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Los Angeles Unified School District Projected Financial Position Analysis

Report Date: September 26, 2018

Confidential Work Product

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I. Executive Summary

The Los Angeles Unified School District ("LAUSD" or the "District") has requested that Houlihan Lokey Financial Advisors, Inc. ("Houlihan Lokey") prepare an analysis (the "Analysis") and a report (the "Report") regarding LAUSD's projected financial position of its "General Fund"¹ for fiscal years² 2018-19 through 2022-23 (the "Projections"). The issuance date of this report is September 25, 2018 (the "Issuance Date"). We understand that the Report may be used to assist LAUSD in analyzing its General Fund budget.

The Analysis examines certain implications on the General Fund's Unassigned Ending Balance³ under two different forecasts of the Projections provided to us by the District, as described in Section B below. More specifically, the Analysis examines the District's ability to meet its statutory minimum reserve requirement of 1.0 percent⁴ at the end of each projected fiscal year. This statutory minimum reserve is defined as the Unassigned Ending Balances (inclusive of the Reserve for Economic Uncertainties⁵) divided by the Total Expenditures and Other Financing Uses.⁶ We understand that failure to meet this reserve requirement may have implications in the District's ability to meet its financial obligations in the short-term, including its ability to secure budget approval from the Los Angeles County Office of Education ("LACOE"). Furthermore, should the District's financial condition fall below California's (the "State") standards, the LACOE is authorized to take corrective action including assuming management of that District's financial affairs.⁷

We understand that the Projections are based on the General Fund's unaudited financial results for the 2017-18 fiscal year and may be subject to revisions once the audited financials become available. We further understand that the Projections and supporting schedules, assumptions, and documentation provided to us reflect a current view of the General Fund position for fiscal

¹ See Appendix A for a general overview of LAUSD and Appendix B for a general overview of the various components of LAUSD's Total Budget, including the General Fund.

² LAUSD's fiscal year begins July 1st and ends June 30th.

³ See Section II.C.1.5

⁴ Per the California Code of Regulations, Section 15450, Reserves, districts with 400,001 and over Average Daily Attendance must have, for any of the budget year or two subsequent fiscal years, no less than 1 percent in Available Reserves as applied to Total Expenditures and Other Financing Uses. The Available Reserves are the unrestricted amounts in the Reserve for Economic Uncertainties and the Unassigned/Unappropriated accounts in the General Fund, as well as any Special Reserve Fund for Other than Capital Outlay Projects.

⁵ The Reserve for Economic Uncertainties is a legally required reserve to offset the potential impact of unanticipated expenditures or revenue shortfalls. Source: Superintendent's Final Budget 2018-19: Glossary and Abbreviations, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 1.

⁶ See Section II.B.1.

⁷ LAUSD Budget and Finance Policy (citing Education Code 42127.3).

I. Executive Summary (cont.)

years 2018-19 through 2022-23. The Projections contain certain updates and adjustments⁸ not reflected in the 2018-19 Superintendent's Final Budget (approved by the LAUSD Board on June 19, 2018), which we understand was based on the 2018-19 Adopted State Budget.⁹

A. INFORMATION CONSIDERED

In connection with the Analysis, we have made such investigations, analyses and inquiries as we have deemed appropriate under the circumstances and time frame of the engagement.

Among other things, we:

- researched and reviewed certain publicly available financial information relating to LAUSD that we deemed to be relevant;
- analyzed certain information relating to the historical, current and future operations, financial condition and prospects of LAUSD made available to us, including the Projections, which were prepared by LAUSD management;
- spoke with certain members of the LAUSD management regarding the financial condition and prospects of LAUSD and the General Fund;
- researched and reviewed publicly-available sources of information including, but not limited to, LAUSD's historical budgets, press releases, websites, and other relevant data; and
- conducted such other financial studies, analyses, and inquiries and considered such other information and factors as we deemed appropriate.

Among other things, we have analyzed the following documents and electronic files:

- LAUSD General Fund multi-year projections and supporting schedules, assumptions, and documentation for fiscal years 2018-19 through 2022-23;
- LAUSD General Fund historical budgets for fiscal years 2014-15 through 2017-18;

⁸ Such adjustments include, but are not limited to, the Cost-of-Living Adjustment, the Consumer Price Index, and other Local Control Funding Formula factors such as enrollment rates and unduplicated pupil percentages.

⁹ Per LAUSD's press release titled "Los Angeles County Office of Education Gives Conditional Approval for L.A. Unified's 2018-19 Budget" dated September 11, 2018, LAUSD is required to provide LACOE with more information on its 2018-19 budget and fiscal stabilization plan that it passed in June 2018. The Board of Education must also pass a resolution outlining the changes needed to fully implement the plan. LAUSD has to meet these requirements by October 8, 2018, according to State law.

I. Executive Summary (cont.)

- Forecasts prepared by LAUSD of the Local Control Funding Formula ("LCFF") for fiscal years 2018-19 through 2022-23, including supporting assumptions;
- Forecasts prepared by LAUSD reflecting the projected changes to the Unassigned Ending Balances of the General Fund under various forecasts and other assumptions; and
- Forecasts prepared by LAUSD reflecting the projected increases in Healthcare and Welfare ("H&W") expenditures for fiscal years 2020-21 through 2022-23¹⁰.

B. OVERVIEW OF THE PROJECTIONS

We have reviewed the Projections prepared by LAUSD and provided to us containing the General Fund's forecasted Revenues and Other Financing Sources for fiscal years 2018-19 through 2022-23. The Projections also contain projected Expenditures and Other Financing Uses as well as other projected components of the Total Ending Balance for the same period. We received Projections for the two following forecasts:¹¹

1. **LAUSD Budget Forecast:** the General Fund with an ongoing 3.0 percent wage increase commencing in fiscal year 2017-18 and an additional ongoing 3.0 percent wage increase commencing in fiscal year 2018-19, for the remaining bargaining units; and
2. **LAUSD "Restore to Full H&W Contribution Budget Forecast:"** the General Fund with an ongoing 3.0 percent wage increase commencing in fiscal year 2017-18 and an additional ongoing 3.0 percent wage increase commencing in fiscal year 2018-19, for the remaining bargaining units, as well as the "Healthcare and Welfare Cost Increase."

We have relied on the Projections in the Analysis and have assumed that the Projections have been reasonably prepared based on currently available estimates by LAUSD of the future financial results of the General Fund. The Analysis was based on these Projections and their underlying assumptions and documentation. It was not within our scope of work to prepare independent projections or make adjustments to the Projections or their supporting schedules and assumptions.

10 The projected increase in H&W expenditures in fiscal year 2020-21 are not included in the Board-approved budget, which includes fiscal years 2018-19 through 2020-21.

11 Each of which assumes implementation of the "Fiscal Stabilization Plan." The two forecasts are described in greater detail in Section IV.A. The Fiscal Stabilization Plan and the Healthcare and Welfare Cost Increase are described in Section III.C.

I. Executive Summary (cont.)

We have reviewed the Projections and supporting schedules and were able to confirm, based on publicly available information, assumptions related to the LCFF such as the cost-of-living adjustment ("COLA") and the State's Base Grant Funding rates per Average Daily Attendance ("ADA"), which are specified by the State Department of Finance.¹² Further, we have examined a selection of the recent agreements between LAUSD and some of its bargaining units¹³ related to wage increases and H&W benefits, and confirmed that the economic terms of these agreements reconciled to assumptions in the forecasts. Lastly, we have looked at the mechanical builds of various of the spreadsheets provided. We understand that many of the formulae and calculations in these spreadsheets were, by necessity, hard-coded when transferred from the LAUSD's system to Microsoft Excel format. As such, we have not tested the underlying calculations of those hard-coded figures.

C. SUMMARY OF FINDINGS

As previously discussed, one of the critical considerations in LAUSD's ability to obtain budget approval is the maintenance of a minimum 1.0 percent reserve requirement by the end of each of the fiscal years included in the budget (i.e., three years). This reserve is determined based on the General Fund's Unassigned Ending Balance.¹⁴ We understand that failure to meet the reserve requirement may result in the future adoption of cost-cutting measures similar to those in the Fiscal Stabilization Plan currently included in the 2018-19 budget.¹⁵

Our findings summarize the impact of the two forecasts on the District's Unassigned Ending Balance against the 1.0 percent statutory reserve requirement.

1. LAUSD Budget Forecast

As shown on Figure 1 and Exhibit 18, under this forecast, the projected 2018-19, 2019-20 and 2020-21 fiscal years end with an Unassigned Ending Balance of \$699.6 million, \$365.7 million, and \$1.7 million, respectively. The minimum 1.0 percent reserve balance is satisfied in all of these years, as shown on Figure 2. However, the Unassigned Ending Balance for fiscal years 2021-22 and 2022-23 is a shortfall position (deficit) of \$418.9 million and \$880.1 million, respectively. Additionally, the 1.0 percent minimum reserve condition is not met commencing in fiscal year 2021-22, as shown on Figure 2.

12 Sources: "Funding Rates and Information, Fiscal Year 2018-19.pdf" (California Department of Education's website) and "2018.07_LCFF Gap and COLA_California Dept of Education.docx."

13 See Section III.C.

14 Consisting of the Reserve for Economic Uncertainties and the Undesignated/Unassigned Ending Balances. The Ending Balance of the General Fund also consists of the Non Spendable (Inventories / Cash / Others), Committed, Restricted, and Assigned ending balances (see Section II.C). These represent fund balances that are subject to internal policies and constraints or intended to be used for a specific purpose, and as a result, may not be available to use for the District's ongoing expenditures.

15 See Section III.C.1.

I. Executive Summary (cont.)

2. LAUSD "Restore to Full H&W Contribution Budget Forecast"

As shown on Figure 1 and Exhibit 19, under this forecast, the projected 2018-19, 2019-20, and 2020-21 fiscal years end with an Unassigned Ending Balance of \$699.6 million, \$365.7, and *negative* \$111.5 million, respectively. The minimum 1.0 percent reserve balance is satisfied in fiscal years 2018-19 and 2019-20 but it is not satisfied in fiscal year 2020-21. Since the LAUSD Budget Forecast and the LAUSD "Restore to Full H&W Contribution Budget Forecast" contain identical Projections in fiscal years 2018-19 to 2019-20, under these two forecasts the Unassigned Ending Balance and Unassigned Ending Balance reserve percentages for fiscal years 2018-19 to 2019-20 are shown as overlapping lines on Figures 1 and 2.

Under the LAUSD "Restore to Full H&W Contribution Budget Forecast", the Projections for fiscal years 2020-21 through 2022-23 include an additional \$113.2 million, \$168.2 million, and \$225.7 million in H&W costs, respectively¹⁶. As a result, under the "LAUSD Restore to Full H&W Contribution Budget Forecast," the Unassigned Ending Balance for fiscal years 2021-22 and 2022-23 result in a deficit of \$700.4 million and \$1,387.2 million, respectively. Under this forecast, the 1.0 percent minimum reserve condition is not met commencing in fiscal year 2020-21, as shown on Figure 2.

We note that under the LAUSD "Restore to Full H&W Contribution Budget Forecast", the \$45.9 million in cost savings¹⁷ expected to be implemented through the Fiscal Stabilization Plan will not be sufficient to satisfy the 1.0 percent reserve balance requirement in fiscal year 2020-21 nor alleviate a deficit position in that year.

3. Additional General Observations

In addition to summarizing the impact on the General Fund's Unassigned Ending Balance from the LAUSD Budget Forecast and the LAUSD "Restore to H&W Contribution Budget Forecast", Exhibits 18 and 19 show that expenditures were projected to exceed revenues throughout the projected period (fiscal years 2018-19 through 2022-23). The imbalance caused by expenditures being consistently greater than revenues causes reserves to continually decline and has the ultimate effect of further reducing the Unassigned Ending Balance and impacting the District's ability to meet its 1.0 percent minimum reserve requirement (commencing in fiscal year 2021-22 under the LAUSD Budget Forecast and in fiscal year 2020-21 under the "LAUSD Restore to H&W Contribution Budget Forecast.")

¹⁶ Note: the Projections for fiscal year 2020-21 include a \$113.2 million in H&W Cost Increase. This cost increase is not included in the 2018-19 Board-approved budget since the current agreement between LAUSD and HBC extends until calendar year 2020.

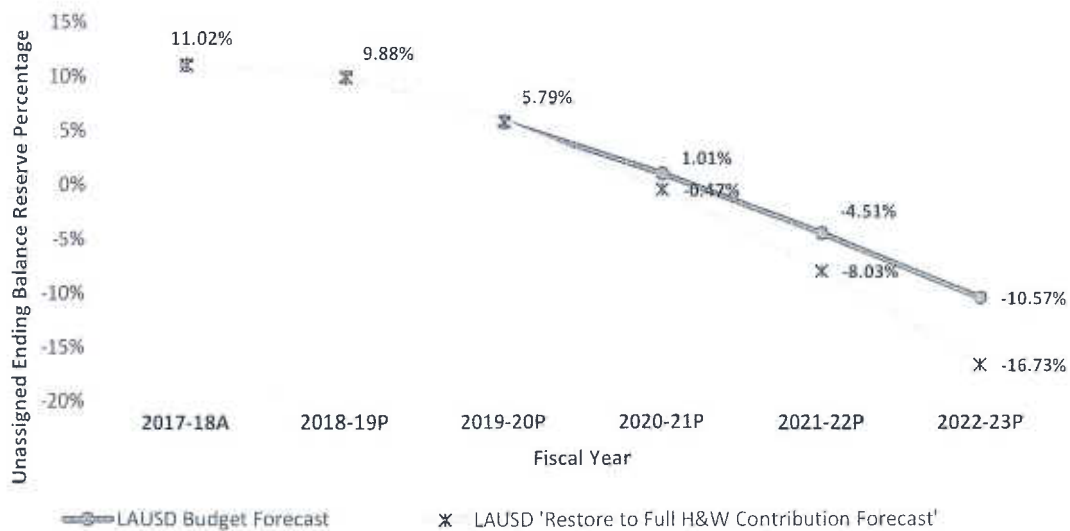
¹⁷ See Section III.C.1

I. Executive Summary (cont.)

Figure 1. General Fund Unassigned Ending Balances¹⁸



Figure 2. General Fund Ending Balance Reserve Percentages¹⁹



¹⁸ Source: Exhibits 18 and 19

¹⁹ Source: Exhibits 18 and 19. The Ending Balance reserve percentages are calculated, for each fiscal year, as the General Fund Unassigned Ending Balance plus the Reserve for Economic Uncertainties, divided by the Total Expenditures and Other Financing Uses.

II. LAUSD General Fund Overview

The General Fund is the largest of the four operating funds, which comprise LAUSD's total budget, along with the "Adult Education Fund," the "Child Development Fund," and the "Cafeteria Fund."²⁰ The General Fund covers the basic instructional and administrative expenditures of LAUSD, and includes restricted and unrestricted funds that are used to support various educational programs. The General Fund's budget, which LAUSD prepares as part of its annual total budget, is based on the General Fund's proposed sources and uses of funds across a wide range of categories, as defined below.

A. SOURCES OF FUNDS

1. Beginning Balance

The Beginning Balance reflects the ending balance of the prior year. It may also include adjustments due to audit or restatements of amounts.²¹

2. Revenue

The sources of revenue are classified based on the source of funds from the LCFF, Federal, State, and Local Revenues.²²

2.1 Local Control Funding Formula

The LCFF, implemented in fiscal year 2013-14 as a replacement to the Revenue Limit calculation, dictates how California's local education agencies ("LEAs") are funded.²³ The goal of the LCFF model is to simplify how state funding is provided to LEAs, to create transparency of funding, and to grant local control of funds.²⁴ The LCFF is built upon numerous assumptions, including but not limited to, student enrollment per grade span,²⁵ percentage of disadvantaged students, ADA, various types of funding by ADA (e.g., base, supplemental, and concentration funding), and COLAs. While the LCFF determines the amounts that each LEA is entitled to receive each fiscal year, this is ultimately realized from three main funding sources: (i) local property taxes, (ii) state aid, and (iii) the Education Protection Act ("EPA").²⁶ The LCFF is

²⁰ See Appendix B for details.

²¹ Superintendent's Final Budget 2018-19: Description of Funds, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, pp. 5 – 6.

²² *Ibid.*

²³ Superintendent's Final Budget 2018-19: Local Control Funding Formula, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018.

²⁴ *Ibid.*

²⁵ In LCFF, it refers to the grouping of student grade levels such as K-3, 4-6, 7-8, and 9-12.

²⁶ The EPA provides LEAs with general purpose state aid funding pursuant to Proposition 30. The EPA funding is a component of an LEA's total LCFF entitlement. Source: Superintendent's Final Budget

II. LAUSD Budget Overview (cont.)

LAUSD's largest source of revenue, accounting for approximately 75 percent of Total Revenues and Other Financing sources in the 2018-19 budget.²⁷

2.2 Federal Revenues

Federal Revenues represent certain entitlements or grants from the federal government, such as the *Federal Individuals with Disabilities Act* ("IDEA") and Title I of the *Elementary and Secondary Education Act*.²⁸ Federal revenues represent approximately 9 percent of Total Revenues and Other Financing Sources in the 2018-19 budget.²⁹

2.3 State Revenues

Similar to Federal Revenues, Other State Revenues represent certain entitlements or grants from the state government, including the *Special Education Funding Assembly Bill (AB) 602* as well as revenues from the California State Lottery.³⁰ State Revenues represent approximately 13 percent of Total Revenues and Other Financing Sources in the 2018-19 budget.³¹

2.4 Local Revenues

Local Revenues include revenues from county and district taxes, revenues from special education programs, sales of equipment and supplies, and other specific local sources such as leases and rentals, donations, and filming revenues.³² Local revenues represent approximately 2 percent of Total Revenues and Other Financing Sources in the 2018-19 budget.³³

2018-19: Glossary and Abbreviations, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 1.

27 Source: "3a MYP General Fund, Unrestricted and Restricted.pdf"

28 Superintendent's Final Budget 2016-17: Sources and Uses of Funds, Los Angeles Unified School District Budget Services & Financial Planning Division, June 2016, p. 71.

29 Source: "3a MYP General Fund, Unrestricted and Restricted.pdf"

30 Superintendent's Final Budget 2016-17: Sources and Uses of Funds, Los Angeles Unified School District Budget Services & Financial Planning Division, June 2016, p. 71.

31 Source: "3a MYP General Fund, Unrestricted and Restricted.pdf"

32 Superintendent's Final Budget 2018-19, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, Attachment D, p. 1.

33 Source: "3a MYP General Fund, Unrestricted and Restricted.pdf"

II. LAUSD Budget Overview (cont.)

2.5 Other Financing Sources

Other Financing Sources include revenues from interfund transfers as well as revenues from bond issuances.³⁴ They represent less than 1.0 percent of Total Revenues and Other Financing Sources in the 2018-19 budget.³⁵

B. USES OF FUNDS

1. Expenditures and Other Financing Uses

This category reflects the amounts spent or to be spent based on the following types of expenditures:³⁶

1.1 *Certificated Salaries* includes salaries for positions that require a credential or permit issued by the Commission on Teacher Credentialing such as salaries of school administrators, teachers, librarians, counselors, nurses, and certificated central office administrators.³⁷

1.2 *Classified Salaries* includes salaries for positions that do not require a credential or permit issued by the Commission on Teacher Credentialing such as salaries of instructional aides, school administrative assistants, bus drivers, carpenters, custodians, plumbers, and those non-certificated employees who supervise their work.³⁸

1.3 *Employee Benefits* includes employers' contributions to retirement plans and health and welfare benefits for employees, their dependents, retired employees, and board members; and other post-employment benefits.³⁹

1.4 *Books and Supplies* includes the cost of textbooks, instructional materials, general supplies, and fuel.⁴⁰

34 Superintendent's Final Budget 2018-19, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, SACS p. 16.

35 Source: "3a MYP General Fund, Unrestricted and Restricted.pdf"

36 Superintendent's Final Budget 2018-19: Description of Funds, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, pp. 5 – 6.

37 *Ibid.*

38 *Ibid.*

39 *Ibid.*

40 *Ibid.*

II. LAUSD Budget Overview (cont.)

1.5 *Services and Other Operating Expenses* includes the cost of contracts, travel and conferences, dues and memberships, utilities, rentals, leases, repairs, and professional or consulting services.⁴¹

1.6 *Capital Outlay* includes the cost of facilities (land and buildings), books and media for new libraries or major expansion of school libraries, equipment, and equipment replacement.⁴²

1.7 *Other Outgo* includes pass through of apportionments to county-educated LAUSD-resident students, transfers of taxes to direct-funded (fiscally-independent) charter schools, bond redemptions and bond interest, and other service changes.⁴³

1.8 *Direct Support/Indirect Costs* consists of business and administrative costs (e.g., accounting, budgeting, personnel, purchasing) that benefit the entire LAUSD.⁴⁴

1.9 *Other Financing Uses* represents certain interfund transfers or expenditures initially recorded in the General Fund and then transferred to a special fund in accordance with the accounting requirement.⁴⁵

C. ENDING BALANCE

The Ending Balance is the ending fund balance for the fiscal year and is classified into various categories. The Governmental Accounting Standards Board Statement No. 54 ("GASB 54") implemented a five-tier fund balance classification that sets the parameters and spending constraints as to the use of funds.⁴⁶

1.1 *Non-Spendable Fund Balance* consists of funds that cannot be spent due to their form. This includes inventory and prepaid items or funds that are legally or contractually-required to remain intact, such as the principal of a permanent endowment.⁴⁷

41 Superintendent's Final Budget 2018-19: Description of Funds, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, pp. 5 – 6.

42 *Ibid.*

43 *Ibid.*

44 Superintendent's Final Budget 2018-19: Glossary and Abbreviations, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 6.

45 *Id.*, p. 7.

46 Superintendent's Final Budget 2018-19: Description of Funds, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, pp. 5 – 6.

47 *Ibid.*

II. LAUSD Budget Overview (cont.)

1.2 *Restricted Fund Balance* consists of funds that are subject to externally-imposed and legal constraints.⁴⁸

1.3 *Committed Fund Balance* consists of funds that are subject to internal policies and constraints. These policies are self-imposed by the District's highest level of decision-making authority.⁴⁹

1.4 *Assigned Fund Balance* consists of funds that are intended to be used for a specific purpose by the district's highest level or an official with the authority to assign funds.⁵⁰

1.5 *Unassigned Fund Balance* consists of residual fund balance that has not been classified in the previous four categories. It represents resources available for future spending.⁵¹

48 *Ibid.*

49 *Ibid.*

50 *Ibid.*

51 *Ibid.*

III. Methodology

A. REVENUES AND OTHER FINANCING SOURCES

We analyzed LAUSD's forecasted "Revenues and Other Financing Sources" for fiscal years 2018-19 through 2022-23 and its supporting assumptions. Revenues include the following: LCFF, Federal Revenues, Other State Revenues, Other Local Revenues, and Other Financing Sources.⁵²

1. Local Control Funding Formula (LCFF)

As shown in Exhibit 2, LCFF revenue was projected to decrease from \$5,665.9 million in fiscal year 2018-19 to \$5,594.8 million in fiscal year 2022-23⁵³ due to the forecasted decline in K-12 enrollment. LAUSD utilizes live birth data in Los Angeles County as well as historical grade retention ratios, economic factors, and other relevant information to forecast student enrollment.⁵⁴

Total norm day enrollment (a "norm day" is the fifth Friday of the school year),⁵⁵ which represents the number of actively-enrolled students as of norm day, was projected to decrease from 484,642 in fiscal year 2018-19 to 431,148 in fiscal year 2022-23.⁵⁶ This enrollment corresponds to non-charter and locally-funded charter schools (also known as affiliated charter schools),⁵⁷ as shown in Exhibit 2.1. While norm enrollment in non-charter and locally-funded charter schools was forecasted to decrease, enrollment in fiscally-independent charter schools was projected to increase from 117,331 in fiscal year 2018-19 to 127,290 in fiscal year 2022-23. Total LAUSD enrollment was projected to decrease from 601,973 in fiscal year 2018-19 to 558,438 in fiscal year 2022-23.

Norm day enrollment is subsequently converted into ADA, which constitutes the basis for estimating the annual LCFF entitlement. Total funded ADA, including non-charter schools and

52 Other Financing Sources includes Transfers In (i.e., interfund transfers) and Other Sources.

53 Includes non-charter schools as well as affiliated charter schools. Per file "1 MYP Assumptions (Expanded)," p. 1.

54 Superintendent's Final Budget 2018-19: Assumptions for Estimated Revenues, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 1.

55 LAUSD Reference Guide. Norm Day and Classification Reports – Instructions and Schedules of Electronic. CaptureRef-1819.15

56 LAUSD General Fund Assumptions for Multi-Year Projections. Fiscal Years 2018-19 to 2022-23 per file "1 MYP Assumptions (Expanded)," p. 1.

57 Under State law, charter schools operate semi-autonomously of the District. A locally-funded (affiliated) charter school continues to receive funding from the District but develops curriculum that may differ from that of a non-charter school. A direct-funded (fiscally-independent) charter school receives funding directly from the State and develops curriculum in compliance with state and federal guidelines. Source: "Superintendent's Final Budget 2018-19: Glossary and Abbreviations," Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 1.

III. Methodology (cont.)

locally-funded charter schools, was forecasted to decrease from 471,854 in fiscal year 2018-19 to 418,446 in fiscal year 2022-23,⁵⁸ as shown in Exhibit 2.2.

For each grade span (i.e., K-3, 4-6, 7-8, and 9-12), the State provides "Base Grant Funding" per ADA that is composed of a base rate and a statutory COLA.⁵⁹ The adjusted Base Grant Funding per ADA for grades K-3, 4-6, 7-8, and 9-12 was forecasted to be \$8,236; \$7,571; \$7,796; and \$9,268; respectively, for fiscal year 2018-19, as shown in Exhibit 2.3. The Base Grant Funding per ADA was forecasted to increase to \$9,184; \$8,444; \$8,694; and \$10,336; respectively, in fiscal year 2022-23.⁶⁰

In addition to Base Grant Funding, LAUSD receives "Supplemental Grant Funding" for each targeted disadvantaged student (also known as unduplicated pupil). These are students who are identified as either an English learner, meet the requirements for free or reduced-priced meals, or are in foster care.⁶¹ The 2018-19 LAUSD's unduplicated student count percentage in non-chartered schools and locally-funded charter schools was projected to be 85.86 percent and 44.81 percent, respectively, as shown in Exhibit 2.3.⁶² These percentages were forecasted to decrease slightly through the forecasted period.

Given that LAUSD's unduplicated pupil percentage is greater than 55 percent, LAUSD is entitled to receive additional funding known as "Concentration Grant Funding." For each grade span, Concentration Grant Funding is determined by multiplying the Base Grant Funding by the unduplicated pupil percentage in excess of 55 percent times 50 percent.⁶³

The sum of the Base Grant Funding, Supplemental Grant Funding, and Concentration Grant Funding results in the "LCFF Target Entitlement," as shown at the bottom of Exhibit 2.3. Note that LAUSD's LCFF Target Entitlement includes an additional annual "Allowance and Add-on

58 LAUSD General Fund Assumptions for Multi-Year Projections. Fiscal Years 2018-19 to 2022-23 per file "1 MYP Assumptions (Expanded)," p. 1.

59 Superintendent's Final Budget 2018-19: Local Control Funding Formula, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 2.

60 LAUSD General Fund Assumptions for Multi-Year Projections. Fiscal Years 2018-19 to 2022-23 per file "1 MYP Assumptions (Expanded)," p. 1.

61 Superintendent's Final Budget 2018-19: Local Control Funding Formula, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 3.

62 LAUSD General Fund Assumptions for Multi-Year Projections. Fiscal Years 2018-19 to 2022-23 per file "1 MYP Assumptions (Expanded)," p. 1.

63 Superintendent's Final Budget 2018-19: Local Control Funding Formula" Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 4.

III. Methodology (cont.)

Funding" of approximately \$538.0 million from the Targeted Instructional Improvement Block Grant ("TIIBG")⁶⁴ and the Home-To-School Transportation Funding.⁶⁵

As shown in Exhibit 2.3, LAUSD's LCFF Target Entitlement for non-charter schools was projected to be \$5,287.8 million in fiscal year 2018-19 and was forecasted to decrease to \$5,173.8 million in fiscal year 2022-23.

2. Federal Revenues

As shown in Exhibit 3, Federal Revenues were projected to be \$632.4 million in fiscal year 2018-19 and decrease to \$620.5 by fiscal year 2022-23. LAUSD estimates "Federal Revenues from Regular Programs"⁶⁶ to be \$154.5 million in fiscal year 2018-19, which includes \$113.9 million of "Federal IDEA Local Assistance" and approximately \$6.6 million of "Federal Mental Health Revenue." Federal Revenues from Regular Programs were projected to decrease slightly in the period 2019-20 through 2022-23 due to a forecasted decline in student enrollment.

"Federal Revenues from Specially Funded Programs"⁶⁷ were projected to be \$477.9 million in fiscal year 2018-19 and were projected to decrease to \$466.4 million in fiscal year 2022-23. Most Federal Revenue is categorized as restricted.

3. Other State Revenues

As shown in Exhibit 4, "Other State Revenues" were forecasted to be \$962.6 million in fiscal year 2018-19 and decrease to \$826.9 by fiscal year 2022-23. LAUSD estimates "Other State Revenues from Regular Programs" to be \$815.7 million in fiscal year 2018-19, which includes: (i) \$360.9 million from "AB602 Funding," (ii) \$35.6 million from "AB 3632 Mental Health Funding," (iii) \$98.3 million from the California State Lottery; and (iv) a mandated-cost reimbursement⁶⁸, which includes a one-time discretionary funding of \$105.9 million, among other sources. Other State Revenues from Regular Programs were projected to decrease to \$722.9 million by 2019-20 and to continue to decline modestly through fiscal year 2022-23.

⁶⁴ This grant funds the costs of ongoing desegregation efforts and, if funds remain, the needs of underachieving schools. It replaces the Student Integration funding in the 2002-03 State Budget. Source: Superintendent's Final Budget 2018-19: Glossary and Abbreviations, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 12.

⁶⁵ "LCFF_Non-Charter Schools_2018-19_thru_2022-23_Data Request.xlsx"

⁶⁶ Refer to Unrestricted/General Fund Programs. See Appendix B.

⁶⁷ Refer to Restricted/Specially Funded Programs. See Appendix B.

⁶⁸ Our understanding is that the California Constitution requires that the State of California reimburse local governmental entities, including school districts such as LASUD, for the cost of complying with State or court mandates. The reimbursement is known as a "Mandated Cost Reimbursement." Source: Superintendent's Final Budget 2018-19: Glossary and Abbreviations, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 7.

III. Methodology (cont.)

"Other State Revenues from Specially Funded Programs" were forecasted to be \$146.9 million in fiscal year 2018-19 and were projected to decrease to \$107.3 million in fiscal year 2020-21 and remain at the same dollar amount thereafter.

4. Other Local Revenues

As shown in Exhibit 5, "Other Local Revenues" were forecasted to be \$144.7 million in fiscal year 2018-19 and decrease to \$130.4 million by fiscal year 2022-23. LAUSD estimates "Other Local Revenues from Regular Programs" to be \$135.7 million in fiscal year 2018-19, which includes: (i) \$26.0 million from leases and rentals, (ii) \$28.1 million from interest from investments and deposits, (iii) \$41.4 million from various fees and contracts; and (iv) \$39.6 million from miscellaneous funds, donations, and other local income. Other Local Revenues from Regular Programs were projected to decrease to \$126.3 million by 2020-21 and further decrease to \$121.3 million in fiscal years 2021-22 and 2022-23.

"Other Local Revenues from Specially Funded Programs" were projected to be \$9.0 million in fiscal year 2018-19 and projected to remain at \$9.1 million for the forecasted period.

5. Other Financing Sources

"Other Financing Sources" were projected to be \$20.3 million in fiscal year 2018-19 and projected to remain at that level for the forecast period (as shown in Exhibit 6).

B. EXPENDITURES AND OTHER FINANCING USES

We analyzed LAUSD's forecasted "Expenditures and Other Financing Uses" for fiscal years 2018-19 through 2022-23 and its supporting assumptions. These include Certificated Salaries, Classified Salaries, Employee Benefits, Books and Supplies, Services and Other Operating Expenses, Capital Expenditures, Other Outgo, Direct Support/Indirect costs, and Other Financing Uses.

1. Certificated Salaries

As shown in Exhibit 7, "Certificated Salaries" for fiscal years 2018-19 were projected based on fiscal year 2017-18' salary expenditures adjusted for known changes such as "Step and Column Salary Adjustments," "Federal, State, and Local Grants," as well as the forecasted decline in student enrollment. Similarly, Certificated Salaries for fiscal years 2019-20 through 2022-23 were forecasted using the prior year level as the base and adjusted for similar changes. Certificated Salaries were projected to decrease from \$2,894.2 million in fiscal year 2018-19 to \$2,838.2 million in fiscal year 2022-23.

III. Methodology (cont.)

2. Classified Salaries

"Classified Salaries" for fiscal years 2018-19 through 2022-23 were forecasted similarly to Certificated Salaries and use fiscal year 2017-18's Classified Salaries expenditure as the baseline expenditure. As shown in Exhibit 8, Classified Salaries were projected to decrease from \$1,007.2 million in fiscal year 2018-19 to \$1,000.4 million in 2022-23.

3. Employee Benefits

Projected expenditures for "Employee Benefits" were based on salary estimates and appropriate rates for retirement, workers' compensation, and unemployment, as shown on Exhibit 9. These include contributions to the California State Teachers' Retirement System ("CalSTRS") and the California Public Employees' Retirement System ("CalPERS"), as well as Social Security, Medicare, and Worker's Compensation, among other benefits. Total Employee Benefits were projected to increase from \$2,090.4 million in fiscal year 2018-19 to \$2,183.4 million in 2022-23.

4. Books and Supplies

Projected expenditures for "Books and Supplies" for fiscal years 2018-19 through 2022-23 were derived using the 2017-18 expenditure level as the baseline and adjusted for changes in inflation rates, textbook allocations, IT business projects, supplies, after school programs, digital subscriptions, athletic uniforms, safe school programs, retirement programs, and several other categories as shown on Exhibit 10. Total Books and Supplies expenditures were estimated to decrease from \$576.3 million in fiscal year 2018-19 to \$423.0 million in 2022-23.

5. Services and Other Operating Expenses

Projected expenditures for "Services and Other Operating Expenses" for fiscal years 2018-19 through 2022-23 were determined using the 2017-18 expenditure level as the baseline and adjusted year over year for certain changes to account for inflation on cost supplies and materials, various expenditures of carryover programs, magnet school resources, and several other miscellaneous expenses. As shown on Exhibit 11, Total Services and Other Operating Expenses were projected to increase from \$858.7 million in fiscal year 2018-19 to \$939.3 million in 2022-23.

6. Capital Outlay

"Capital Outlay" expenditures for fiscal year 2018-19 were derived based on fiscal year 2017-18 expenditures adjusted for inflation and changes in forecasted expenditures on data center hardware and other categories, including expenses related to Proposition 39 Clean Energy and bring-to-requirement programs. Capital Outlay expenditures for fiscal years 2019-2020 through 2022-23 were forecasted in a similar manner. As shown on Exhibit 12, Total Capital Outlay was projected to decrease from \$87.5 million in fiscal year 2018-19 to \$28.8 million in 2022-23.

III. Methodology (cont.)

7. Other Outgo

Exhibits 13 and 13.1 show forecast "Other Outgo" expenditures for fiscal years 2018-19 through 2022-23. Other Outgo expenditures were projected using the prior year expenditure level as the baseline and adjusted for certain known changes. For fiscal year 2018-2019, the forecasted Other Outgo expense was calculated by adding \$2.4 million from LCFF County Office Transfers and \$0.5 million in Special Education Tuition to the 2017-18 levels. Other Outgo expenditures for fiscal years 2019-20 through 2022-23 were forecasted using the prior year level as the base with no known changes. As a result, Total Other Outgo expenses were projected to remain constant at \$8.1 million for the forecast period.

8. Direct Support / Indirect Costs

As shown on Exhibit 14, "Direct Support / Indirect Costs" were derived based on LAUSD's estimated indirect cost rate, also known as the administrative cost rate.

A positive indirect cost rate was applied to Restricted programs to reflect their share of districtwide expenditures that are not identifiable with particular programs but that are needed for overall operations (such as payroll, accounting, etc.). Conversely, a negative indirect cost rate was applied to Unrestricted programs because its expenditures are reduced correspondingly⁶⁹. Indirect Costs for Restricted and Unrestricted programs tend to offset each other and result in zero Indirect Costs. However, Total Indirect Costs can result in a negative number due to other operating funds (e.g., Adult Fund, Cafeteria Fund, and Child Development Fund) also paying their own share of the districtwide expenditures, which results in a further expenditure reduction in the General Fund.

Total Direct Support / Indirect Costs were projected to be *negative* \$32.7 million in fiscal year 2018-19 and projected to decrease to *negative* \$36.2 million in fiscal year 2022-23.

9. Other Financing Uses

"Other Financing Uses" estimates were based on LAUSD's projections for interfund transfers and contributions. These were projected to increase from \$61.9 million in fiscal year 2018-19 to \$71.6 million in 2022-23, as shown in Exhibit 15.

69 Per conversations with LAUSD management

III. Methodology (cont.)

C. KEY BUDGET CONSIDERATIONS

1. Fiscal Stabilization Plan

LACOE will require the District to address the 2020-21 fiscal year deficit through a fiscal stabilization plan (the "Fiscal Stabilization Plan").⁷⁰ The goal of the plan is to address LAUSD's forecasted deficit in 2020-21 as a result of the continued increase in fixed costs and a declining enrollment environment.⁷¹ The Fiscal Stabilization Plan implements cost-cutting measures that will result in LAUSD meeting its 1.0 percent minimum reserve requirement decreed by the State of California.⁷²

As part of its Fiscal Stabilization Plan, LAUSD's forecasted expenditures include \$42.9 million in central-office annual savings and \$3.0 million in annual attendance incentive savings for the fiscal years 2019-20 through 2022-23. These cross-cutting measures were forecasted to total \$45.9 million in each fiscal year.⁷³

2. Healthcare & Welfare Plan

Historically, LAUSD has funded H&W costs on a pay-as-you-go basis, but the District is now required to disclose the amounts that healthcare benefits are likely to cost in the future.⁷⁴ Plan design changes are defined by the Health Benefits Committee ("HBC") with recommendations from the benefits consultant who negotiates rates annually with LAUSD's health care vendors.⁷⁵ The HBC is comprised of members from all of LAUSD's bargaining units. A recent agreement between LAUSD and HBC established an annual cap to LAUSD's contribution towards employees and retirees' healthcare benefits for calendar years 2018 to 2020.⁷⁶ LAUSD anticipates that healthcare costs beyond 2020 will be greater than its current budgeted annual contribution towards such expense. As a result, LAUSD has projected the incremental expenditures in H&W benefits required to offset the increase in healthcare costs forecasted for fiscal years 2020-21 through 2022-23.

70 Letter from Scott S. Price (Chief Financial Officer) to Members, Board of Education and Austin Beutner (Superintendent) re: Adoption of Superintendent's 2018-19 Final Budget, June 15, 2018, p. 1 (located in "Superintendent's Final Budget 2018-19," Los Angeles Unified School District Budget Services & Financial Planning Division).

71 *Id.*, p. 3

72 *Id.*, p. 1

73 Per LAUSD management, other elements of the Fiscal Stabilization Plan have already been incorporated under Total Expenditures for fiscal years 2018-19 through 2020-21.

74 Superintendent's Final Budget 2018-19: Other Information, Budget and Finance Policy Summary, Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018.

75 Los Angeles Unified School District, Benefits Administration's web portal.
<https://achieve.lausd.net/Page/6268>

76 *Ibid.*

III. Methodology (cont.)

Exhibit 17 shows LAUSD's projected incremental expenditure in H&W benefits starting in fiscal year 2020-21 and continuing through fiscal year 2022-23. LAUSD's additional expenditure reflects the expectation of raising healthcare costs and was estimated as the cost difference between the flat cost and premium cost, assuming an annual premium increase of 4.5 percent (see also Exhibit 17.1). The flat contribution of \$1,114.7 million per year is determined based on the contribution per participant group (i.e., Active, Pre-Medicare, Medicare) times the participant count, based on the prior year participant count.

3. Salary Increase for Remaining Bargaining Units

LAUSD reached agreements with three of its bargaining units – SEIU Local 99, AALA, and CSEA – which together represent more than 60.0 percent of LAUSD's workforce.⁷⁷ The agreements provide for an ongoing⁷⁸ 6.0 percent increase in wages.⁷⁹ As a result, the 2018-19 LAUSD budget incorporates a reserve set aside to offset potential wage increases for the remaining bargaining units.⁸⁰ This reserve reflects an ongoing 3.0 percent wage increase commencing in the 2017-18 fiscal year, as well as a one-time⁸¹ 3.0 percent bonus increase commencing in the 2018-19 fiscal year, which LAUSD has forecasted as ongoing.⁸²

⁷⁷ Per LAUSD's press release titled "Los Angeles Unified reaches tentative agreement with California School Employees Association" dated July 30, 2018.

⁷⁸ The term "ongoing" refers to revenue or expenditure line-items that were expected to continue into the subsequent year.

⁷⁹ Per LAUSD's press releases titled "Los Angeles Unified reaches tentative agreement with California School Employees Association" dated July 30, 2018 and "Board of Education Approves Labor Agreements with AALA, CSEA" dated August 21, 2018. SEIU and AALA reached an agreement for a 3.0 percent retroactive increase for fiscal year 2017-18, a 3.0 percent increase in fiscal year 2018-19, and a supplemental one-time 3.0 increase in 2018-19, which LAUSD assumes will become ongoing subject to certain trigger language in the negotiated contract. The CSEA's agreement was for a 2.0 percent retroactive increase for fiscal year 2017-18, a 2.0 percent increase in fiscal year 2018-19, and an additional 2.0 percent ongoing increase commencing in fiscal year 2019-20.

⁸⁰ Letter from Scott S. Price (Chief Financial Officer) to Members, Board of Education and Austin Beutner (Superintendent) re: Adoption of Superintendent's 2018-19 Final Budget, June 15, 2018, p. 2 (located in "Superintendent's Final Budget 2018-19," Los Angeles Unified School District Budget Services & Financial Planning Division).

⁸¹ The term "one-time" refers to revenue or expenditure line-items not expected to continue into the subsequent year.

⁸² Per discussions with LAUSD's management.

IV. Financial Analysis

A. PROJECTIONS OVERVIEW

Based on the facts and circumstances described in the preceding sections, we have been asked to prepare the Analysis regarding the General Fund's Unassigned Ending Balance in fiscal years 2018-19 through 2022-23 under the following two forecasts:

LAUSD Budget Forecast	LAUSD "Restore to Full H&W Contribution Budget Forecast"
LAUSD 2018-19 to 2022-23 General Fund budget⁸³	LAUSD 2018-19 to 2022-23 General Fund budget⁸⁴
Fiscal Stabilization Plan <i>FY 2019-20 to 2022-23</i>	Fiscal Stabilization Plan <i>FY 2019-20 to 2022-23</i>
Budgeted Salary Increases for Remaining Bargaining Units <i>3% increase commencing in FY 2017-18 Additional 3% increase commencing in FY 2018-19</i>	Budgeted Salary Increases for Remaining Bargaining Units <i>3% increase commencing in FY 2017-18 Additional 3% increase commencing in FY 2018-19</i>
	Healthcare & Welfare Cost Increase <i>FY 2020-21 to 2022-23</i>

1. LAUSD Budget Forecast

Exhibit 16 displays a 3.0 percent ongoing wage increase commencing in fiscal year 2017-18 (fiscal year 2018-19 includes an additional 3.0 percent increase applied retroactively to fiscal year 2017-18), as well as an additional ongoing 3.0 percent wage increase commencing in fiscal year 2018-19. These increases represent a \$330.9 million expenditure in fiscal year 2018-19 (excluding fringe benefits) and an additional \$220.6 million expenditure in each subsequent fiscal year for the period 2019-20 through 2022-23. Excluding the amounts set aside by LAUSD for the CSEA and AALA wage increases, the incremental wage increase under this forecast is

⁸³ Note: Per LAUSD management, the Projections for fiscal years 2018-19 through 2020-21 contain certain updates and adjustments not reflected in the 2018-19 Superintendent's Final Budget (approved by the LAUSD Board on June 19, 2018). The Projections for fiscal years 2021-22 and 2022-23 were prepared per LAUSD management and are not included in the approved budget.

⁸⁴ *Ibid.*

IV. Financial Analysis (cont.)

\$296.1 million in fiscal year 2018-19, \$200.4 million in fiscal year 2019-20, and \$205.5 million in each subsequent year for projected fiscal years 2021-22 and 2022-23.

The LAUSD Budget Forecast also includes \$45.9 million in annual savings from the Fiscal Stabilization Plan.⁸⁵

2. LAUSD “Restore to Full H&W Contribution Budget Forecast”

This forecast reflects the same wage increases as described under the LAUSD Budget Forecast and includes an additional \$507 million in aggregate Healthcare & Welfare expenditures over a three-year period beginning in fiscal year 2020-21 (see Exhibit 19). This forecast also includes the \$45.9 million in annual savings from the Fiscal Stabilization Plan.

⁸⁵ Per LAUSD management, other elements of the Fiscal Stabilization Plan have already been incorporated under Total Expenditures for fiscal years 2018-19 through 2020-21.

V. Summary of Results

Exhibits 18 through 19 depict the Unassigned Ending Balances⁸⁶ of the General Fund for the period 2017-18 to 2022-23 under the two forecasts analyzed; ending balances are also depicted on Figures 3 and 4 below.

1. LAUSD Budget Forecast

As shown on Figure 3 and Exhibit 18, under this forecast, the projected 2018-19, 2019-20 and 2020-21 fiscal years end with an Unassigned Ending Balance of \$699.6 million, \$365.7 million, and \$1.7 million, respectively. The minimum 1.0 percent reserve balance is satisfied in all of these years, as shown on Figure 4. However, the Unassigned Ending Balance for fiscal years 2021-22 and 2022-23 is a shortfall position (deficit) of \$418.9 million and \$880.1 million, respectively. Additionally, the 1.0 percent minimum reserve condition is not met commencing in fiscal year 2021-22, as shown on Figure 4.

2. LAUSD "Restore to Full H&W Contribution Budget Forecast"

As shown on Figure 3 and Exhibit 19, under this forecast, the projected 2018-19, 2019-20, and 2020-21 fiscal years end with an Unassigned Ending Balance of \$699.6 million, \$365.7, and *negative* \$111.5 million, respectively. The minimum 1.0 percent reserve balance is satisfied in fiscal years 2018-19 and 2019-20 but it is not satisfied in fiscal year 2020-21. Since the LAUSD Budget Forecast and the LAUSD "Restore to Full H&W Contribution Budget Forecast" contain identical Projections in fiscal years 2018-19 to 2019-20, under these two forecasts the Unassigned Ending Balance and Unassigned Ending Balance reserve percentages for fiscal years 2018-19 to 2019-20 are shown as overlapping lines on Figures 3 and 4.

Under the LAUSD "Restore to Full H&W Contribution Budget Forecast", the Projections for fiscal years 2020-21 through 2022-23 include an additional \$113.2 million, \$168.2 million, and \$225.7 million in H&W costs, respectively⁸⁷. As a result, under the LAUSD "Restore to Full H&W Contribution Budget Forecast", the Unassigned Ending Balance for fiscal years 2021-22 and 2022-23 result in a deficit of \$700.4 million and \$1,387.2 million, respectively. Under this

⁸⁶ Exhibits 19 through 20 also show the General Fund Total Ending Balance, which is determined by adding to the Unassigned Ending Balance the following additional components of the General Fund: (i) Non Spendable Inventories/Cash/Others Balance; (ii) Assigned Funds Balance; (iii) Restricted Funds Balance; (iv) Committed Funds Balance; and (v) Reserve for Economic Uncertainties Balance (As previously mentioned, Districts are required to maintain a reserve to offset the potential impact of unanticipated expenditures or revenue shortfalls. For LAUSD, it is a minimum of 1.0 percent of the General Fund Total Expenditures and Other Financing Uses. Source: "Superintendent's Final Budget 2018-19: Glossary and Abbreviations," Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, p. 11).

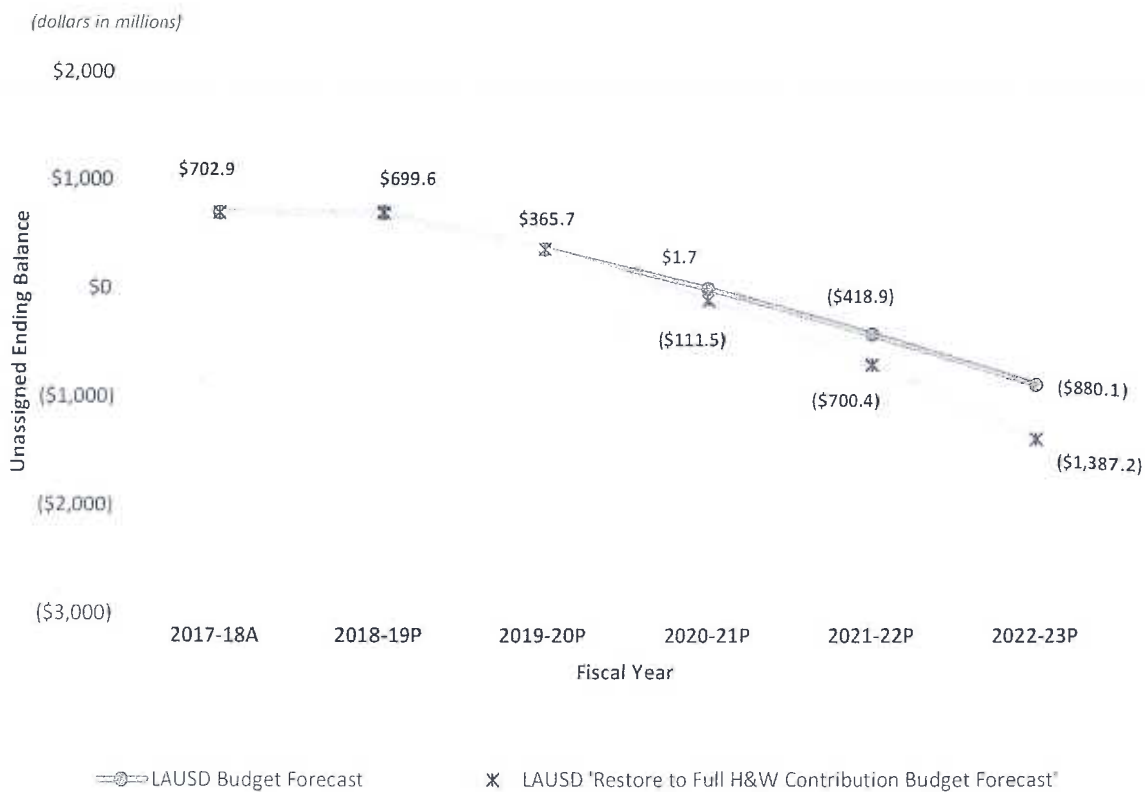
⁸⁷ Note that the Projections for fiscal year 2020-21 include a \$113.2 million in H&W Cost Increase. This cost increase is not included in the 2018-19 Board-approved budget since the current agreement between LAUSD and HBC extends until the end of calendar year 2020.

V. Summary of Results (cont.)

forecast, the 1.0 percent minimum reserve condition is not met commencing in fiscal year 2020-21, as shown on Figure 2.

We note that under the LAUSD "Restore to Full H&W Contribution Budget Forecast", the \$45.9 million in cost savings expected to be implemented through the Fiscal Stabilization Plan will not be sufficient to satisfy the 1.0 percent reserve balance requirement in fiscal year 2020-21 nor alleviate a deficit position in that year.

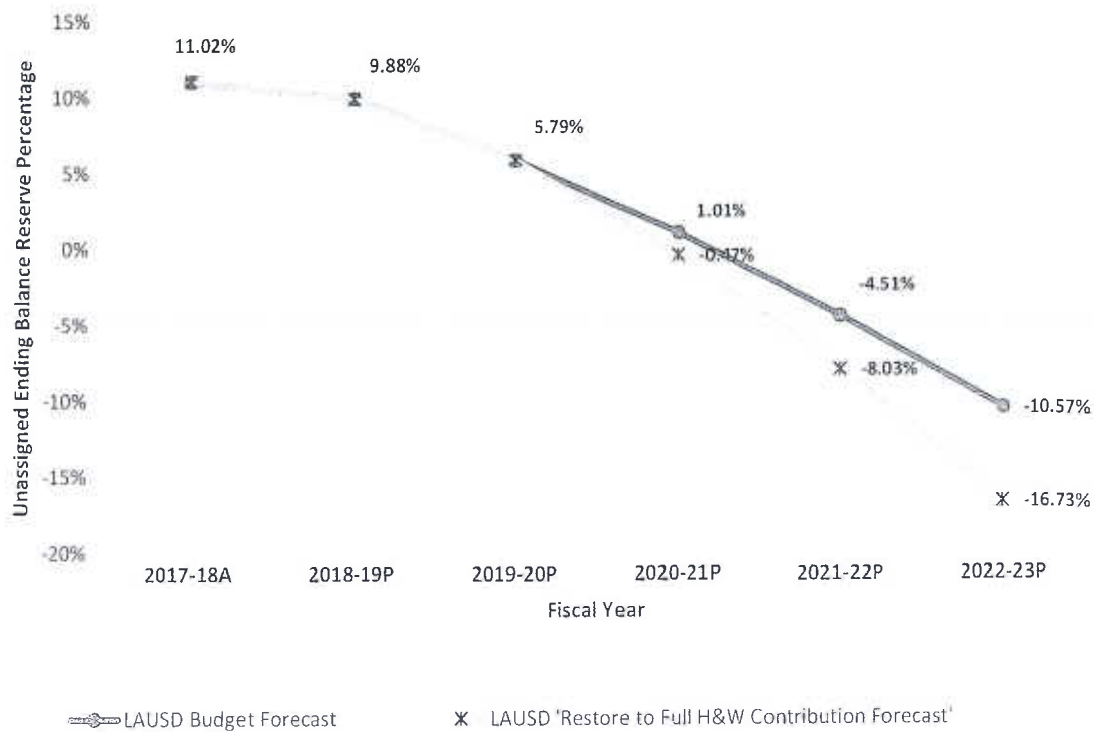
Figure 3. General Fund Unassigned Ending Balances⁸⁸



⁸⁸ Source: Exhibits 18 and 19

V. Summary of Results (cont.)

Figure 4. General Fund Ending Balance Reserve Percentages⁸⁹



⁸⁹ Source: Exhibits 18 and 19. The Ending Balance reserve percentages are calculated, for each fiscal year, as the General Fund Unassigned Ending Balance plus the Reserve for Economic Uncertainties, divided by the Total Expenditures and Other Financing Uses.

Appendices

Appendix A. LAUSD Overview

The Los Angeles Unified School District (previously defined as LAUSD or the District) is the nation's second-largest public school system. As shown on Figure 5 below, it covers a total area of 710 square miles and serves approximately 700,000 students across 26 cities and incorporated areas of Los Angeles County. The District offers pre-K through 12th grade education, as well as adult education, through a network of 1,302 regular schools, affiliated centers, and independent charter schools. It counts with approximately 60,000 school district employees, including teachers, administrators and support personnel, making it the second largest employer in the Los Angeles County after the county government. Its 2016-2017 annual operating budget, also known as the General Fund, was approximately \$7.6 billion.

Figure 5. LAUSD Coverage Area

Cities Entirely Within L.A. Unified

- | | |
|-------------------|------------------|
| ✓ Cudahy | ✓ Maywood |
| ✓ Gardena | ✓ Vernon |
| ✓ Huntington Park | ✓ San Fernando |
| ✓ Lomita | ✓ West Hollywood |

Cities Partially Within L.A. Unified

- | | |
|-----------------|----------------------|
| ⓪ Bell | ⓪ Long Beach |
| ⓪ Bell Gardens | ⓪ Los Angeles |
| ⓪ Beverly Hills | ⓪ Lynwood |
| ⓪ Calabasas* | ⓪ Montebello |
| ⓪ Carson | ⓪ Monterey Park |
| ⓪ Commerce | ⓪ Rancho Palos Verde |
| ⓪ Culver City | ⓪ Santa Clarita* |
| ⓪ Hawthorne | ⓪ South Gate |
| ⓪ Inglewood | ⓪ Torrance |

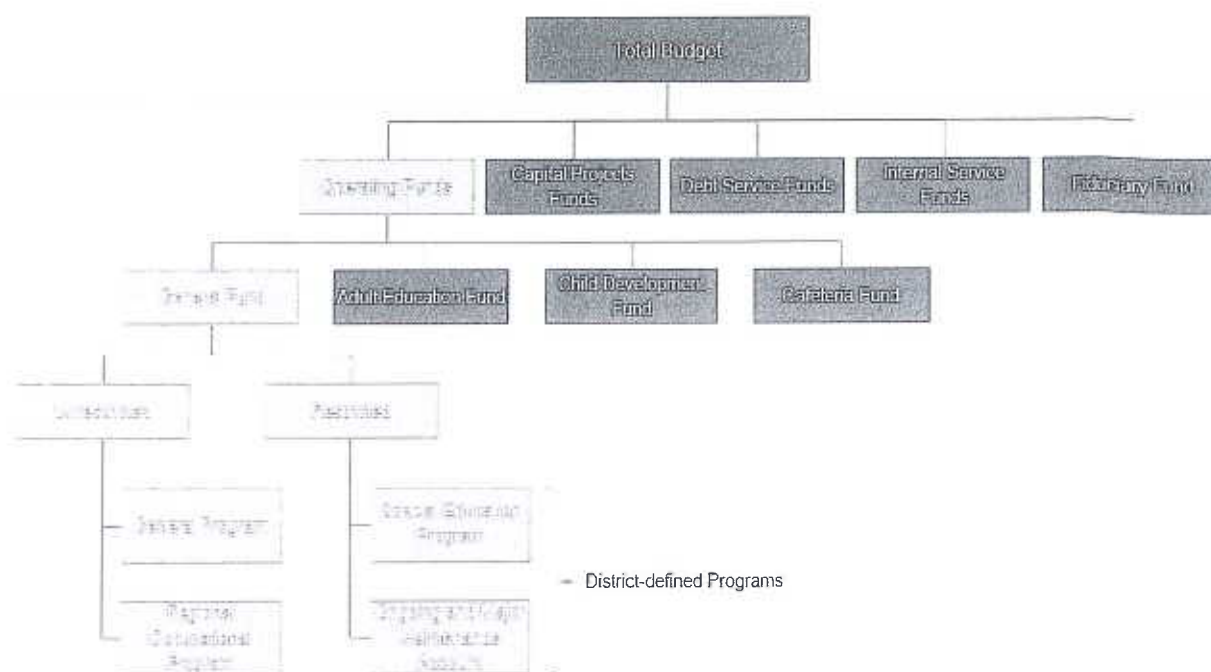


Source:
(1) L.A. Unified 2018-2019 Fingertip Facts.

Appendix B. LAUSD's General Fund Overview

Figure 6 below shows the hierarchy of LAUSD's fund structure.⁹⁰ The budget is organized into five main funds: the Operating Funds, the Capital Projects Funds, the Debt Service Funds, the Internal Service Funds, and the Fiduciary Funds. The Operating Funds are used for the day-to-day operation of LAUSD schools and offices, and are composed of the General Fund, the Adult Education Fund, the Child Development Fund, and the Cafeteria Funds.

Figure 6. LAUSD Total Budget Structure



The General Fund includes funds dedicated for the basic instructional and administrative expenditures of LAUSD. It includes “restricted” and “unrestricted” funds. Restricted funds, such as the AB 602 Special Education and Title I funds, are funds that must be used for specific purposes, whereas “unrestricted” funds can be used for any general-purpose expenditure. These include funds from the Local Control Funding Formula’s Base Grant Portion and one-time Mandated Cost Block Grant.

The General Fund is further divided into “District-defined Programs,” such as the General Programs (unrestricted), the Special Education Programs (restricted). The General Fund Regular Program includes most of LAUSD’s K-12 operating programs such as funding for teachers, administrators, clerical and custodial staff at schools, funding for school maintenance

⁹⁰ “Superintendent’s Final Budget 2018-19: Introduction,” Los Angeles Unified School District Budget Services & Financial Planning Division, June 15, 2018, pp. 1 – 3.

Appendix B. LAUSD's General Fund Overview (cont.)

(repairs), funding for Regional Occupational Centers and Programs that provide career-oriented courses, funding for recreation-oriented after-school programs, and funding for the administration of LAUSD, including general management, finance, information technology, and human resources. Special Education Programs provide instructional and other services to students who have special needs resulting from physical, emotional, intellectual or learning disabilities.

Appendix C. Key Team Member Biographies

DANIEL B. BEAULNE, CPA, CA, CBV, CFA, CEIV

Mr. Beaulne is a Director of Houlihan Lokey's Dispute Resolution Consulting & Financial Expert Opinions practice. His primary responsibilities include providing valuation and financial consulting services in connection with dispute resolution.

Mr. Beaulne has extensive experience testifying and consulting in matters related to valuation and other complex financial issues in the Delaware Court of Chancery, United States bankruptcy courts, various federal and state courts, and international venues in Europe and Asia. He has provided dispute support on retrospective solvency, shareholder disputes, patent, income and estate tax, business interruption claims, lost profits, fraud investigations, breach of contract, and product liability disputes.

Mr. Beaulne has expertise in financial reporting and income tax valuations, including purchase price allocations, goodwill impairment, stock option valuation, intellectual property valuation, and valuations for estate and gift tax reporting. He has conducted M&A due diligence, performed financial audits, and prepared numerous fairness and solvency opinions.

Before joining Houlihan Lokey, Mr. Beaulne served as a Managing Director in the Disputes & Investigations practice at Duff & Phelps, LLC. He also served as a Director in the Valuation Advisory Group for Standard & Poor's Corporate Valuation Consulting and as a Senior Manager in the Corporate Finance Group of Ernst & Young.

Mr. Beaulne holds a Bachelor of Commerce from the University of Toronto. He is a Chartered Professional Accountant, a Chartered Business Valuator, a Chartered Financial Analyst charterholder, and is Certified in Entity and Intangible Valuation. He is registered with FINRA as a General Securities Representative (Series 63) and a Limited Representative – Investment Banking (Series 79).

CHRISTOPHER A. WILSON

Mr. Wilson is a Managing Director and the Co-Head of Houlihan Lokey's Training & Education practice. During his three decade career in banking, Mr. Wilson has advised on a diverse set of transactions, including public and private mergers & acquisitions, public and private debt and equity fundings and various corporate restructurings, nearly entirely focused in the media, telecommunications and education services industries.

In the education sector, Mr. Wilson's education transactions include the recapitalization of Nord Anglia Education, the sale of Impero to Investcorp Technology Partners, the sale of The Learning Experience to Norwest Venture Partners and a significant testing and assessment carve out for Project CORE. Prior media and telecommunications transactions include the sale of TelCove to Level 3 Communications, the sale of OnFiber Communications to Qwest, the sale

Appendix C. Key Team Member Biographies (cont.)

of Dobson Communications to AT&T, the sale of Genesys SA to West Corp and the sale of VStar Entertainment to Cirque du Soleil Entertainment.

Previously, in Houlihan Lokey's Financial Restructuring Group, Mr. Wilson played a key role in the restructurings of Education Management Corporation (EDMC), Cengage Learning, Houghton Mifflin, WorldCom, Williams Communications, Metro-Goldwyn-Mayer (MGM) and a number of other media and telecommunications companies since 2001.

Before joining Houlihan Lokey, Mr. Wilson was with Montgomery Securities (now BAML), specializing in media and telecommunications, M&A, and corporate finance. He was also a member of the Consumer Group of EVEREN Securities and in corporate finance with the Media and Telecommunications Group of Union Bank. He also managed proprietary trading in foreign exchange and derivatives at Drexel Burnham Lambert from 1986 until 1990.

TERENCE TCHEN

Mr. Tchen is Co-Head of Houlihan Lokey's Technical Standards Committee. He has more than 20 years of experience providing financial advisory services to public-company and private-company clients as well as financial sponsors in connection with mergers and acquisitions, leveraged buyouts, spinoffs, stock buybacks, recapitalizations, going-private transactions, strategic alternative assessments, and capital-raising activities. These services include rendering fairness, solvency, and other transaction-related opinions to companies, boards of directors, special committees, and independent fiduciaries.

Mr. Tchen also analyzes and values closely held and publicly traded businesses, debt and equity securities, derivative securities, structured securities (e.g., RMBS, CDO, CLO), non-performing loan portfolios, private equity interests, intangible assets, and contingent liabilities for transaction, tax, financial reporting, and litigation purposes. He has authored a chapter on the valuation of stock options in an update to *Financial Valuation: Businesses and Business Interests*.

Before joining Houlihan Lokey, Mr. Tchen was a systems programmer for the IBM Corp. specializing in IBM mainframe operating systems and other IBM program products.

Mr. Tchen holds a B.S. in Mathematics and Computer Science from the University of Illinois at Urbana-Champaign and an MBA from the University of California, Berkeley.

JOHN A. TAYLOR, ASA, CMC, MAE, MRICS

Mr. Taylor is a Managing Director of Houlihan Lokey's Financial Advisory Services business. His primary responsibilities include providing valuation and financial consulting services in connection with strategic decision support, financial reporting, and dispute resolution. Mr. Taylor

Appendix C. Key Team Member Biographies (cont.)

is a member of the firm's Technical Standards Committee and is the global practice leader for the firm's Dispute Resolution Consulting & Financial Expert Opinions practice.

Mr. Taylor has extensive experience providing litigation support as both a valuation expert and consultant in matters related to minority-interest buyouts, bankruptcy proceedings, management efficacy, damages analysis and royalty disputes. He has helped U.S. and multinational clients with valuation analyses for tax and financial reporting purposes, including purchase price allocations, goodwill impairment, stock option valuation, intellectual property valuation and valuations for estate and gift tax reporting. Specializing in multinationals, Mr. Taylor has also performed financial and strategic analyses related to business planning, acquisitions, divestitures, post-acquisition and post-merger integration and the formation of joint ventures.

Before joining Houlihan Lokey, Mr. Taylor served as a managing director in Kroll Inc.'s Los Angeles valuation services practice. Earlier, he served as the president of JT PanglobalConsulting Inc., a boutique financial advisory and strategy consulting firm. He also served as a Director of Strategic Financial Consulting and Finance Transformation Services for Deloitte & Touche in the southwestern U.S. and as that firm's National Director of Valuation and Realty Consulting practices for Japanese clients in the U.S.

Mr. Taylor received his B.A. from the University of Missouri, St. Louis. He is an Accredited Senior Appraiser, Appraisal Review & Management, with the American Society of Appraisers; a Certified Management Consultant, Strategy and Operations Consulting, with the Institute of Management Consultants; a Practising Member of The Academy of Experts; and a member of the Royal Institution of Chartered Surveyors (Chartered Business & Intangible Assets Valuation Surveyor). He previously served as chair of the Appraisal Review & Management Committee of the American Society of Appraisers. He is registered with FINRA as a General Securities Representative (Series 7 and 63) and a Limited Representative –Investment Banking (Series 79).

HEATHER BOLNER

Ms. Bolner is a Vice President of Houlihan Lokey's Dispute Resolution Consulting & Financial Expert Opinions practice. She provides valuation and financial consulting services in connection with dispute resolution from the nascent stages of case assessment all the way through trial and appeal.

Ms. Bolner has provided dispute consulting for complex litigation involving commercial disputes, shareholder disputes (appraisal and breach of fiduciary duty), business interruption claims, lost profits, fraud investigations, and damage calculations.

She has experience in the Delaware Court of Chancery, the United States bankruptcy courts, the Grand Court of the Cayman Islands, various state and federal courts, tax courts, and international arbitrations and tribunals.

Appendix C. Key Team Member Biographies (cont.)

Ms. Bolner has experience in many industries, with a concentration in the energy and mining industries, including oil and natural gas exploration and production, mining, midstream, oilfield services, power, and others.

Before joining Houlihan Lokey, Ms. Bolner served as a Director in the Disputes & Investigations practice at Duff & Phelps, LLC.

Ms. Bolner holds a B.B.A. in Finance and Business Honors from The University of Texas at Austin. She is a Certified Fraud Examiner.

JAVIER HERNANDEZ

Mr. Hernandez is an Associate of Houlihan Lokey's Financial Advisory Services business. His financial advisory work focuses on transaction opinions related to mergers and acquisitions, dividend recapitalizations, and leveraged buyouts. Mr. Hernandez also specializes in the valuation of derivative instruments, fixed-income, and equity securities for portfolio valuation and financial reporting purposes.

Prior to joining Houlihan Lokey, Mr. Hernandez worked as an expert consultant at a leading civil engineering firm in Southern California.

Mr. Hernandez received his MBA from UCLA's Anderson School of Management, where he graduated as a Harold M. Williams Fellow. He also holds an M.S. in Civil Engineering from the University of Illinois at Urbana-Champaign.

Appendix D. Exhibits

Exhibit 1. General Fund Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Revenues and Other Financing Sources						
LCFF	\$5,432.6	\$5,665.9	\$5,661.5	\$5,623.3	\$5,643.7	\$5,594.8
Federal Revenues	589.0	632.4	621.7	620.6	620.5	620.5
Other State Revenue	966.8	962.6	830.0	828.2	826.9	826.9
Other Local Revenues	269.4	144.7	138.8	135.4	130.4	130.4
Other Financing Sources						
Transfers in	39.1	20.0	20.0	20.0	20.0	20.0
Other Sources	0.3	0.3	0.3	0.3	0.3	0.3
Total Revenues and Other Financing Sources	\$7,297.1	\$7,425.7	\$7,272.3	\$7,227.8	\$7,241.9	\$7,193.0
Expenditures and Other Financing Uses						
Certificated Salaries	\$2,826.7	\$2,894.2	\$2,849.9	\$2,846.0	\$2,841.6	\$2,838.2
Classified Salaries	994.9	1,007.2	1,001.3	1,000.4	1,000.4	1,000.4
Employee Benefits	2,023.4	2,090.4	2,169.6	2,192.9	2,190.0	2,183.4
Books & Supplies	331.2	576.3	446.9	407.4	427.8	423.0
Services, Other Operating Expenses	801.0	858.7	881.2	908.3	926.0	939.3
Capital Outlay	60.7	87.5	78.3	29.9	31.1	28.8
Other Outgo	4.8	7.7	7.7	7.7	7.7	7.7
Other Outgo	0.5	0.5	0.5	0.5	0.5	0.5
Direct Support/Indirect Costs	(24.6)	(32.7)	(29.5)	(36.2)	(36.2)	(36.2)
Other Financing Uses	54.6	81.9	69.2	71.6	71.6	71.6
Total Expenditures and Other Financing Uses	\$7,063.2	\$7,551.6	\$7,475.1	\$7,428.4	\$7,460.4	\$7,456.6
Less: Fiscal Stabilization Plan	0.0	0.0	(45.9)	(45.9)	(45.9)	(45.9)
Total Expenditures (w/Fiscal Stabilization Plan)	\$7,063.2	\$7,551.6	\$7,429.2	\$7,382.5	\$7,414.5	\$7,410.7

Source: LAUSD management

A refers to unaudited actuals.

P refers to projected.

Note: Per LAUSD management, the Projections for fiscal years 2018-19 through 2020-21 contain certain updates and adjustments not reflected in the 2018-19 Superintendent's Final Budget (approved by the LAUSD Board on June 19, 2018). The Projections for fiscal years 2021-22 and 2022-23 were prepared per LAUSD management and are not included in the approved budget.

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Exhibit 2. Local Control Funding Formula (LCFF) Projections

(dollars in millions)

	Fiscal Year				
	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Local Revenue	\$1,190.2	\$1,178.6	\$1,167.5	\$1,154.6	\$1,137.8
Education Protection Account Entitlement (EPA)	710.0	710.0	710.0	710.0	710.0
State Aid	3,765.6	3,773.0	3,745.7	3,779.0	3,747.0
Total Local Control Funding Formula	\$5,665.9	\$5,661.5	\$5,623.3	\$5,643.7	\$5,594.8

Local Revenue

Non-Charter Schools	\$1,091.6	\$1,078.4	\$1,065.2	\$1,050.3	\$1,033.5
Affiliated Charter Schools	\$98.6	\$100.2	\$102.4	\$104.3	\$104.3
Total Local Revenue	\$1,190.2	\$1,178.6	\$1,167.5	\$1,154.6	\$1,137.8

Education Protection Account (EPA) Entitlement

Non-Charter Schools	\$666.3	\$666.3	\$666.3	\$666.3	\$666.3
Affiliated Charter Schools	43.7	43.7	43.7	43.7	43.7
Total Local Revenue	\$710.0	\$710.0	\$710.0	\$710.0	\$710.0

State Aid

Non-Charter Schools	\$3,529.9	\$3,529.4	\$3,494.5	\$3,516.1	\$3,474.0
Affiliated Charter Schools	235.7	243.6	251.2	262.9	272.9
Total Local Revenue	\$3,765.6	\$3,773.0	\$3,745.7	\$3,779.0	\$3,747.0

Other Calculations:

Total Non-Charter Schools	\$5,287.8	\$5,274.0	\$5,225.9	\$5,232.8	\$5,173.8
Total Affiliated Charter Schools	\$378.1	\$387.5	\$397.3	\$410.9	\$420.9
Total Local Control Funding Formula	\$5,665.9	\$5,661.5	\$5,623.3	\$5,643.7	\$5,594.8

Source: LAUSD management

Confidential Work Product

Exhibit 2.1. LCFF Enrollment Projections

	Fiscal Year				
	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Graded Enrollment					
Kindergarten	44,895	43,396	40,458	39,244	38,004
Grade 1	37,711	37,771	38,980	37,811	36,616
Grade 2	38,414	37,228	36,785	35,681	34,553
Grade 3	38,248	37,227	36,160	35,075	33,967
Grade 4	37,809	36,894	36,065	34,983	33,878
Grade 5	38,968	36,125	35,634	34,565	33,473
Grade 6	33,193	32,297	29,612	28,724	27,816
Grade 7	33,514	32,261	31,437	30,494	29,530
Grade 8	32,306	32,649	31,421	30,478	29,515
Grade 9	34,749	34,751	36,081	34,999	33,893
Grade 10	31,081	30,207	29,631	28,742	27,934
Grade 11	27,748	25,508	24,589	23,851	23,097
Grade 12	25,888	23,694	21,196	20,560	19,910
Total Graded Enrollment	454,524	439,978	428,049	415,207	402,086
Other Enrollment					
K-3 enrollment	159,268	155,622	152,383	147,811	143,140
4-6 enrollment	109,970	105,316	101,311	98,272	95,167
7-8 enrollment	65,820	64,910	62,858	60,972	59,045
9-12 enrollment	119,466	114,130	111,497	108,152	104,734
Total Other Enrollment	454,524	439,978	428,049	415,207	402,086
Special day classes in regular schools	23,813	22,781	22,292	22,292	22,292
Special day classes in special ed schools	2,078	2,031	1,999	1,999	1,999
Continuation and opportunity schools	4,227	4,677	4,771	4,771	4,771
Nonpublic schools	0	0	0	0	0
Total Other Enrollment	30,118	29,489	29,062	29,062	29,062
Total Norm Day Enrollment¹	484,642	469,467	457,111	444,269	431,148
Direct-Funded (Fiscally Independent) Charter Schools	117,331	120,372	122,273	125,216	127,290
Total LAUSD Enrollment	601,973	589,839	579,384	569,485	558,438

1. Corresponds to enrollment in non-charter schools and locally-funded (affiliated) charter schools.

Source: "LCFF_Non-Charter Schools_2018-19_thru_2022-23_Data Request.xlsx"

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Exhibit 2.2. LCFF Average Daily Attendance (ADA) Projections

		Fiscal Year				
		2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Prior Year P-2 ADA						
Grades TK/K-3	A-1	148,211	145,092	141,319	138,095	133,751
Grades 4-6	A-2	106,546	102,466	97,727	93,737	90,796
Grades 7-8	A-3	61,923	61,269	60,233	58,176	56,356
Grades 9-12	A-4	118,406	111,118	106,292	103,808	100,733
Subtotal	A-5	435,086	419,944	405,571	393,817	381,637
Prior Year P-2 ADA for pupils attending a charter school sponsored by the district in the current year who attended a non-charter school of the district in the prior year [EC Section 42238.051(a)(2)(B)]						
Grades TK/K-3	A-6	2,110	2,050	2,036	2,227	2,555
Grades 4-6	A-7	6,979	6,778	6,734	7,364	8,449
Grades 7-8	A-8	4,634	4,501	4,472	4,890	5,610
Grades 9-12	A-9	3,593	854	848	927	1,064
Subtotal	A-10	17,316	14,183	14,091	15,409	17,677
Prior Year P-2 ADA for pupils attending a non-charter in the current year who attended a charter school of the district in the prior year [EC Section 42238.051(a)(2)(C)]						
Grades TK/K-3	A-11	2,124	2,156	2,198	2,224	2,286
Grades 4-6	A-12	3,358	3,409	3,475	3,517	3,615
Grades 7-8	A-13	3,198	3,246	3,309	3,348	3,442
Grades 9-12	A-14	1,624	1,649	1,681	1,701	1,748
Subtotal	A-15	10,304	10,460	10,663	10,790	11,090
Total Prior Year P-2 ADA						
Grades TK/K-3 [A-1 - A-6 + A-11]	A-31	148,224	145,198	141,481	138,093	133,482
Grades 4-6 [A-2 - A-7 + A-12]	A-32	102,925	99,097	94,468	89,890	85,962
Grades 7-8 [A-3 - A-8 + A-13]	A-33	60,486	60,014	59,070	56,634	54,188
Grades 9-12 [A-4 - A-9 + A-14]	A-34	116,438	111,913	107,124	104,582	101,417
Total Prior Year P-2 ADA	A-35	428,073	416,222	402,143	389,198	375,050

Source: "LCFF_Non-Charter Schools_2018-19_thru_2022-23_Data Request.xlsx"

Confidential Work Product

Exhibit 2.2. LCFF Average Daily Attendance (ADA) Projections

		Fiscal Year				
		2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Current Year ADA						
P-2 ADA (excludes charter school ADA, includes Annual ADA where applicable)						
Grades TK/K-3	B-1	145,093	141,319	138,095	133,751	129,220
Grades 4-6	B-2	102,466	97,727	93,737	90,796	87,828
Grades 7-8	B-3	61,269	60,233	58,176	56,356	54,465
Grades 9-12	B-4	111,118	106,292	103,808	100,733	97,675
Subtotal	B-5	419,945	405,571	393,817	381,637	369,188
Total P-2 ADA (excludes NSS ADA)						
Grades TK/K-3	B-11	145,093	141,319	138,095	133,751	129,220
Grades 4-6	B-12	102,466	97,727	93,737	90,796	87,828
Grades 7-8	B-13	61,269	60,233	58,176	56,356	54,465
Grades 9-12	B-14	111,118	106,292	103,808	100,733	97,675
Total P-2 ADA	B-15	419,945	405,571	393,817	381,637	369,188
ADA Pursuant to EC Section 42238.05						
Greater of Current or Prior Year P-2 ADA (Greater of A-35 or B-15)						
Grades TK/K-3 [If C-1 > A-35, B-11, else A-31]	C-1	428,073	416,222	402,143	389,198	375,050
Grades 4-6 [If C-1 > A-35, B-12, else A-32]	C-2	148,224	145,198	141,481	138,093	133,482
Grades 7-8 [If C-1 > A-35, B-13, else A-33]	C-3	102,925	99,097	94,468	89,890	85,962
Grades 9-12 [If C-1 > A-35, B-14, else A-34]	C-4	60,486	60,014	59,070	56,634	54,188
Subtotal	C-5	116,438	111,913	107,124	104,582	101,417
Subtotal	C-5	428,073	416,222	402,143	389,198	375,050
Additional LCFF ADA						
Annual ADA (includes NPS/LCI, Extended Year NPS/LCI, and Community Day School)						
Grades TK/K-3	E-1	214	205	201	156	156
Grades 4 - 6	E-2	432	415	406	367	367
Grades 7 - 8	E-3	548	525	513	458	456
Grades 9 - 12	E-4	1,936	1,857	1,806	1,789	1,765
Subtotal	E-5	3,130	3,002	2,926	2,770	2,745

Source: "LCFF_Non-Charter Schools_2018-19 thru 2022-23_Data Request.xlsx"

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Exhibit 2.2. LCFF Average Daily Attendance (ADA) Projections

	Fiscal Year				
	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
P-2 ADA for District Funded County Programs (credited to the District of Residence)					
Grades TK/K-3					
Grades 4 - 6					
Grades 7 - 8					
Grades 9 - 12					
Subtotal					
Annual ADA for District Funded County Programs (credited to the District of Residence)					
Grades TK/K-3					
Grades 4 - 6					
Grades 7 - 8					
Grades 9 - 12					
Subtotal					
Total District LCFF Basa Grant ADA					
Grades TK/K-3 (C-2 + E-1 + E-6 + E-11)					
Grades 4 - 6 (C-3 + E-2 + E-7 + E-12)					
Grades 7 - 8 (C-4 + E-3 + E-8 + E-13)					
Grades 9 - 12 (C-5 + E-4 + E-9 + E-14)					
Subtotal					
Total District LCFF Supplemental and Concentration ADA (includes Necessary Small School Funded ADA)					
Grades TK/K-3 (F-1)					
Grades 4 - 6 (F-2)					
Grades 7 - 8 (F-3)					
Grades 9 - 12 (F-4)					
Total District ADA					
Locally-funded charter schools					
Total Estimated Funded Average Daily Attendance (H-5 + J-1)					

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Exhibit 2.3. LCFF Target Entitlement Projections

(dollars in millions, except for per ADA amounts)

		Fiscal Year				
		2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Base Grant Rate per ADA (in dollars)						
Grades K-3 Base Grant per ADA	A-1	\$7,193.0	\$7,459.0	\$7,651.0	\$7,855.0	\$8,124.0
Grades 4-6 Base Grant per ADA	A-2	\$7,301.0	\$7,571.0	\$7,766.0	\$7,973.0	\$8,246.0
Grades 7-8 Base Grant per ADA	A-3	\$7,518.0	\$7,796.0	\$7,996.0	\$8,209.0	\$8,490.0
Grades 9-12 Base Grant per ADA	A-4	\$8,712.0	\$9,034.0	\$9,266.0	\$9,513.0	\$9,838.0
Adjustments:						
Cost of Living Adjustment (COLA)	A-5	1,037	1,026	1,027	1,034	1,024
Grades K-3 Adjustment	A-6	1,104	1,104	1,104	1,104	1,104
Grades 9-12 Adjustment	A-7	1,026	1,026	1,026	1,026	1,026
Adjusted Base Grant per ADA (in dollars)						
Grades K-3 Adjusted Base Grant per ADA (A-1 * A-5 * A-6)	A-8	\$8,236.0	\$8,446.0	\$8,672.0	\$8,968.0	\$9,184.0
Grades 4-6 Adjusted Base Grant per ADA (A-2 * A-5)	A-9	\$7,571.0	\$7,766.0	\$7,973.0	\$8,246.0	\$8,444.0
Grades 7-8 Adjusted Base Grant per ADA (A-3 * A-5)	A-10	\$7,796.0	\$7,996.0	\$8,209.0	\$8,490.0	\$8,694.0
Grades 9-12 Adjusted Base Grant per ADA (A-4 * A-5 * A-7)	A-11	\$9,268.0	\$9,507.0	\$9,761.0	\$10,094.0	\$10,336.0
Base Grant ADA (excludes Necessary Small School [NSS] ADA)						
Grades TK/K-3 ADA	B-1	148,438	145,403	141,682	138,249	133,639
Grades 4-6 ADA	B-2	103,357	99,511	94,874	90,257	86,329
Grades 7-8 ADA	B-3	61,036	60,542	59,586	57,094	54,646
Grades 9-12 ADA	B-4	118,803	114,199	109,359	106,800	103,612
Supplemental and Concentration Grant ADA (includes NSS ADA)						
Grades TK/K-3 ADA	B-5	148,438	145,403	141,682	138,249	133,639
Grades 4-6 ADA	B-6	103,357	99,511	94,874	90,257	86,329
Grades 7-8 ADA	B-7	61,036	60,542	59,586	57,094	54,646
Grades 9-12 ADA	B-8	118,803	114,199	109,359	106,800	103,612
Base Grant Funding						
Grades K-3 Base Grant (A-8 * B-1)	C-1	\$1,222.5	\$1,228.1	\$1,228.7	\$1,239.8	\$1,227.3
Grades 4-6 Base Grant (A-9 * B-2)	C-2	782.5	772.8	756.4	744.3	729.0
Grades 7-8 Base Grant (A-10 * B-3)	C-3	475.8	484.1	489.1	484.7	475.1
Grades 9-12 Base Grant (A-11 * B-4)	C-4	1,101.1	1,085.7	1,067.4	1,078.0	1,070.9
Total Base Grant Funding (Sum of C-1 through C-4)	C-5	\$3,582.0	\$3,570.7	\$3,541.7	\$3,546.8	\$3,502.3

1. Based on 2012-13 Targeted Instructional Improvement Block Grant.

2. Based on 2012-13 Home-to-School Transportation.

3. Based on 2012-13 Small School District Bus Replacement Program.

4. Per LAUSD management, fiscal year 2022-23 COLA calculated as the rounded average of fiscal years 2017-18 through 2020-21 COLAs per the following amounts: 1.56%, 2.71%, and 2.67%, respectively. Source: "2 SSC Dashboard.pdf," Source: "LCFF_Non-Charter Schools_2018-19_thru_2022-23_Data Request.xlsx"

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Exhibit 2.3. LCFF Target Entitlement Projections

(dollars in millions, except for per ADA amounts)

	Fiscal Year				
	2018-19F	2019-20F	2020-21F	2021-22F	2022-23F
Supplemental Grant Funding					
Unduplicated Pupil Percentage					
Supplemental Grant Factor	D-1	0.859	0.859	0.855	0.855
	D-2	0.200	0.200	0.200	0.200
Grades K-3 Supplemental Grant (A-8 * B-5 * D-1 * D-2)	D-3	\$209.9	\$211.0	\$210.2	\$212.1
Grades 4-6 Supplemental Grant (A-9 * B-6 * D-1 * D-2)	D-4	134.4	132.8	129.4	127.3
Grades 7-8 Supplemental Grant (A-10 * B-7 * D-1 * D-2)	D-5	81.7	83.2	83.7	82.9
Grades 9-12 Supplemental Grant (A-11 * B-8 * D-1 * D-2)	D-6	189.1	186.5	182.6	184.4
Total Supplemental Grant Funding (Sum of D-3 through D-6)	D-7	\$615.1	\$613.5	\$605.8	\$606.7
					\$599.0
Concentration Grant Funding					
Unduplicated Pupil Percentage	E-1	0.859	0.859	0.859	0.855
Percentage used to calculate Concentration Grant	E-2	0.309	0.309	0.305	0.305
Concentration Grant Factor	E-3	0.500	0.500	0.500	0.500
Grades K-3 Concentration Grant (A-8 * B-5 * E-2 * E-3)	E-4	188.6	\$189.8	\$187.5	\$189.2
Grades 4-6 Concentration Grant (A-9 * B-6 * E-2 * E-3)	E-5	120.7	119.4	115.4	113.6
Grades 7-8 Concentration Grant (A-10 * B-7 * E-2 * E-3)	E-6	73.4	74.8	74.6	74.0
Grades 9-12 Concentration Grant (A-11 * B-8 * E-2 * E-3)	E-7	169.9	167.8	162.9	164.5
Total Concentration Grant Funding (Sum of E-4 through E-7)	E-8	\$552.7	\$551.8	\$540.5	\$541.2
					\$534.5
Allowance and Add-on Funding					
Necessary Small School Allowance - Target	F-1	\$0.0	\$0.0	\$0.0	\$0.0
EC Section 42238.02(g) Add-On ¹	F-2	\$460.4	\$460.4	\$460.4	\$460.4
EC Section 42238.02(h) Add-On ²	F-3	77.6	77.6	77.6	77.6
EC Section 42238.02(h) Add-On ³	F-4	0.0	0.0	0.0	0.0
Total Allowance and Add-On Funding	F-5	\$538.0	\$538.0	\$538.0	\$538.0
LCFF Target Entitlement (C-5 + D-7 + E-8 + F-5)	G-1	\$5,287.8	\$5,274.0	\$5,225.9	\$5,232.8
					\$5,173.8

1. Based on 2012-13 Targeted Instructional Improvement Block Grant.

2. Based on 2012-13 Home-to-School Transportation.

3. Based on 2012-13 Small School District Bus Replacement Program.

4. Per LAUSD management, fiscal year 2022-23 COLA calculated as the rounded average of fiscal years 2017-18 through 2020-21 COLAs per the following amounts:
1.56%, 2.71%, 2.57%, and 2.67%, respectively. Source: "2 SSC Dashboard.pdf."
Source: "LCFF_Non-Charter Schools_2018-19_thru_2022-23_Data Request.xlsx"

Exhibit 3. General Fund – Federal Revenues Projections

(dollars in millions)

	Fiscal Year				
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P
Federal Revenue					
Regular Program Only	\$147.9	\$154.5	\$154.4	\$154.2	\$154.1
Specialty Funded Programs (Restricted)	441.1	477.9	467.3	466.4	466.4
Total Federal Revenues	\$589.0	\$632.4	\$621.7	\$620.6	\$620.5

Sources: "MYP General Fund Sep1819.xlsx", "8 REVENUE SUMMARY General Fund Reg Programs.pdf", and "MYP Specialty Funded Programs SFP.pdf"
 Specialty Funded Programs amounts for fiscal years 2021-22 and 2022-23 assumed equal to fiscal year 2020-21, per LAUSD.

Exhibit 4. General Fund – Other State Revenues Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Other State Revenues						
Regular Program Only	\$860.0	\$815.7	\$722.9	\$720.8	\$719.6	\$719.6
Specialty Funded Programs	106.8	146.9	107.1	107.3	107.3	107.3
Total Other State Revenues	\$966.8	\$962.6	\$830.0	\$828.2	\$826.9	\$826.9

Sources: "MYP General Fund Sep1819.xlsx", "8 REVENUE SUMMARY General Fund Reg Programs.pdf", and "MYP Specialty Funded Programs SFP.pdf". Specialty Funded Programs amounts for fiscal years 2021-22 and 2022-23 assumed equal to fiscal year 2020-21, per LAUSD.

Exhibit 5. General Fund – Other Local Revenues Projections

(dollars in millions)

	Fiscal Year				
	2017-18 A	2018-19 P	2019-20 P	2020-21 P	2021-22 P
Other Local Revenues					
Regular Program Only	\$260.7	\$135.7	\$129.7	\$126.3	\$121.3
Specialty Funded Programs	8.7	9.0	9.1	9.1	9.1
Total Other Local Revenues	\$269.4	\$144.7	\$138.8	\$135.4	\$130.4

Sources: "MYP General Fund Sep1819.xlsx", "8 REVENUE SUMMARY General Fund Reg Programs.pdf", and "MYP Specialty Funded Programs SFP.pdf" Specialty Funded Programs amounts for fiscal years 2021-22 and 2022-23 assumed equal to fiscal year 2020-21, per LAUSD.

(dollars in millions)

Sources: "MYP General Fund Sep1819.xlsx" and "8 REVENUE SUMMARY General Fund Reg Programs.pdf"

Exhibit 7. General Fund – Certificated Salaries Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Beginning Balance	\$2,826.7	\$2,826.7	\$2,894.2	\$2,849.9	\$2,846.0	\$2,841.6
Change in Certified Salaries ¹		67.5	(44.3)	(3.9)	(4.4)	(3.4)
Ending Balance	\$2,826.7	\$2,894.2	\$2,849.9	\$2,846.0	\$2,841.6	\$2,838.2
Total Certificated Salaries	\$2,826.7	\$2,894.2	\$2,849.9	\$2,846.0	\$2,841.6	\$2,838.2

1. Calculations:

Step and Column Salary Adjustment	\$32.2	\$32.0	\$31.9	\$31.7	\$31.5
Federal, State, and Local Grants	32.2	(33.4)	(0.5)	0.0	0.0
School Staff and Resources	28.1	(1.1)	(0.4)	0.0	0.0
Salary Increase	23.0	0.7	0.0	0.0	0.0
One-time Items	(1.6)	(6.6)	0.0	0.0	0.0
Reduced Cost from Enrollment Decline	(46.4)	(35.9)	(34.9)	(36.1)	(34.9)
Total Changes	\$67.5	(\$44.3)	(\$3.9)	(\$4.4)	(\$3.4)

Sources: "12. Fringe Benefits.pdf", "MYP Specially Funded Programs SFP.pdf", and "1 MYP Assumptions (Expanded).pdf"

Exhibit 8. General Fund – Classified Salaries Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Beginning Balance	\$984.9	\$984.9	\$1,007.2	\$1,001.3	\$1,000.4	\$1,000.4
Change in Classified Salaries ¹		22.3	(5.9)	(0.9)	0.0	0.0
Ending Balance	\$984.9	\$1,007.2	\$1,001.3	\$1,000.4	\$1,000.4	\$1,000.4
Total Classified Salaries	\$984.9	\$1,007.2	\$1,001.3	\$1,000.4	\$1,000.4	\$1,000.4

1. Calculations:

Salary Increase	\$23.5	\$3.2	\$0.0	\$0.0	\$0.0	\$0.0
Federal, State and Local Grants	8.2	1.0	(0.1)	0.0	0.0	0.0
School Staff and Resources	(0.8)	(1.6)	(0.2)	0.0	0.0	0.0
One-time items	(8.6)	(8.5)	(0.6)	0.0	0.0	0.0
Total Changes	\$22.3	(\$5.9)	(\$0.9)	\$0.0	\$0.0	\$0.0

Sources: "12. Fringe Benefits.pdf", "MYP Specially Funded Programs SFP.pdf", "1 MYP Assumptions (Expanded).pdf"

Exhibit 9. General Fund – Employee Benefits Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
General Fund	\$1,912.6	\$1,965.9	\$2,059.3	\$2,082.8	\$2,079.9	\$2,073.3
Specialty Funded Program	110.8	124.5	110.3	110.1	110.1	110.1
Ending Balance	\$2,023.4	\$2,090.4	\$2,169.6	\$2,192.9	\$2,190.0	\$2,183.4
Total Revenues and Other Financing Sources	\$2,023.4	\$2,090.4	\$2,169.6	\$2,192.9	\$2,190.0	\$2,183.4

Sources: "12 Fringe Benefits.pdf", "MYP Specialty Funded Programs SFP.pdf", and per the below assumed benefit rates:

CalSTRS	16.28%	18.13%	19.10%	18.60%	18.10%
CalPERS	18.06%	20.80%	23.50%	24.60%	25.30%
CalPERS School Police	37.74%	43.46%	49.10%	51.40%	52.86%
Social Security, Medicare, PARS	2.98%	2.98%	2.98%	2.98%	2.98%
Unemployment Insurance	0.06%	0.06%	0.06%	0.06%	0.06%

CalSTRS refers to California State Teachers' Retirement System

CalPERS refers to California Public Employees' Retirement System

PARS refers to Public Agency Retirement Services

Exhibit 10. General Fund – Books & Supplies Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Beginning Balance	\$331.2	\$331.2	\$576.3	\$446.9	\$407.4	\$427.8
Change in Books & Supplies ¹	0.0	245.1	(129.4)	(39.5)	20.4	(4.8)
Ending Balance	\$331.2	\$576.3	\$446.9	\$407.4	\$427.8	\$423.0
Total Books & Supplies	\$331.2	\$576.3	\$446.9	\$407.4	\$427.8	\$423.0

1. Calculations

Inflation on cost of supplies and materials ²						
Charge		3.66%	3.50%	3.23%	2.94%	2.94%
Athletic Uniforms,	\$4.6	\$4.6	\$7.2	\$6.7	\$6.1	\$6.1
Textbook Allocations	9.9	9.9	NA	NA	9.9	(9.9)
School Expenditures, Special Education Programs, etc.	65.4	65.4	(53.1)	(40.3)	5.4	0.0
Other ³	154.1	154.1	(0.3)	(5.0)	0.0	0.0
Total Changes	11.1	11.1	(83.2)	(0.9)	(1.0)	(1.0)
	\$245.1	\$245.1	(\$129.4)	(\$39.5)	\$20.4	(\$4.8)

2. Based on California's CPI for each forecasted fiscal year.

3. Represent reversals or exclusions of one-time items and various other expenditures, which may include lower allocations to uniforms.

Sources: "1 MYP Assumptions (Expanded).pdf", "3a MYP General Fund, Unrestricted and Restricted.pdf", "MYP Specialty Funded Programs SFP.pdf"

Exhibit 11. General Fund – Services and Other Operating Expenses Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Beginning Balance	\$801.0	\$801.0	\$858.7	\$881.2	\$908.3	\$926.0
Change in Services and Other Operating Expenses ¹		57.7	22.5	27.1	17.7	13.3
Ending Balance	\$801.0	\$858.7	\$881.2	\$908.3	\$926.0	\$939.3
Total Services and Other Operating Expenses	\$801.0	\$858.7	\$881.2	\$908.3	\$926.0	\$939.3

1. Calculations

Inflation on cost of supplies and materials ²						
Change	3.66%		3.50%	3.23%	2.94%	2.94%
Non-public schools	\$6.7		\$13.4	\$7.9	\$7.5	\$7.5
Other ³	9.4		5.8	5.5	5.7	5.8
Total Change	41.6		3.3	13.7	4.5	0.0
	\$57.7		\$22.5	\$27.1	\$17.7	\$13.3

2. Based on California's CPI for each forecasted fiscal year.

3. Includes expenses related to carryover programs, magnet school resources, distribution of funds, Board election, insurance, utilities, leases, telecommunications, school experience surveys, software management tools, as well as various other expenditures.

Sources: "1 MYP Assumptions (Expanded).pdf", "3a MYP General Fund, Unrestricted and Restricted.pdf", and "MYP Specially Funded Programs SFP.pdf"

Exhibit 12. General Fund – Capital Outlay Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Beginning Balance	\$60.7	\$60.7	\$87.5	\$78.3	\$29.9	\$31.1
Change in Capital Outlay ¹		26.8	(9.2)	(48.4)	1.2	(2.3)
Ending Balance	\$60.7	\$87.5	\$78.3	\$29.9	\$31.1	\$28.8
Total Capital Outlay	\$60.7	\$87.5	\$78.3	\$29.9	\$31.1	\$28.8

1. Calculations

Inflation on cost of supplies and materials ²	3.66%	3.50%	3.23%	2.94%	2.94%	2.94%
Change	\$0.7	\$0.7	\$0.7	\$0.6	\$0.7	\$0.7
Data Center Hardware	2.3	0.0	0.0	0.6	0.6	(3.0)
Other ³	23.8	(9.9)	(49.1)	0.0	0.0	0.0
Total Change	\$26.8	(\$9.2)	(\$48.4)	\$1.2	(\$2.3)	(\$2.3)

2. Based on California's CPI for each forecasted fiscal year.

3. Includes expenses related to Proposition 39 Clean Energy, bring-to-requirement programs, and exclusion of one-time items.

Sources: "1 MYP Assumptions (Expanded).pdf", "3a MYP General Fund, Unrestricted and Restricted.pdf", and "MYP Specially Funded Programs SFP.pdf"

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Exhibit 13. General Fund – Other Outgo (7100–7299) Projections

(dollars in millions)

	Fiscal Year						
	2017-18A	2018-19P	2019-20F	2020-21F	2021-22P ¹	2022-23P	
Specialty Funded Program	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
General Fund (Unrestricted) ¹	4.8	7.7	7.7	7.7	7.7	7.7	7.7
Ending Balance	\$4.8	\$7.7	\$7.7	\$7.7	\$7.7	\$7.7	\$7.7
Other Outgo	\$4.8	\$7.7	\$7.7	\$7.7	\$7.7	\$7.7	\$7.7

1. Fiscal year 2018-2019 projection includes an additional \$2.4 million from LCFF County Office Transfers and \$0.5 million in Special Education Tuition.
Sources: "MYP Specially Funded Programs SFP.pdf" and "MYP General Fund Sep1819.pdf"

Exhibit 13.1. General Fund – Other Outgo (7400-7499) Projections

(dollars in millions)

	Fiscal Year				
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P
Specialty Funded Program	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
General Fund (Unrestricted)	0.5	0.5	0.5	0.5	0.5
Ending Balance	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
Other Outgo	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5

Sources: "MYP Specially Funded Programs SFP.pdf" and "3b MYP General Fund, Unrestricted.pdf"

Exhibit 14. General Fund – Direct Support / Indirect Costs Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Indirect Cost Rate	4.24%	5.11%	4.59%	5.61%	5.05%	4.54%
General Fund (Unrestricted)	(\$99.5)	(\$131.3)	(\$109.9)	(\$130.1)	(\$123.6)	(\$117.5)
General Fund (Restricted)	74.9	98.6	80.4	93.9	87.4	81.3
Ending Balance	(\$24.6)	(\$32.7)	(\$29.5)	(\$36.2)	(\$36.2)	(\$36.2)
Total Direct Support & Indirect Costs	(\$24.6)	(\$32.7)	(\$29.5)	(\$36.2)	(\$36.2)	(\$36.2)

Sources: "13 Indirect Cost.pdf" and "1 MYP Assumptions (Expanded).pdf"

Exhibit 15. General Fund – Other Financing Uses Projections

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
General Fund (Unrestricted)	\$53.5	\$60.8	\$68.1	\$70.4	\$70.4	\$70.4
General Fund (Restricted)	1.1	1.1	1.1	1.1	1.1	1.1
Ending Balance	\$54.6	\$61.9	\$69.2	\$71.6	\$71.6	\$71.6
Other Financing Uses	\$54.6	\$61.9	\$69.2	\$71.6	\$71.6	\$71.6

Sources: "3b MYP General Fund, Unrestricted" and "3b MYP General Fund, Restricted.pdf"

Exhibit 16. LAUSD Budget Forecast

(dollars in millions)

All Remaining Bargaining Units

District Budget Forecast	Fiscal Year				
	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Percentage Increase	6.0%	3.0%	3.0%	3.0%	3.0%
Retro for 2017 -18	\$220.6	\$110.3	\$110.3	\$110.3	\$110.3
Percentage Increase	3.0%	3.0%	3.0%	3.0%	3.0%
Starting 2018 - 19	\$110.3	\$110.3	\$110.3	\$110.3	\$110.3
Total District Budget	\$330.9	\$220.6	\$220.6	\$220.6	\$220.6
Fringe Benefits Set Aside	5.5	11.0	16.6	16.6	16.6
Total Salary Increase (Cumulative)	\$336.4	\$568.1	\$805.2	\$1,042.4	\$1,279.6
Release Reserve for CSEA Salary Increase	(\$10.9)	(\$22.3)	(\$33.8)	(\$45.4)	(\$56.9)
Release Reserve for AALA Salary Increase	(\$29.3)	(\$49.3)	(\$69.4)	(\$89.5)	(\$109.6)
Salary Increase Balance - LAUSD Budget Forecast	\$296.1	\$496.5	\$702.0	\$907.5	\$1,113.1
Incremental Salary Increase LAUSD Budget Forecast	\$296.1	\$200.4	\$205.5	\$205.5	\$205.5

Source: LAUSD management. Excludes SEIU.

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Exhibit 17. Health and Welfare Cost Increase Estimates

(dollars in millions)

Annual Premium Increase		4.5%			
Fiscal Year	[A] Flat Cost	[B] Premium Cost	[C] Administration Cost	[B] + [C] Premium and Other Cost	[B] + [C] - [A] Flat vs Cost Difference
2017-18	\$1,088.7	\$1,071.6	\$4.7	\$1,076.3	
2018-19	1,114.7	1,119.8	5.0	1,124.8	
2019-20	1,114.7	1,170.2	5.0	1,175.2	
2020-21	1,114.7	1,222.9	5.0	1,227.9	\$113.2
2021-22	1,114.7	1,277.9	5.0	1,282.9	168.2
2022-23	1,114.7	1,335.4	5.0	1,340.4	225.7

Source: file titled "Health and Welfare Estimated Contribution Scenarios 2018 0912 - flat and cost only for HL".

Exhibit 17.1 Health and Welfare Cost – Flat Contribution

(dollars in millions)

	GY 2018	GY 2019	GY 2020	GY 2021	GY 2022	GY 2023
Participants Count Growth						
Participant Count Based on PY Nov Count						
Active	58,822	58,822	58,822	58,822	58,822	58,822
Pre-Medicare	4,887	4,887	4,887	4,887	4,887	4,887
Medicare	31,623	31,623	31,623	31,623	31,623	31,623
Total	95,332.0	95,332.0	95,332.0	95,332.0	95,332.0	95,332.0
Per Participant Contribution						
Active	\$0.014	\$0.014	\$0.014	\$0.014	\$0.014	\$0.014
Pre-Medicare	\$0.020	\$0.020	\$0.020	\$0.020	\$0.020	\$0.020
Medicare	\$0.007	\$0.007	\$0.007	\$0.007	\$0.007	\$0.007
Contribution Per Participant Group						
Active	\$824.3	\$824.3	\$824.3	\$824.3	\$824.3	\$824.3
Pre-Medicare	99.9	99.9	99.9	99.9	99.9	99.9
Medicare	224.9	224.9	224.9	224.9	224.9	224.9
Sub Total	\$1,149.1	\$1,149.1	\$1,149.1	\$1,149.1	\$1,149.1	\$1,149.1
	Fiscal Year					
Interest Income		\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
EGWIP Savings		32.4	32.4	32.4	32.4	32.4
Subtotal Other	[B]	\$34.4	\$34.4	\$34.4	\$34.4	\$34.4
Contribution from User Fund	[A] - [B]	\$1,114.7	\$1,114.7	\$1,114.7	\$1,114.7	\$1,114.7

Source: file titled "Health and Welfare Estimated Contribution Scenarios 2018 0912 - flat and cost only for HL".

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Exhibit 18. LAUSD Budget Forecast

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Revenue	\$7,297.1	\$7,425.7	\$7,272.3	\$7,227.8	\$7,241.9	\$7,193.0
Expenditures						
MYP Expenditures (w/Fiscal Stabilization Plan)	\$7,063.2	\$7,551.6	\$7,429.2	\$7,382.5	\$7,414.5	\$7,410.7
Salary Increase for remaining bargaining units	0.0	296.1	200.3	205.5	205.5	205.5
H&W Cost Increase (100%)						
Expenditure (plus all other adjustments)	\$7,063.2	\$7,847.7	\$7,629.5	\$7,588.1	\$7,620.1	\$7,616.3
Difference between Revenue and Expenditures	A-1	(\$422.0)	(\$357.2)	(\$360.3)	(\$378.2)	(\$423.2)
Components of Ending Balance						
Change in Assigned Balances ¹		(\$449.4)	\$61.9	\$40.6	\$33.9	\$30.7
Change in Restricted Balances		(61.4)	(39.7)	10.0	8.4	7.1
Change in Committed Balances		91.9	(45.9)	(45.9)	0.0	0.0
Change in Reserve for Economic Uncertainties		0.2	0.3	(0.9)	0.1	0.0
Changes in Ending Balance Components	B-1	(\$418.6)	(\$23.4)	\$3.8	\$42.4	\$37.9
Change in Unassigned Ending Balance (A-1 - B-1)		(3.4)	(333.8)	(364.1)	(420.6)	(461.1)
Unassigned Ending Balance	\$702.9	\$699.6	\$365.7	\$1.7	(\$418.9)	(\$880.1)
Add: Non Spendable Inventories/Cash/Others	\$27.6	\$27.6	\$27.6	\$27.6	\$27.6	\$27.6
Add: Assigned Balance	1,057.4	608.0	669.9	710.5	744.4	775.2
Add: Restricted Balance	135.8	74.4	34.7	44.8	53.2	60.3
Add: Committed Balance	0.0	91.9	45.9	0.0	0.0	0.0
Add: Reserve for Economic Uncertainties (REU)	75.4	75.6	75.9	75.0	75.1	75.1
Total Ending Balance	\$1,999.0	\$1,577.0	\$1,219.8	\$859.5	\$481.3	\$58.1
Unassigned Ending Balance, including REU	\$778.3	\$775.2	\$441.6	\$76.7	(\$343.8)	(\$805.0)
1. Assigned Balance:						
Other Designations/Carryovers	\$1,057.4	\$608.0	\$669.9	\$710.5	\$744.4	\$775.2
Total Assigned Balance	\$1,057.4	\$608.0	\$669.9	\$710.5	\$744.4	\$775.2

Note: Per LAUSD management, the Projections for fiscal years 2018-19 through 2020-21 contain certain updates and adjustments not reflected in the 2018-19 Superintendent's Final Budget (approved by the LAUSD Board on June 19, 2018). The Projections for fiscal years 2021-22 and 2022-23 were prepared per LAUSD management and are not included in the approved budget.

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Exhibit 19. LAUSD "Restore to Full H&W Contribution Budget Forecast"

(dollars in millions)

	Fiscal Year					
	2017-18A	2018-19P	2019-20P	2020-21P	2021-22P	2022-23P
Revenue	\$7,297.1	\$7,425.7	\$7,272.3	\$7,227.8	\$7,241.9	\$7,193.0
Expenditures						
MYP Expenditures (w/Fiscal Stabilization Plan)	\$7,063.2	\$7,551.6	\$7,429.2	\$7,382.5	\$7,414.5	\$7,410.7
Salary Increase for remaining bargaining units	0.0	296.1	200.3	205.5	205.5	205.5
H&W Cost Increase (100%)	0.0	0.0	0.0	113.2	168.2	225.7
Expenditure (plus all other adjustments)	\$7,063.2	\$7,847.7	\$7,629.5	\$7,701.2	\$7,788.3	\$7,842.0
Difference between Revenue and Expenditures	A-1	(\$422.0)	(\$357.2)	(\$473.5)	(\$546.4)	(\$649.0)
Components of Ending Balance						
Change in Assigned Balances ¹		(\$449.4)	\$61.9	\$40.6	\$33.9	\$30.7
Change in Restricted Balances		(61.4)	(39.7)	10.0	8.4	7.1
Change in Committed Balances		91.9	(45.9)	(45.9)	0.0	0.0
Change in Reserve for Economic Uncertainties		0.2	0.3	(0.9)	0.1	0.0
Changes in Ending Balance Components	B-1	(\$418.6)	(\$23.4)	\$3.8	\$42.4	\$37.9
Change in Unassigned Ending Balance (A-1 - B-1)		(3.4)	(333.8)	(477.2)	(588.8)	(686.9)
Unassigned Ending Balance	\$702.9	\$699.6	\$365.7	(\$111.5)	(\$700.4)	(\$1,387.2)
Add: Non Spendable Inventories/Cash/Others	\$27.6	\$27.6	\$27.6	\$27.6	\$27.6	\$27.6
Add: Assigned Balance	1,057.4	608.0	669.9	710.5	744.4	775.2
Add: Restricted Balance	135.8	74.4	34.7	44.8	53.2	60.3
Add: Committed Balance	0.0	91.9	45.9	0.0	0.0	0.0
Add: Reserve for Economic Uncertainties (REU)	75.4	75.6	75.9	75.0	75.1	75.1
Total Ending Balance	\$1,999.0	\$1,577.0	\$1,219.8	\$746.3	\$199.9	(\$449.0)
Unassigned Ending Balance, Including REU	\$778.3	\$775.2	\$441.6	(\$36.5)	(\$625.3)	(\$1,312.1)
¹ Assigned Balance						
Other Designations/Carryovers	\$1,057.4	\$608.0	\$669.9	\$710.5	\$744.4	\$775.2
Total Assigned Balance	\$1,057.4	\$608.0	\$669.9	\$710.5	\$744.4	\$775.2

Note: Per LAUSD management, the Projections for fiscal years 2018-19 through 2020-21 contain certain updates and adjustments not reflected in the 2018-19 Superintendent's Final Budget (approved by the LAUSD Board on June 19, 2018). The Projections for fiscal years 2021-22 and 2022-23 were prepared per LAUSD management and are not included in the approved budget.

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Appendix E. Limiting Factors and Other Assumptions

If any supplemental information (written or oral) or other documents were provided by Houlihan Lokey Financial Advisors, Inc. ("Houlihan Lokey" or "we") regarding the matters set forth in this report, then this report is incomplete without reference to, and should be viewed solely in conjunction with, such information or other documents. This report, and any supplemental information or other documents provided in connection herewith (collectively, the "Report") is provided solely for the use of the Los Angeles Unified School District (the "Recipient") by Houlihan Lokey for the purpose set forth herein and may not be relied upon by any other person or entity or used for any other purpose. Use of the Report by any third party is at the sole risk of that party, and access to the Report by any third party does not create privity between Houlihan Lokey and any such party. We have agreed to provide the Report for the use of the Recipient only if it is subject to this statement of Limiting Factors and Other Assumptions. Accordingly, the Recipient's acceptance of the Report shall automatically constitute the Recipient's legally binding acceptance, for consideration the Recipient agrees to be sufficient, of this statement of Limiting Factors and Other Assumptions. If the Recipient does not agree to any portion of this statement of Limiting Factors and Other Assumptions, the Report must be immediately returned to Houlihan Lokey. This statement of Limiting Factors and Other Assumptions is in addition to any other assumptions, qualifications, limitations, conditions or restrictions set forth in the Report, or those set forth in our engagement letter or that have otherwise been disclosed by Houlihan Lokey or any of its employees or affiliates. Any defined terms used in this statement of Limiting Factors and Other Assumptions shall have the meanings set forth in this statement of Limiting Factors and Other Assumptions, even if such capitalized terms have been given different meanings elsewhere in the Report. Any undefined terms used in this statement of Limiting Factors and Other Assumptions shall have the meanings set forth in the Report. Any portion of this statement of Limiting Factors and Other Assumptions might have had an effect on the contents of the Report and any conclusions reached herein.

The Report is based on the condition of the Recipient, and the purchasing power of the currency stated in the Report, as of the Issuance Date. Any conclusions contained in the Report are effective only as of the Issuance Date. Unanticipated events and circumstances may occur and actual results may vary from those assumed. The variations may be material and Houlihan Lokey assumes no responsibility for any such variations. Subsequent events that could affect the conclusions set forth in the Report include, without limitation, changes to the business, financial condition and results of operations of the Recipient. Except as expressly contemplated by Houlihan Lokey's engagement letter, Houlihan Lokey has not undertaken, and is under no obligation, to update, revise, reaffirm or withdraw the Report. Any events occurring after the Issuance Date have not been considered, and we have no obligation to update the Report for such events or otherwise comment on or consider such events. Future services regarding the subject matter of the Report, including, but not limited to, testimony or attendance in court, shall not be required of Houlihan Lokey unless otherwise agreed to in writing.

Appendix F. Limiting Factors and Other Assumptions

Possession of the Report, or a copy thereof, does not carry with it the right of publication or distribution to or use by any third party. No change to any part of the Report may be made by anyone other than Houlihan Lokey, and Houlihan Lokey shall have no responsibility for any such unauthorized change. The Report (including, without limitation, any financial analyses or the fact that Houlihan Lokey prepared the Report) may not be disclosed, summarized, reproduced, disseminated or quoted or otherwise referred to, in whole or in part, except to the extent set forth in the written terms of Houlihan Lokey's engagement letter.

Houlihan Lokey is not an expert on, and nothing contained in the Report should be construed as advice with regard to, legal, accounting, regulatory, insurance, environmental, engineering, tax or other specialist matters. Houlihan Lokey assumes that the Recipient has consulted with appropriate professionals with respect to such matters. Houlihan Lokey has not been requested to make, and has not made, any physical inspection or independent appraisal or evaluation of any of the specific assets, properties or liabilities (fixed, contingent, derivative, off-balance-sheet or otherwise) of the Recipient.

Unless otherwise stated and considered in the Report, Houlihan Lokey assumes that the Recipient has complied with all applicable international, federal, state and local regulations, codes, ordinances, statutes and laws (including, without limitation, usage, environmental, zoning and similar laws and/or regulations), and no effort has been made to determine the possible effect, if any, on the Recipient due to future regulations, codes, ordinances, statutes, laws or other requirements. References to any law, regulation, rule or pronouncement or any agreement to which the Recipient, the Recipient or any other party, is subject, are for informational purposes only. Neither the Report nor any of its contents (including any such reference) addresses whether any analyses prepared by, or conclusions reached by, Houlihan Lokey are in compliance with, or are otherwise in accordance with, any such law, regulation, rule, pronouncement or agreement. No representation is made in the Report, either directly or indirectly, as to the accuracy or applicability of any definitions set forth in the Report or their sufficiency for any general or particular purpose other than setting forth the scope of the Report. Houlihan Lokey makes no representation as to whether the Report complies with any standards, guidelines, rules or procedures prescribed by any valuation association or any other group or organization.

The budgets, projections and estimates contained in the Report may or may not be achieved and differences between projected results and those actually achieved may be material. We have been advised, and have assumed, that such budgets, projections and estimates have been reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of the future financial results and condition of the Recipient, and we express no views with respect to such budgets, projections or estimates or the assumptions on which they are based. Houlihan Lokey (a) has relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to Houlihan Lokey, discussed with or reviewed by Houlihan Lokey, or publicly available, and does not assume any responsibility with respect to such data, material and other information (including, without limitation, conformity or non-conformity with generally

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Appendix F. Limiting Factors and Other Assumptions

accepted accounting principles and/or other guidelines established by regulatory or other governing bodies), (b) makes no representation or warranty (express or implied) in respect of the accuracy or completeness of such information and (c) has relied upon the assurances received by it that there are no facts or circumstances that would make such information inaccurate or misleading. Houlihan Lokey's work with respect to any information did not constitute an audit, review, compilation, attestation, examination or agreed upon procedures engagement with respect to such information in accordance with standards established by the American Institute of Certified Public Accountants or any other organization, and, accordingly, we do not express any audit opinion or any other form of assurance on such information. In addition, Houlihan Lokey has relied upon and assumed, without independent verification, that there has been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Recipient since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to, discussed with, or reviewed by us that would be material to our analyses.

The information presented in the Report is included solely to assist in the development of any conclusions reached herein. The information may contain departures from generally accepted accounting principles and/or other guidelines established by regulatory or other governing bodies. We express no opinion or other assurances on the information presented and it should not be used for any purpose other than to assist the Recipient in understanding the Report. Any analyses, conclusions or estimates presented in the Report, apply to the Report only and may not be used out of the context presented herein. Certain financial data reviewed in connection with the preparation of the Report may have been derived from financial statements provided to us. The original financial statements may include disclosures required by generally accepted accounting principles. Those disclosures may not be repeated herein, and those who are not informed about such matters should refer to the original financial statements. The materials may not reflect information known to other professionals in other business areas of Houlihan Lokey and its affiliates.

The issuance of the Report by Houlihan Lokey does not represent an assurance, guarantee or warranty that the Recipient will or will not default on any obligations, nor does Houlihan Lokey make any assurance, guarantee or warranty that any covenants, financial or otherwise, associated with any financing will or will not be breached or violated in the future. The scope of the financial analysis contained herein is based on discussions with the Recipient (including, without limitation, regarding the methodologies to be utilized), and Houlihan Lokey does not make any representation, express or implied, as to the sufficiency or adequacy of such financial analysis or the scope thereof for any particular purpose.

Any actions or decisions taken or made by the Recipient should be based on its own judgment and the decision process should consider many factors other than the contents of the Report. The Report cannot be a substitute for the Recipient to perform the proper level of due diligence required to make any decision in connection herewith. The Recipient accepts the responsibility for the ultimate use of the Report and the analyses contained herein.

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Appendix F. Limiting Factors and Other Assumptions

We have been advised by the Recipient that there are no audited financial statements for fiscal year 2017-18, accordingly, we have relied upon and assumed, without independent verification, that there would be no information contained in any such financial statements not otherwise discussed with or reviewed by us that would have been material to our analyses or the Report.

Los Angeles Unified School District

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News Statement

FOR IMMEDIATE RELEASE

Contact: Shannon Haber (213) 241-6766

**Oct. 17, 2018
#18/19-068**

Statement by Los Angeles Unified School District

The Los Angeles Unified School District today requested that its differences with UTLA be submitted to a Factfinding Panel. L.A. Unified remains committed to the lawful bargaining process and will participate in good faith in Factfinding, and remains open to any other way to resolve the issues fairly and transparently.

At every Los Angeles Unified school, there are great teachers. Los Angeles Unified needs to pay teachers better and provide them with more support and more professional development. That is why L.A. Unified has made a fair offer to UTLA to provide all teachers with a six percent salary increase, provide additional pay for teachers who take courses in areas aligned with student needs, add teachers and reduce class size in high-needs schools and increase transparency in our labor contracts.

L.A. Unified looks forward to the Factfinding process to confirm what independent, third party experts have publicly stated repeatedly. The State Superintendent of Education, the Los Angeles County Office of Education, two independent commissions established by two previous Superintendents (Cortines in 2015, King in 2018) and a nationally recognized financial firm (Houlihan Lokey) have all studied L.A. Unified's finances and stated that the school district will run out of money if changes are not made.

"Yes, my presence is indicative that this is serious."

-- Nick Schweizer, Office of the State Superintendent of Education, Sep, 2018

--More--

“The problem is that these reductions [L.A. Unified’s fiscal stabilization plan] do not eliminate the structural deficit in the district’s budget, so there is more work that needs to be done. The fact is that L.A. Unified [Budget] is *NOT* too big to fail, so it is up to all of us to resolve the district’s fiscal challenges”

-- *Candi Clark, CFO, Los Angeles County Office of Education, Aug, 2018*

“As the District works to increase investments critical to student learning, it must also address a looming, large budget deficit. LA Unified is facing a structural budget deficit, which threatens its long-term viability and its ability to deliver basic education programs. The District’s own forecasts show it will have exhausted its reserve fund balance by 2020-21, will have a budget deficit of \$400 million in 2020-21 and therefore be insolvent.”

-- *L.A. Unified Advisory Task Force (King Report), Jun, 2018*

“The LAUSD is facing a significant structural deficit in its operating budget that threatens the District’s long-term financial viability.”

-- *Report of the Independent Financial Review Panel (Cortines Report), Nov, 2015*

“As shown on Figure 1 and Exhibit 18, under this forecast, the projected 2018-19, 2019-20 and 2020-21 fiscal years end with an Unassigned Ending Balance of \$699.6 million, \$365.7 million, and \$1.7 million, respectively. The minimum 1.0 percent reserve balance is satisfied in all of these years, as shown on Figure 2. However, the Unassigned Ending Balance for fiscal years 2021-22 and 2022-23 is a shortfall position (deficit) of \$418.9 million and \$880.1 million, respectively. Additionally, the 1.0 percent minimum reserve condition is not met commencing in fiscal year 2021-22, as shown on Figure 2.”

-- *Los Angeles Unified School District Projected Financial Position Analysis, Houlihan Lokey, Sep, 2018*

L.A. Unified and UTLA are each entitled to opinions, but both must deal with the facts. UTLA continues to misrepresent L.A. Unified’s offer and the facts. We look forward to a thorough review of the facts by the Factfinding Panel.


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**INTEROFFICE CORRESPONDENCE
LOS ANGELES UNIFIED SCHOOL DISTRICT
OFFICE OF THE CHIEF FINANCIAL OFFICER**

INFORMATIVE

TO: Members, Board of Education
Austin Beutner, Superintendent

DATE: September 26, 2018

FROM: Scott S. Price, Ph.D.
Chief Financial Officer 

**SUBJECT: HOULIHAN AND LOKEY FINANCIAL CONSULTING
FIRM ANALYSIS**

Spending savings to pay for reoccurring costs quickly exhausts reserves. The 2018-19 District Budget demonstrates that the District reserves/savings drop from 10.26 % in 2018-19 to 1.04% by the end of the 2020-21.

Although California only requires school districts to provide a three-year budget, a best practice outside California in districts such as Philadelphia, Cleveland, and Palm Beach, is to extend district budgets to five years to understand the long-term effects of revenue and spending trends.

To capture the longer-term effects of spending savings for ongoing, reoccurring expenditures, District staff created a five-year budget outlook and extended the District's reoccurring costs and revenues into the 2021-22 and 2022-23 fiscal years. Through this process, staff calculated that if the District continues spending more money than it brings in, savings/reserves will be exhausted in the early months of 2021-22. At that point, the District will be bankrupt. This is caused by the reoccurring deficit spending that ranges from approximately \$450 million to \$700 million a year.

If the District were able to function in bankruptcy, by the end of the 2022-23 fiscal year, the District will be over \$880 million in debt, or \$1.4 billion if the District returns to contributing to the full cost of health care when the current HBC agreement expires.

Because of the seriousness of the fiscal result of the five-year outlook, the District sought third-party validation of its three-year budget and five-year outlook.

The District contracted with Houlihan and Lokey (H&L), a financial global consulting firm with financial experts in accounting, valuation, and economic damages. H&L conducted an "ability to pay" analysis that reviewed the District's 2018-19 Budget and five-year outlook.

Through their analysis, H&L reviewed revenues, expenditures, and assumptions, confirming the District's Budget and outlook projections. H&L financial experts found that the District would become insolvent in the 2021-2022 year if the current levels of spending continues and that the decline will accelerate if the District adds other expenditures not already included in the Budget.

I have attached the Houlihan and Lokey analysis for your review. Please let me know if you have specific questions or would like additional information.

c: Rebecca Kockler
Dave Holmquist
Hilda Maldonado

Jefferson Crain
Pedro Salcido