

FY25 First Interim Financial Report

Board of Education
December 10, 2024



Purpose of a First Interim

- First Interim Financial Report is a midyear update to the current FY25 General Fund budget and a forecast of the next two fiscal years.
- Local Educational Agencies (LEAs) required to file two reports during a fiscal year (interim reports) on the status of the LEA's financial health. First interim report is due **December 15** for the period ending October 31.
 - A *positive* certification indicates that based on current projections, the District will meet its financial obligations for the current fiscal year and two subsequent years.
 - A *qualified* certification indicates that the District may not be able to meet its financial obligations for the current or two subsequent fiscal years.
 - A *negative* certification indicates that the District will not be able to meet its financial obligations for the current or subsequent fiscal year.

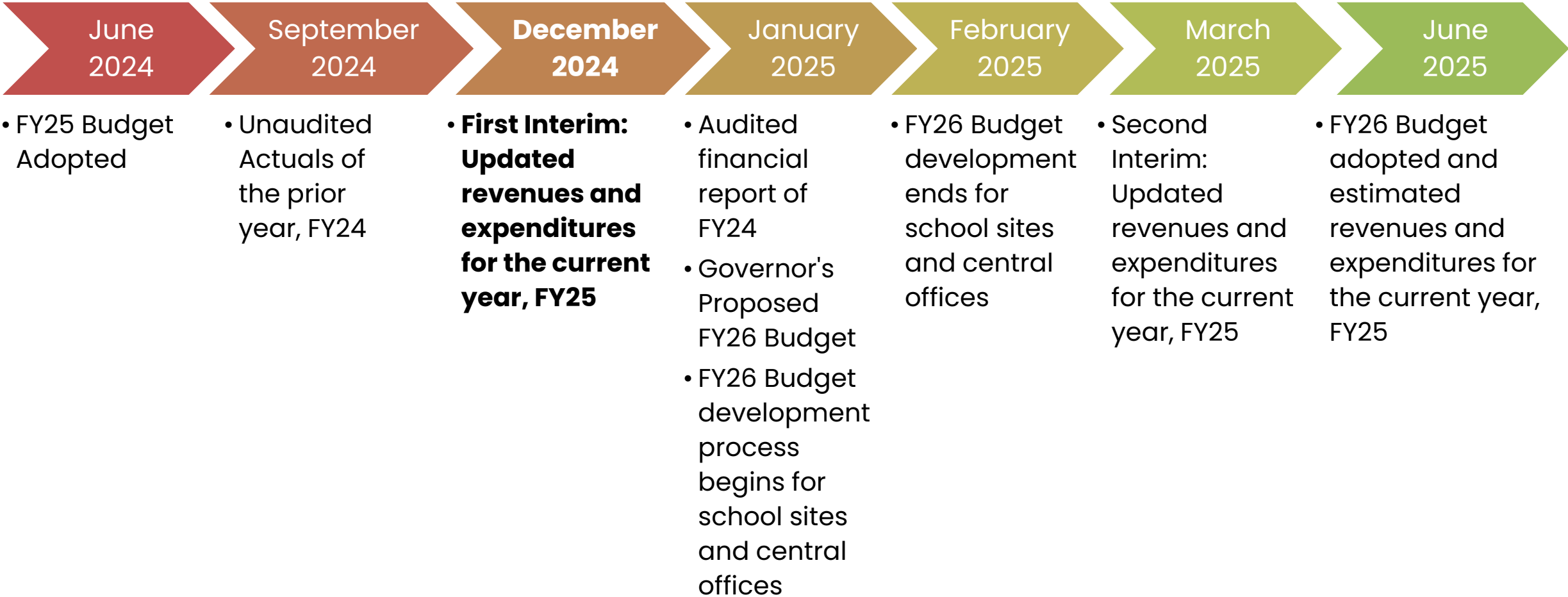
Based on current available information, staff recommends that the Board certify as **“Positive”, meaning the District is able to meet obligations for the current year and the next two years.**

First Interim Highlights

- General Fund **FY27** Unrestricted/Unassigned ending balance projected to be **\$86 million**.
 - \$73 million higher than reported at FY25 Adopted Budget in June.
- General Fund **FY25** unrestricted/unassigned ending balance projected to be **\$1,924 million**
 - \$1,699 million higher than reported at FY25 Adopted Budget in June
 - Increase is a result of reviewing commitments and assignments, and strategic budgeting

Projections are a point in time reflection of what is currently known about actual and planned spending

Budget Timeline



Important Context for First Interim

- Several budgeting activities identified savings and efficiencies that have resulted in the increase of the FY25 Unrestricted/Unassigned ending balance:
 - Expenditure of Learning Recovery Emergency Block Grant (LREBG) for General Fund relief
 - Review and release of committed and assigned balances to Unrestricted/Unassigned General Fund
 - Strategic budgeting (reduction in authority and aged positions) of all Central office units

Important Context for First Interim – Fund 17

- Fund 17 will help with clarifying and increasing transparency by reporting General Fund reserve balances separate from Unrestricted General Fund
- Goal is to help stakeholders obtain a better sense of unrestricted balances in the General Fund
- Upon Board approval, \$593 million will be transferred from General Fund commitments to create these commitments in Fund 17

General Fund Unrestricted & Restricted

Funds	FY25 Adopted Budget	FY25 First Interim	\$/% Change from Adopted Budget to First Interim	Reason for Change
Beginning Balance	\$6,357	\$6,414	\$57 / 1%	<ul style="list-style-type: none"> Fiscal close true-up from estimate to actual
Revenues	\$9,437	\$9,305	\$(132) / (1)%	<ul style="list-style-type: none"> Mostly due to multi-year grants that are budgeted in their entirety but earned only to the extent of estimated expenditures
Expenditures	\$11,214	\$11,644	\$(430) / (4)%	<ul style="list-style-type: none"> Increase mainly due to transfer out to Fund 17
Revenue less Expenditure	\$(1,777)	\$(2,339)	\$(562) / (32)%	
Ending Balance	\$4,581	\$4,075	\$(506) / (11)%	

Amounts in millions

General Fund Restricted

Funds	FY25 Adopted Budget	FY25 First Interim	\$/% Change from Adopted Budget to First Interim	Reason for Change
Beginning Balance	\$1,881	\$1,797	\$(84) / (4)%	<ul style="list-style-type: none"> Fiscal close true-up from estimate to actual
Revenues	\$4,166	\$3,892	\$(274) / (7)%	<ul style="list-style-type: none"> Multi-year grants budgeted in their entirety but reimbursed only as expenditures occur Lower annual contribution to Special Education
Expenditures	\$4,375	\$4,931	\$(556) / (13)%	<ul style="list-style-type: none"> Change due to LREBG
Revenue less Expenditure	\$(209)	\$(1,040)	\$(831) / (398)%	
Ending Balance	\$1,673	\$757	\$(916) / (55)%	

Amounts in millions

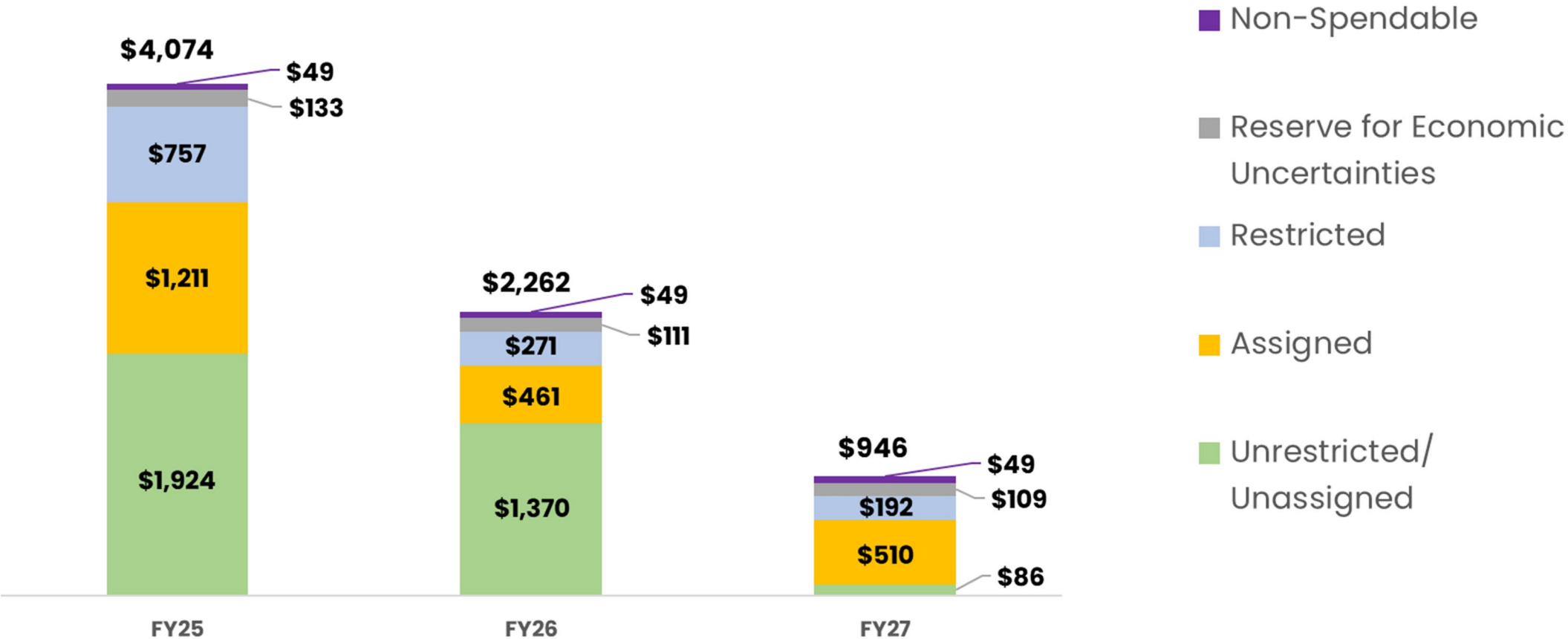
General Fund Unrestricted

Funds	FY25 Adopted Budget	FY25 First Interim	\$/% Change from Adopted Budget to First Interim	Reason for Change
Beginning Balance	\$4,476	\$4,617	\$141 / 3%	<ul style="list-style-type: none"> Fiscal close true-up from estimate to actual
Revenues	\$5,271	\$5,413	\$142 / 3%	<ul style="list-style-type: none"> Increase in home-to-school transportation reimbursement Higher lease and rental income Lower contribution to Special Education programs
Expenditures	\$6,839	\$6,713	\$126 / 2%	<ul style="list-style-type: none"> Change due to LREBG Transfer out to Fund 17
Revenue less Expenditure	\$(1,568)	\$(1,300)	\$268 / 17%	
Ending Balance	\$2,908	\$3,317	\$409 / 14%	

Amounts in millions

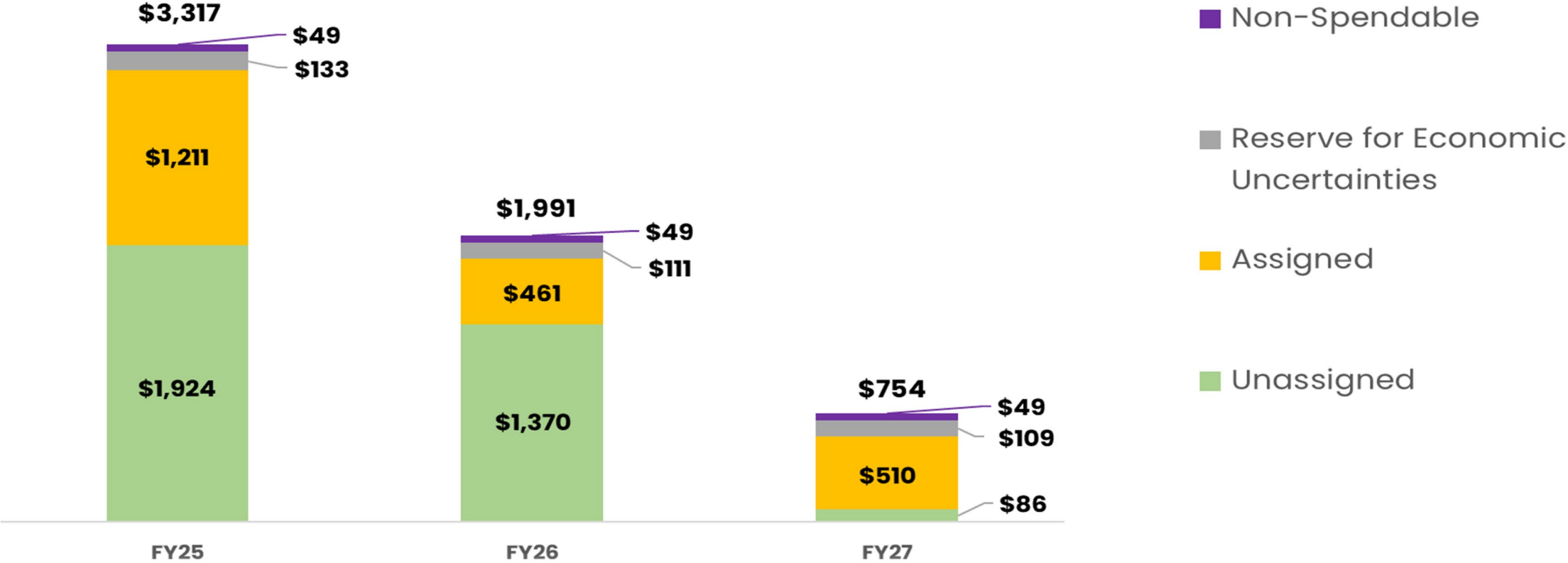
Multi-Year Projection: Ending Balances

General Fund Unrestricted and Restricted

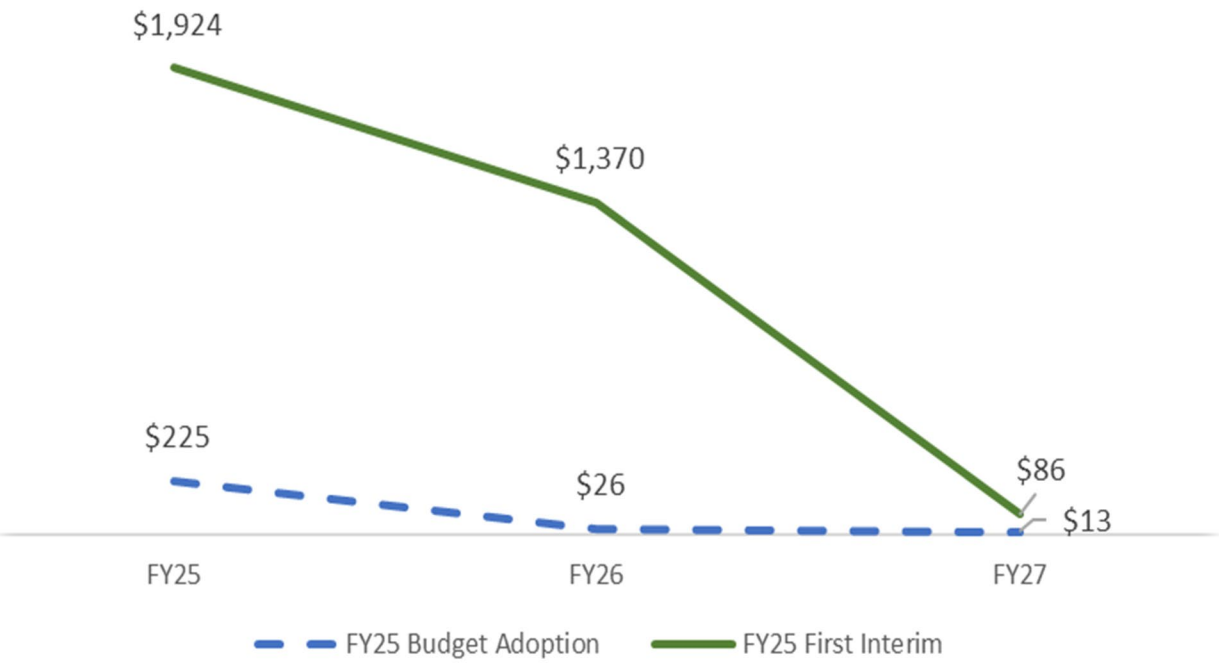


Multi-Year Projection: Ending Balances

General Fund Unrestricted



Multi-Year Projection: General Fund Unrestricted/Unassigned



(amounts in millions)	FY25	FY26	FY27
Estimated Ending Balance at Adopted Budget	\$225	\$26	\$13
Estimated Ending Balance at First Interim	\$1,924	\$1,370	\$86
Change	\$1,699	\$1,344	\$73

Factors Not Reflected in Multi-Year Projection

- Future changes in compensation
- Governor’s January proposed budget
- Potential reductions in federal funding
- Potential new major programmatic investments
- Unrecognized claims

New factors Reflected in the Multi-Year Projection:

- Release of commitments to Unrestricted/Unassigned Balance
- Central office assigned balances change to no carry forward
- Transfer of balances to Fund 17
- Maximization of grants that provide relief to Unrestricted General Fund
- Full actuarial required contribution (ARC) for Other Post Employment Benefits (OPEB) in FY26 & FY27

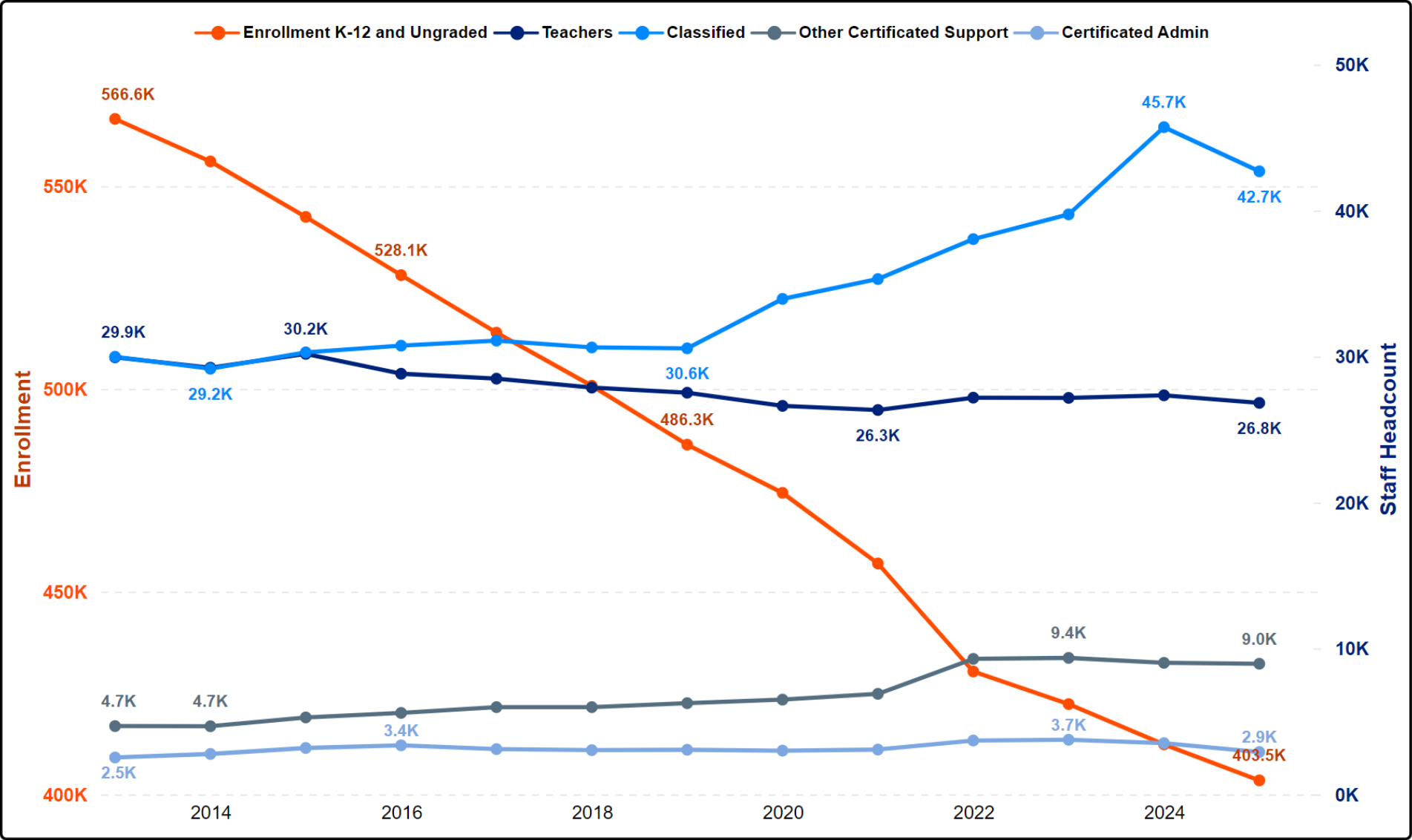
Structural Deficit

- What is a structural deficit?
 - A long-term imbalance where spending consistently exceeds revenue regardless of the current economic cycle and is considered a more concerning issue than a cyclical deficit which arises due to temporary economic downturns
- What is the total General Fund structural deficit vs the Unrestricted General Fund deficit as of First Interim?
 - \$2,339M Total General Fund Structural Deficit
 - \$1,300M Unrestricted General Fund Structural Deficit
- Potential fiscal impacts of a structural deficit?
 - 55% ratio of classroom teacher in General Fund
 - Possible downgrade of credit rating for bond program and other debt, leading to higher cost of borrowing
 - A qualified or negative certification at a future financial reporting period
 - Currently project FY26 Budget to be a Conditional Approval without knowing impact of unknown variables identified which means the District may not meet its financial obligations during the FY27

Structural Deficit

- What have we already done within our realm of control?
 - Able to achieve Positive Certification for this First Interim report through these actions:
 - Strategic budgeting at central office
 - Eliminated 331 vacant positions from General Fund as of First Interim for a reduction of \$49 million
 - Estimated reduction of \$15 million from General Fund for non-labor
 - A review of all positions to be filled in the Central Office by a Cross-Functional Committee
 - Reduction of local reserve fund from 5% in FY25 to 2% in FY27 to attain positive certification
- What can to be done to correct the deficit?
 - Identify strategies/options to reduce expenses to balance the budget for the long-term fiscal health of the District
 - The sooner deficit spending is addressed, whether incrementally or comprehensively, the more positive the impact on multiyear spending (the longer we wait, the larger the dollar amount to reduce and the less reserves for the District)
- What are the main factors contributing to deficit? (next slides)

Enrollment vs. Employee Position Counts by Type



Percent Change 2012-13 to 2024-25

↓ 29%

Enrollment

↑ 42%

Classified

↓ 10%

Teachers

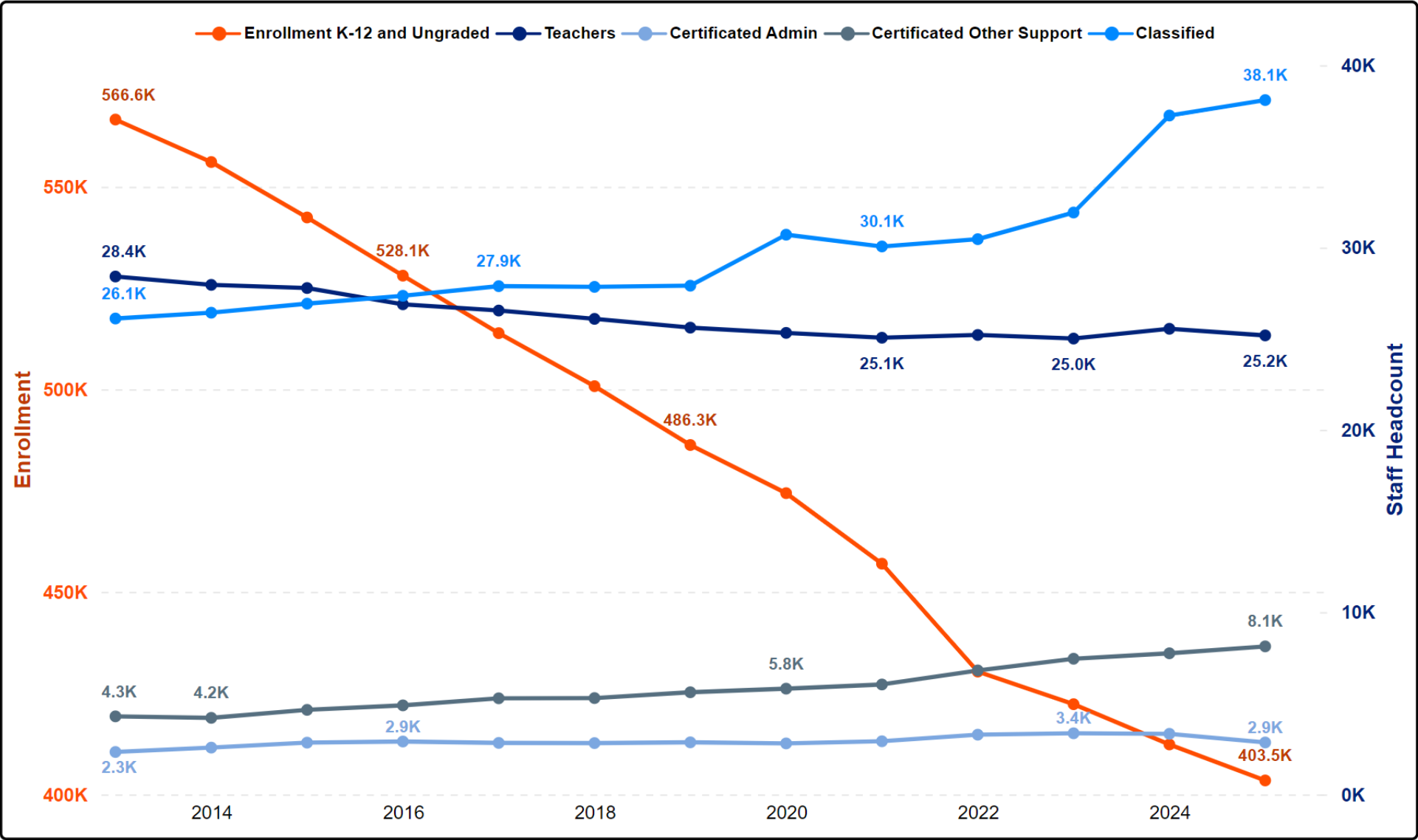
↑ 91%

Other Certificated Support

↑ 15%

Certificated Admin

Enrollment vs. Employee Headcount by Type



Percent Change 2012-13 to 2024-25

↓ 29%

Enrollment

↑ 46%

Classified

↓ 11%

Teachers

↑ 90%

Other Certificated Support

↑ 22%

Certificated Admin

Adult Education Fund

Funds	FY25 Adopted Budget	FY25 First Interim	\$/% Change from Adopted Budget To First Interim	Reason for Change
Beginning Balance	\$47	\$59	\$12	<ul style="list-style-type: none"> Fiscal close true-up from estimate to actual
Revenues	\$165	\$160	\$(5) / (3)%	<ul style="list-style-type: none"> Decrease in the Workforce Innovation Opportunity Act federal grant
Expenditures	\$172	\$177	\$(5) / (3)%	<ul style="list-style-type: none"> Additional expenditures for CALWORKS and Apprenticeship contracts
Revenue less Expenditure	\$(7)	\$(17)	\$(10)	
Ending Balance	\$40	\$42	\$2	

Amounts in millions

Cafeteria Fund

Funds	FY25 Adopted Budget	FY25 First Interim	\$/% Change from Adopted Budget to First Interim	Reason for Change
Beginning Balance	\$218	\$239	\$21	<ul style="list-style-type: none"> Fiscal close true-up from estimate to actual
Revenues	\$479	\$521	\$42 / 9%	<ul style="list-style-type: none"> Increase in projected participation in meal programs
Expenditures	\$503	\$506	\$(3) / (1)%	<ul style="list-style-type: none"> Increase in food supply costs related to serving more meals
Revenue less Expenditure	\$(24)	\$15	\$39	
Ending Balance	\$194	\$254	\$60	

Amounts in millions

Child Development Fund

Funds	FY25 Adopted Budget	FY25 First Interim	\$/% Change from Adopted Budget to First Interim	Reason for Change
Beginning Balance	\$93	\$99	\$6 / 6%	<ul style="list-style-type: none"> Fiscal close true-up from estimate to actual
Revenues	\$233	\$203	\$(31) / (13)%	<ul style="list-style-type: none"> Lower projected revenue for the California State Preschool Program and Child Care and Development Program
Expenditures	\$283	\$246	\$37 / 13%	<ul style="list-style-type: none"> Lower expenditures in compensation due to vacancies
Revenue less Expenditure	\$(50)	\$(44)	\$6	
Ending Balance	\$43	\$55	\$12	

Fiscal Outlook

- State Fiscal Outlook
 - FY25 Enacted State Budget identified solutions of \$28.4 billion to address the FY26 budget problem
 - Legislative Analyst's Office* (LAO) 2025–26 Budget
 - California's November 2024 Fiscal Outlook report estimates a roughly balanced budget in FY26
 - State faces annual operating deficits beginning in FY27 growing from about \$20 billion to about \$30 billion
 - LAO's estimate of statutory COLA in FY26 is 2.46 percent
 - Governor's FY26 Proposed Budget to be released by January 2025
- LA Unified Fiscal Outlook
 - LA Unified continues to be challenged with significant deficit spending
 - Enrollment declined in FY25 by 2.37 percent compared to prior year, and the long-term trend of declining enrollment is projected to continue.
 - Each 1% increase in attendance generates approximately \$63 million in revenue (*over a three-year period*)

**The LAO is a non-partisan government agency that provides fiscal and policy advice to the California Legislature*

THANK YOU

Discussion