Los Angeles Unified School District

Presentation at the LA Regional Conference
Los Angeles, CA

February 27, 2014
Fingertip Facts

- Second largest school district in the U.S.; largest in California
- Student Population (Sep 2012)
  - K–12 students 566,604
  - Adult/other students 71,230
  - Total 637,834
- Area Served
  - 710 square miles
  - 28 cities, including nearly all of the City of Los Angeles
  - Population of 4.6 million
- Facilities
  - Approximately 13,000 school buildings
  - Approximately 1,000 individual schools/programs
Fingertip Facts (cont’d)

- District’s 2013-14 All-Funds Budget is approximately $13.0 billion
- The General Fund (GF) is the District's major operating fund for classroom and special education
- General Fund revenues come from four principal sources

FY 2013-14 All-Funds Budget ($ billions)

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Funds</td>
<td>$7.1</td>
</tr>
<tr>
<td>Capital Funds</td>
<td>3.2</td>
</tr>
<tr>
<td>Debt Service Funds</td>
<td>1.6</td>
</tr>
<tr>
<td>Internal Service Funds</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13.0</strong></td>
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</table>

Approximately 85% of GF funds come from the State and Federal sources.
Voters have approved 5 local bond measures totaling $20.6 billion of authorization since 1997.

Current Capital Program is addressing overcrowding:
- Completed 130 of the 131 new K-12 schools needed to provide every student with the opportunity to attend a neighborhood school operating on a two-semester calendar.
- 165,000 new seats created from 2002 through 2013.
- 65 of 65 New K-12 Addition Projects Completed.
- No Schools Operating on a Concept 6 Calendar -- in Compliance with the Williams Settlement Agreement.
- Only 1 School Operating on a Multi-Track Calendar – 99% Decrease Over the Last 10 Years.

Full Day Kindergarten Implemented Districtwide.

More than 23,000 Modernization Projects Completed – ~$7 Billion Invested in Repairing/Modernizing Existing School Facilities.
Budget and Finance
Governor’s January budget is favorable to K–12

- Proposes 10.9% increase in school funding, the largest increase since 2001
  - 2014–15 Prop 98 guarantee will grow to $61.6 billion, $4.7 billion higher than the revised 2013–14 spending level
  - K–12 Prop 98 Proposals for 2014–15
    - $5.5 billion would be used to extinguish all cross FY deferrals
    - $4.5 billion would be used to increased Local Control Funding Formula (LCFF) funding
    - $685 million would be used for other purposes including a 0.86% COLA for categoricals
  - The LAO reported it agrees with the Governor’s approach
- May Revision is next key checkpoint for the Governor, followed by adoption of the FY 2014–15 State Budget in June
Budget Challenges Remain

- Pressure for salary increases and program restoration
- Increases in pension contributions
- OPEB
Other Post Employment Benefits (OPEB)

- Latest actuarial report delivered in January 2012
- OPEB liability at June 30, 2012 was $11.2 billion
- Annual required contribution $1.1 billion
- Historically PAYGO funding, but created an OPEB Policy
  - Policy calls for OPEB Trust to be created
  - Approximately $81 million already reserved to be contributed, with an additional $50 million budgeted in FY 2013–14
- Actuarial study for June 30, 2013 expected soon
Policy Changes

- New Budget and Finance Policy adopted in 2013
  - Incorporates formula-driven contributions to pay down liabilities
  - Intended to address OPEB liabilities
Two interim financial reports required each year with a third report required for “qualified” districts
  ◦ Reports cover current and subsequent two Fiscal Years

District’s Interim Reports have been Qualified since 2008–09
  ◦ Self Qualified
  ◦ State Funding Uncertainties
  ◦ Outyear deficits

LACOE approval needed before issuing Certificates of Participation (COPs) and Tax and Revenue Anticipation Notes (TRANS)
Accomplishments

- Aa2/AA– ratings maintained and stable
  - Adhered to minimum 5% reserves policy
  - Frequent updates and communication with rating agencies
- GFOA certificates for financial reporting
- Despite cuts and demographic challenges, the District has improved instructional results from 2007–08 to 2012–13:
  - Graduation rate has increased from 48% to 61%
  - Increased % of students with 96% or higher attendance: 62% to 68%
  - English Language Arts (ELA):
    - Percentage of proficient elementary has increased from 39% to 51%
    - Percentage of proficient secondary has increased from 31% to 45%
LAUSD Cash Management
Cash Management Practices

- Became increasingly important as the State imposed successively larger intra-FY and cross-FY deferrals on K–12
- Monitor cash carefully
- State has now eliminated the bulk of the intra-FY deferrals and has reduced the cross-FY deferrals from $9.5 BN to $5.5 BN Statewide
- Governor has proposed elimination of all cross-FY deferrals in FY 2014–15
- For 2013–14, District is not projecting any significant cash deficits
  - Significant temporary borrowing capacity from non-GF funds available (> $750 million) to address any temporary cash deficits
LAUSD’s Debt Profile and Financings
### LAUSD DEBT PROFILE

<table>
<thead>
<tr>
<th></th>
<th>GO Bonds</th>
<th>COPs</th>
<th>TRANs</th>
</tr>
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<tbody>
<tr>
<td><strong>Highlights</strong></td>
<td>▪ 5 Authorizations: $20.6 billion</td>
<td>▪ Issued for various capital projects and central headquarters</td>
<td>▪ Issued annually since 1992</td>
</tr>
<tr>
<td></td>
<td>▪ $7.7 billion of unused authorization remaining</td>
<td>▪ Outstanding:</td>
<td>▪ $1.38 BN in 2012–13</td>
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<tr>
<td></td>
<td>▪ Outstanding:</td>
<td>▪ $366.5 million</td>
<td>▪ Set-asides were made on or before scheduled dates</td>
</tr>
<tr>
<td></td>
<td>▪ $10.6 billion</td>
<td>▪ No variable-rate</td>
<td>▪ Highest possible short-term rating</td>
</tr>
<tr>
<td></td>
<td>▪ Fixed rate</td>
<td>▪ Rated A1/A+</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ No CABs</td>
<td></td>
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</tr>
<tr>
<td><strong>Issuance Coming Up?</strong></td>
<td>Potential G.O. Refunding in April/May; approximately $500 MN–$600 MN</td>
<td>No</td>
<td>No</td>
</tr>
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IPAD Project

- Key District initiative to put high technology learning devices in the hands of all students
- Goal is to furnish customized tablets operating on a fully integrated IT system to all students and teachers
- Largest effort underway in K–12 education in the U.S.; a goal of about 630,000 tablets
  - Phase 1 program in place (30,000 tablets)
    - Valuable lessons learned
  - Phase 2 (up to 67,000 tablets) recently approved
  - Additional phases expected to be folded into a multi-year year horizon to reach goal
- Short-term bonds will finance tablets; longer-term bonds will finance IT in accordance with useful life constraints
Refundings

<table>
<thead>
<tr>
<th>Debt Refunded</th>
<th>Number of Series</th>
<th>Nominal Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>G.O. Bonds</td>
<td>15</td>
<td>$237 MN</td>
</tr>
<tr>
<td>COPs</td>
<td>20</td>
<td>Approx. $400 MN*</td>
</tr>
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</table>

* Represents savings to the General Fund, $372 MN of which was attributed to shifting the cost of COPs to general obligation bonds.
Conclusion
LAUSD is a unique school district due to its:

- Size
- Spread-out physical assets
- Diverse student population with language and poverty challenges

Management focus continues to be on academics, improvement of student learning environments, fiscal policies and stability