



## Financial Oversight Committee Report

*March 18, 2010*

### **The District is in a Serious Financial Predicament Due to State Budget Cuts**

As a result of cuts in state funding, the largest source of District revenues, the District's current financial outlook is bleak:

- The District is facing a \$12 million budget shortfall for 2010-2011 in our Unrestricted General Fund, and a \$14 million projected shortfall in each year thereafter.
- Further significant state revenue cuts are expected later this school year and for the 2010-2011 fiscal year due to continuing state budget problems. The state is projected to be facing a \$21 billion shortfall through the 2010-11 fiscal year.
- Recovery in the general economy will not remove the dire budget problems for this year or next year. The state's financial problems predate the current recession.

## District Actions to Address the Deficit

The School Board has taken the following actions to address the deficit:

- For the 2009-2010 school year, the Board cut \$4.5 million.
- Two bargaining units and management made concessions, resulting in \$2 million in annual savings in 2009-2010 and 2010-2011. All employees will be furloughed five work days in these two fiscal years.
- Board took action on over 90 positions.
- Early retirement program requested by 24 eligible employees prior to the deadline.
- Over 60 layoff notices issued.
- School funding measure, Measure A, will go before voters this spring. Ballots are due by May 25. If it passes, Measure A will generate \$5.7 million annually for five years.
- Board has conducted a series of budgetary workshops since November 2009.
- District staff has presented an expenditure reduction plan that addresses the District's operating deficits. Official Board action has not yet been taken to adopt all elements of the plan.

3

## FOC Activities to Address the Deficit

In November 2009, the FOC presented a series of recommendations on expenditure reduction and revenue enhancement.

Recent FOC activities:

- Review of 2008-09 independent audit and Measure R audit reports; auditor did identify certain deficiencies in internal controls over financial reporting that we are monitoring
- Analysis of other school districts – we are paying close attention to how other leading school districts are handling the budget crisis, particularly with respect to expenditure reduction and revenue generation
- Revenue Enhancement Subcommittee has met with District Senior Cabinet about proposals submitted in November. Work is continuing, and specific suggestions will be presented in the late spring
- FOC members actively support several District committees/initiatives:
  - Measure A Campaign Committee
  - Strategic Planning Steering Committee
  - Special Education District Advisory Committee

4

## 2<sup>nd</sup> Interim Report: “Qualified” Certification

For the first time, District staff is recommending that the Board approve an Interim Report with a “Qualified” Certification.

- A “Qualified” Certification means that the District believes that it may not meet its financial obligations for the current year or the two subsequent fiscal years.
- Staff analysis shows that the budget reduction plan is sufficient to warrant a positive certification, but formal Board actions to approve the plan are still pending.
- The Board believes it needs more time to address future budget reductions in light of significant revenue uncertainties.
- The Los Angeles County Office of Education will be required to include in a report to the State Controller’s Office the actions they propose to ensure that the District will be able to meet its financial obligations.

5

## Additional Risks to District’s Financial Stability

- Governor’s “May Revise” Budget:  
It remains unclear how the Governor may revise his January budget proposal, but most informal observers believe there will be additional cuts to K-12 education funding.
- Fewer Permit Students in Our District:  
The District needs to prepare for the potential revenue impact of fewer permit students because of a change to the inter-District permit policy by the LAUSD. As many as 1,200 students could be affected. The District is evaluating the total projected impact and is working with other affected Districts.
- Financial Control Deficiency Finding:  
Our auditor identified certain deficiencies in attendance reporting procedures at one of our middle schools, which could result in the loss of all revenue at this site for the 2008-09 school year. However, the District is appealing the finding. Any financial penalty is likely to be paid in installments over several years.

6

**What Else Remains to Be Done?**  
**Adopt Expenditure Reduction Plan for 2010-2011**

For the 2010-2011 fiscal year, the Board needs to make decisions on at least \$8.9 million of expenditure reductions. How will priorities be determined? Important considerations include:

- Greatest student need
- Community expectations
- Exploration of alternatives
- Must retain 3% financial reserve for contingencies

A Budget Workshop will be held on April 14<sup>th</sup> to discuss the budget process and how the Board will determine budget priorities.

The FOC strongly recommends that the Board develop a process to determine what the 2010-2011 expenditure reductions will be under alternative revenue assumptions:

- If Measure A passes, a minimum of \$3.8 million in expenditure reductions are required
- If Measure A fails, a minimum of \$8.9 million in expenditure reductions are required

**What Else Remains to Be Done?**

- Any data/information requests the Board needs to to aid its decision making process should be submitted to District staff now.
- The Strategic Plan development process and framework, incorporating the community's input on priorities, should be available later this spring. The FOC recommends that the Board use this information to inform priority setting.

### Budget Development Timeline

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| • 2nd Interim Report                       | March 18         |
| • Strategic Planning Community Open Houses | April 12, 13, 15 |
| • Board Budget Workshop                    | April 14         |
| • Board Meeting                            | April 22         |
| • Governor's May Revise                    | May 15           |
| • Strategic Planning "Advance" Meeting     | May 18           |
| • Measure A Ballots Due                    | May 25           |
| • Board Meeting on Budget Priorities       | May 27           |
| • Board Meeting                            | June 3           |
| • Strategic Planning Open Houses           | June 7, 8, 9     |
| • Deadline for 2010-11 Published Budget    | June 11          |
| • Budget Adoption                          | June 18          |

### District Financial Strategy Recommendations

To resolve the District's financial predicament and bring the budget into balance, the District needs to pursue three important strategies:

1. Adopt a process for making specific decisions concerning significant expenditure reductions, and how priorities will be determined
2. Continue to keep District stakeholders fully informed about the budget situation and decision making process
3. Adopt a specific expenditure reduction plan for 2010 – 2013 that shows a positive ending balance in each of these three fiscal years, including a 3% reserve for contingencies