INTEROFFICE CORRESPONDENCE
Los Angeles Unified School District
Independent Analysis Unit

TO: Members, Board of Education
    Austin Beutner, Superintendent
FROM: Glenn Daley, Director, Independent Analysis Unit
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INFORMATIVE
DATE: June 12, 2020


This informative provides an overview of the financial situation L.A. Unified faces as it moves into school year 2020-2021.

This brief discussion is not intended to offer new data, but simply to collect several pieces of data in one place and provide a strategic perspective. For this purpose, the IAU compiled budget and financial information from several sources, primarily from the State of California and the L.A. Unified Budget Office. It is important to note that the California Legislature appears poised to approve a 2020-2021 budget next Monday, June 15, without having reached a deal with the Governor. The state budget situation is fluid, as is its likely impact on the District.

In general, our analysis concurs with reports the Board has received from the Superintendent’s staff. Despite fears of calamity, the near-term situation (i.e., school year 2020-2021) is manageable. The medium- and long-term outlook, however, is more uncertain and will likely be very challenging for the District. Many circumstances will change between now and school year 2021-2022, but conservative contingency planning is warranted now.

If you have any questions or suggestions for further review, please feel free to contact Glenn Daley (glenn.daley@lausd.net) or Dr. Andrew Thomas (andrew.thomas1@lausd.net).

SUMMARY

• The District spent or is planning to spend a previously unanticipated $550 million between mid-March and the end of the fiscal year on COVID-related expenses. This expense is spread across three funds. About $78 million come from bond funds, $120 million come from the general fund, and $330 million is cafeteria fund.

• Multiple sources of additional revenue—in the form of one-time (non-recurring discretionary) dollars—are available from the state and federal governments to defray some of the costs associated with the COVID-19 response. These one-time dollars for a broad range of COVID-related uses add up to almost $800 million.

• Standing sources of federal revenue, such as Title I and Title III dollars, have not been cut.

• Reduced tax receipts raise the possibility that education funding may be cut in California. The Governor, in his May revision, proposed a 10% reduction in Local Control Funding Formula
dollars. However, the Legislature has rejected these cuts and expects to receive additional assistance from the federal government. If this assistance fails to materialize and funds are cut, the District could receive as much as $500 million less in 2020-2021 than it did last year. However, current indications are that the District’s revenue will remain for now at the levels we expected them to be at second interim.

- A relatively small amount of additional revenue for special education may be forthcoming in the form of a low-incidence disability pool contribution of about $18 million.
- Pension relief from the state will result in a reduction of about $40 million in CalSTRS and CalPERS costs, compared to what was spent last year.
- Several new sources of revenue are in the works; one possibility is that the District could consider floating a new bond measure on the November ballot.

**THE DISTRICT HAS INCURRED COVID-19 RELATED EXPENSES**

Since schools closed on March 13, the District has incurred more than half a billion dollars in unexpected expenses related to COVID-19 and efforts to maintain continuity of learning. These expenses are spread across three funds. The smallest is the Bond Fund, which accounts for $77 million of expenses for the purchase and distribution of thousands of iPads, Chromebooks and hotspot devices for children’s use while out of school. The next largest fund expenditure is from the General Fund, which accounts for $140 million of mixed expenses. Some General Fund dollars went to support distance learning, but the bulk have been spent on salaries and supplies at school sites for the purpose of health and safety. Last, the largest category of expenses is related to grab-and-go food distribution and is charged to the cafeteria fund.

All these expenses are reimbursable through state-provided one-time emergency funds (SB 117) or funds available through the federal Coronavirus Relief Act, which are described in the next section.

In the May 19 Board meeting, the superintendent’s staff presented the COVID-19 budget impact in a different way of categorization. The Board presentation included $47 million for health and

<table>
<thead>
<tr>
<th>Table 1</th>
<th>L.A. Unified COVID-related Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fund Source</strong></td>
<td><strong>Budgeted as of May 22, 2020</strong></td>
</tr>
<tr>
<td>Bond</td>
<td>$77,400,000</td>
</tr>
<tr>
<td>General Fund Distance Learning Project Expenses</td>
<td>$23,990,000</td>
</tr>
<tr>
<td>General Fund COVID-19 School-related</td>
<td>$119,123,203</td>
</tr>
<tr>
<td>Cafeteria Fund</td>
<td>$330,867,585</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$551,380,788</strong></td>
</tr>
</tbody>
</table>

safety, $198 million for safety and $295 million for instruction and technology—a large category that included summer school and distance learning training. In total, the budget impact was stated as $540 million. Some of these expenses probably overlap with the General Fund distance learning and General Fund COVID-19 school-related expenses listed in Table 1, but some are additional.

**THE STATE AND FEDERAL GOVERNMENTS HAVE PROVIDED EMERGENCY FUNDING**

The state and federal governments have come to the aid of districts like L.A. Unified that have had unexpected expenses. First, to respond to the COVID-19 public health emergency, the California Legislature passed Senate Bill (SB) 117 on March 16, 2020. The bill appropriated $100 million in Proposition 98 (K-14 education-related) funds to local educational agencies (LEAs). L.A. Unified’s allocation under SB 117 is about $7 million ($7,216,236). These funds can be used for costs associated with maintaining nutrition services, cleaning and disinfecting facilities, personal protective equipment, and materials necessary to provide students with opportunities for distance learning during COVID-19 closure periods. In short, these funds may be used to defray any of the expenses the District has incurred specifically resulting from the COVID-19 crisis.

However, $7 million covers just a small portion of $550 million plus that the District has spent on COVID-related expenses. The federal government has provided substantially more relief, some of which comes directly to the District and some of which will go to the state and then be passed to the District.

Federal relief comes in the form of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which the U.S. Congress passed in late March. This act created two funds that will benefit L.A. Unified—the Education Stabilization Fund (ESF) and the Coronavirus Relief Fund (CRF).

The ESF is divided into four funding streams. One is targeted to higher education and one is earmarked for an innovation grant program, neither of which pertain to the District at this time. The other two funding streams are the $13.2 billion Elementary and Secondary School Emergency Relief (ESSER) fund and the $3 billion Governor’s Emergency Education Relief (GEER) Fund.

ESSER funds will be distributed to states, which will re-grant 90% of the money to LEAs². California will receive $1.6 billion and L.A. Unified will receive a little bit less than $290 million from that source ($287,741,071).

California will also receive $355 million in GEER funds, which the Governor proposes to pass on to districts after combining it with $4 billion from the CRF. Together, GEER and CRF will provide $4.4 billion in funding, which the Governor wants to spend on learning loss mitigation, and apportion to districts, as follows:

- $735 per student, which comes to $350,398,755², and
- $1,900 additional per student with a disability, which comes to $135,521,300³

Combined, the District can expect to receive almost $486 million ($485,920,055) from the Governor’s $4.4 billion investment in learning loss mitigation, which is intended to be spent on intensive instructional supports that address the learning loss many students have experienced. Possible uses of the money include extending the instructional school year, and providing
additional academic services for pupils, including diagnostic assessments of student learning needs. The money can also be spent on integrated social and emotional student supports to address other barriers to learning, such as the provision of health, counseling or mental health services. Professional development and school breakfast and lunch programs are also acceptable expenses under this program.

The District must report how the Governor’s learning loss mitigation funds will be used, how the District will ensure that all students are provided devices and connectivity, and how the effectiveness of the services or supports provided will be measured. This reporting requirement means that the District will need to improve its monitoring, reporting and evaluation functions related to learning loss mitigation.

In total, the District will receive about $781 million from federal and state sources for emergency education spending.¹

This amount more than compensates the District for the money it had spent by early June on unanticipated COVID-related expenses, leaving about $230 million to spend as the need arises in the coming months. In addition, the superintendent has raised over $4 million in private donations, and the District could win more than $2.5 million in community school grants. In total, taking current spending and anticipated revenue into account, the District may have as much

¹ Source: Los Angeles Unified School District
as approximately $240 million in discretionary one-time revenue to spend on COVID-related and learning loss mitigation expenses.

More analysis of spending, and variance from last year’s spending, would have to be done to better understand the fiscal effects of the crisis.

PROPOSITION 98 AND LCFF COULD BE CUT BY AS MUCH AS 10%

Though special one-time revenue from the state and federal governments will substantially offset the extraordinary expenses the District has incurred since March and will continue to incur going into the 2020-2021 fiscal year, the COVID-19 pandemic has led to a nationwide recession, which threatens to reduce the funding the District receives every year from the state via Proposition 98 and the Local Control Funding Formula (LCFF). The recession may have already cost the state as much as $54 billion in combined lost tax revenue, caseload increases supporting health and human services programs, and other expenditures.

Assuming that the state will not be able to make up this money, and because the budget must be balanced by law, the Governor, in his revised budget proposal to the Legislature, proposed reducing LCFF rates by 10%.

Prior to the COVID-19 catastrophe, the L.A. Unified Budget Services projected that the LCFF Non-charter entitlement to the District would be $5.65 billion. If these cuts stand, the District estimate is that L.A. Unified will receive a final LCFF entitlement of $5.15 billion, which is about $465 million less than the District received last year and $500 million less than we expected to receive this year (Figure 2).

However, these cuts are uncertain for several reasons. First, in the Governor’s proposal, the cuts would be rescinded if the federal government delivers enough emergency relief funding. Second, the California Senate, rejecting the Governor’s cautious approach, instead proposes to preserve the original January LCFF amount. Rather than planning for the lack of funds, and reinstating funds if possible, legislators apparently prefer to plan on the funding being available. In their plan, funding cuts come into effect only if revenue does in fact fall.

The Legislature will approve the state budget on Monday, June 15 without a deal with the Governor. The Legislature’s proposal does not include budget cuts, but the Governor has the power to veto items line by line. For L.A. Unified, the Senate’s proposed budget means that we should go ahead and assume that the LCFF entitlement will not be cut and that we will receive the complete amount, including the cost-of-living (COLA) increase, as expected prior to the May Revision. However, uncertainties will remain until the budget is finalized.
**Categorical cuts**

Cuts to categorical programs represent the largest area of uncertainty for District budgeting at the present time, though details may become clearer when the state budget is approved on June 15. In his May revision, the Governor proposed cutting categorical programs roughly in half – by a statewide total of almost $359 million. For L.A. Unified, such cuts could mean approximately:

- $45 million less for After School Education and Safety (ASES) – FY 2019-20 projected year totals are $87,923,188
- $7 million less for Career Technical Education Incentive Grant Program (CTE) – FY 2019-20 projected year totals are $14,467,256

Specialized Secondary would also sustain a smaller cut—how much is uncertain. However, the Legislature proposes to maintain the funding for categorical programs.

**MANAGING EXTRA EXPENSES AND REVENUE REDUCTIONS**

Even if LCFF revenues decrease by 10%, managing the crisis without budget cuts and layoffs appears to be possible in the coming fiscal year, thanks to a combination of one-time funding (described above), increases for special education, pension relief, unassigned balances, and other adjustments.

**Special Education**

Despite proposing to cut the principal portion of the District’s funding from the state by 10%, the Governor in May proposed maintaining the 15% special education funding increase that he proposed in January. This increase would go to bringing up the base funding for all districts to at least $645 per student. However, L.A. Unified already receives a higher per-student rate, so it will be held harmless, but will not benefit from the change.

The Legislature’s budget proposal, however, advocates adding $545 million statewide to increase special education base rates and $100 million for a low incidence disabilities cost pool. Again, the base rate increase will not benefit L.A. Unified, but the $100 million, targeted at low-incidence/high-cost disabilities, will affect the District’s special education allocation if it survives intact in the state budget. The CFO estimates that the District can expect $18 million more to spend on special education in 2020-2021 than it received last year.

**Pension Relief**

L.A. Unified provides pensions as benefits to employees mainly through one of two public employee pension plans: the California State Teachers’ Retirement System (CalSTRS) for certificated employees—mainly teachers and administrators—and the California Public Employees’ Retirement System (CalPERS) for classified employees. Employees, employers and the state all contribute to these plans by depositing funds into state pension accounts that are invested in the equity markets. In past years, policy makers have worried that the funds to do not contain enough money or earn high enough returns to support retirement for all government employees who are due to retire in coming years. To shore up these funds, the state has contributed directly to the retirement plans and required employers to contribute more year over year. Though beneficial in the long-run, higher employer contribution rates to CalPERS and CalSTRS have added pressure to
the District budget. This year, the Governor and Legislature propose to defer paying down long-term liabilities and instead to offer short-term relief to school districts.

CalSTRS. The Governor's original proposed 2020-2021 state budget put $2.3 billion in one-time non-Proposition 98 dollars towards the long-term unfunded liability of CalSTRS and CalPERS. The revised budget proposal redirects this $2.3 billion to reduce employer contribution rates, which will not reduce the long-term unfunded liability, but will relieve the District in the short term.

With this funding, the CalSTRS contribution rates would decrease by about one percent from its current level and over 2% from expected levels for each of the next two fiscal years (Figure 3).

CalPERS. The proposed redirected funds would bring CalSTRS employer contributions down by about 2% in each of the next two fiscal years (Figure 4).

In total, the CalSTRS and CalPERS contributions will likely reduce expected District expenditures by at least $44 million in 2020-2021, compared to what was budgeted for 2019-2020.

The Power of Assigned and Unassigned Balances

Emergency one-time funding from the state and federal governments, pension contribution relief, and some additional special education revenue will help keep assets above liabilities for the coming fiscal year. Additionally, the District’s balances and reserves help. **As of second interim, the District estimated its ending balance would be almost $2 billion.** About $90 million of this is committed to classified salary increases, about $1 billion is unspent carryover dollars assigned to school sites and district programs, another $760 is unassigned and available for any use, and a final $80 million is reserved for economic uncertainties. Whether assigned or not, such balances usually do not assure long-term solvency in the face of fiscal distress, but they do bridge short-term gaps in revenue such
as the one facing the District today. If revenues continue to be constricted, however, the long-term outlook will worsen.

**One-time money is different this year**

Non-recurring discretionary funds of various kinds have been available to the District for many of the last 10 years. Though they were not initially part of the Governor’s budget in January, one-time funds have become available this year in the form of COVID-19 emergency relief. Normally, relying on one-time revenue to fund ongoing salaries or programs would be imprudent and disallowed in a Fiscal Stabilization Plan. But this year is different due to the abrupt and acute nature of the financial crisis resulting from the pandemic, and the relaxing of some fiscal criteria in response. If the fiscal distress is temporary, and the District monitors its revenue prospects carefully, using one-time funds to plug gaps in the budget this year appears to be justified.

In sum, the District’s position is solid now, but lacks assurances of stable revenue going forward. Table 2 summarizes the expenditures and cost pressures compared to savings and revenue as of the end of fiscal year 2019-2020.

### Table 2: Summary of L.A. Unified COVID-related Budget Changes for Fiscal Year 2020-2021

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Budgeted (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>COVID-related expenses</td>
<td>($551)</td>
</tr>
<tr>
<td>Possible Revenue Reductions</td>
<td></td>
</tr>
<tr>
<td>10% LCFF Reduction</td>
<td>($500)</td>
</tr>
<tr>
<td>Categorical Reduction</td>
<td>($52)</td>
</tr>
<tr>
<td>Total decrease</td>
<td>($1,103)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Revenue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Education</td>
<td>$18</td>
</tr>
<tr>
<td>SB 117</td>
<td>$7</td>
</tr>
<tr>
<td>Federal</td>
<td>$774</td>
</tr>
<tr>
<td>Total</td>
<td>$799</td>
</tr>
</tbody>
</table>

| Pension cost reductions                  | $44                    |

| Difference/Deficit before balances       | ($261)                 |

<table>
<thead>
<tr>
<th>Reserves</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Committed for compensation</td>
<td>$88</td>
</tr>
<tr>
<td>Carryovers assigned</td>
<td>$1,000</td>
</tr>
<tr>
<td>Reserved for uncertainties</td>
<td>$79</td>
</tr>
<tr>
<td>Unassigned balances</td>
<td>$758</td>
</tr>
<tr>
<td>2019-2020 Ending Balance</td>
<td>$1,925</td>
</tr>
</tbody>
</table>

| Balance                                  | $822                   |

**POSSIBILITIES FOR NEW REVENUE**

No overview of the District’s financial situation would be complete without a review of the possibilities for new revenue. The possibilities are listed below in the order of how much potential revenue they represent, from most to least.

- $12 billion Schools and Community First initiative (aka “split roll”) on November ballot.
- Statewide infrastructure bond – the Governor can place on November ballot.
- $2 billion broadband bond on ballot – the California School Board Association is lobbying the Legislature to place this bond on the November ballot.
• Local bond – the District could float a school facilities bond that would require 55% approval on the November ballot.

• Assembly Bill (AB) 398 – an employee “head count” tax bill that would raise revenue for schools and local governments. $275 per employee of companies with more than 500 employees. The revenue would be deposited into the COVID-19 Local Government and School Recovery and Relief Fund. Cities would receive the funds and distribute them in equal shares to school districts within the city boundaries.

• Statewide utility surcharge to provide all California students with universal access to a device and internet at home.

Most observers believe the bond measures have a better chance of passing than increased taxes (split roll and AB 398).\textsuperscript{11} Polling and analysis would be needed to predict whether a 55% local bond measure could pass in November. But the market’s current demand for bond investments and the District’s relatively high bond rating\textsuperscript{13} could have a positive influence on the likelihood of success.

CONCLUSION

The current financial state of the L.A. Unified is stable. No District budget cuts are anticipated this coming fiscal year, and emergency COVID-related expenses of all kinds are either reimbursed or offset by state and federal contributions. The California budget that will be approved on June 15 does not currently contain K-14 education budget cuts, though cuts could be triggered by lack of federal action. District reserves and balances ensure that assets can cover liabilities in the coming fiscal year, and probably for fiscal year 2021-2022 as well.

However, much depends on the shape of the recovery from the recession. The fiscally conservative position is to assume the recovery will be “L-shaped” rather than “U-shaped,” which is to say, rather than bouncing back quickly, jobs and income will only gradually return to their pre-COVID levels. A safe assumption is that the budgetary effects of the current drop in state revenues will persist until at least 2023. At the same time, continued enrollment decline will mean revenue decreases will continue to outpace spending increases even as the District faces the need to boost expenditures on supplemental instruction to address learning loss and operations associated with health and safety. More than ever, the District has a need for new, stable revenue sources.

\textsuperscript{1}The Governor proposes for the remaining 10% ($160 million) of California’s share of the ESSER funds to be used for a variety of purposes, but the largest portion—$100 million—will go to a community schools grant, which will be dispersed on a competitive basis to LEAs who apply by November 1. This money can be spent any time before the end of the 2025 school year. It is too early to say how much the District might expect from this source, but a reasonable estimate is anywhere from $2.5 to $10 million. (https://www.cde.ca.gov/fg/aa/ca/documents/careqact20ent1_xlsx)

\textsuperscript{2}This rate is apportioned to LEAs that qualify for concentration funding. (The 2019-20 Second Principal Apportionment data would be used for this calculation.)

\textsuperscript{3} Census day special education student counts for the 2019-20 fiscal year would be used to determine an LEA’s enrollment of students with disabilities. According to Focus, the SWD count was 71,327 (enrolled count day 2019-20).

\textsuperscript{4} Beyond the scope of this report are funds that the U.S. or California Departments of Education do not manage. However, funds may become available nationwide from a variety of non-education sources including: $15.5 billion from the Supplemental Nutrition Assistance Program (SNAP) to cover waiver authorities granted in H.R. 6201 and anticipated increases in participation as a result of coronavirus; $8.8 billion in Child Nutrition Programs funding for food purchases
and demonstration projects to increase flexibility for schools’ child nutrition programs; $3.5 billion in Child Care and Development Block Grants to states for immediate assistance to child care providers to prevent them from going out of business and to otherwise support child care for families; $25 million in runaway and homeless youth programs for additional immediate assistance to current programs providing critical services and housing for runaway and homeless youth; $5 billion in Community Development Block Grant (CDBG) – to enable states, counties, and cities to rapidly respond to COVID-19 and the economic and housing impacts caused by it, including the expansion of community health facilities, child care centers, food banks, and senior services; $100 million in Project SERV grants to help clean and disinfect schools, and provide support for mental health services and distance learning.

5 https://laoc.ca.gov/Publications/Report/4228#What Does the Pandemic Mean for the Economy 3F
6 https://www.nber.org/cycles.html
8 For consistency with other District communication, we chose to use L.A. Unified assumptions and projections for the LCFF entitlement as reported in the LAUSD 2019-20 Second Interim Financial Report (https://achieve.lausd.net/domain/323). The IAU also projected the LCFF entitlement under both the cut and the no-cut conditions, and the projections aligned with the District’s. However, the IAU’s projection of the LCFF entitlement is designed to be used for year-over-year growth comparisons and is an underestimate of actual LCFF revenue. It takes grade-level base grants and augmentations per-ADA into consideration but does not calculate separate locally funded charter school ADA.
9 Funds have been promised from the HEROES act, which passed the U.S. House of Representatives, but it is uncertain whether the senate will approve it and the president has threatened to veto it.