

INTEROFFICE CORRESPONDENCE
Los Angeles Unified School District
Office of the Superintendent

INFORMATIVE

DATE: October 19, 2012

TO: Members, Board of Education
FROM: Dr. John E. Deasy, Superintendent
SUBJECT: **FACTUAL OUTLINE OF FINANCIAL IMPACTS OF PROPOSITIONS 30 AND 38**

I am writing this informative to explain and reiterate a clear and factual outline of the financial picture for LAUSD over the next 18 months in the event that both education propositions fail. As Steve Lopez from Los Angeles Times wrote, *“there are good reasons for Californians to be sick and tired of government by initiative and angry about the failure of state leaders to lead...But there’s a reason parents and educators in school districts large and small are worried sick. If one of the props passes-and the odds aren’t great – they’ll be able to limp forward without more damage...But if both fail, six million K-12 students will take another whipping in January.”*

As a reminder, the Constitution of California declares that when two propositions are on the ballot at the same time and are deemed to be in conflict with each other, if both propositions pass with a majority, the one with the greatest number of votes becomes law and the other proposition fails. That is the case we face with Propositions 30 and 38. If Proposition 38 were to pass, revenues from 38 would be required to be used to solve the crisis that would occur when Proposition 30 fails. Therefore, it is not helpful to discuss a scenario of 38 passing because the consequences are so grave.

There are three things that we need to keep in mind:

- If Proposition 30 fails, there is a set of trigger cuts that will be enacted and will affect the District immediately.
- In any scenario, I remind you again of the problem with cash flow and the precarious situation we face as a result of the stacked sets of historical deferrals.
- There is no way that the deficit can be addressed through additional cuts to programs offered or number of personnel.

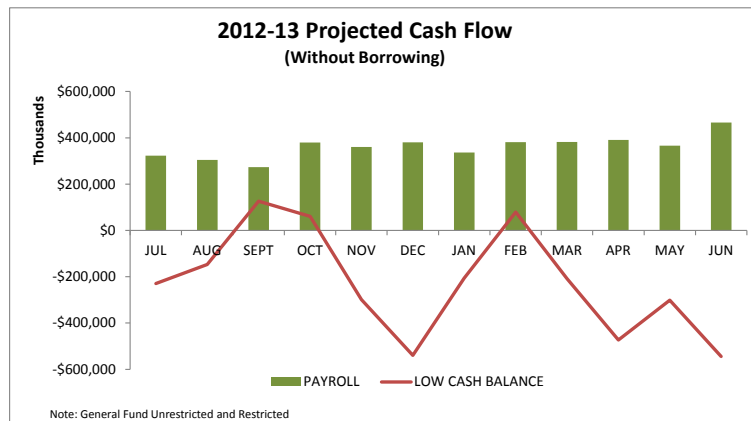
Please let me be clear; the administration will not be proposing any scenario that deals with further reductions in any program or with personnel in the tragic eventuality of Proposition 30 failing. The magnitude of the mid-year cuts, and the cuts in the following year can only be dealt with by dramatically shortening the school year.

2012-2013

The mid-year trigger cuts are approximately \$255 million. Please note that this DOES NOT include any potential cuts to federal funding as a result of sequestration and this does not include any potential negative to our current fund balance as a result of our work to make as many restorations as possible in the current school year. This is a very real possibility because we all chose to support students and their needs once the school year started. The District cannot and will not rely upon the reserve for revenue uncertainty to address mid-year trigger cuts. This reserve will be needed in its entirety to deal with the 2013-14 school year crisis. At the moment, the reserve for revenue uncertainty is approximately \$330 million (but this is not cash as it is a portion of the state’s deferral).

Let me explain the rationale for why the reserves will not be used for mid-year trigger cuts. If Proposition 30 fails, all California schools will face an ongoing re-baselining of Proposition 98 formula funding. That combined with the state’s cash deferral to schools will create a cash crisis for this District and all other school districts in California.

To illustrate, the following Chart shows the current year's cash flow. If the District were unable to borrow, the line shows the lowest point of cash within a month. Without the ability for the District to successfully borrow from Wall Street, the District would be cash solvent for only three months of the year. The columns represent the payroll and benefit costs for each respective month.



Therefore, due to the combination of on-going re-baselining of Proposition 98 and the significant cash concerns, should Proposition 30 fail, the school year will end shortly after April. The sacrifice of all of our communities, parents, and employees will be required in order to reduce the cost by \$221 million at a minimum. Last year's very small ending fund balance would be used to balance the remaining deficit (I repeat, this does not take into consideration any loss of federal funding). Should this catastrophic situation become a reality, the District is currently planning scenarios to deal with informing parents of the loss of transportation, early childhood care, afterschool care, food, end of year national assessments, transcripts and graduation for seniors. All of which will be imperiled at unprecedented levels.

These devastating fiscal scenarios in the 2012-13 and 2013-14 school years have great consequences on our youth. Among them, and by no means is this a complete list.

- Inability to transport students and provide education to those students in compliance with all of our IEPs.
- Loss of weeks of breakfast, lunch and dinner for many of our students.
- Impact on Families having to find daycare and childcare.
- Inability for seniors to receive a complete school year, thus rendering them in a far less competitive situation for college acceptance against students from states that have a full school year.
- Inability for us to complete transcripts
- Inability for students to take AP and IB Exams.
- A reduced amount of instructional time before State examinations.
- Loss of critical scholarship opportunities.

2013-14

Since the loss of Proposition 30 would result in an ongoing crisis, the 2013-14 year would require the following actions:

- Continue with the shortened school year by at least 20 days and at least 5 non-paid days resulting in \$368 million
- We would need to borrow funds against the entirety of the reserve for revenue uncertainty (with no expectation of the state paying us back) of \$337 million
- We may be required to use some or all of our obligations to fund required additional reserves and contributions \$65 million
- We would have to assess the federal situation and likely need an additional 1-2 weeks of school closure; above the 20, ending the school year in mid April.

I do not need to remind you of either the fiscal or credit situation this would place the District.

2014-15

Lastly, the District's financial forecast for 2014-15 is not sustainable or viable, and the reserve would no longer exist. I fully realize the stark and dark picture that this informative paints but I feel that it is the responsibility of this office to inform you of the financial impact on the District if Proposition 30 should go down now that all the numbers have come into focus.

Should Proposition 30 succeed, we do face two years of continued deficit but the administration feels that we can work with you as the Board of Education in bridging solutions (although there will be continued pain) for the short term towards a fiscally brighter, and program and personnel building solution in the years out.

In this memo, I have selected not to focus on that scenario because of the fact that should Proposition 30 fail, we will need an emergency board meeting within seven days to begin to put into place the fiscal crisis plan, as required by law. While not customary, I will be sending a copy of this communication to all of the leadership of our labor unions and all of our principals. There will not be another communication on the fiscal plan until immediately following the election.

If you should have any questions, please do not hesitate to contact me, Michelle King, or Megan Reilly.

c: Michelle King
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