snell, Lisa. “A Handbook for Student-Based Budgeting, Principal Autonomy and School Choice.” Reason Foundation, 2013. Web. <www.reason.org/files/student_based_budgeting_handbook.pdf> 15 April 2016.

¹⁹¹ “Fair Student Funding Summit: Conference Proceedings and Recommendations for Action.” Erstrategies.org, ERS Strategies. Web. <<https://www.erstrategies.org/cms/files/1022-fair-student-funding-summit.pdf>> Accessed 30 Oct 2017

¹⁹² “Los Angeles Unified School District: Investing in LAUSD.” LAUSD.net, Los Angeles Unified School District. Web. <<https://achieve.lausd.net/Page/2841>> Accessed 29 Oct 2017

¹⁹³ A full description of how LAUSD's current per pupil allocation system works can be found here: “Per Pupil Funding Model: Board of Education Special Meeting Budget Deep Dive.” Los Angeles

THE CHANGING ROLE OF THE DISTRICT

Under a student-based budgeting system the district itself still monitors school performance and makes big-picture decisions about which schools may need to be closed or consolidated based on enrollment and academic performance. The district's new role would be to hold individual schools accountable for district-wide student goals, such as improving graduation rates or increasing proficiency in 3rd grade reading. The district would not mandate how a principal and school community use their resources to meet district-wide instructional goals, but would instead set the benchmarks and goals for the district.

In order to measure progress and monitor performance, LAUSD should revamp its knowledge infrastructure to better integrate key information systems. This means going beyond merging budgeting, accounting and human resource data by ensuring that student enrollment and achievement data are also readily available for cross-referencing analysis. This would ensure that individual school leaders and district leaders have the tools necessary to make sound financial decisions that are driven by academic strategy and outcomes.

For example, district leaders should know not only exactly how much is spent on each school but also how dollars are allocated across classrooms and courses. Disaggregating data to per-pupil terms at the classroom-level would help school leaders and district administrators assess the alignment of funding with strategic instructional intent and student outcomes, and more effectively consider trade-offs in how money is spent.¹⁹⁴ This is especially important since research has shown that districts allocate funding in a manner that doesn't align with stated priorities such as focusing on low-achieving students, a fact that leaders are often unaware of given antiquated accounting and budgeting practices.¹⁹⁵ For example a district may say its goal is to improve 3rd grade reading and then spend all of its resources on high school AP classes. Without attaching school- and classroom-level expenditures to instructional priorities, school leaders and districts have little information about how they are targeting resources to instructional priorities.

Unified School District. 28 November 2017. web. < <http://laschoolboard.org/sites/default/files/11-28-17SpclBdPerPupilFundingPresentation.pdf>>

¹⁹⁴ Roza, Marguerite. "Now is a Great Time to Consider the Per-Unit Cost of Everything." *Stretching the School Dollar*. Eds. Frederick M. Hess and Eric Osberg. Cambridge: Harvard Education Press, 2010. 72. Print.

¹⁹⁵ Roza, Marguerite. *Educational Economics: Where do School Funds Go?* 12.

Such transparency would help LAUSD's current measurement of progress, as the district doesn't track or publicly report its allocations at the school level based on student characteristics. As a result, education stakeholders and policymakers cannot easily determine if the new LCFF revenue, which the California Legislature intended to help high-needs students, is boosting spending in the schools these students attend. As Marguerite Roza noted in a recent report evaluating California's LCFF revenue, "this lack of financial transparency makes it difficult to assess the degree to which LCFF is delivering—or not delivering—on the state's pledge to drive resources to the highest-need students."¹⁹⁶ A more transparent student-based system would allow district leaders to track these dollars and make more informed decisions about how best to use the district's scarce resources to improve student outcomes.

Student-based budgeting has helped other districts determine which schools should be closed or consolidated and which schools should be expanded or replicated. For example, after adopting student-based budgeting, the Denver school board approved the closing of eight schools that were under-enrolled and low-performing.¹⁹⁷ The board projected that the realignment of students from these schools to higher performing schools would achieve projected yearly operating savings of \$3.5 million.¹⁹⁸ Those resources were used to improve the education of students who were affected by the school closures, delivering additional resources to under-performing schools, and creating funding opportunities for new schools and new programs. In addition to the standard per-pupil revenue that followed students to their new schools, the district reinvested \$2 million, or 60% of the savings from school closures, into the schools of reassignment.¹⁹⁹ In this way, a student-based budgeting funding system is an important modern financial tool that can help right-size LAUSD's financial ship.

¹⁹⁶ Roza, Marguerite et al. "Taking stock of California's weighted student funding overhaul: What have districts done with their spending flexibility?" Edunomics Lab, Georgetown University. December 2017. web. < http://edunomicslab.org/wp-content/uploads/2017/12/Paper-1_R8.pdf>.

¹⁹⁷ Meyer, Jeremy P. "DPS Plans to Shutter 8 Schools." *The Denver Post*. 1 October 2007. web. < <https://www.denverpost.com/2007/10/01/dps-plans-to-shutter-8-schools/>>; Furtick, Katie and Lisa Snell. *Weighted Student Funding Yearbook: Denver Public Schools*. Reason Foundation. December 2013. web. < https://reason.org/wp-content/uploads/2013/12/weighted_student_formula_denver.pdf>

¹⁹⁸ Ibid.

¹⁹⁹ Ibid.

PART 9

CONCLUSIONS

Rather than casting blame, LAUSD needs to recognize that the structural deficit demands immediate attention. In 2018, it still needs to do the difficult work outlined in the IFRP report to right-size the district.

For many years internal sources and independent sources, like the IFRP report, have issued stern warnings that severe enrollment declines would shrink available revenue, heading LAUSD toward a fiscal cliff of large budget deficits where expenditures far outpace available revenue.²⁰⁰ LAUSD was also warned about long-term obligations that would encroach on the district's available operating revenue and ability to pay for day-to-day operations.²⁰¹

Yet, improvements in California's economy that contributed to surging state education revenue from the new tax increase, combined with new funding for LAUSD due to the state's adoption of the new LCFF in 2013–2014, has meant that LAUSD had significant increases of revenue in the short-term. These revenue increases were used to boost expenditures that have both short-term and long-term repercussions for the district in terms of added cost. Rather than use new revenue to pay down some of the long-term obligations, the district

²⁰⁰ These types of warnings are included in almost every budget and interim financial report since before 2008 and by specific internal analysis such as : Ross, Randy. "Impact of Charters on the Functioning of LAUSD-Follow Up."

²⁰¹ "Report of the Independent Financial Review Panel." Los Angeles Unified School District.

spent the money on increased staffing and operations costs. These new expenditures exacerbated the long-term debt of the district and will hasten the return to the brink of a financial crisis. The new revenue also masked some of impacts of the rapid increases in spending on long-term obligations like pensions and health benefits.

LAUSD is once again at the edge of a fiscal cliff, as employee costs and long-term obligations continue to increase expenditures and use up the available revenue, just as new revenue begins to slow or decline. Rather than right-size the district to line up staffing positions with the reality of declining enrollment, the common narrative has been to blame charter schools for the decline and the financial crisis.

Unfortunately, the notion that the growth of charter schools in Los Angeles is largely responsible for the school district's declining financial health is often expressed by local education stakeholders, including district administrators, LAUSD school board members, United Teachers Los Angeles representatives (UTLA—the teachers' union), and reports by Los Angeles-based media and national news outlets. Former LAUSD school board member Steve Zimmer offers a typical example of this narrative in his July 31, 2017 exit interview with the *Los Angeles Times*. Zimmer argues that “we have crossed—or are about to cross—a threshold where the loss of revenue to the district as a result of students leaving for charter schools has an effect on the quality of education for families that choose L.A. Unified-operated schools.”

Yet, this sentiment fails to account for the high-quality public schools that the charter school movement has provided to families in Los Angeles, and the value that these schools offer in providing education outcomes to mostly high-needs students that are often superior to LAUSD's traditional schools. Not to mention that fewer resources, along with fewer students to serve, need not create a financial crisis if the district were flexible and adaptive.

Charter schools have been an important part of a high-quality school district and have led to positive outcomes for Los Angeles students. Given the stark differences in academic outcomes, test-based and otherwise, between LAUSD traditional public schools and charters, it shouldn't be a surprise to the district that many parents are opting for what they feel is a better option—and many more would do so if they could.

And just to reiterate a point made by the IFRP panel in 2015, even if LAUSD could somehow recapture all the students that left the district for Los Angeles charter schools and for which the UTLA report claims cost the district almost \$600 million a year, that amount would be only 30% of the current district spending on employee benefits. In other words,

the structural deficit is baked into the district cost structure, and charter schools that are trying to offer high-quality options to Los Angeles families should not be held responsible for this perpetual and ongoing deficit spending.

Most significantly, these revenue and spending patterns have crowded out spending on LAUSD's most vulnerable students. This circumvents the governor's and the legislature's intentions to give extra resources to help improve outcomes for LAUSD's high-needs students. In addition, to the extent that LAUSD will have to remedy the misallocation of past resources away from high-needs students and pay schools back for not supporting their high-needs students, it means even less revenue to reduce the district's structural deficit issues. This ongoing circular pattern pits high-needs kids against the long-term debt of the district.

The days of district monopoly and residential assignment have given way to parent choice, forcing public schools to compete for students—a real win for families. LAUSD can do better, but first it must stop pointing fingers and get its financial house in order. This study's recommendations aim to provide helpful options to realize that goal.

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