



Los Angeles Unified School District

Report of the Independent Financial Review Panel

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Prepared By:

Maria Anguiano

Delaine Eastin

Michael Fine

Bill Lockyer

Darline Robles

Miguel Santana

Darrell Steinberg

Peter Taylor

Kent Wong

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Executive Summary

Purpose and Scope

This review was requested and this panel was commissioned by Mr. Ramon Cortines, Superintendent of the Los Angeles Unified School District (LAUSD or District). The purpose of the review and this report is to provide the Superintendent with an independent assessment of financial challenges and potential responses for the LAUSD. The panel was charged with ensuring the education of the children is the first priority of the District as reflected in its budget.

Panel members have broad high-level experience and bring a variety of perspectives to bear on the review. Collectively, the panelists are very experienced in dealing with complex state-level issues and represent the highest-level thinking on the most important topics facing the state and the District.

Overview of Findings of the Panel

We believe it is important for readers of this report to be informed that, despite the difficult financial trends described herein, we did not find a failing school system in Los Angeles. We found clear examples of educational, social, and financial success. We believe that any critically informed researcher given access to all of the information, as we were, would also conclude that the examples of effective delivery of educational programs were legion. We found this to be particularly true in the areas that are most challenging, including special education, children of poverty, and those lacking in English language proficiency. We also found that while much has been accomplished in LAUSD, many more educational challenges face the District.

The panel wishes to recognize the fact that the decision to empower this panel, made by the Superintendent with support of the Board of Education and District leadership team, is a courageous act. Trusting informed experts to review every aspect of the District's financial condition and to tell their view of the story, in their own way, with no constraints shows a major commitment to transparency. We think the Superintendent and District leadership are to be commended for what we regard as a very progressive effort. The work of the panel was completely independent of District influence. The panel was promised, and was given, access to any information, personnel, plans, assessments, performance indicators, and other information it needed to do its work. The District staff respected that arm's length independence throughout the process. To preserve the independence of the panel, the District arranged for School Services of California, Inc., (SSC) to facilitate the work of the panel.

We found that many of the near-term successes will be very difficult to maintain and expand in the face of very stark demographic and financial forecasts for the future. We also found that raising the achievement level of all sectors of LAUSD's large, diverse student population will be difficult. All large urban school systems have unique issues, but they are magnified in Los Angeles because the District must deal with these issues while laboring under California's school financial system, which still provides among the lowest per-student funding amounts in the nation. Additionally, the panel found that, compared to other states, the portion of funding provided by the state from income and sales taxes is much higher than other states and the role of local property taxes is much lower in California. The property tax is generally the more stable tax, while reliance on sales and income taxes reduce the stability and predictability of revenues. According to the US Census, the 2012-13 per-student funding level for LAUSD, the second largest district in the nation, is about \$12,691. The nation's largest school district, New York City Public Schools, provides \$23,690 per student for funding—nearly double the amount of revenues allotted for LAUSD's students. In fact, LAUSD's revenues fall \$1,659 per student below the average revenue amount for the top 10 districts in the country. If LAUSD received this funding, total funding would be about \$800 million more per year. That is to say that we found problems as well as opportunities. It is clear that the effect of California's ranking near the bottom of the nation in per-student funding has taken its toll on LAUSD finances. Even in the current more positive environment where revenues to education are recovering, LAUSD funding still ranks well below the levels enjoyed by large urban districts in other states.

In 2013-14, California adopted the Local Control Funding Formula (LCFF) to improve equity in the funding of schools over a seven year implementation period. At the state level, the LCFF is clearly a distribution mechanism, not a revenue generator for schools. However, the District, along with many other districts throughout the state are receiving additional funding due to LCFF's focus on English learners, free or reduced-priced meals eligible students, and foster youth.

The stated goal of the LCFF is to restore by 2021 the purchasing power schools enjoyed in 2007-08, the year before the "Great Recession." The state has not pursued the issue of adequacy of funding for public education. Throughout this report, we make comparisons to other large districts in the nation and to national average funding levels, but even those comparisons ignore the issue of adequacy. Nationally, other states have taken on the issue of adequacy and those states have moved ahead the national average in funding and even further ahead of California. The adequacy issue is far beyond the scope of this report, however we call attention to it to point out that LAUSD and other California schools simply do not enjoy a level playing field when compared to schools in other states.

Much of the investigation by the panel related to the disconnect between expenditures that can reliably be expected to grow and revenues that are already low and which can clearly be expected to produce increasing deficits in the out years. Much of the volatility is related to past, present and future declining enrollment, high costs for employee benefits, special education services, and

retiree benefits. But the vagaries of the economy and trends in state and federal requirements and funding levels are also significant factors.

A major challenge to the long-term viability of the system is the issue of declining enrollment. Over the past six years, LAUSD has lost almost 100,000 students and now serves about 550,000 students. About half of the loss of students is attributable to increased enrollments in charter schools, but about half of the students lost are no longer served by the District at all due to decline in the birth rate as well as students dropping out of school or transferring to other school districts. Projections are that the District will continue to lose students at a rate of about 2.8% per year for the foreseeable future. If that trend projection proves true, this would be a loss of an additional 75,000 to 80,000 students. The District must make a fundamental choice and make it now; can the trend of enrollment losses be reversed or not?

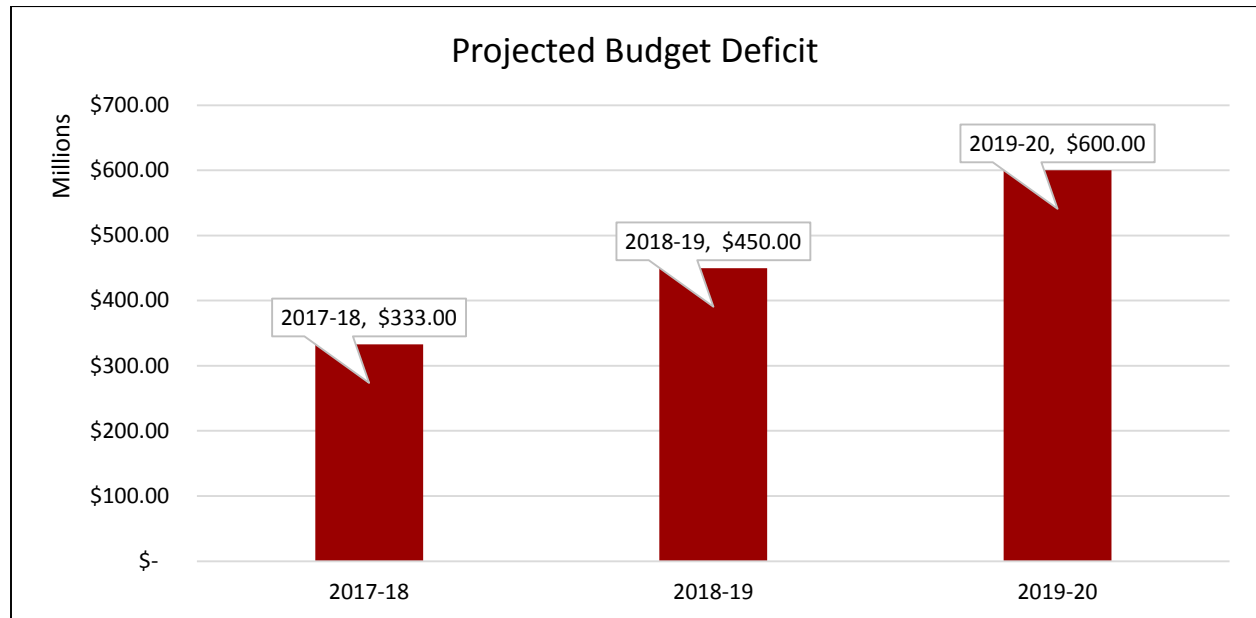
If it is determined that the trend cannot be reversed, the District's future planning will be characterized by constant down-sizing and loss of revenue until the District reaches a new equilibrium at a lower, but sustainable, level. The panel noted that, despite the loss of 100,000 students in the last six years, total full-time equivalents (FTEs) in the District have grown slightly, from 64,116 employees in Fiscal Year (FY) 2013 to 64,348 in the current year according to data from the California Department of Education as analyzed by SSC. Given the significantly smaller population of students, these staffing levels need to be reexamined.

If the District determines that the declining enrollment trend can be reversed, it will need to do whatever is necessary to make it so. Planning for sustained program levels while costs are rising and revenues are falling has resulted in constant budget turmoil for the District.

The Superintendent's challenge to the panel is to offer recommendations to help reverse very predictable factors that will soon result in the District experiencing on-going deficits of hundreds of millions of dollars per year. The detailed recommendations outlined in this Executive Summary and detailed in the full report represent the panel members' best thinking as to how to approach these pervasive economic and financial trends.

Defining the Challenge

The LAUSD is facing a significant structural deficit in its operating budget that threatens the District's long-term financial viability. The chart below illustrates the substantial and growing gap projected between expected revenues and expenses in the years ahead if the District continues along its current path.



Budget reserves represent a district’s ability to weather unanticipated fiscal pressures. With the ongoing expenditure commitments exceeding the revenues available, the District will be forced to use its budget reserves to close that gap. As a result, the District has estimated, and this committee has confirmed, that the LAUSD will face a budget deficit of \$333 million in FY 2017-18, according to the 2015-16 final budget. If the status quo continues, current trends forecast declining revenues for the District and fast-paced growth in its expenditures, we estimate that the budget deficit will grow to approximately \$450 million in FY 2018-19 and \$600 million in FY 2019-20, driven primarily by pension and healthcare costs. This expanding gap represents a serious challenge to the LAUSD’s financial stability in the near term, one that insists upon immediate action today.

In addition to the budget deficits noted above, the District’s credit quality could change leading to higher costs for both short-term and long-term borrowing. This could be exacerbated by the new school district budget reserve law that could limit the District’s reserve from its current policy of 5% to 3% of its total budget, the equivalent of six days’ payroll.

The District’s cash balance reserves provide a small operating cushion for FY 2015-16 and, most likely, FY 2016-17, but we expect that the pressure on unrestricted cash will grow in FY 2017-18 and beyond. We note that the District’s overall cash balances have declined by \$1.463 billion in the past five years, and while the most important category of unrestricted cash and cash equivalents has recently improved, over half of this amount is already set aside for health & welfare costs in the next two years, and for insurance reserves for property, casualty, Workers’ Compensation, and general liability.

The panel found that for 2015-16, both the District's budget and cash reserves meet the District's policies; however, the trends show that the District will be out of compliance with its policies in the near future.

The possible extension of the Proposition 30 tax increases alone will not resolve the District's deteriorating financial condition, but will only help keep a bad situation from becoming a catastrophe in three-to-five years. Additionally, all increases in the K-12 spending that are part of the state budgeting process have been committed by the District, and all new funding from the LCFF will be used to cover recently approved increases in benefits and higher pension costs.

Thus, if the District desires to continue as a going concern beyond FY 2019-20, capable of improving the lives of students and their families, then a combination of difficult, substantial and immediate decisions will be required. Failure to do so could lead to the insolvency of the LAUSD, and the loss of local governance authority that comes from state takeover.

This outcome would represent a total failure of the educational system for the state and for our local community and is therefore unacceptable. Our recommendations are intended to prevent the District from moving closer to the brink.

Areas of Exploration

After receiving preliminary information on a wide variety of topics, programs, and challenges facing the District, the panel elected to focus on four areas related to the Superintendent's charge to the panel. Each of those areas, Revenues, Expenditures—Staffing and Benefits, Expenditures—Business Operations, and Expenditures—Programmatic, is broad, complex, and important to the long-term fiscal viability of the District. Within each of the four areas, the panel focused its examination on the big issues that could really “move the needle” in terms of District performance.

The panel focused its work on identifying recommendations that comport well with the longer-term demographics and financial trends facing the District. Accordingly, the panel's recommendations are categorized into three groups: Issues for Immediate Actions, Issues to which the District Must Adapt or Accommodate, and Issues for Further Study.

Revenues

District revenues are largely dictated by LCFF funding that has been increasing because of 1) a stronger economy, 2) restoration of past reductions to education funding, and 3) the revenue provided by temporary increases in sales and income taxes adopted by voters in 2012 with passage of Proposition 30. Revenue increases are forecast to slow to reflect that past cuts have been restored and that the temporary taxes begin to expire in 2016 and expire totally in 2018. The panel bases its projections on current law, though we are aware that there are efforts to extend the temporary

taxes. Any extension of the taxes, particularly if the funding is dedicated to public education, could serve to slightly mitigate some of the adverse trends noted in this report.

Within the broad area of revenue generation, one area that looms large both fiscally and as a driver of student performance is the area of student attendance. Not only is attendance the biggest driver of revenues for the District, but is a big driver of student success.

The panel found that, in addition to loss of revenue, poor patterns of attendance lead to poor classroom performance, higher dropout rates, lower graduation rates, and reduced readiness for higher education or entry to the work force.

The panel gathered information regarding the relative performance of the District and found that, while much had been done, much more needed to be done. Over the past six years, the District has lost almost 100,000 students and now serves about 550,000 students, down from about 650,000. This represents a significant loss of ongoing revenue, nearly \$900 million, but the panel recognizes that it also creates tens of thousands of individual stories of students who are no longer served by the District. Any improvement in the trend of declining enrollment must start with analysis of which students are being lost, at which grade levels, at which schools, and why. The answer to “why” can only be determined by extensive follow up with students, parents, and the institutions to which the students transferred.

It must be recognized that there is no one cause for the decline in the District’s enrollment, but rather it is the culmination of various factors, some within and some outside, of the District’s control. Understanding these factors can allow the District to construct programs that can bring students back to the District as well as improve attendance rates.

Students who remain in the District attend school less often than the statewide average. Given that the state provides revenues strictly based upon attendance, every day of absence represents a loss of revenue to the District. If the District increased its attendance rate to the statewide average it would generate about \$45 million more per year in revenues.

But achieving an attendance rate of the statewide average should not be the goal, rather the minimum standard. The District should strive to have students attend school at a frequency greater than the statewide average. Not only will the students benefit from increased attendance, but the District’s revenue will increase proportionately.

Charter schools represent both challenges and opportunities for the District. Charter schools are part of the public school system and are approved by the Board of Education to provide alternatives to students and parents. Under state law, the District maintains responsibility for overseeing charters to ensure they meet the terms of the granted charter.

About half of the District's decline in enrollment can be attributed to the growth in charter enrollment, with the other half due to demographic changes like the decline in the number of children born in Los Angeles County. Rapid charter enrollment growth has been a statewide trend, growing an average of 13% annually from 2010 to 2014 for unified districts in the state. LAUSD's charter enrollment has grown even more rapidly, growing an average of 20% annually from 2010 to 2014, making it the largest charter school program in the country. This trend is likely to continue if not accelerate in light of a recently released charter expansion plan.

The issue of charter enrollment growth can be controversial and often divisive. This panel does not take a position on the merits, or lack thereof, of charter schools. However, the panel does want to make clear that the continued loss of enrollment would have a deleterious impact on the District's finances if it is not accurately accounted for through corresponding staff and infrastructure reductions. At some point it will be important for the District and the community to coalesce around shared values for the purpose of community reconciliation for the educational benefit of all students residing within the District.

The District must make every effort to attract and retain students and parents by offering high-quality schools, but also must not put off difficult financial decisions by making unrealistic assumptions about future enrollment. Even if LAUSD had no more new charter schools, its enrollment would continue to decline due to demographic factors, factors that are not within its control, and that are unlikely to reverse in the coming years. All District departments must properly plan for the continued and possibly accelerated decline of student enrollment, and the Board must act accordingly.

Additionally, there may be lessons to be learned from the migration of students to charter schools. We think it is very important that the District carefully analyze charter programs and focus on which students are leaving and why. It may be that the District could replicate some of the programs that cause parents to choose charters. This focus could improve both District enrollment and the richness of District programs. The same can be said about the need for the District to analyze its own high achieving schools and look to replicate their approach, programs, and successes.

Recommendations

As a result of its investigation of the topic of student attendance, the panel offers the following recommendations:

- A comprehensive review and development of a definitive plan for improving attendance by school and by grade and implement a resulting blueprint with the goal of improving attendance rates.

- District should engage schools in the improvement of attendance for students and staff with the expectation that the local schools and the District would benefit from any increase in revenues.
- A coalition of school, law enforcement, and judicial representatives examine ways to focus on improving attendance at the poorest attended schools and grades.
- A parent information campaign to instill in parents an understanding of the laws relating to school attendance and the pivotal role attendance plays in student success.
- Study losses of enrollment to charter schools, other districts and private schools and emulate the programs that parents believe are only offered by charter schools.
- Implement an aggressive dropout prevention program with an initial goal of reducing dropouts from roughly 17% to the statewide average of 11%, and an ultimate goal of the lowest dropout rate among large urban districts.
- Study the successes of extraordinary schools, such as the 22 schools recently recognized as California Blue Ribbon Schools, within the District to learn from within the District and adopt their strategies throughout the District.
 - *One example is Young Oak Kim Academic, with 87% of its student population identified as economically disadvantaged, the school has an attendance rate of 98.3%.*
- Improve attendance monitoring for vulnerable populations, including English learners and lower-income students.
- Adopt practices of revenue management that include:
 - Advocacy for adequate funding by the state of California, even at full implementation of the LCFF LAUSD will be funded at a lower level than most large urban districts across the nation.
 - Continual review of trends to match revenues with expenditures so that they are moving in parallel.
 - Maximization of revenue opportunities provided under the LCFF including maintaining enrollment and improving attendance rates.
 - Stringent internal management of all revenues. The District is receiving substantial new revenue to support traditionally underserved students and all new revenue should be directed to the District's highest priority needs.

- Establishment of a model that holds the District and its managers accountable for management of revenues. Every manager is responsible for ensuring that students and the tax payers get fair value for every dollar spent.
- Advocate for full funding of the Individuals with Disabilities Education Act (IDEA) by the federal government.
- Adoption of technologies to more efficiently manage revenues and produce timely, accurate, relevant fiscal and management information.
- Advocacy for statewide change to lowering the vote threshold necessary for passage of a parcel tax.
- Board consideration of a parcel tax.

Expenditures

As expected, most categories of expenditures in the District represent very significant dollars but generally reflect the cost of educating students in a variety of appropriate settings. These costs tend to change proportionally to the changes in funding by the state. The panel looked at three areas of expenditures where benchmarking data illustrated that LAUSD was an outlier when compared with other large California districts or similar national districts. Comparisons were made to other large districts in California and across the nation, and also with longitudinal comparisons of the District against its own performance over time. The three areas are Staffing and Benefits, Business Operations, and Programmatic.

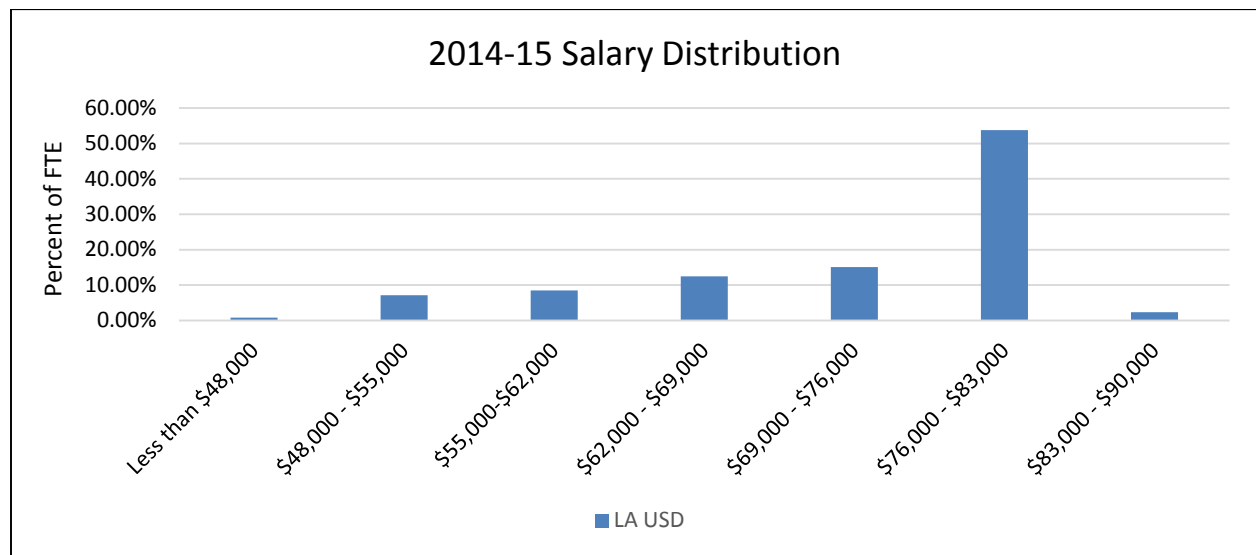
Staffing and Benefits

Earlier, we described the effects of declining enrollment on District revenues; there is a corollary effect on District expenditure levels. The largest expenditure related to serving students is certificated teachers. The District's loss of 100,000 students would indicate that the District staff would need to be reduced by about 10,000 staff, including administrators, classified and certificated personnel, for a savings of about \$500 million per year.

However, we found that the District had not reduced staff commensurate with loss of enrollment and, in fact, had experienced higher salary costs because of both salary and benefit increases and increases in staff. The panel is concerned about the sustainability of the District labor force in the face of declining enrollment and lower funding forecasts.

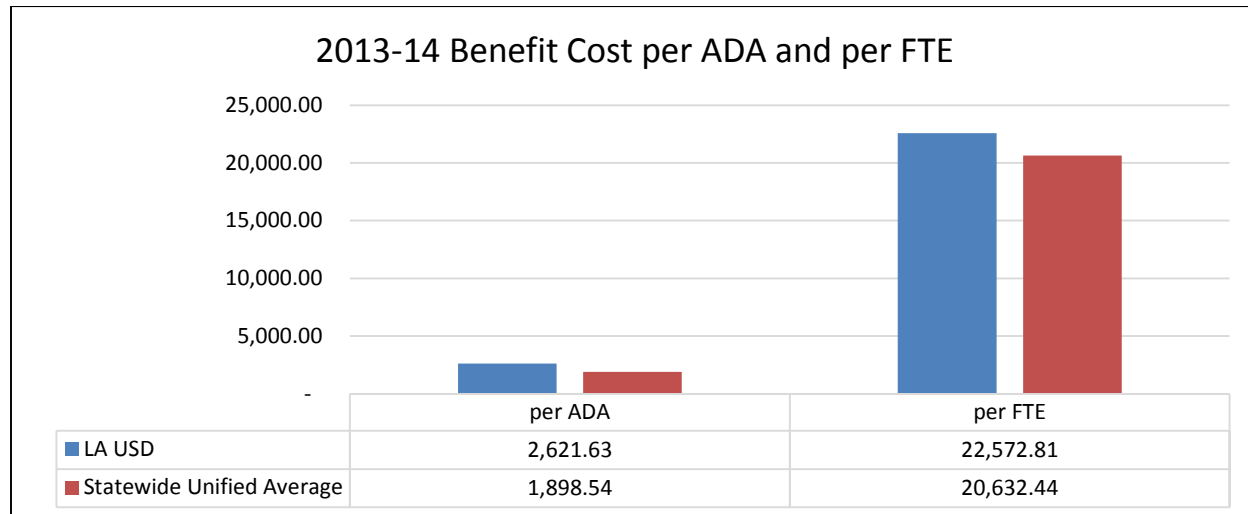
The loss in enrollment portends even broader future changes. Staffing in all bargaining units will need to continually be reduced to match any future enrollment losses. At some point, the number of schools will also need to be examined as the District "right sizes" itself.

According to the 2014-15 J-90 Certificated Salary survey completed by the District in September, more than 56% of District teachers have reached the maximum salary level, 10% above the average for the state. If the District reduces staffing through layoff or by accelerated attrition, it will achieve savings at only the entry level of the salary schedule. We recommend the District consider offering an actuarially sound early retirement incentive to the most senior staff. If those with the highest salary are induced to retire two to five years early, with a clear understanding that those positions will not be replaced, the savings can be dramatic. This approach also protects the District’s newest teachers and offers them job security that will not be possible if the District must reduce entry level staff because of seniority rules.



This District has defined strong staff attendance as attending work 96% of the time or more. Currently, 75% of staff has a strong attendance. This strikes us as setting a standard that is incredibly low. If 25% of school site staff are missing 5% or more of their work during the school year, the loss of instruction time and productivity, and the expense of finding substitute labor, is deeply troubling. The District must set higher expectations for staff, and hold them accountable. Improvements are not possible with staff who don’t show up to work. If 90% of school site staff demonstrated strong attendance instead of the current 75%, this would mean an additional \$15 million not spent on substitute personnel, with increased productivity gained by the school site and District.

The District also needs to look at reducing the rate of growth in costs related to providing health care benefits to its active and retired staff. For 2013-2014, LAUSD’s costs for all employee benefits, including health and welfare, OPEB and pension benefits, equaled \$2,621 per average daily attendance (ADA), meaning that of the \$9,788 in over ADA revenues received from the state, fully 27% of that payment goes to cover pension and healthcare costs, even before paying salaries, schools supplies, and textbooks according to the latest financial data provided by the CDE. Per FTE, the District’s expenditures for benefits is 9.4% higher than the statewide average.



In April, the District entered into an agreement on health benefits for three years, through 2017. The increased cost to the General Fund will be \$76.5 million in FY 2015-16, \$50.3 million in FY 2016-17, and \$109 million in FY 2017-18. This represents an 8.8% annual increase over the next three years, even if that amount could be curbed 50% to 4.4%, it would signify a \$118 million cost avoidance for the District. The subsidy from the general fund is siphoning monies that legally can and should be spent on educational priorities.

The panel recommends the establishment of a labor-management committee to identify alternatives and strategies to reduce health care costs. The panel found that while total compensation is competitive, salaries are lower, while benefits are higher, than comparable districts.

The teacher pool was created to allow school sites to have greater flexibility in the management of their teaching staffs and to provide placements for displaced staff. Teachers in the pool could be used for substitute assignments and other duties, but at a higher cost than for daily subs. Entry to the pool is largely at the discretion of the school site management, but exit from the pool has in the past been more difficult because both management and the individual teacher had to agree on the new assignment. Either party could veto the assignment resulting in the teacher staying in the pool. This caused the pool population, in the past, to rise to more than 1,000 teachers at an annual cost in excess of \$75 million.

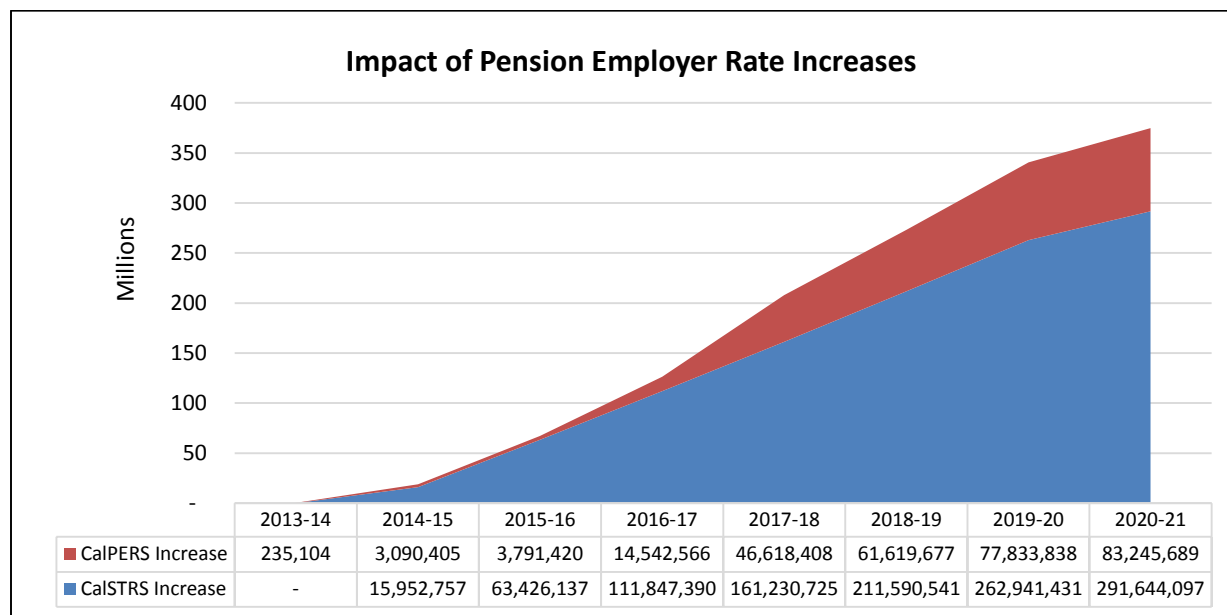
As a result of recent policy changes, management now has the right to make appropriate reassignments of teachers in the pool, and the pool population has declined to about 100 teachers; still, an ongoing cost of about \$10 million annually. Other districts do not afford school sites the same degree of flexibility in staff selection provided by LAUSD, and we were unable to locate other examples of use of this process. While current emphasis on moving teachers out of the pool have been successful, the panel believes the District could, at some future date, see the pool grow. Therefore, the panel recommends that the District take one final step and simply eliminate the

teacher pool. This would result in school sites and the District using statutory and contractual provisions for voluntary and involuntary reassignments as is much more common in other districts.

Pensions

The California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS) pension reforms have brought increased costs to the District. These reforms have increased the employer contribution for pension-eligible salaries, bringing a new long-term expense to the District. The chart below shows the total cost of both the CalPERS and CalSTRS employer contribution increases through 2020-21, when the new employer-contribution rates are fully implemented.

In 2017-18, it is estimated that the \$81.5 million in additional costs associated with the increased pension employer contributions from the prior year will exceed the amount of net new revenues generated by the LCFF as a result of declining ADA.



Business Operations

Business operations includes all of the support services needed to make schools successful, but it also includes management of debt, workers compensation, and other significant long-term cost drivers.

The panel reviewed a series of Key Performance Indicators (KPIs) developed by the Council of the Great Cities Schools and TransAct, Inc. The panel also reviewed comparative data prepared by SSC in its CADIE and SABRE reports. The KPI’s, combined with the CADIE and SABRE

data tell a very complete story of the performance of LAUSD compared with other large districts in a wide variety of financial and business areas, allowing the panel to determine the extent to which “best practices” had been implemented in the District.

Just as the comparative data obtained from these reports was very useful to the panel, we believe it is important for the Superintendent and Board to see this benchmarking information periodically as well.

Payroll

The District has a relatively high level of payroll errors compared to its peers. This is likely exacerbated by its comparatively low level of automation, low direct deposit percentages and high levels of off-cycle pay checks. These factors have resulted in a high payroll cost ratio of \$6.84 per paycheck compared to the peer average of \$2.61. While the overall cost of payroll operations may not be significant, deficiencies in payroll operations could indicate a lack of adequate controls and could expose the District to major financial liabilities if not addressed.

Workers’ Compensation

The LAUSD’s Workers’ Compensation claims are significantly higher than the average unified for school districts statewide and have grown considerably in recent years. In 2011-12, LAUSD’s Workers’ Compensation costs totaled more than \$100 per ADA whereas the average for a unified district statewide was \$84 per ADA. Two years later, these costs grew to \$150 per ADA—an increase of nearly 50% in two years (the average growth statewide for unified districts was 26%).

While a majority of these appear to be for minor claims, the loss in productivity—and the expense associated with them—is something the District cannot afford. Had LAUSD’s Workers’ Compensation costs been at the statewide average per-ADA cost for unified districts, the District would have seen a savings of \$23.3 million in 2013-14. If the average LAUSD cost per claim was equal to that of the University of California, then the overall cost per injury would drop by 50%.

One example of an option the District may consider is to employ a tactic successfully used at the University of California, where the risk management office addressed a plethora of slip-and-fall cases among food service workers by purchasing two pairs of non-slip shoes for each food service employee. Once this improvement was implemented, Workers’ Compensation cases among food service workers fell dramatically.

Implementation of tactics to reduce Workers’ Compensation claims would have positive effect on both employee productivity as well as a reduction in the expenses surrounding the Workers’ Compensation claims.

Food Services

LAUSD participates in the National School Lunch Program, which is a federally assisted meal program operating in public schools throughout the country. The program provides nutritionally balanced, low-cost or free breakfast, lunch, and after school snacks to children each school day. Like most large urban districts, LAUSD’s food services program is comprehensive in nature supporting menu and nutrition planning, procurement, cold and dry warehousing, food preparation, logistics, and site-based service models. The program is likely to be serving more meals each school day than the aggregate count of meals served by the community’s restaurants. Much has been reviewed, studied, and written recently about weaknesses in the District’s food services program. As such, the panel opted not to look further into the details of the operation and its finances except as it relates to the impact on the District’s General Fund.

The chart below illustrates the level of General Fund support for the food services operation. Excluding the Repayment from the General Fund (see chart footnote below), the food services program has encroached on the General Fund by \$168.6 million over the past four years (including estimated for the current year). In the most recent years the encroachment is roughly \$50 million per year.

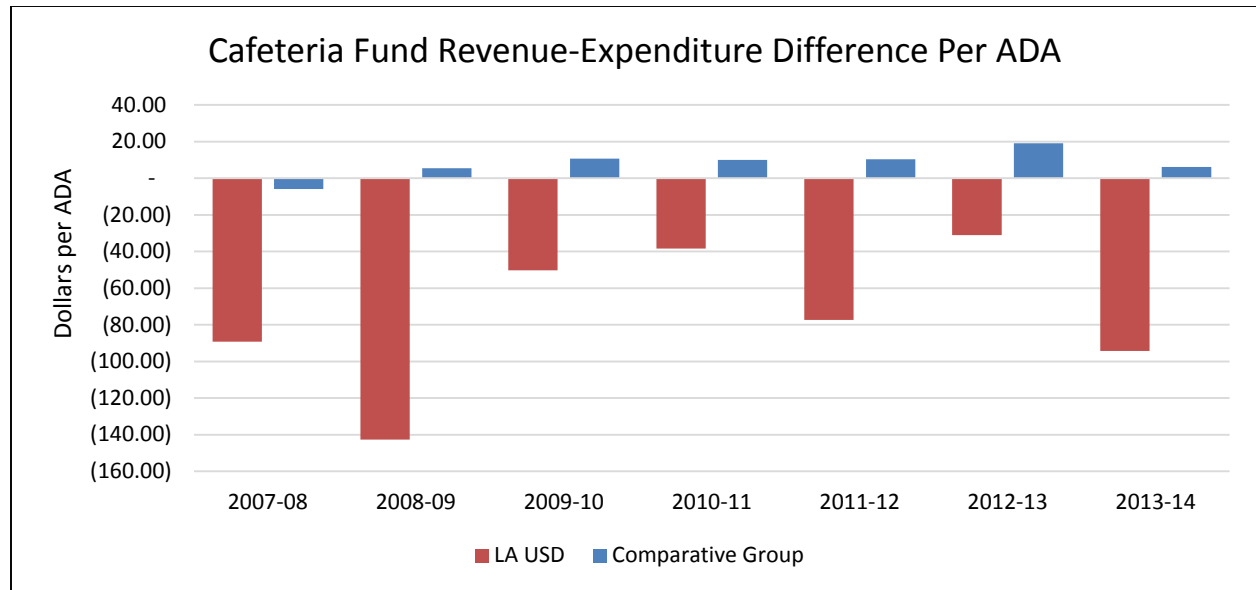
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Actual	Actual	Actual	Actual	Unaudited Actuals	Current Estimate
General Fund Support			\$15.0	\$51.0	\$50.0	\$52.6
Repayment from General Fund*	\$32.0	\$88.6	\$38.6			
Total From General Fund	\$32.0	\$88.6	\$53.6	\$51.0	\$50.0	\$52.6

\$ in millions; Source: LAUSD Comprehensive Annual Financial Report

*In March 2011, the District signed a Memorandum of Understanding with the California Department of Education (CDE) to resolve allegations that certain expenditures related to administrative support were inappropriately charged to the District’s Cafeteria Fund (food services program) in Fiscal Years 2004-05 through 2007-08. The repayment from the General Fund to the Cafeteria Fund was appropriate given that the administrative expenditures in question would have otherwise been charged to the General Fund.

The encroachment of the food services operations is not warranted and actions should be implemented immediately to curtail and eliminate any contribution from the General Fund to the Cafeteria Fund, thus saving roughly \$50 million per year. Large urban districts with a high percentage of children eligible for the National School Lunch Program typically are able to sustain and grow their food service programs in a self-sufficient manner without contributions from other operating funds such as the General Fund. These programs often produce a “profit” that is reinvested in the program to support innovative and high quality and healthy menu and delivery options.

Three charts (one below and two in this report’s main body) provide additional insight to the panel’s observations. The chart below is a comparison of LAUSD to other large California school districts depicting the difference between Cafeteria Fund revenues and expenditures per ADA for the most recent data available from the CDE. Focusing only on 2013-14 (the most recent year without the aforementioned General Fund Repayment obligation), LAUSD showed a Cafeteria Fund deficit of \$94.36 per ADA compared to the Comparative Group’s “profit” of \$1.16 per ADA.



As previously asserted, the District has reviewed, studied and written recently about weaknesses in the District’s food services program. There are numerous financial and productivity metrics available to the District to more precisely look at areas of operational efficiency and financial improvements. Two KPIs based on the difference between LAUSD’s operations and those of comparable national districts support the committee panel’s concerns and recommendations.

Warehouse and Logistics

An area that the panel feels warrants further study is that of warehousing and the provisioning of high volume, low unit price office, art, medical, PE, custodial, and maintenance supplies. It is the panel’s understanding that LAUSD currently utilizes a traditional procurement, warehouse, requisition and delivery system for these items (internal warehouse and provisioning). The panel also is aware that some office supply provisioning is done through local retailers utilizing procurement cards.

Most educational systems long ago adopted a desk top ordering system with next day delivery to the individual sites providing for office and custodial supplies, and many have incorporated other commodities in the system as well. This is commonly called Just-in-Time (JIT) and is a supply chain management process designed to reduce carrying costs to a minimum. Schools and

departments order based on their immediate need, eliminating “closet warehouses” and shifting the burden for storage and delivery to the retailer at the end of the supply chain. These systems utilize vendor ordering systems, warehouses and delivery processes.

While unit prices may be slightly higher under a JIT provisioning model, the benefit of these systems is the transfer of risk and loss associated to carrying and logistics costs, and, when done right, elimination of many administrative tasks reducing the overall cost for these commodities. Care must be given if a JIT system is adopted to ensure that processing costs are truly eliminated and not just shifted from one department to another (for example from purchasing and warehousing to accounts payable). This can be done by adopting current business operating standards and ensuring that each function is value added to the overall process. With respect to local procurement utilizing procurement cards, seldom does this practice result in lower cost purchases. While it may be convenient to a local school, it requires time to “shop” and process the paperwork, and seldom results in the overall lowest price.

JIT systems do not completely eliminate the need for internal warehousing but allow District warehouses and logistics services to down size and focus more on value-added services. For example, standard white bond copy paper may still be best purchased in bulk and stored and delivered internally. Warehouses may be repurposed for technology processing, warranty service, instructional materials (textbooks), etc. Implementation can be phased in over several years to take advantage of attrition and reassess job classifications as internal warehouses and logistics services are repurposed and retooled.

It is important to acknowledge that the panel did not look at specific metrics related to the District’s current warehouse and logistics operations. Instead, the panel relied upon its understanding of the current model as compared to industry standard models that are based on JIT. Ultimately, the District needs to assess what is the lowest cost, most efficient process to deliver quality products when needed to the classroom and classroom support functions at schools and central departments.

Technology

Relative to its peers, the District has the highest number of tablets per student. However, its Help Desk has an abandonment rate of over 25%. This means over one quarter of all calls are not answered by the service desk staff before the caller disconnects. This could mean that the ratio of hardware purchased compared to ongoing IT support may not be ideal. While the District’s total amount of expenditures on IT may be appropriate, a review of the balance between investments in hardware, network and service within IT categories may be warranted.

Programmatic Expenditures

The District serves one of the largest populations of Special Education students in the country. Data implies there is an over identification of students in LAUSD’s Special Education program.

This may be a consequence of the combined impact of declining enrollment and increasing charter school enrollment but may also be a consequence of regular education deficiencies. Routine studies across California often identify over identification of students for Special Education as a result of inadequate and/or inconsistent regular education intervention systems for both academic and behavior deficiencies in students.

Since the implementation of the IDEA in the mid-1970s, the services to which students are entitled has been well defined and recognized in both federal and state law. The funding mechanisms have been far less precise. Under the IDEA, in every year the state is expected to fund approximately 60% of the cost of Special Education services, and the state of California has met that goal. The federal government was expected to fund about 40% of the cost, however, it has never met that funding goal; the federal contribution is about one fourth of that expectation. In most years, school districts across California are expected to, and do, deliver excellent services to students with identified disabilities. But, only about 70% of the cost is paid by dollars specifically identified for Special Education, the remaining cost is covered by transfers of funds from unrestricted programs.

Students cannot be denied needed services because of these funding issues, but the additional unfunded costs produce severe budget pressure for the District. Even as District enrollments are declining overall, the number of students identified for Special Education services is increasing. The District expects this trend to continue.

Recommendations

As a result of its investigation of the topic of Expenditures, the panel offers the following recommendations:

Staffing and Benefits

- Offer an early retirement program to reduce staffing at the senior levels and reduce future staffing costs.
- Commit to making proportional staffing reductions in any year where enrollment declines.
- Re-staff schools mid-year to reduce staff or reallocate staff as student enrollments change.
- Increase expectations for employee attendance and reduce substitute costs.
- Eliminate the Teacher Pool.
- Integrate defined benefit pension entitlements with social security for employees who are eligible for both.

- Seek to negotiate changes in the employee benefit plans to lower costs to the level offered by other comparable school districts, for example:
 - Implement a drug formulary option to save both employees and the District money on prescriptions.
 - Require staff to pay part of the premium if they choose to add family member coverage, or, alternatively, provide incentives not to add them.
 - Use the plans offered in the Federal Affordable Care Act (ACA) as the standard for retiree benefits coverage; close coordination with federal coverage can save the District money while maintaining high-quality employee benefits.
 - Consider going to a 90/10 contribution rate health benefit plan. This change alone would save the District \$57.4 million a year.
 - Offer retirees the option of taking a lump sum payment in lieu of retiree benefits.
 - Aggressively review eligibility of employees and family members covered by District health plans.
 - Negotiate a cap on District health care expenditures to reflect the decline in the number of students and staff. Plan changes might be needed periodically to avoid exceeding the cap.
 - ◆ The cost to LAUSD of providing coverage to a pre-Medicare retiree can exceed \$24,000 *per year*. The cost of platinum coverage under ACA (Covered California) is less than half that amount. The District should consider switching plans.
 - Refine and Accelerate Dependent Verification.
 - Renegotiate the health benefits agreement and freeze all healthcare expenditures for five years.

Business Operations

- Review KPI, CADIE, and SABRE data in a public Board meeting at least twice a year
- Review its payroll operations to improve effectiveness and efficiency
- More aggressively manage Workers' Compensation costs
- The District should hire a third-party consultant to consider how to implement the following ideas immediately:

- Immediately begin doing “Compromise and Release” processes for injured employees. Included in this must be enhanced training for supervisors.
 - Move to an accelerated claims closure program. One way to accomplish this is to move claims to your Third-Party Administrator (Sedgwick) more quickly. There are many studies that show that late reporting of claims impacts the overall cost and the ultimate care for the injured employee. Common sense says this needs to be fixed, as it is in the best interest of the District and the injured employee.
 - Explore risk financing techniques, including loss portfolio transfers, excess and aggregate cover, and captive financing.
 - The current Workers’ Compensation system provides too many disincentives for returning to work; this needs to be improved immediately, and the investigation of the use of the 150-day statutory leave should be part of this review.
- Study further the operational metrics of the District’s current warehousing and logistics support functions to determine if other means of provisioning high volume, low unit price office, art, medical, PE, custodial, and maintenance supplies afford lower cost and more efficient services to schools and departments.
 - Immediately curtail and eliminate any contribution from the General Fund to the Cafeteria Fund, thus saving roughly \$50 million per year.
 - Review the balance of expenditures for information technology between hardware, network, and service.

Programmatic Expenditures

- Re-evaluate the process by which students are designated for inclusion in Special Education programs
- Identify trends in age, grade-level, disciplinary status, gender, and ethnicity to ensure students are identified for special education services in a principled and ethical manner
- Avoid over identification of subgroup members, particularly Latino and African American males
- Establish clearly defined exit strategies for students who no longer need services
- Designate a Cabinet-level staff member to help eliminate silos that serve to create barriers to effective management of special education services

- Follow through on the extensive programmatic review of special education already begun by the District

Summary of Significant Findings and Recommendations

Issues for Immediate Action

Savings in Millions	Issue
Upwards of \$400	Offer an early retirement program to reduce staffing at the senior levels and reduce future staffing costs.
\$100	Negotiate a cap on District health care expenditures to reflect the decline in the number of students and staff. Plan changes might be needed periodically to avoid exceeding the cap.
\$45	Increase attendance rate to the statewide average, by creating a task force of school, city law enforcement, and judicial representatives to focus on improving attendance at the poorest attended schools and grades.
\$23.2	Reduce Workers' Compensation premiums to the Statewide average per ADA.
\$50	Eliminate General Fund contribution for Food Services.
\$57	Implement 90/10 contribution rate health benefit plan.
\$10	Eliminate the Teacher Pool.
Indeterminate	Review KPI, CADIE, and SABRE data in a public Board meeting at least twice a year.
Indeterminate	Re-staff schools mid-year to reduce staff or reallocate staff as student enrollments change.
\$685.2	Total Savings

Issues to which the District Must Adapt or Accommodate

	Issue
	Study loses of enrollment to charter schools, other districts, and private schools and emulate the programs that parents believe are only offered by charter schools.
	Study the successes of extraordinary schools within the District to learn from within the District and adopt their strategies throughout the District.

Issues for Further Study

	Issue
	Complete extensive programmatic review of Special Education already begun by the District.
Upwards of \$12 million	Study further the operational metrics of the District's current warehousing and logistics support functions to determine if other means of provisioning high volume, low unit price office, art, medical, physical education, custodial, and maintenance supplies afford lower cost and more efficient services to schools and departments.

Los Angeles Unified School District

Report of the Independent Financial Review Panel

November 10, 2015

	Issue
	Review the total expenditures for information technology.
Upwards of \$25 to \$50 million	Explore risk financing techniques, including loss portfolio transfers, excess and aggregate cover and captive financing.
	Review its payroll operations to improve effectiveness and efficiency.
	District should engage schools in the improvement of attendance and other cost-savings identified in this report for students and staff with the expectation that the local schools and the District would benefit from any increase in revenues.

Report of the Independent Financial Review Panel

Scope of the Report

The purpose of this report is to provide the Superintendent with an independent assessment of financial challenges and potential responses for the Los Angeles Unified School District. Panel members have broad, high-level experience and bring a variety of perspectives to bear on the review. Collectively, the panelists represent the highest-level thinking on the most important topics facing the state and the District.

The Superintendent emphasized that the staff provides adequate information of the day to day issues that face the District. The panel was asked to focus on longer-term issues, both internal and external to the District. Beyond that guidance, the panel was empowered to independently select areas for discussion, narrow the issues to the ones the panel felt were most critical, and to offer recommendations as the panel believed were appropriate. The Superintendent, as quoted below, specifically requested that the panel focus its efforts on four broadly based areas:

- “I wish this panel to focus on the challenges this District faces in restoring a path to fiscal sustainability. Specifically, I would like the panel to consider the following:
 - Revenue challenges and opportunities, including planning for the new LCFF revenue model and the District’s enrollment decline.
 - Our expenditure challenges, including labor costs such as increased pension and health benefit costs, and program costs such Special Education.
 - Benchmarking and lessons learned from our program successes and from the experiences of other school districts or other public entities.
 - Finally, I would like this panel to consider the strategies necessary to sustain the sound financial management of the District.”

This report is organized by revenues and expenditures, with a focus on sound long-term financial practices and as well as benchmarking opportunities to recognize the four areas identified by the Superintendent. To that end, individual panel members suggested topics about which they wanted to become more informed. The facilitators arranged presentations and briefing for the panel and encouraged full, open discussion by the panel members. Information was provided to the panel on each topic requested so the panel could assess the importance of that topic and decide whether it was to be included in the report.

No areas of the District’s financial condition or outlook were “off-limits.” The panel was given access to all data requested, with the exception of specific information pertaining to the racial breakdown of special education students and how that has changed over time.

One area, the gathering of public comments, deserves explanation. The panel believes the District should seek broad public input regarding all areas of this report. However, the panel believed it was far beyond the scope, timeline and resources available to the panel for the panel to actually do this very important community outreach. Should the District choose to move forward on the panel’s recommendations in any area, the panel believes that the District should conduct that outreach at that time.

Methodology

The methodology used was the convening of a series of meetings of the panel. Agendas for the meetings are included at Appendix A. The meetings were targeted at three week intervals for the purpose of allowing panel members to independently examine topics and data and to allow staff to be responsive in providing materials and arranging presentations on the various topics.

The panel chose to use a series of sub-committees to focus on particular topics chosen for closer examination. The sub-committees reported back to the full panel the results of their detailed reviews thereby keeping every panel member engaged and informed on every issue.

Final selection of the topics to be presented for consideration by the Superintendent were made and findings and recommendations were drafted for each of those areas.

Focus Area 1: Revenues

“Revenue challenges and opportunities, including planning for the new LCFF revenue model and the District’s enrollment decline.”

In order to become informed regarding the revenue and enrollment challenges facing the District, the panel requested and received presentations on the following topics:

- History of school finance (SSC)
- The Local Control Funding Formula (SSC)
- The Local Control and Accountability Plan (SSC)
- Actual graduation and dropout rates (LAUSD)

- The District’s attendance and enrollment history and projections (LAUSD)
- LAUSD policy presentations (LAUSD)
- Charter schools (LAUSD)
- Other resource materials
 - What Does Good Attendance Look Like?—<http://bit.ly/1PTQqKw>
 - The Effects of Attendance on Academic Achievement for Elementary and Middle School Students—<http://bit.ly/20el4kk>
 - The Effects of Attendance on Academic Achievement for High School Students—<http://bit.ly/1KJkAbw>
 - School Attendance is the Key to a Successful Future—<http://bit.ly/20elyHc>

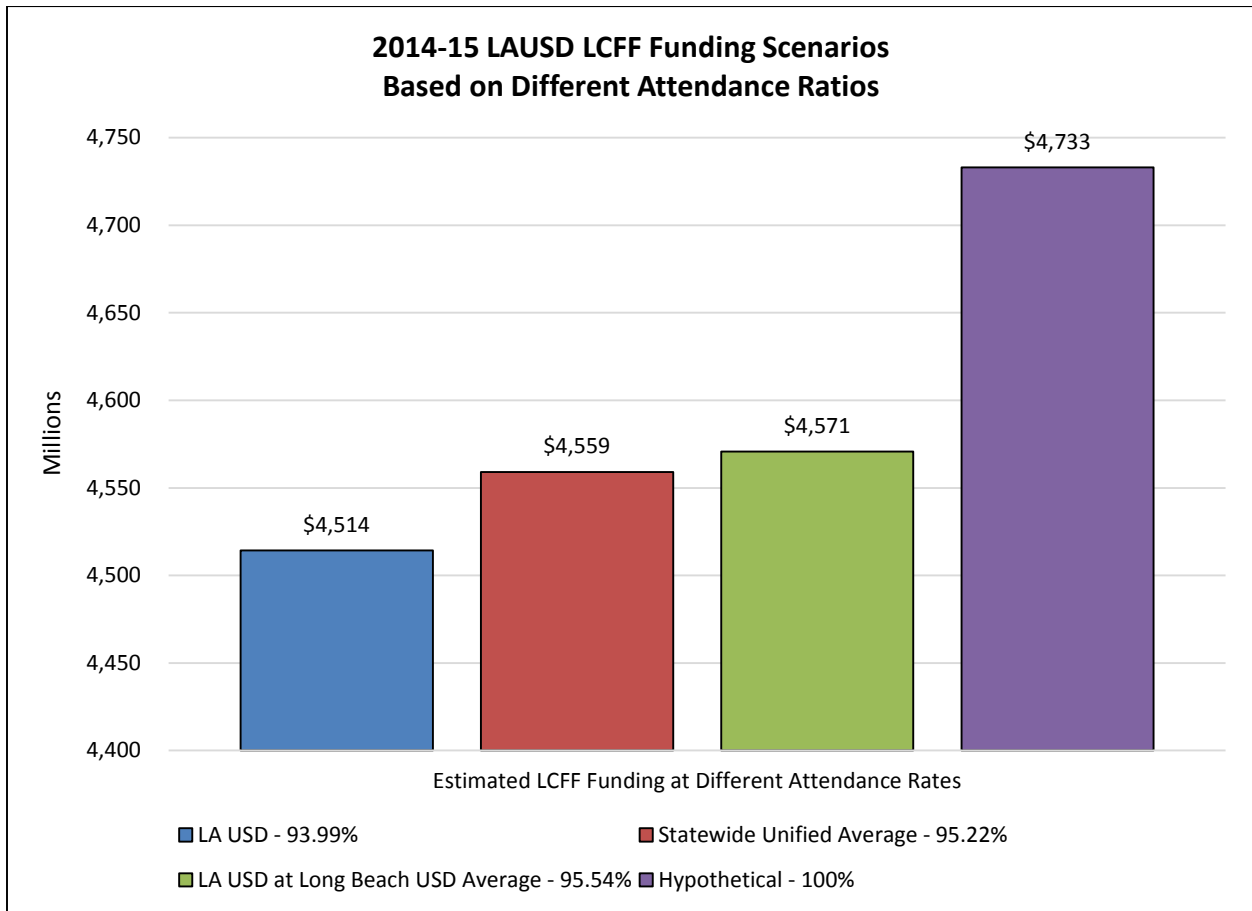
Areas Chosen for Exploration

Student Attendance and Graduation Rates

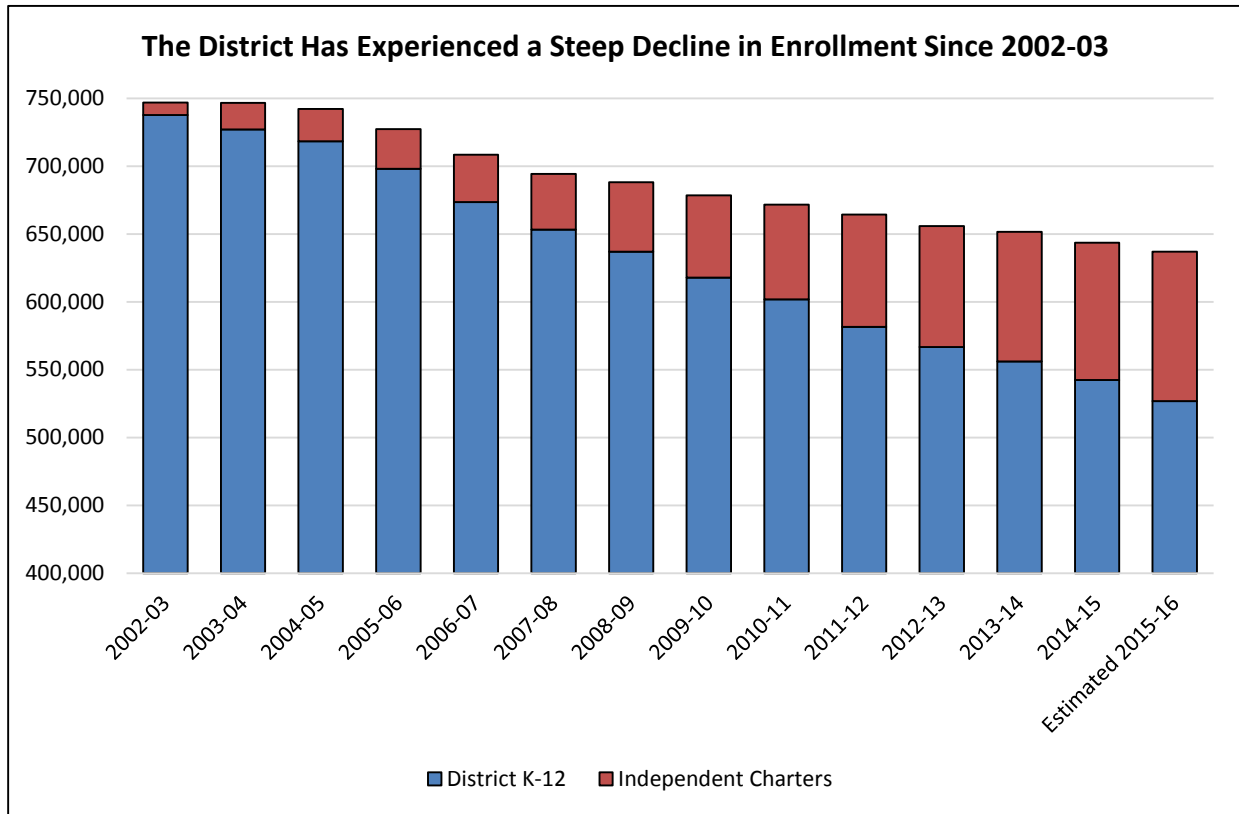
The panel chose to focus on the area of student attendance for two very important reasons. First, the single most important factor in student performance is how much time students spend with highly effective teachers. Second, attendance is also the single most important driver of District revenues; more than 90% of district revenues are based upon actual attendance of students. For these reasons, the panel believes that both improving the performance of students and maintaining District financial solvency are served by focusing on this important area.

Declining Enrollment

Data provided to the panel made it crystal clear that attendance, measured by units of ADA, is an issue that will be a factor in District performance for the foreseeable future. Each enrolled student generates costs for the District, but only the students who actually attend on any given day generate revenue. The panel found that the District is very similar to other large districts in terms of its enrollment to attendance ratio being maintained at just below the statewide average of 95.2%. Moving from its current ratio of 94% to the statewide average of 95.2% would generate an additional \$45 million per year in LCFE revenue for LAUSD.



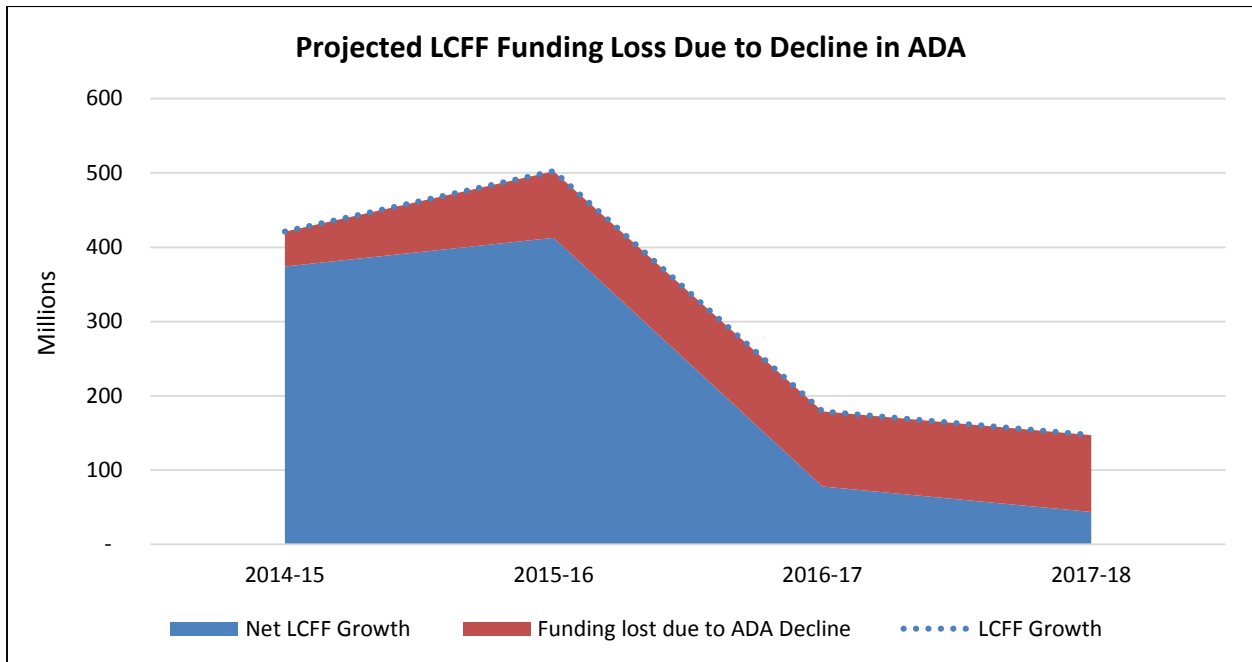
The panel also found that the District enrollment had declined by almost 100,000 students between 2007-08 and 2013-14. This decline in enrollment has caused the District to lose more than \$100 million per year on an ongoing basis. However, the District continues to decline in enrollment so it can be expected that the loss of revenue will be exacerbated in the future.



In addition to the dollars lost, the District has lost the opportunity to directly affect the education of almost 100,000 students. Some of these students remain in the local area and attend charter schools within the area. But it is harder to maintain visibility of the enrollment patterns of students who have left LAUSD entirely. Nonetheless, if LAUSD is to maximize its resources and its educational opportunities over the longer term, it must confront the issues that cause declining enrollment and deal with them in a timely manner.

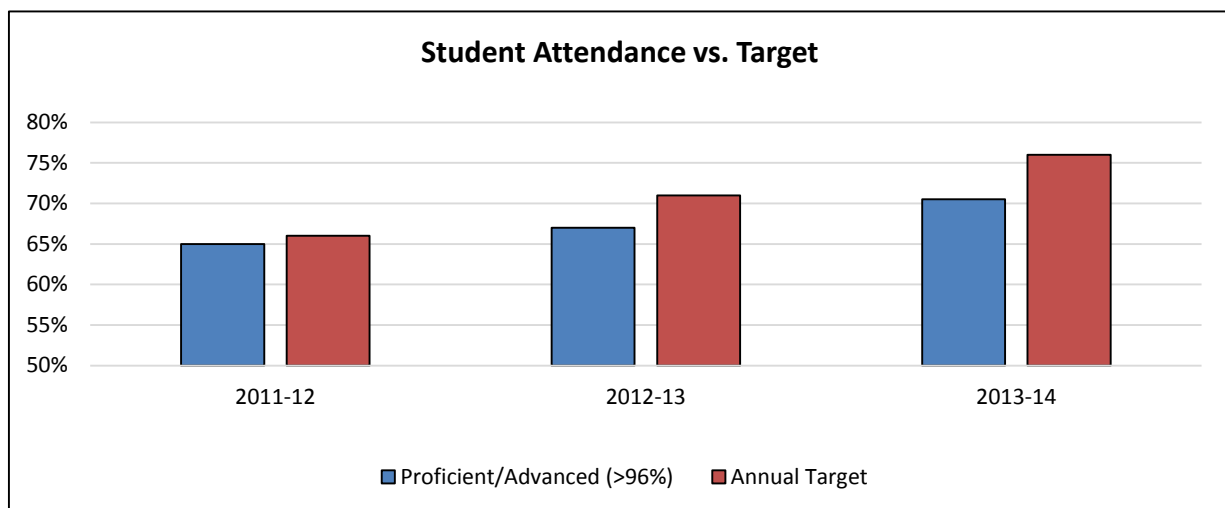
The LCFF has provided and will continue to provide an influx of new revenues as the state continues to implement the new funding formula. As of the 2015-16 fiscal year, LAUSD is approximately 91% of the way to full implementation. Given the District’s proximity to its target and the estimated slowdown in implementation of the LCFF, future years will likely see smaller revenue growth year over year.

However a loss of revenues due to lower enrollment and a lower-than-average attendance ratio will offset many of the new revenues gained under the LCFF. It is estimated that in 2017-18, more than 70% of the new LCFF revenues received will be offset by the loss of revenues due to the estimated decline in ADA.



Recognizing the necessity of reducing the decline in enrollment improving the District’s attendance ratio, in 2011 the District instituted an Attendance Improvement Program that targets the grade levels and schools with the lowest rates of attendance. Key elements of the program include:

- Use of Attendance Improvement Counselors at selected schools
- A focus on reducing chronic absenteeism
- Use of the School Attendance Review Board (SARB) process



Proficient/Advanced is defined as students who have an attendance rate of 96% or higher. In 2011, when the Attendance Improvement Program was implemented, the only 65% of students met the definition of Proficient/Advanced, with a district-wide goal of 66%. In the two subsequent years, the district-wide goal was increased by 5% each year, with demonstrable improvements in the percentage of students meeting the Proficient/Advanced goal.

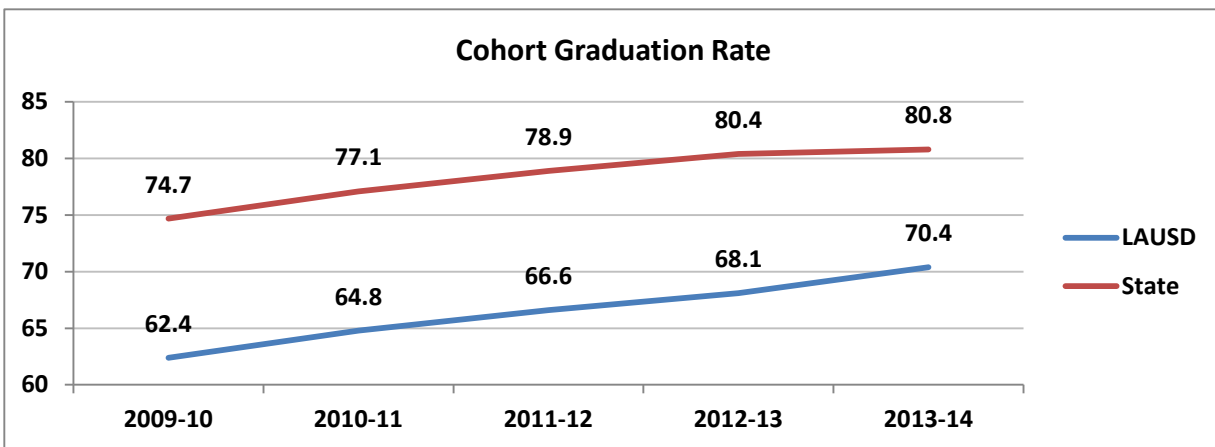
The District reports that initial results from the program are promising. However, while the District is enjoying measurable improvements in attendance rates, the effect of declining enrollment offsets all of the gains and more.

Graduation and Dropout Rates

The attainment of a high school diploma is a gateway to higher education, entry into the workforce, and becoming a full participant in our democratic society. Therefore one of the most important measures of District success revolves around graduation rates and its reciprocal dropout rates.

The District maintains a significant amount of information regarding graduation and dropout rates. There are a number of methodologies used to determine and explain dropout rates. The District has chosen to focus on using the Four-Year Adjusted Cohort as a primary measure of progress. This measure starts with a defined group or “cohort” of students in grades 9-12 and then adjusts for transfers in and out and compares the resultant number to actual graduations during a four-year period.

During its review, the panel was provided with data that showed two major trends. First, the District is consistently more than 10 percentage points below the statewide average four-year graduation rate of about 80%. Second, while both the District and the state continue to improve the graduation rate, this 10% gap has shown only minor improvement.



Findings and Recommendations

As a result of its investigation of the topic of student attendance, the panel offers the following recommendations:

- A comprehensive review and development of a definitive plan for improving attendance by school and by grade and implement a resulting blueprint with the goal of improving attendance rates.
- District should engage schools in the improvement of attendance for students and staff with the expectation that the local schools and the District would benefit from any increase in revenues.
- A coalition of school, law enforcement, and judicial representatives examine ways to focus on improving attendance at the poorest attended schools and grades.
- A parent information campaign to instill in parents an understanding of the laws relating to school attendance and the pivotal role attendance plays in student success.
- Study losses of enrollment to charter schools, other districts, and private schools and emulate the programs that parents believe are only offered by charter schools.
- Implement an aggressive dropout prevention program with an initial goal of reducing dropouts from roughly 17% to the statewide average of 11%, and an ultimate goal of the lowest dropout rate among large urban districts.
- Study the successes of extraordinary schools, such as the 22 schools recently recognized as California Blue Ribbon Schools, within the District to learn from within the District and adopt their strategies throughout the District.
 - *One example is Young Oak Kim Academic, with 87% of its student population identified as economically disadvantaged, the school has an attendance rate of 98.3%.*
- Improve attendance monitoring for vulnerable populations, including English learners and lower-income students.
- Adopt practices of revenue management that include:
 - Advocacy for adequate funding by the state of California, even at full implementation of the LCFF LAUSD will be funded at a lower level than most large urban districts across the nation.

- Continual review of external barriers to revenue generation, for example, the District may have limited control of losses of students to charter schools, but it should forecast the loss of revenue and adjust spending patterns as required to deal with the loss of revenue.
- Maximization of revenue opportunities provided under the LCFF including maintaining enrollment and improving attendance rates.
- Stringent internal management of all revenues. The District is receiving substantial new revenue to support traditionally underserved students and all new revenue should be directed to the District's highest priority needs.
- Establishment of a model that holds the District and its managers accountable for management of revenues. Every manager is responsible for ensuring that students and the tax payers get fair value for every dollar spent.
- Advocate for full funding of the IDEA by the federal government.
- Adoption of technologies to more efficiently manage revenues and produce timely, accurate, relevant fiscal and management information.
- Advocacy for statewide change to lowering the vote threshold necessary for passage of a parcel tax.
- Board consideration of a parcel tax.

Focus Area 2: Expenditures

“Our expenditure challenges, including labor costs such as increased pension and health benefit costs, and program costs such Special Education.”

In order to become informed in this area, the panel requested data and presentations on the following topics:

- Staffing levels and procedures
- Comparative compensation data, particularly for teachers
- Special Education identification procedures, service levels and costs
- Services for undocumented immigrants

As the panel reviewed the requested data and presentations, the panel was keenly aware of benchmarking opportunities where the District would be able to learn from its own successes as well as from the experiences of other local education agencies, both nationally as well as within the state.

“Benchmarking and lessons learned from our program successes and from the experiences of other school districts or other public entities.”

The panel reviewed a number of KPIs to compare LAUSD to other large districts in the nation. These KPIs were developed by The Council of the Great Cities Schools, of which LAUSD is a long-time member, and TransAct, Inc. Development and refinement of the measures has been accomplished over a period of more than ten years and the areas to be measured, the methodologies of the measurements, and the technology employed have all been validated by the Council and its participating member districts.

The panel reviewed many of the individual KPIs in order to identify broad areas where LAUSD was an outlier, a performance far from the mean. Those areas may provide a basis for goal setting and for benchmarking improvements over time. While the District did extremely well compared to its peers in some areas such as with effective cash management, low debt ratios, fast processing of grant receivables, low misconduct instances, and great teacher retention (see Appendix B for more detail), the Task Force decided to focus on the largest deficiency areas for opportunity for the District in the data below.

In addition to the KPIs reviewed, the panel also review CADIE and SABRE reports provided by SSC. These measurements focus on California school districts, but only the largest urban districts identified below were used for comparison.

County	Local Education Agency
Fresno	Fresno Unified School District
Los Angeles	Long Beach Unified School District
Orange	Capistrano Unified School District
Orange	Garden Grove Unified School District
Orange	Santa Ana Unified School District
Riverside	Corona-Norco Unified School District
Sacramento	Elk Grove Unified School District
San Bernardino	San Bernardino City Unified School District
San Diego	San Diego City Unified School District
San Francisco	San Francisco Unified School District

Finally, the District has amassed a wealth of comparative data that compares the District performance longitudinally over time and allows the District to identify and respond to trends.

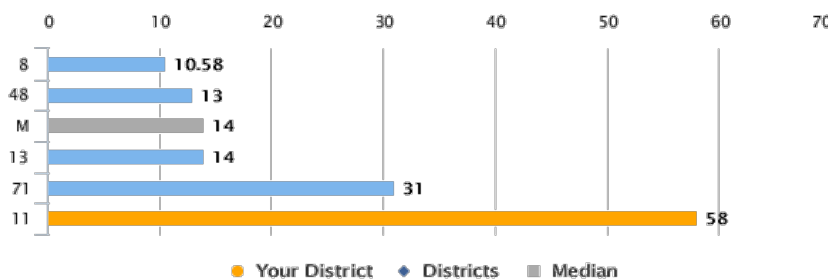
“Finally, I would like this panel to consider the strategies necessary to sustain the sound financial management of the District.”

As the panel reviewed information and data, the panel explored various strategies to place the District on a financial platform for long-term stability. Areas of discussion included increases in the employer contributions on behalf of the CalPERS and the CalSTRS members, costs associated with postemployment health and welfare benefits, and areas of business operations with a significant impact on the District’s fiscal wellbeing.

Areas Chosen for Exploration

Staffing and Benefits

2013-14 Time to Fill Vacancies—Teachers



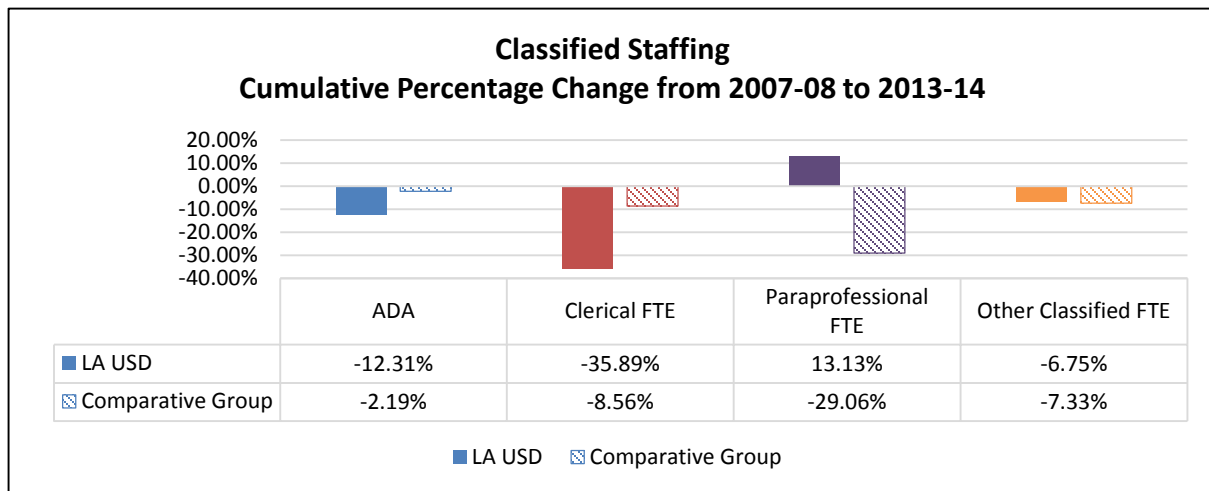
*Average time to fill vacancies for teachers.

This measure reflects the instructional loss when there is not continuity in the classroom and instructional support. In this case, the District is a low performer compared to the group averaging a total of 58 days to fill a teacher position.

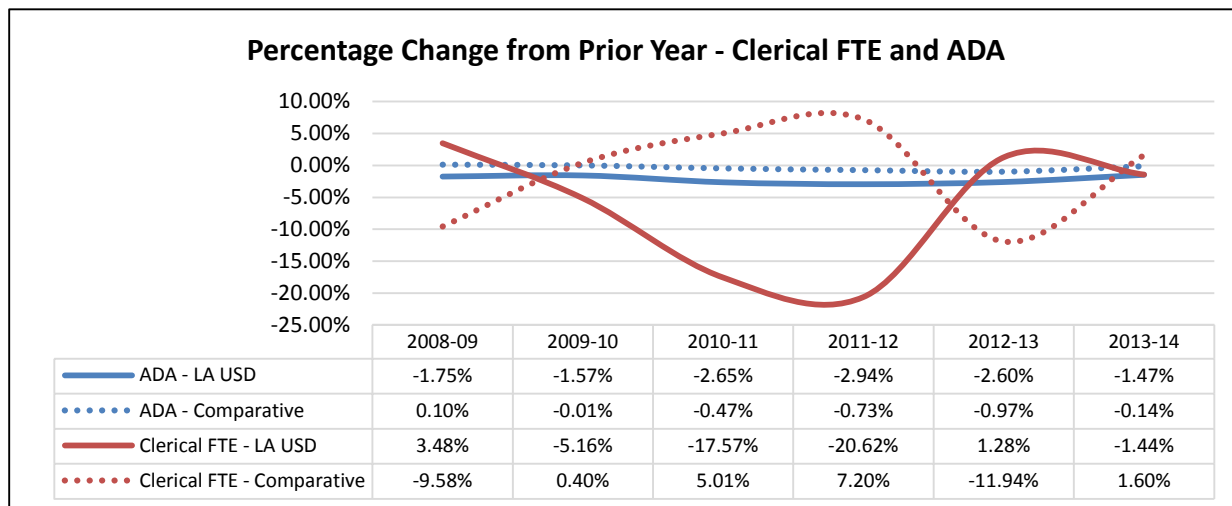
Classified Staffing

The panel reviewed classified staffing data prepared by SSC. The data compares the percentage change of staffing in a given year relative to the staffing in ADA for the District. A comparison group of large urban unified districts was selected to provide a comparative group to identify where the District’s staffing deviated from a statewide trend.

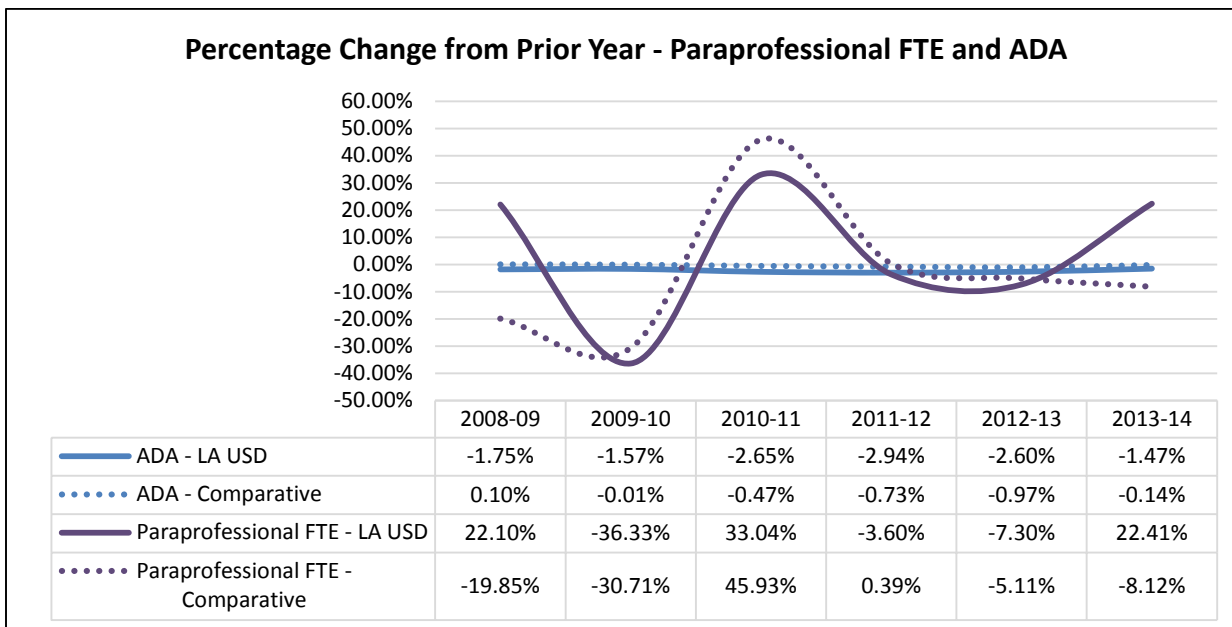
Data for these charts comes from data submissions to the CDE.



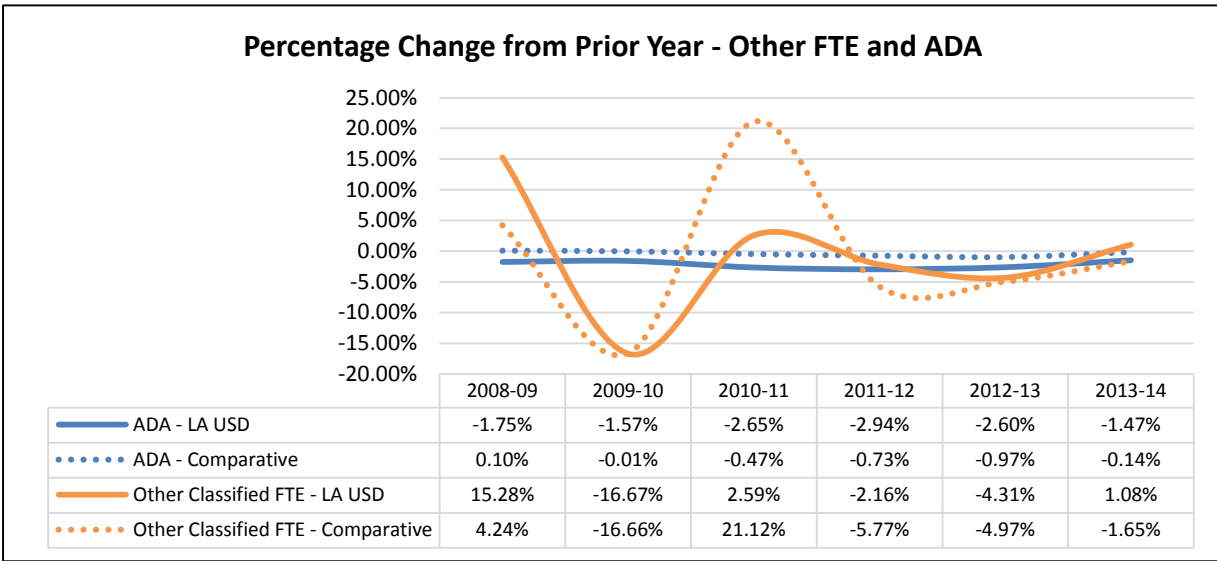
This chart shows the cumulative percentage change in different classified positions over a six-year period as well as the percentage in in ADA over the same period for LAUSD and a comparison group of large urban unified school districts in California.



The chart above shows the annual percentage change in clerical FTE positions over a six-year period as well as the percentage in in ADA over the same period for LAUSD and a comparison group of large urban unified school districts in California. The District’s classified clerical staffing appears to have dropped significantly during the period, but have grown in the past two years.



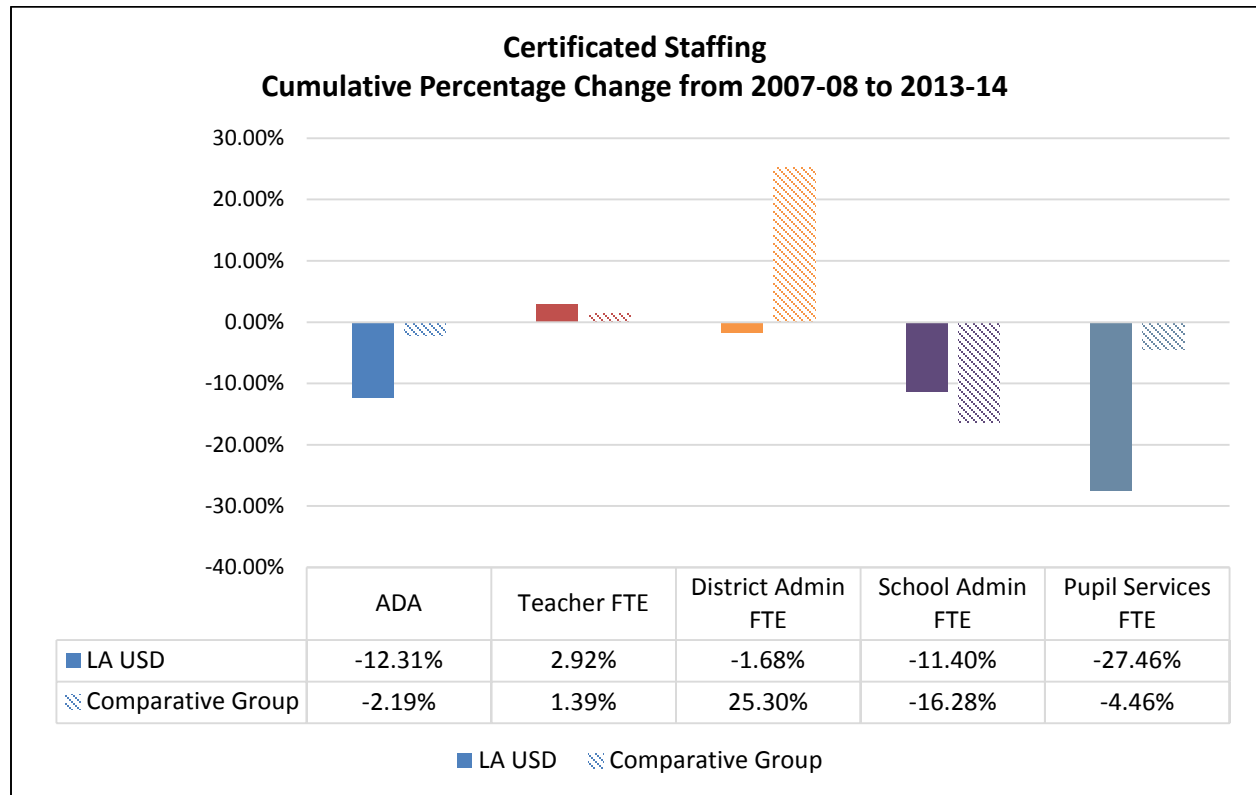
The chart above shows the annual percentage change in paraprofessional FTE positions over a six-year period as well as the percentage in in ADA over the same period for LAUSD and the comparative group of large urban unified school districts in California. The District change in staffing over the period relatively mirrors that of the comparative group, though the District has added paraprofessional staff in 2013-14 while the comparative group saw a slight decline.



The chart above show the annual percentage change in other classified FTE positions over a six-year period as well as the percentage in in ADA over the same period for LAUSD and the comparative group of large urban unified school districts in California. The district change in staffing over the period relatively mirrors that of the comparative group, though the District has added fewer other classified staff in 2010-11 than the comparative group.

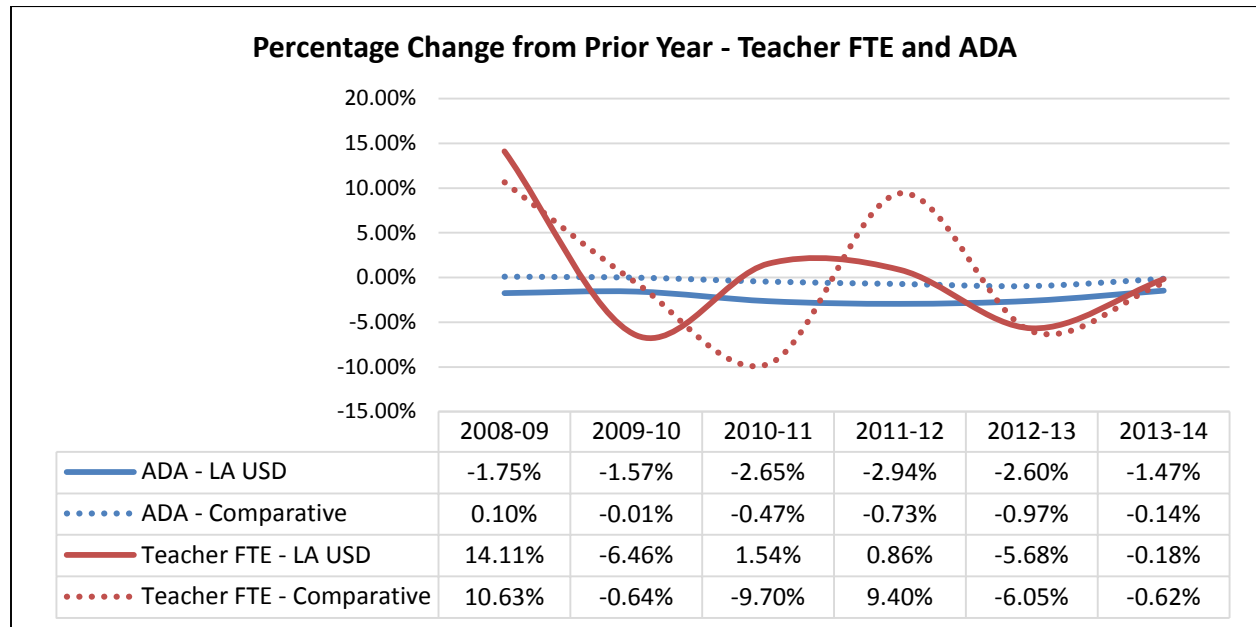
Certificated Staffing

The panel also reviewed certificated staffing data prepared by SSC. The data compares the percentage change of staffing in a given year relative to the staffing in ADA for the District to the average of the comparative group of large, urban unified districts.

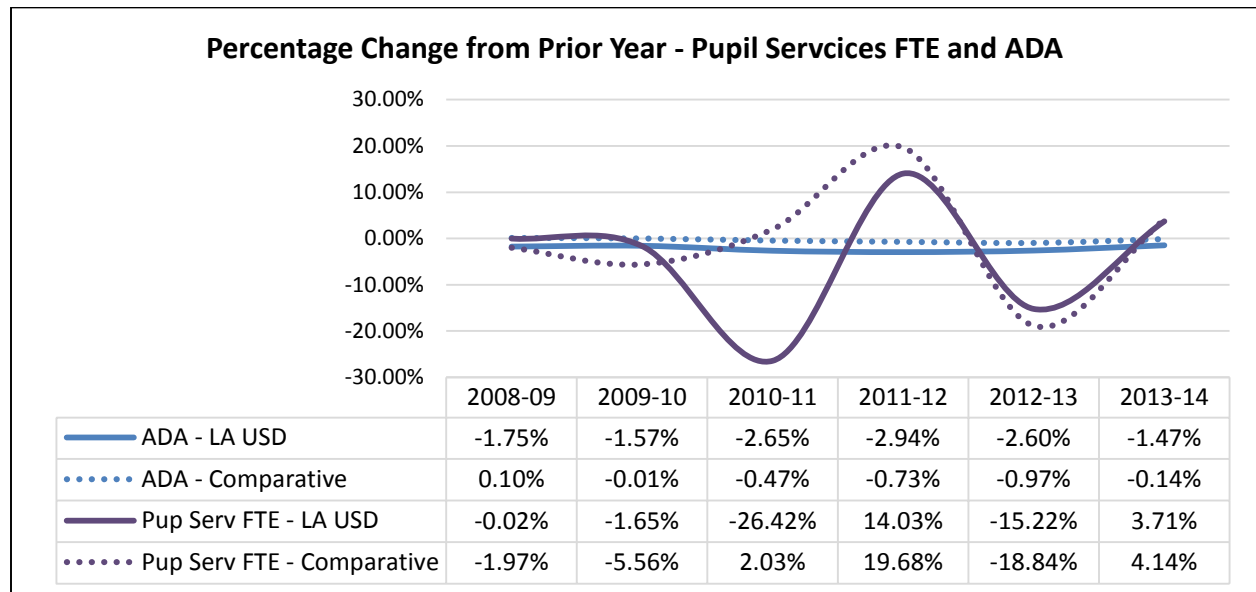


This chart above shows the cumulative percentage change in different certificated positions over a six-year period as well as the percentage in in ADA over the same period for LAUSD and a comparison group of large urban unified school districts in California.

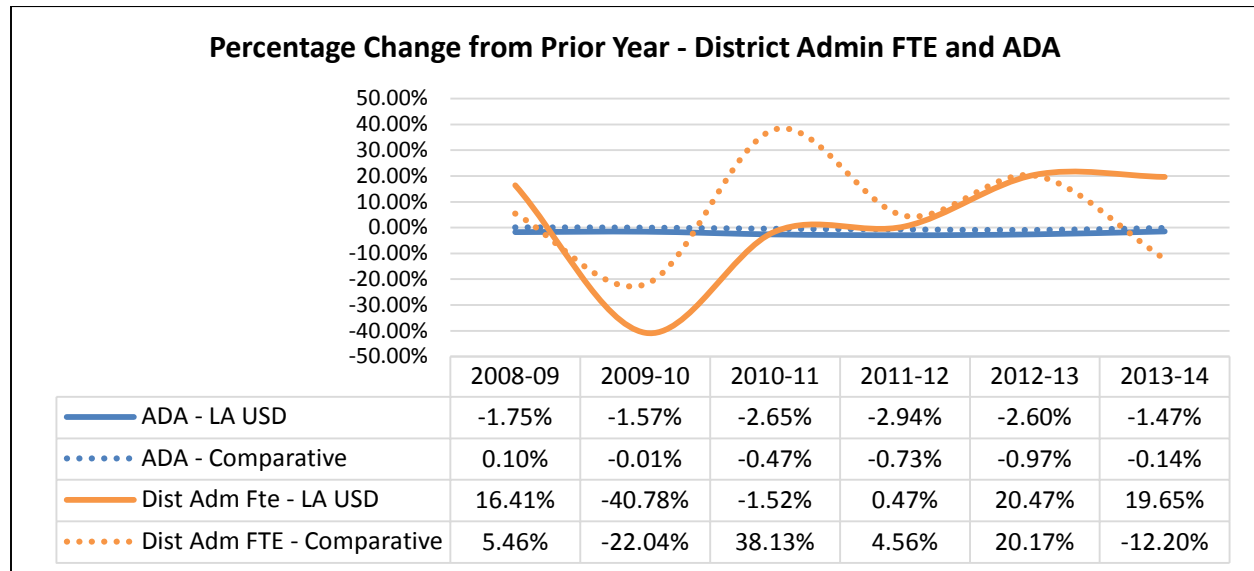
During the six-year period, all certificated staff except for teachers showed a reduction in the number of staff.



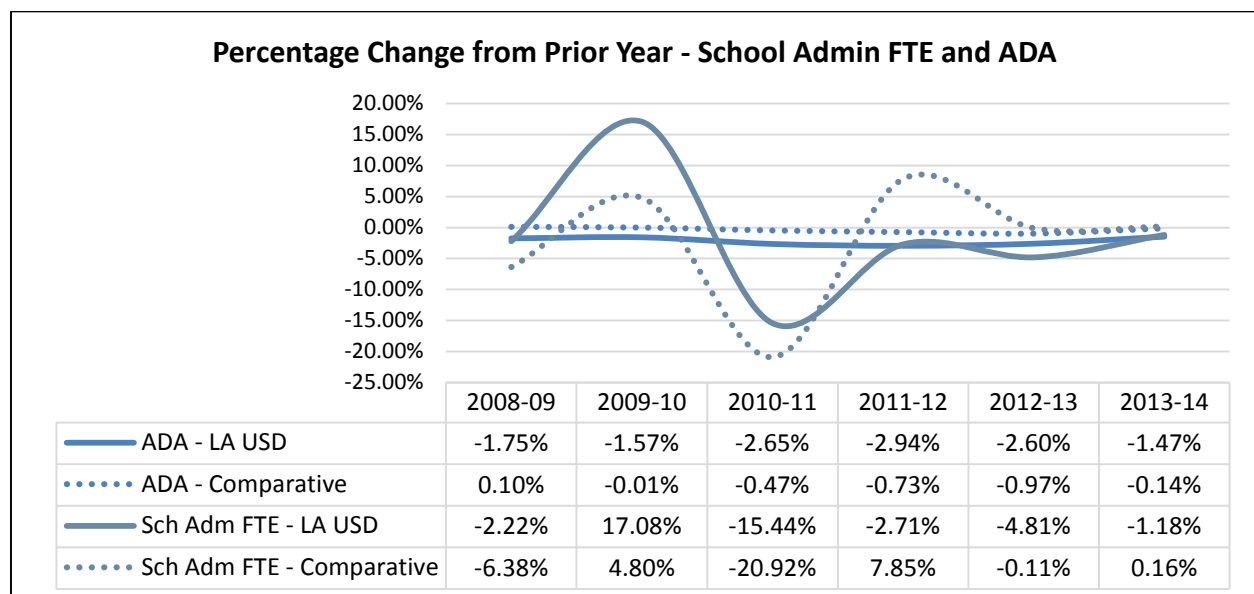
In the first year of the great recession, the number of teacher FTEs dropped by almost 6.5%, but then remained relatively stable for the next two years. During the same period, the comparative group experienced a more volatile change in their teacher staffing patterns.



In 2010-11, the number of pupil services FTEs dropped by more than 25%. While there was an increase in the number of FTEs in the subsequent year, 2012-13 saw another 15% decline in the number of FTEs for a cumulative loss of more than 27% from 2007-08 to 2013-14 in pupil services FTEs.



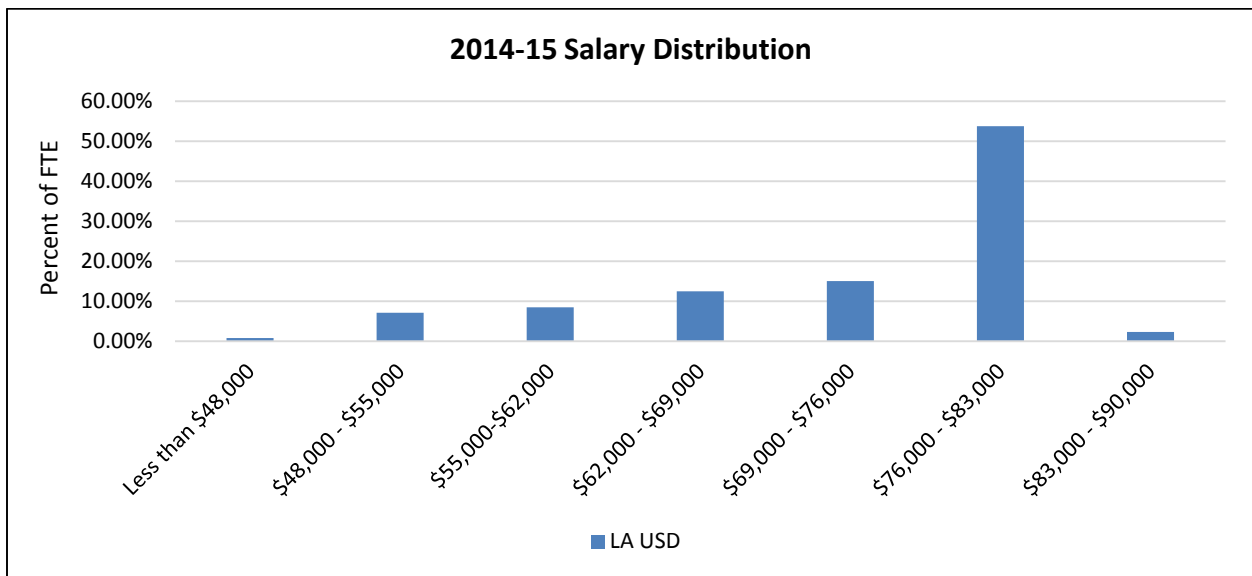
District administration FTE for the District follows a similar trend as the comparative group, though in 2012-13 there was an increase District administration, while the comparative group experienced a decrease. The net effect of this upswing is to almost bring the District back to where it was six years earlier. By comparison, District administration FTE for the comparative group grew by 25% over the same period.



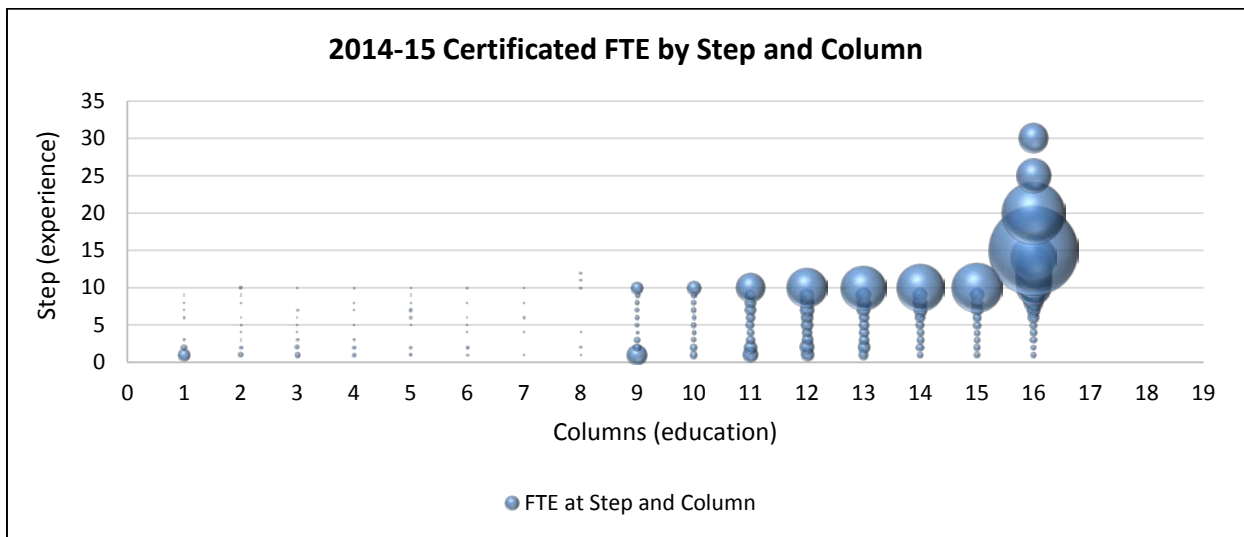
As with District administration, school administration FTE for the District follows a very similar pattern to that of the comparative group, with both the District and comparative group experiencing increases in school administration FTE in 2009-10, with subsequent decreases the following year.

Certificated Salaries

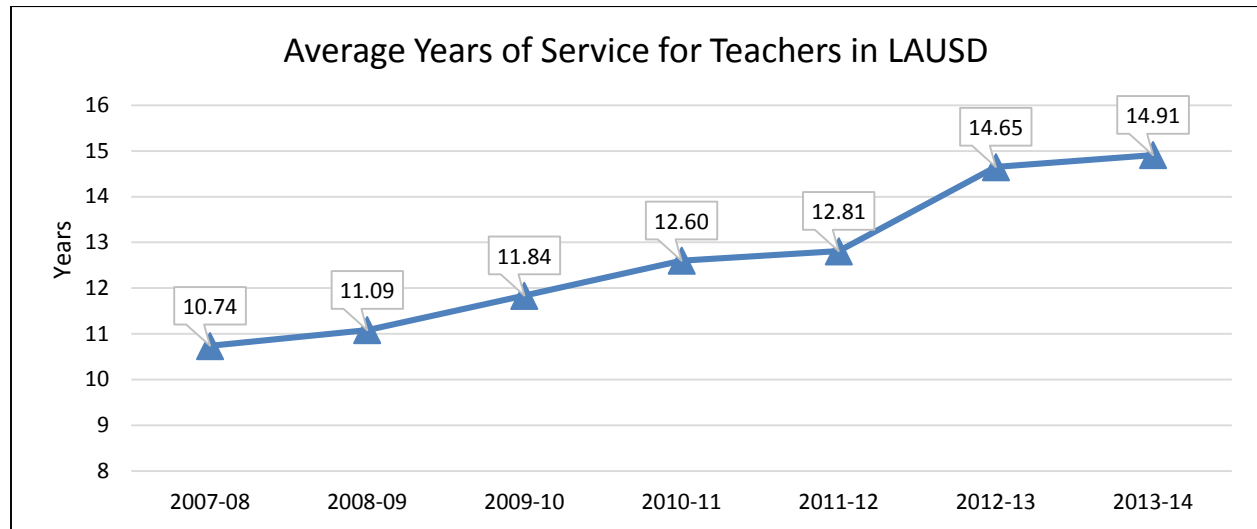
A significant portion of the District’s certificated FTE are near the top of the salary schedule, with more than 56% of the teachers in the District making more than \$76,000. In a typical district, the bulk of the certificated FTE will be within the middle salary bands of a district.



Of the roughly 25,700 certificated FTE reported in the 2014-15 J-90 certificated salary survey, more than 70% of the certificated, non-management personnel, such as teachers and nurses, earn more than a teacher with 10 years of service with the District.



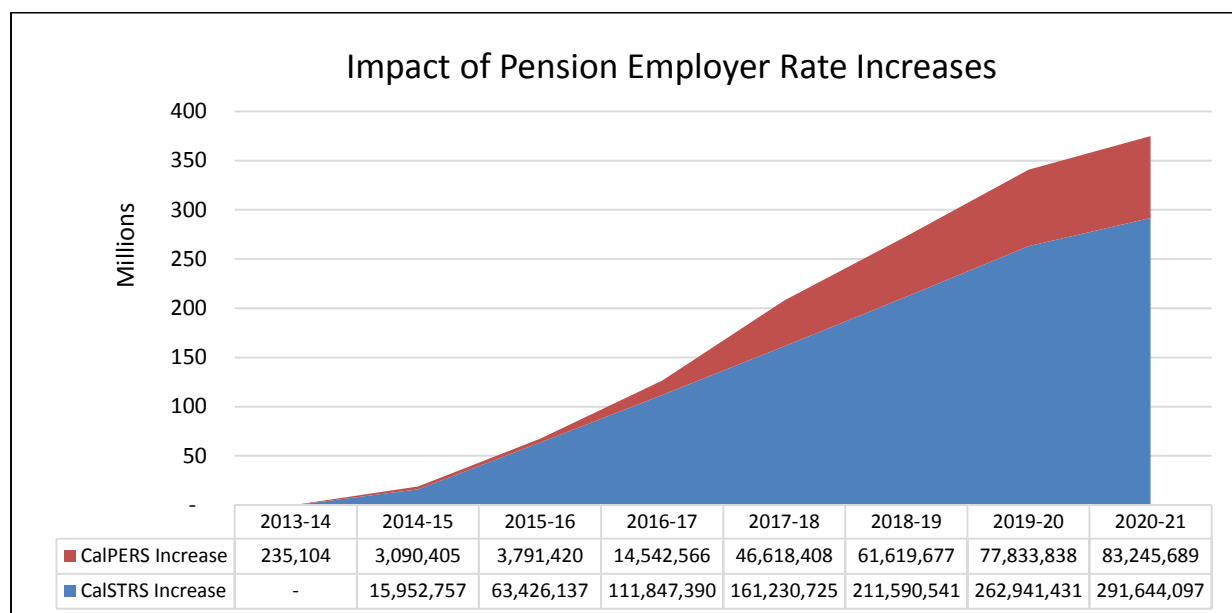
This percentage is likely to continue to grow as the average number of years of service teachers in the District has increased from almost 11 years in 2007-08 to almost 15 years in 2013-14.



Pensions

CalPERS and CalSTRS pension reforms have brought increased costs to the District. These reforms have increased the employer contribution for pension-eligible salaries, bringing a new long-term expense to the District. The chart below shows the total cost of both the CalPERS and CalSTRS employer contribution increases through 2020-21, when the new employer-contribution rates are fully implemented.

In 2017-18, it is estimated that the \$84.6 million in additional costs associated with the increased pension employer contributions from the prior year will exceed the amount of net new revenues generated by the LCFF as a result of declining ADA.

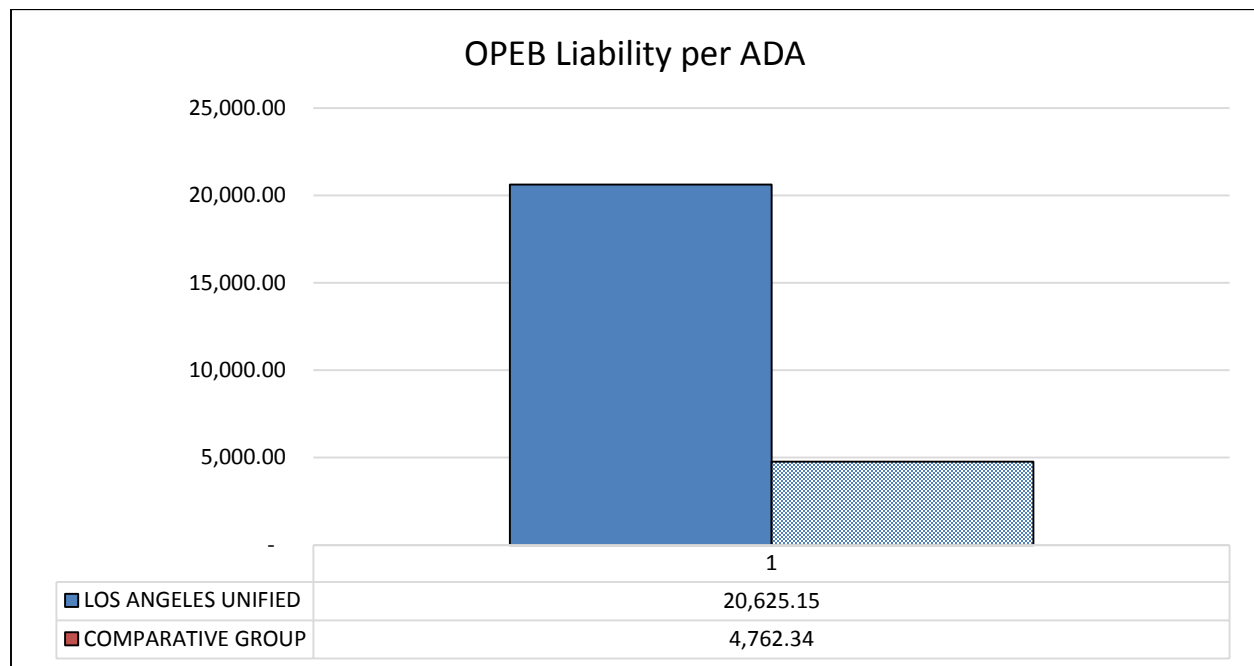


CalSTRS Rates		
Fiscal Year	CalSTRS Employer Rate	Cumulative Change Due to CalSTRS Rate Change (\$ Millions)
2013-14	8.25%	\$0.0
2014-15	8.88%	\$15.9
2015-16	10.73%	\$63.4
2016-17	12.58%	\$111.8
2017-18	14.43%	\$161.2
2018-19	16.28%	\$211.6
2019-20	18.13%	\$262.9
2020-21	19.10%	\$291.6

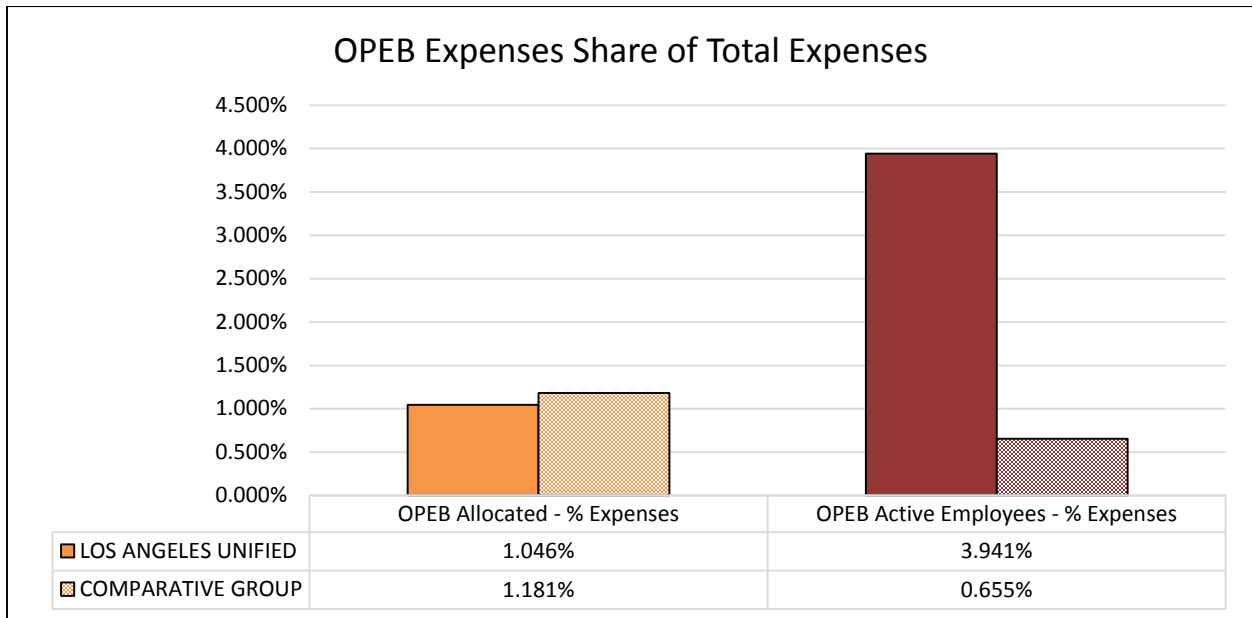
CalPERS Rates		
Fiscal Year	CalPERS Employer Rate	Cumulative Change Due to CalPERS Rate Change (\$ Millions)
2013-14	11.44%	\$0.2
2014-15	11.77%	\$3.1
2015-16	11.85%	\$3.8
2016-17	13.05%	\$14.5
2017-18	16.60%	\$46.6
2018-19	18.20%	\$61.6
2019-20	19.90%	\$77.8
2020-21	20.40%	\$83.2

Other Postemployment Benefits (OPEB)

The District’s OPEB liability is significantly higher than that of other large urban unified school districts. Much of this is due to the lifetime nature of the health care benefits. In 2013-14, the estimated OPEB liability per ADA was \$20,625—more than four times than that of the comparative group.



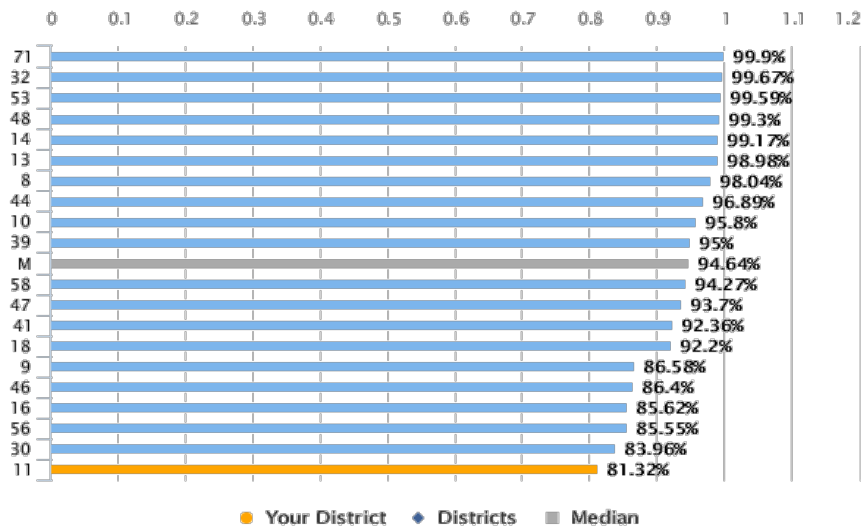
As the chart below shows, the District’s OPEB expenses for current retirees are comparable to the other districts in the comparative. For active employees though, the District has been proactive in funding the OPEB obligations, putting aside almost 4% of the District’s total budget for 2013-14.



Business Operations

Payroll

Compensation – 2013-14 Pay Checks – Direct Deposits

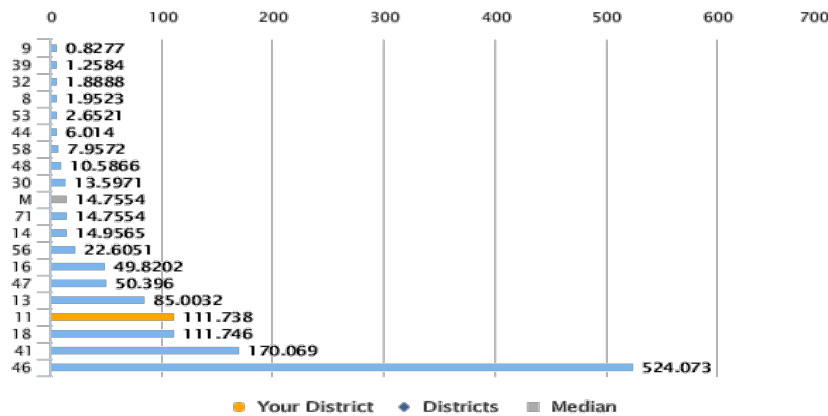


www.actpoint.com

*Calculated by the total number of pay checks paid through direct deposit, divided by the total number of pay checks issued.

This measure is important as the use of direct deposit can increase the levels of automation and decrease costs. The factors that influence this measure are payment systems and pay check policies. In this case, the District ranks the lowest in the group at 81.32%.

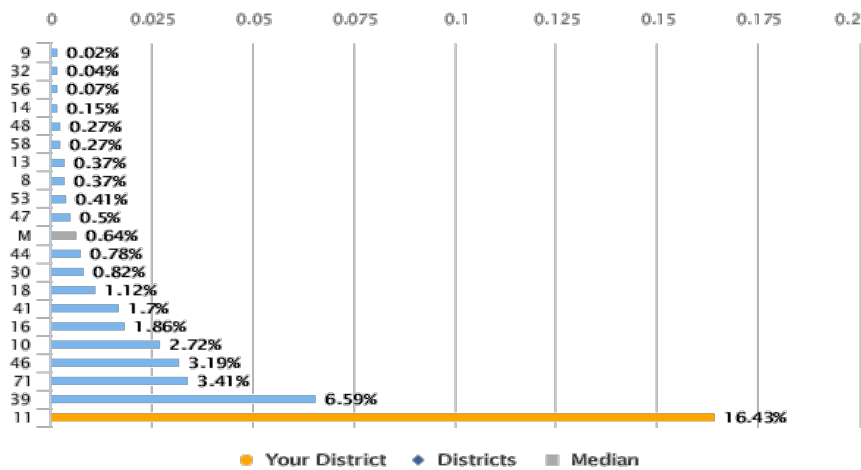
Compensation – 2013-14 Pay Checks – Errors per 10,000 Payments



*Calculated by the total number of pay check errors, divided by total number of pay checks handled by payroll department over 10,000.

This measure is important as high error rates can indicate a lack of adequate controls. The factors that influence this measure are: process controls, staff turnover, staff experience, payment systems, and level of automation. In this case, the District ranks higher than all but three districts in total number of pay check errors.

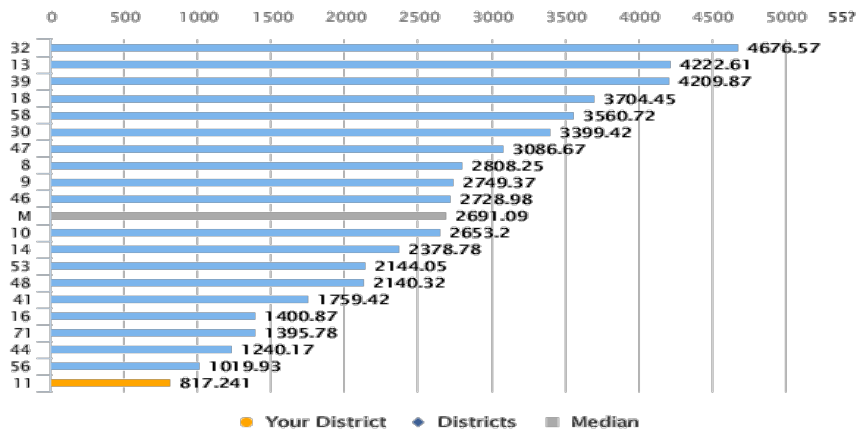
Compensation – 2013-14 Pay Checks – Percent Off-Cycle



*Calculated by the total number of off-cycle pay checks issued, divided by the total number of pay checks issued.

This measure is important as off-cycle pay checks tend to take more staff time, and are therefore, less efficient than regular-cycle checks. In this case, the District spends more time processing off-cycle pay checks than all of the comparative districts.

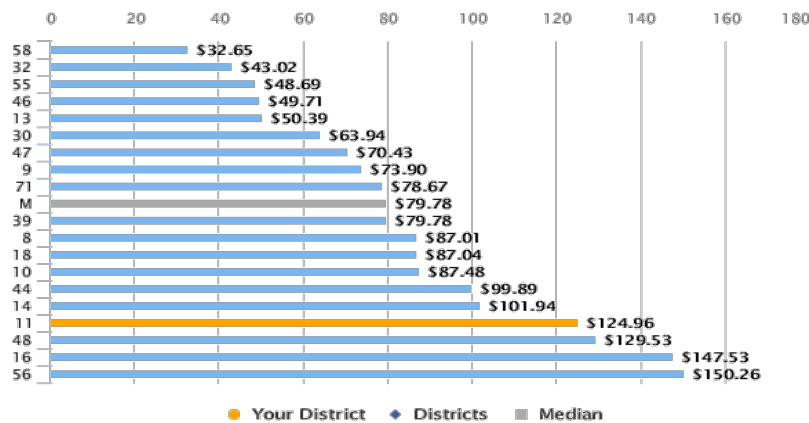
Compensation – 2013-14 Pay Checks Processed Per FTE Per Month



*Calculated by total number of pay checks processed by payroll department, divided by total number of payroll staff (FTEs).

This measure is a driver of a payroll department’s costs. Lower processing rates may result from a low level of automation, high pay check error rates, or high rates of off-cycle pay checks that must be manually processed. Higher processing rates may be the result of increase automation and highly competent staff. In this case, the District ranks the lowest in the group at 817.241.

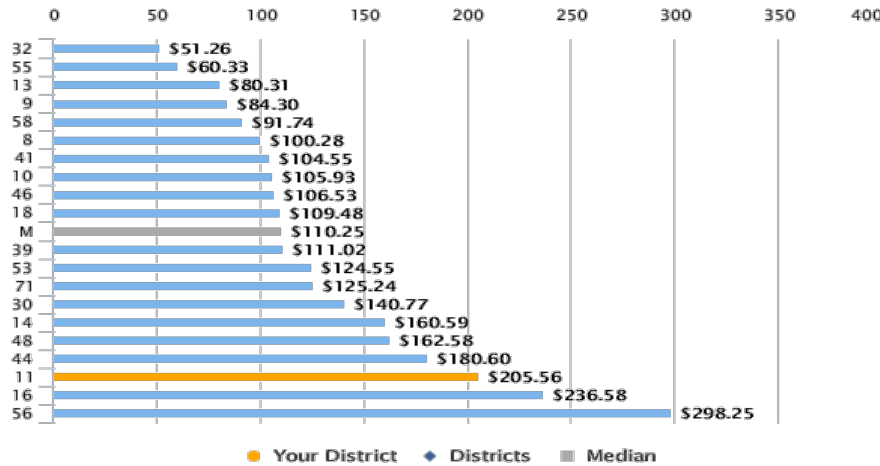
Compensation – 2013-14 Payroll Cost Per \$100,000 Revenue



*Calculated by total payroll personnel costs plus total payroll non-personnel costs, divided by total district operating revenue over 100,000.

This measure helps evaluate the total cost of the payroll department relative to the total district budget. In this case, the District ranks higher than all but three districts at \$124.96.

Compensation – 2013-14 Payroll Cost Per \$100,000 Spend

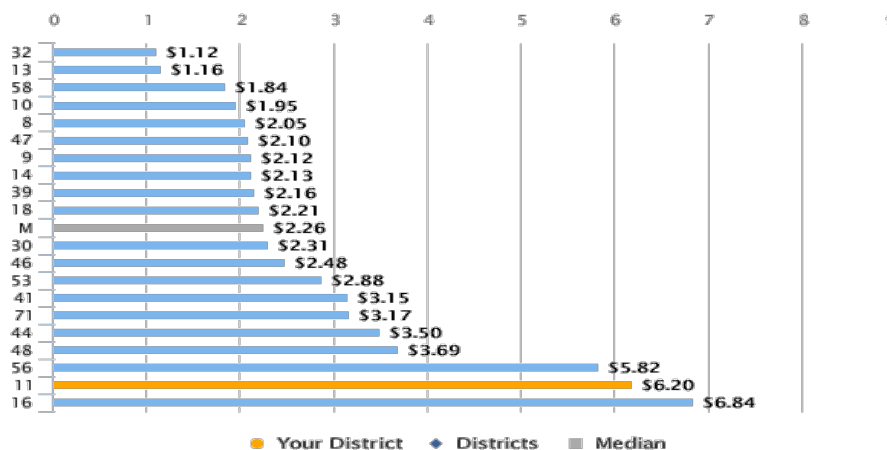


www.sctpoint.com

*Calculated by total payroll personnel costs plus total payroll non-personnel costs, divided by total district payroll spend over 100,000.

This measures the efficiency of the payroll operation. A higher cost could indicate an opportunity to realize efficiencies in payroll operation while a lower cost indicates a leaner, more efficient operation. In this case, the District ranks higher than all but two districts at \$205.56.

Compensation – 2013-14 Payroll Cost Per Pay Check

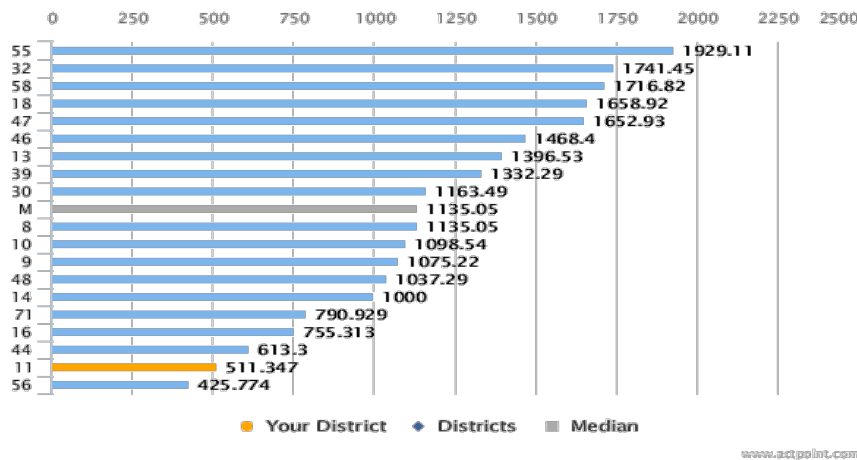


www.sctpoint.com

*Calculated by total payroll personnel costs plus total payroll non-personnel costs, divided by total number of payroll checks.

This measures the efficiency of the payroll operation. A higher cost could indicate an opportunity to realize efficiencies in payroll operation while a lower cost indicates a leaner, more efficient operation. In this case, the District ranks higher than all but one district at \$6.20.

Compensation – 2013-14 Payroll Staff District FTEs Per Payroll FTE

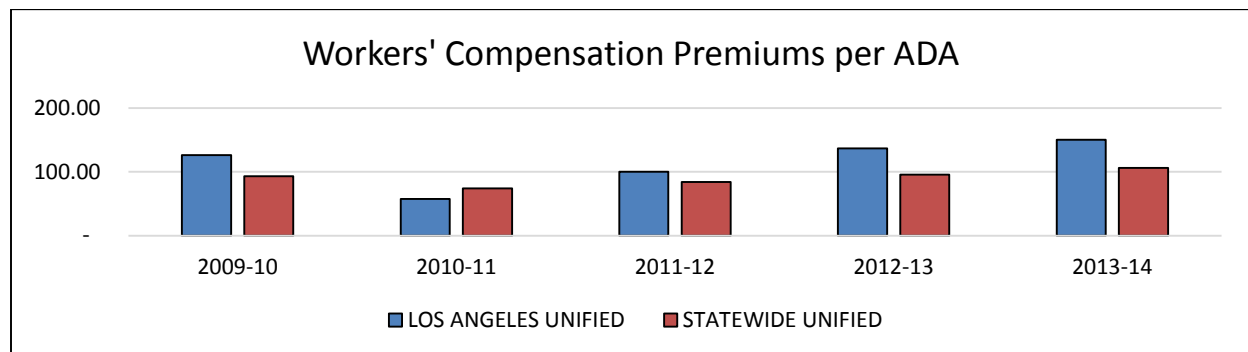


*Calculated by total number of district employees (FTEs), divided by total number of payroll staff (FTEs).

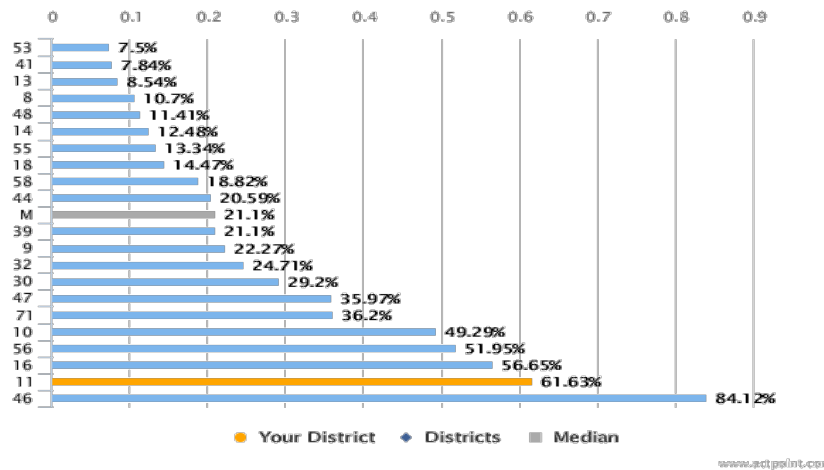
This indicator evaluates the efficiency of the payroll operation and workload of each member of the payroll staff. Comparison with peer districts may produce opportunities to restructure the department or reintroduce time-saving practices. In this case, the District ranks the second lowest of the group at 511.347 FTEs.

Workers' Compensation

Workers' Compensation costs have steadily grown in the past five years. Since 2010-11, the per-ADA rate for Workers' Compensation premiums has more than doubled, increasing from \$57.46 to \$150.09 in 2013-14. Had the District's per ADA rate for Workers' Compensation premiums been equal to the average statewide rate for a unified school district of \$106.08 per ADA, the District would have seen a savings of \$23.2 million in 2013-14 alone.



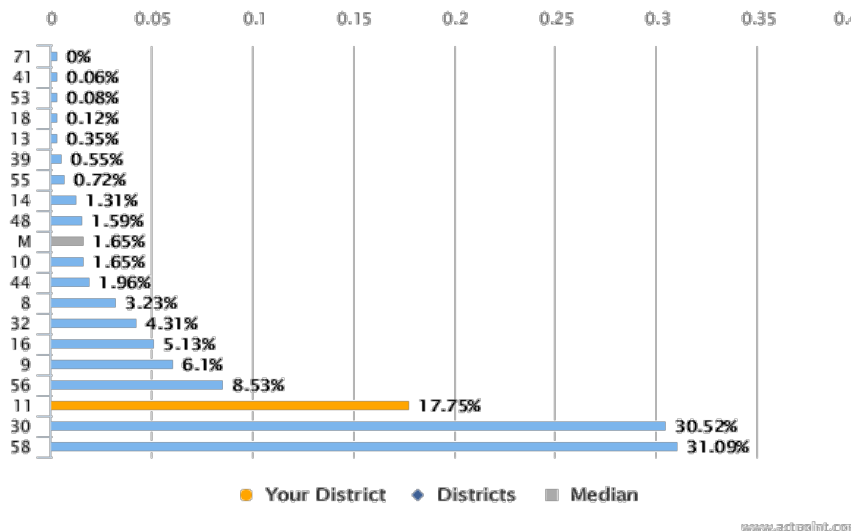
Risk Management—2013-14 Workers’ Compensation Claims—Percent Indemnity



*Number of Workers’ Compensation claims that were indemnity claims, divided by total number of Workers’ Compensation claims filed in the fiscal year.

This measure is important as cases classified as indemnity are usually those with lost time from work. This metric can therefore assist in measuring the success of a Return to Work/Stay at Work program. In this case, the District reports a high-level of indemnity claims at 61.63%.

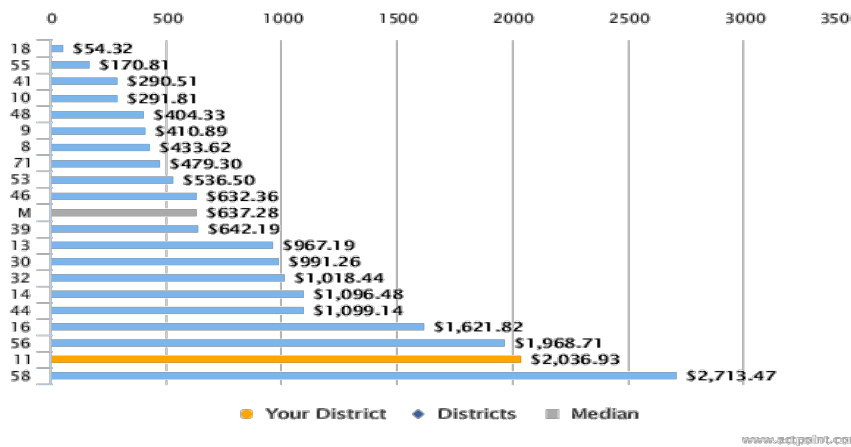
Risk Management—2013-14 Workers’ Compensation Claims – Percent Litigation



*Number of Workers’ Compensation claims that were litigated, divided by total number of Workers’ Compensation claims filed in the fiscal year.

This measure is important as litigation is expensive and increases the cost of the claim. In this case, the District reports the third highest in litigation claims at 17.75%.

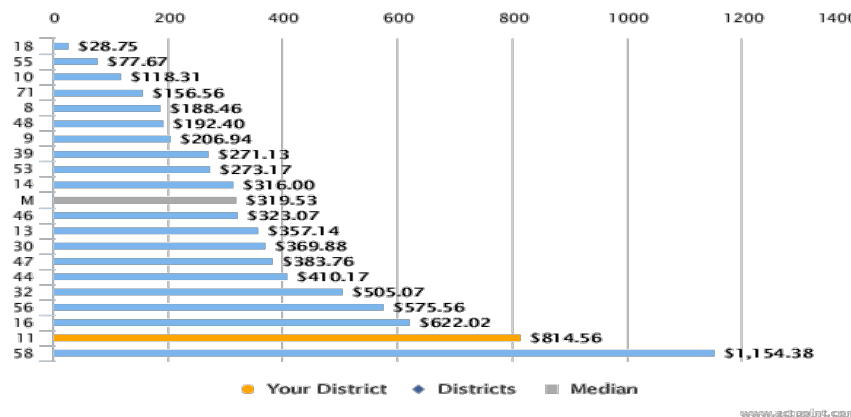
Risk Management—2013-14 Workers’ Compensation Cost Per \$100,000 Payroll Spend



*Total Workers’ Compensation premium costs plus Workers’ Compensation claims costs incurred plus total Workers’ Compensation claims administration costs for the fiscal year, divided by total payroll outlays over 100,000.

This measure is important as it can be used to measure success of programs or initiatives aimed at reducing Workers’ Compensation costs. In this case, the District ranks second to the highest at \$2,036.93.

Risk Management – 2013-14 Workers’ Compensation Cost Per Employee



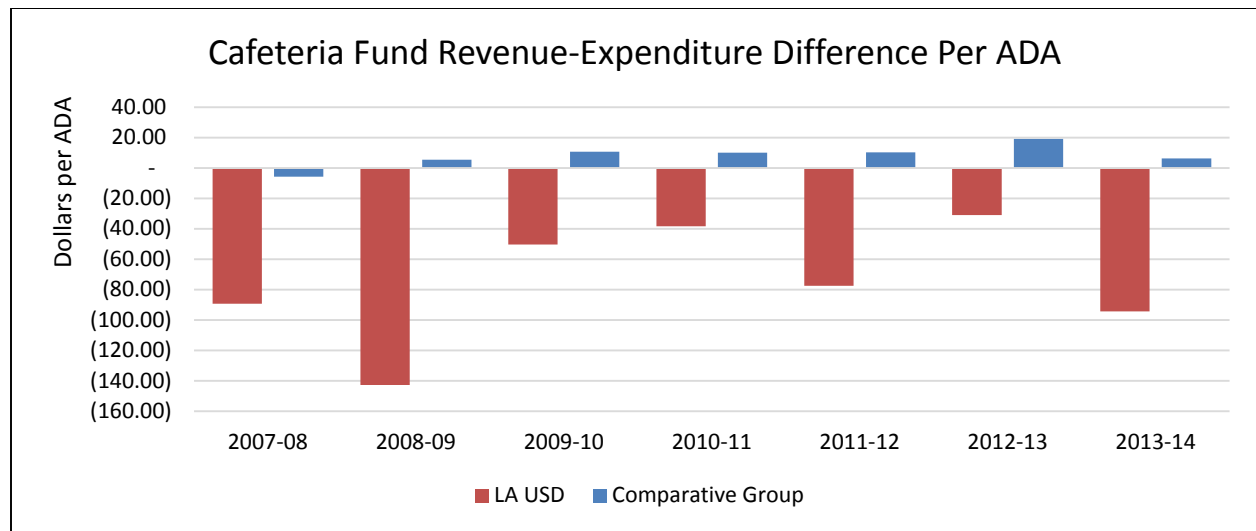
*Total Workers’ Compensation premium costs plus Workers’ Compensation claims costs incurred plus total Workers’ Compensation claims administration costs for the fiscal year, divided by total number of district employees (number of W-2’s issued).

This measure would most likely be used for the same purpose as the average cost per Workers’ Compensation claim—to measure success of programs and initiatives. It can also be a way to measure trends over time or to benchmark against other employers. In this case, the District ranks second to the highest at \$814.56.

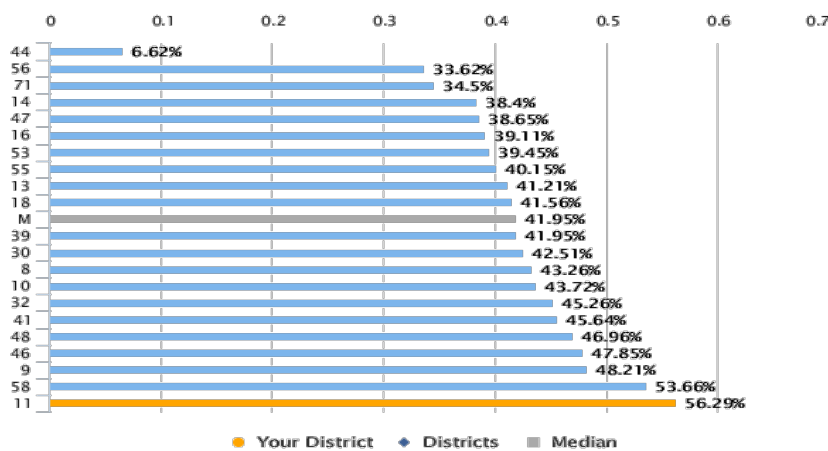
Food Service Program

Typically, a district’s food service program operates with little or no General Fund support as the expenses incurred are offset by the revenues received for the program. However, since 2007-08, the District’s food service program has operated at a loss, requiring the District to use funding from its General Fund to support the program.

In 2013-14, it is estimated that the District’s General Fund contribution to operating its food services program was almost \$50 million alone.



Food Services—2013-14 Food Cost Per Revenue

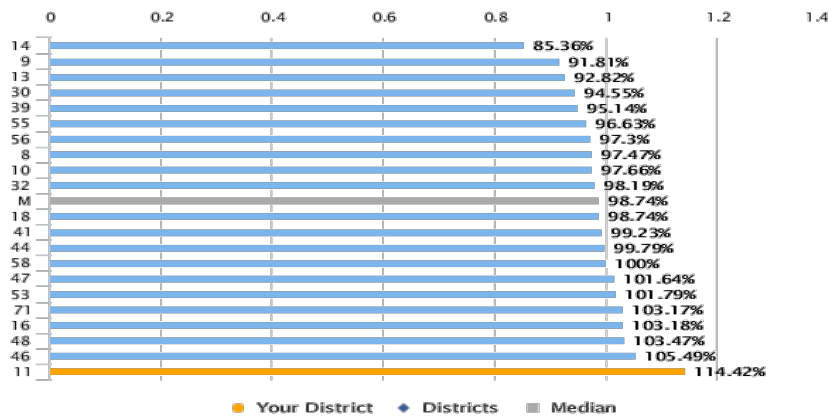


*Total food costs divided by total revenue.

Food cost is the second largest expenditure that food service programs incur. Careful menu planning practices, competitive bids for purchasing supplies, including commodity processing

contracts, and the implementation of consistent production practices can control food costs. Food cost as a percent of revenue can be reduced if participation revenue is high. In this case, the District reports the highest percentage for food cost per revenue at 56.29%.

Food Services—2013-14 Total Costs As Percent of Revenue

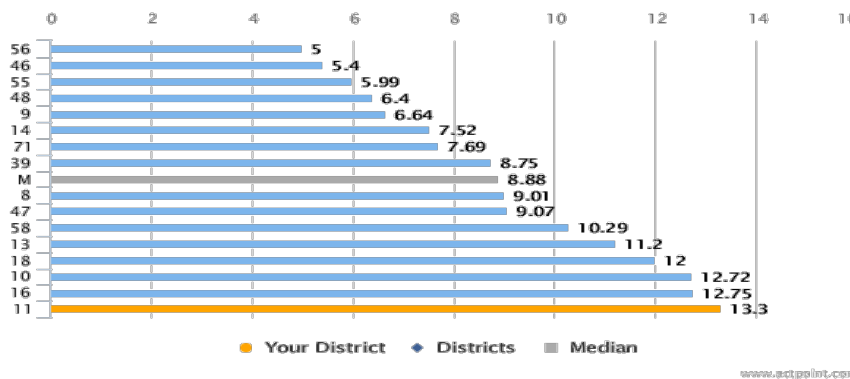


*Total direct costs plus indirect and overhead costs, divided by total revenue.

This measure gives an indication of the financial status of the food service program, including management company fees. Districts that keep expenses lower than revenues are able to build a surplus for reinvestment back into the program for capital replacement, technology, and other improvements. Districts that report expenses higher than revenues may either be drawing from their fund balance, or may be subsidized by the district’s General Fund. In this case, the District reports the highest in total costs as a percent of revenue at 114.42%.

Transportation

Transportation—Average Age of Fleet

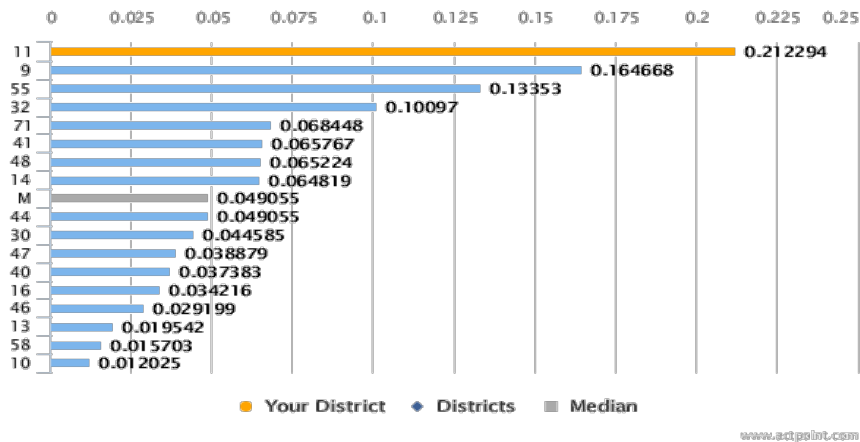


*Average age of bus fleet.

This measure is important as fleet replacement plans drive capital expenditures and ongoing maintenance costs and older fleets require more maintenance expenditures but reduce capital expenses. In this case, the District reports an average age of bus fleet of 13.3 years—the highest of the group.

Technology

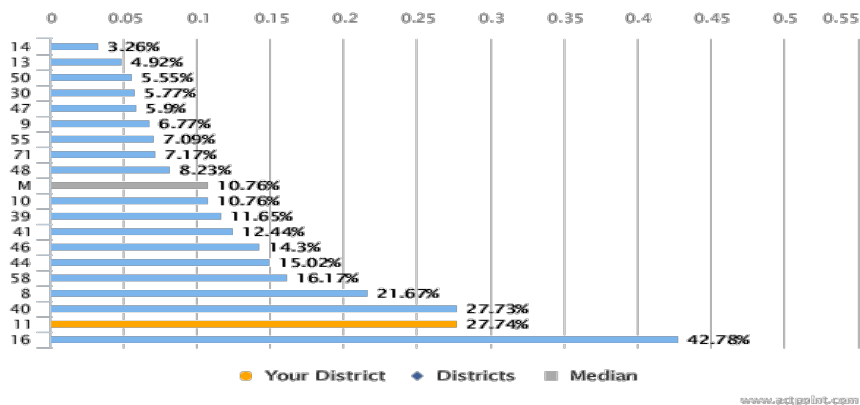
2013-14 Devices – Tablets Per Student (Student Use)



*Total number of tablets reserved for student-only or mixed teacher/student use, divided by total student enrollment.

As mobile devices are increasingly rolled out to classrooms, districts can see how they are doing compared with their peers. In this case, the District has more tablets per students than all of the districts in the comparative group.

2013-14 Support – Help Desk Call Abandonment Rate



*Number of abandoned calls to the Help Desk, divided by total number of calls to the Help Desk.

This measure assesses the percentage of telephone contacts that are not answered by the service desk staff before the caller disconnects. This measure should be used as a tool to help guide quality improvement processes. In this case, the District is a low performer as compared to the group in terms of help desk abandonment rates.

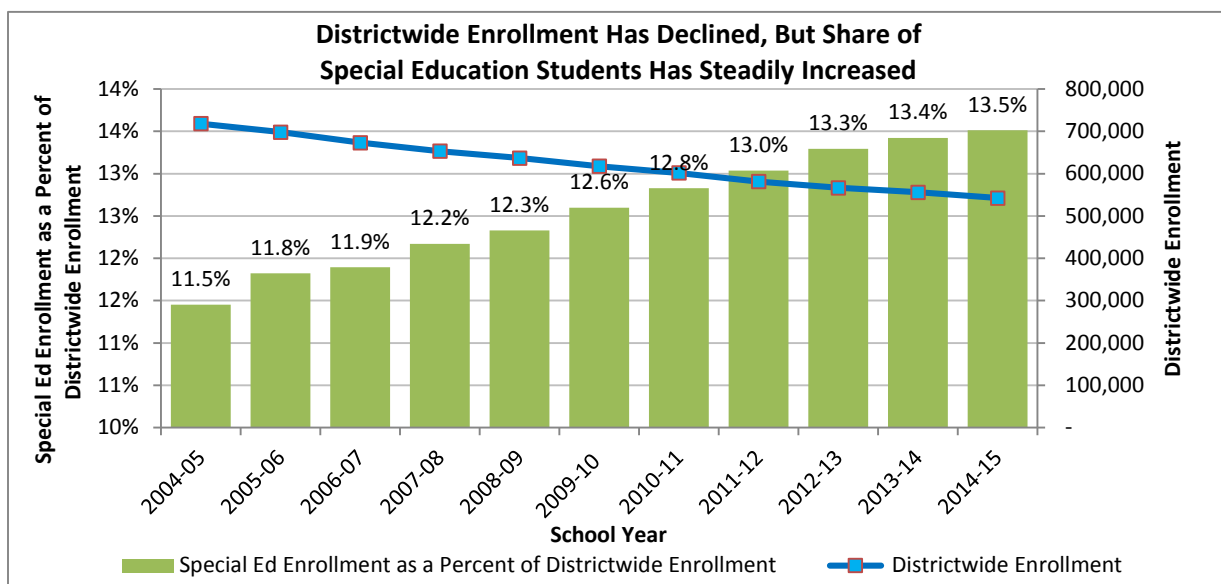
Programmatic Expenditures

Special Education

The panel chose to explore Special Education, not only because of the financial impact on the District, but also because of the huge impact education makes on the lives of students who need these specialized services. Even as the District’s overall enrollment has declined, the Special Education population has continued to increase.

The panel recognizes that the District does not receive Special Education funding equal to the cost of services provided to Special Education students. Therefore, a growing Special Education population will likely add to budget pressures in the out years.

Information provided to the panel detailed successes in serving Special Education students and efforts to comply with the myriad state and federal laws regarding Special Education. Standards for services to Special Education are defined by the IDEA. However, the requirements of this federal legislation have never been fully funded. Students are provided the needed services, but the District must identify other sources of funding to cover the cost of the services.



Findings and Recommendations

As a result of its investigation of the topic of student attendance, the panel offers the following recommendations:

Staffing and Benefits

- Offer an early retirement program to reduce staffing at the senior levels and reduce future staffing costs.
- Commit to making proportional staffing reductions in any year where enrollment declines.
- Re-staff schools mid-year to reduce staff or reallocate staff as student enrollments change.
- Increase expectations for employee attendance and reduce substitute costs.
- Eliminate the Teacher Pool
- Integrate defined benefit pension entitlements with social security for employees who are eligible for both.
- Seek to negotiate changes in the employee benefit plans to lower costs to the level offered by other comparable school districts, for example:
 - Implement a drug formulary option to save both employees and the district money on prescriptions.
 - Require staff to pay part of the premium if they choose to add family member coverage, or, alternatively, provide incentives not to add them.
 - Use the plans offered in the Federal ACA as the standard for retiree benefits coverage; close coordination with federal coverage can save the District money while maintaining high quality employee benefits.
 - Consider going to a 90/10 contribution rate health benefit plan. This change alone would save the District \$57.4 million a year.
 - Offer retirees the option of taking a lump sum payment in lieu of retiree benefits.
 - Aggressively review eligibility of employees and family members covered by District health plans.

- Negotiate a cap on District health care expenditures to reflect the decline in the number of students and staff, plan changes might be needed periodically to avoid exceeding the cap.
 - ◆ The cost to LAUSD of providing coverage to a pre-Medicare retiree can exceed \$24,000 *per year*. The cost of platinum coverage under ACA (Covered California) is less than half that amount. The District should consider switching plans.
- Refine and Accelerate Dependent Verification.
- Renegotiate the health benefits agreement and freeze all healthcare expenditures for five years.

Business Operations

- Review KPI, CADIE, and SABRE data in a public Board meeting at least twice a year.
- Review its payroll operations to improve effectiveness and efficiency.
- More aggressively manage Workers' Compensation costs.
- The District should hire a third-party consultant to consider how to implement the following ideas immediately:
 - Immediately begin doing "Compromise and Release" processes for injured employees. Included in this must be enhanced training for supervisors.
 - Move to an accelerated claims closure program. One way to accomplish this is to move claims to your Third-Party Administrator (Sedgwick) more quickly. There are many studies that show that late reporting of claims impacts the overall cost and the ultimate care for the injured employee. Common sense says this needs to be fixed, as it is in the best interest of the District and the injured employee.
 - Explore risk financing techniques, including loss portfolio transfers, excess and aggregate cover and captive financing.
 - The current Workers' Compensation system provides too many disincentives for returning to work; this needs to be improved immediately, and the investigation of the use of the 150-day statutory leave should be part of this review.
- Study further the operational metrics of the District's current warehousing and logistics support functions to determine if other means of provisioning high volume, low unit price office, art, medical, PE, custodial, and maintenance supplies afford lower cost and more efficient services to schools and departments.

- Immediately curtail and eliminate any contribution from the General Fund to the Cafeteria Fund, thus saving roughly \$50 million per year.
- Review the balance of expenditures for information technology between hardware, network, and service.

Programmatic Expenditures

- Re-evaluate the process by which students are designated for inclusion in Special Education programs.
- Identify trends in age, grade-level, disciplinary status, gender, and ethnicity to ensure students are identified for Special Education services in a principled and ethical manner.
- Avoid over identification of subgroup members, particularly Latino and African American males.
- Establish clearly defined exit strategies for students who no longer need services.
- Designate a Cabinet-level staff member to help eliminate silos that serve to create barriers to effective management of special education services.
- Follow through on the extensive programmatic review of Special Education already begun by the District.

Conclusion

Issues for Immediate Action

Savings in Millions	Issue
Upwards of \$400	Offer an early retirement program to reduce staffing at the senior levels and reduce future staffing costs.
\$100	Negotiate a cap on District health care expenditures to reflect the decline in the number of students and staff. Plan changes might be needed periodically to avoid exceeding the cap.
\$45	Increase attendance rate to the statewide average, by creating a task force of school, city law enforcement, and judicial representatives to focus on improving attendance at the poorest attended schools and grades.
\$23.2	Reduce Workers' Compensation premiums to the Statewide average per ADA.
\$50	Eliminate General Fund contribution for Food Services.
\$57	Implement 90/10 contribution rate health benefit plan.
\$10	Eliminate the Teacher Pool.
Indeterminate	Review KPI, CADIE, and SABRE data in a public Board meeting at least twice a year.

Savings in Millions	Issue
Indeterminate	Re-staff schools mid-year to reduce staff or reallocate staff as student enrollments change.
\$685.2	Total Savings

Issues to which the District Must Adapt or Accommodate

	Issue
	Study loses of enrollment to charter schools, other districts, and private schools and emulate the programs that parents believe are only offered by charter schools.
	Study the successes of extraordinary schools within the District to learn from within the District and adopt their strategies throughout the District.

Issues for Further Study

	Issue
	Complete extensive programmatic review of Special Education already begun by the District.
Upwards of \$12 million	Study further the operational metrics of the District’s current warehousing and logistics support functions to determine if other means of provisioning high volume, low unit price office, art, medical, physical education, custodial, and maintenance supplies afford lower cost and more efficient services to schools and departments.
	Review the total expenditures for information technology.
Upwards of \$25 to \$50 million	Explore risk financing techniques, including loss portfolio transfers, excess and aggregate cover and captive financing.
	Review its payroll operations to improve effectiveness and efficiency.
	District should engage schools in the improvement of attendance (and other cost-savings identified in this report—in listings) for students and staff with the expectation that the local schools and the District would benefit from any increase in revenues.

Appendix A—Meeting Agendas

May 6, 2015

AGENDA

- I. Introductions
- II. Remarks from LAUSD Leadership
- III. Goals, Objectives and Timeline
- IV. Panel Organization
- V. Lunch Break (*food will be provided*)
- VI. School Funding Overview Presentation
- VII. Discussion on Specific Revenue and Expenditure Challenges and Opportunities
- VIII. Calendar
- IX. Next Steps and Wrap-Up

June 4, 2015

AGENDA

- I. Introductions
- II. Summary of last meeting
- III. Review of Panel Goals, Objectives and Timeline
- IV. Panel Chair Election
- V. Discussion of the District Key Performance Indicators
- VI. Lunch Break (*food will be provided*)
- VII. Presentation and Discussion of the Special Education Program
- VIII. Next Steps and Wrap-Up

June 24, 2015

AGENDA

- I. Recap and Overview
- II. LAUSD Budget and Local Control Accountability Plan (LCAP)
- III. Lunch Break (*food will be provided*)
- IV. Enrollment & Attendance
- V. Graduation & Dropout Rates
- VI. Calendar Review and Preliminary Discussion on the Report

August 11, 2015

AGENDA

- I. Recap and Overview
 - i. Budget and LCAP
 - ii. Enrollment & Attendance
 - iii. Graduation & Dropout Rates
- II. Preliminary Discussion on the Report
- III. LAUSD Retirement/Pensions – Ron Bennett and John Gray
 - i. Contribution Rates
 - ii. Budget Impact
 - Multi-year projection
- IV. Lunch Break (*food will be provided*)
- V. Ramon Cortines
- VI. LAUSD Benefits – Peter Taylor & Janice Sawyer
 - i. OPEB
 - ii. Health & Welfare
- VII. LAUSD Staffing – Maria Salazar?
 - i. Contract Pool
- VIII. Calendar Review & Subcommittee Discussion

September 17, 2015 (Conference Call)

AGENDA

- I. Recap and Overview
- II. Subcommittee Updates
- III. Focus Area Discussion
- IV. Report Draft Editing Process
- V. Future Meetings

October 8, 2015

AGENDA

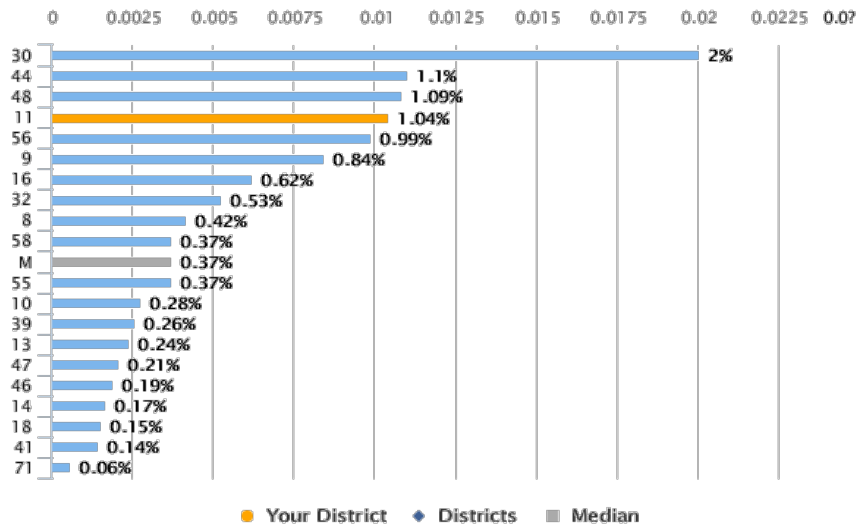
- I. 10:30 – 10:40 – Recap
- II. 10:40 – 11:10 – United Teachers Los Angeles
- III. 11:10 – 11:30 – California School Employees Association
- IV. 11:30 – 11:50 – Service Employees’ International Union (Unconfirmed)
- V. 11:30 – 12:40 – Working Lunch
- VI. 12:40 – 1:00 – Associated Administrators of Los Angeles
- VII. 1:00 – 1:30 – LA/Orange Counties Building & Construction Trades Council , Los Angeles School Police Management Association
- VIII. 1:30 – 3:00 – Focus Area discussion

Appendix B—KPI Benchmarks

The panel spent considerable time comparing the District to other large school districts to determine the extent to which “best practices” had been implemented in the District. The panel compared LAUSD first with other large school districts in California, then with other large school districts across the nation, and finally with longitudinal comparisons of the District against its own performance over time. The panel focused its efforts on topics for which the District was an “outlier”, i.e., well above or below the performance of other large districts. The areas chosen for benchmarking include:

- Measures of financial efficiency
- Risk management practices
- Costs of support services provided
- Procurement practices
- Staffing practices and retention
- Food Services
- Transportation

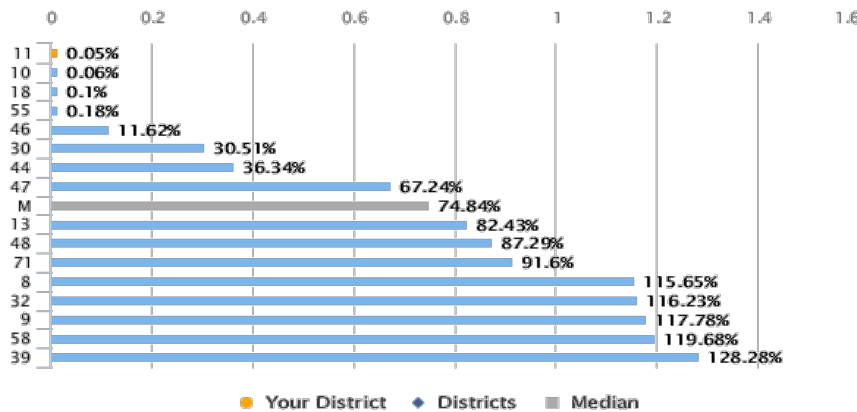
Cash Management – 2013-14 Investment Earnings as Percent of Cash/Investment Equity



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This chart indicates the rate of return on cash and investment assets. It reflects the degree to which the District uses its available assets to build value. In this case, the District ranks well above the median of the group at 1.04%.

Financial Management – 2013-14 Debt Principal Ratio to District Revenue

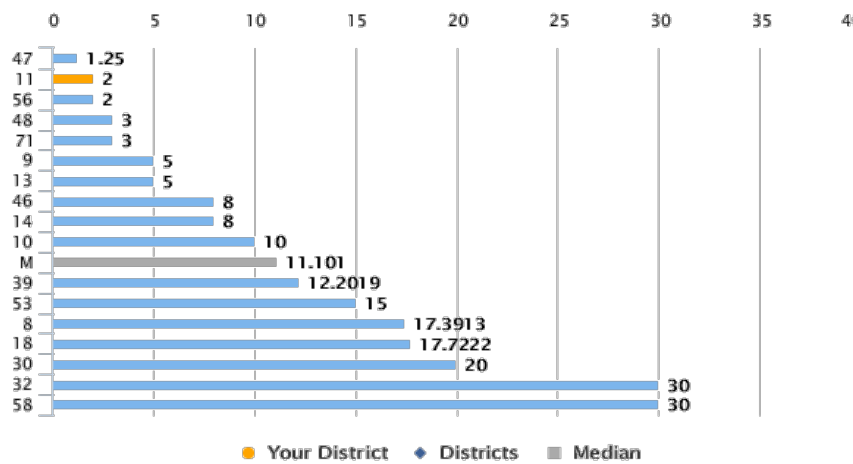


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*Calculated by total debt principal, divided by total debt servicing costs.

This evaluates the total level of debt that the District currently owes relative to its annual revenue. In this case, the District ranks as a top performer among the comparative group at 0.05%.

Grants Management—2013-14 Grants Receivables Aging—Days to Process

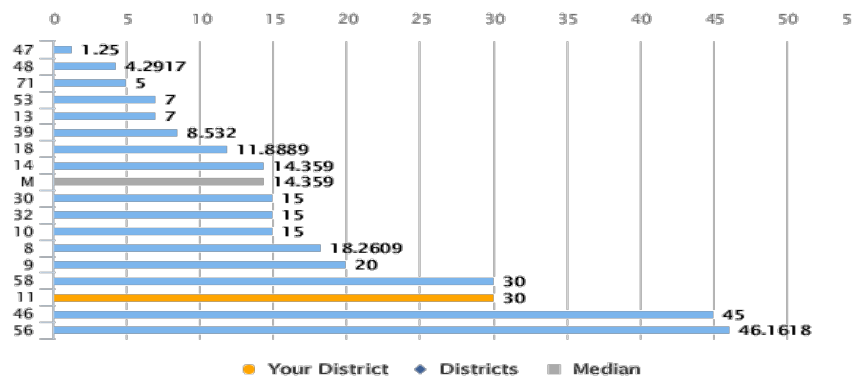


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*Aggregate number of calendar days to internally process grants receivables invoices, from date grant reimbursements are filed to date invoice is submitted to the grantor, divided by total number of grants receivables invoices submitted.

This measure is important as the total aging greater than 30 days may indicate that expenditures have not been submitted timely to funding agency or funding agency is slow in sending reimbursement thereby requiring follow-up. In this case, the District ranks as a top performer among the comparative group at only two days to process.

Grants Management – 2013-14 Grants Receivables Aging – Days to Receive



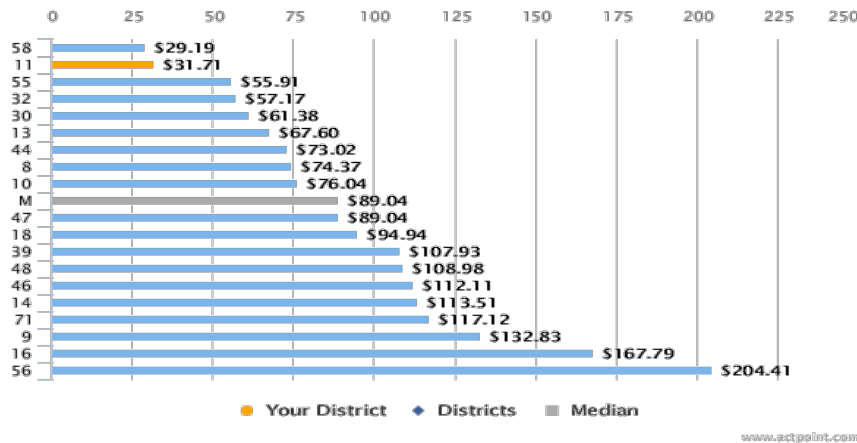
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*Aggregate number of calendar days to receive is payment of submitted invoices, from date invoice is submitted to the grantor to date payment is received, divided by total number of grants receivables invoices submitted.

This measure is important as the total aging greater than 30 days may indicate that expenditures have not been submitted timely to funding agency or funding agency is slow in sending reimbursement thereby requiring follow-up. Interestingly, in this case, the District ranks as a low

performer among the comparative group in receiving payment; whereas, in the previous graph, the District is a top performer in days to process.

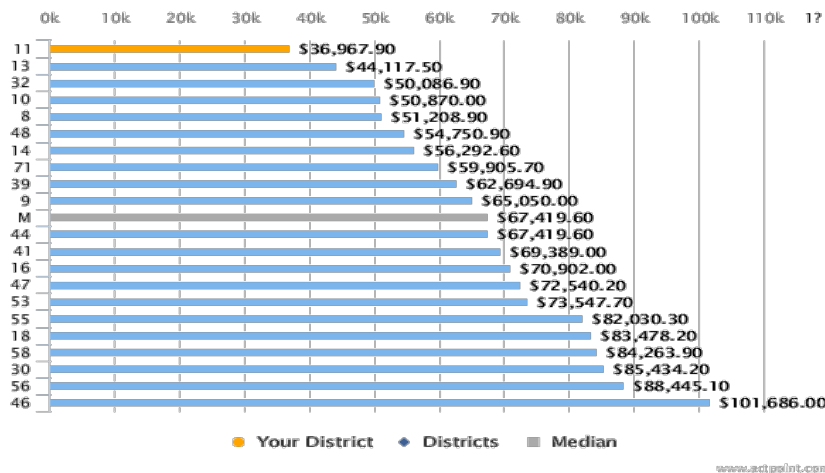
Procurement – 2013-14 Procurement Costs Per 100,000 Revenue



*Total procurement department expenditures, divided by total district revenue over 100,000.

This measure is important as it identifies the indirect cost of the procurement function as compared to the total district revenue. Assuming all other things being equal, this is a relative measure of the administrative efficiency of district’s procurement operations. In this case, the District spends less than all but one district at \$31.71.

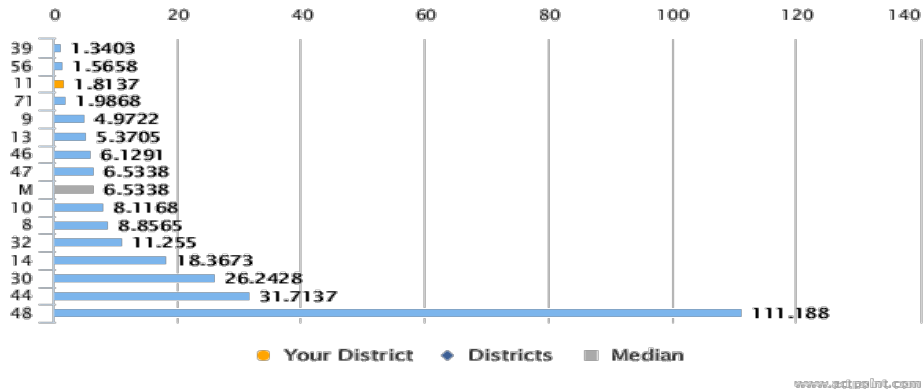
Procurement—2013-14 Procurement Staff Cost Per FTE



*Total procurement department personnel expenditures (including benefits), divided by total number (FTE) of procurement staff.

This measure is important as it can be used to evaluate staffing costs. In this case, the District spends the lowest among the comparative group at \$36,967.90 per FTE.

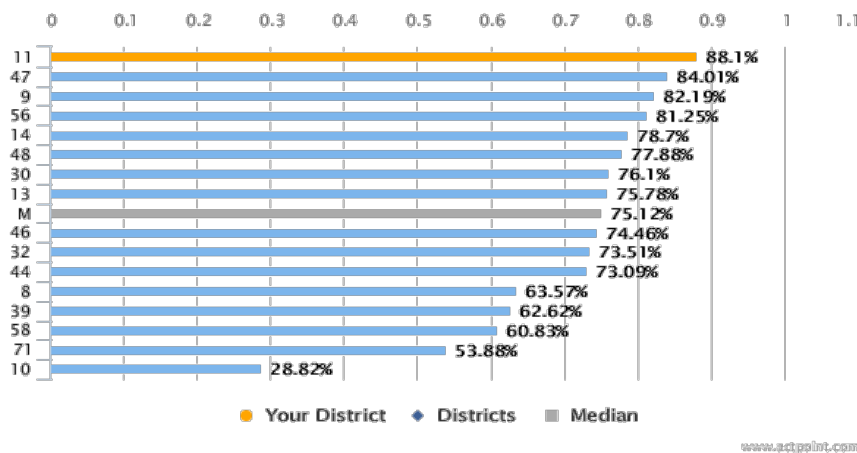
2013-14 Employee Relations—Misconduct Investigations Per 1,000 Employees



*Number of misconduct investigations, divided by total number of district employees (FTEs) over 10,000.

This measure is an indicator of the effectiveness of hiring and supervisory practices within a district. Administrative costs associated with investigation and resolution diminish resources that could be used more for productive educational purposes. High instances of alleged employee misconduct reflect a negative public image of the district. In this case, the District ranks lower than a majority of the districts.

2013-14 Teacher Retention Remaining After 1 Year

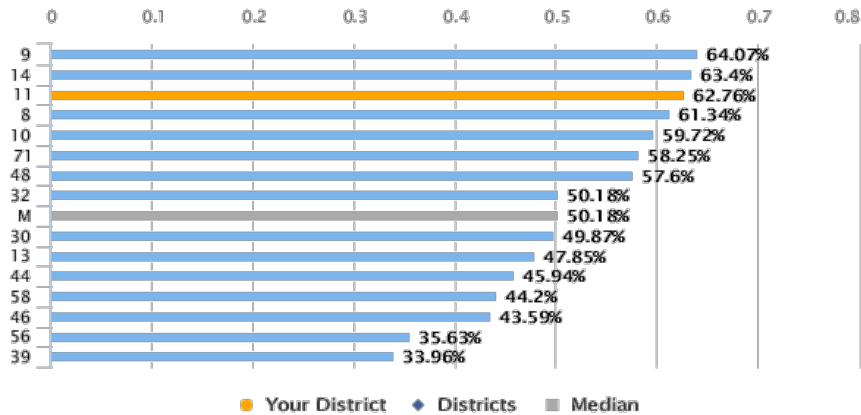


*Number of teachers retained after one year, divided by number of teachers that were newly hired one year ago.

By tracking, monitoring, and examining retention of first year teachers, districts can measure early attrition rates and thereby manage the cost of bringing in new teachers, revised mentoring/

induction program, and maintain desired staff continuity. In this case, the District has the highest percentage of teachers retained after one year at 88.1%.

2013-14 Teacher Retention Remaining After Four Years

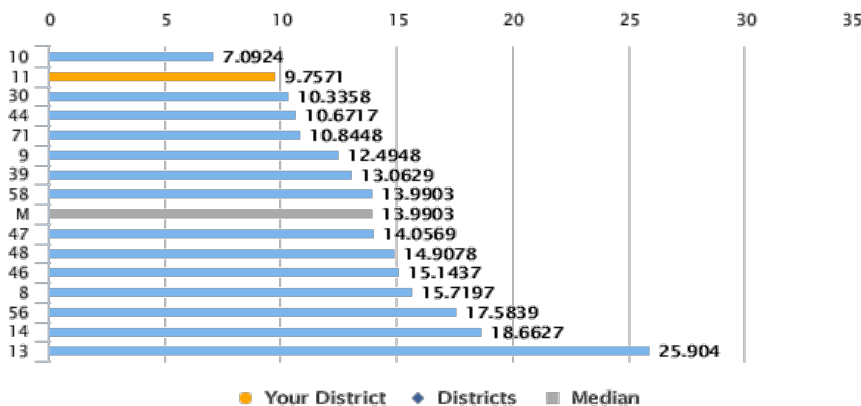


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*Number of teachers retained after four years, divided by number of teachers that were newly hired four years ago.

The measure of attrition rates helps districts identify “hot spots” within a district by tracking, monitoring, and examining teacher retention on a school-by-school basis. This data can be used to show that continuity of teaching staff within a school has a positive effect on student achievement. In this case, the District is a top performer compared to the group at 62.76%.

2013-14 Teacher Absences Per Teacher

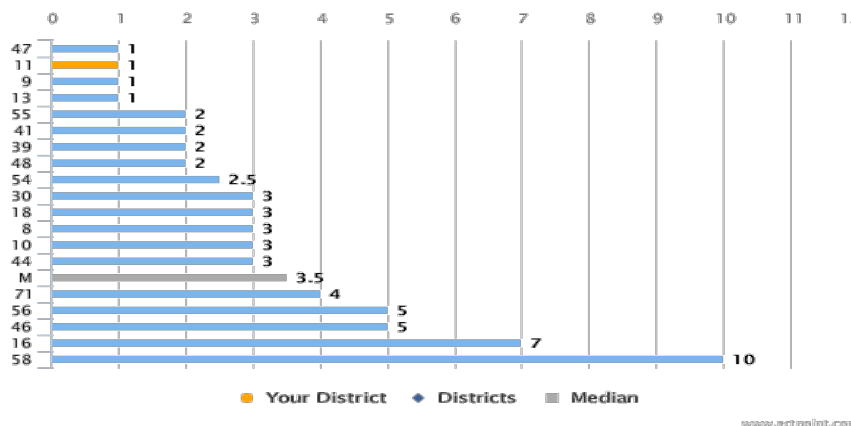


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*Total number of student attendance days that classroom teachers were absent from their classrooms, divided by total number of teachers (FTEs).

High teacher absenteeism can be problematic for students, and should be addressed with strategies to discourage teacher absences. In this case, the District ranks as a top performer as compared to the group.

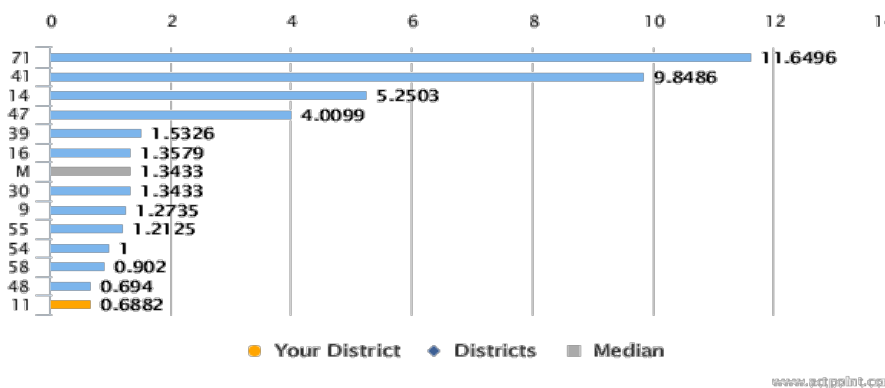
Transportation—Turn Time to Place New Students—General Education



*Average number of school/business days, from notification to route assignment, to place new enrollees on a bus route – general education.

This measure indicates the cycle time it takes to place a student—it is a customer service measure. In this case, the District ranks as a top performer as compared to the group.

Transportation—Bus Usage Live Miles Per Deadhead Mile



*Total number of live miles, divided by the difference between total miles and live miles for both district and contractor buses.

This measure is essentially an efficiency indicator for transportation services. The lower the amount of deadhead a district experiences could indicate a well-run operation. Reducing deadhead miles reduces fuel consumption, vehicle maintenance, and other costs of operation. In this case, the District ranks the lowest compared to the group at 0.6882 bus usage miles per deadhead mile.

Los Angeles Unified School District

Report of the Independent Financial Review Panel

November 10, 2015

In this case, the District reports an average live mile per deadhead mile of 0.69 miles – the lowest of the comparative group.

Appendix C—Panel Participants

Maria R. Anguiano currently serves as Vice Chancellor for Planning and Budget at the University of California (UC), Riverside. In that position, she oversees resource planning and management, financial policy, information systems support, statistical information management, institutional research, and capital, environmental, space, and strategic planning. Ms. Anguiano has also served as a senior advisor to the Bill and Melinda Gates Foundation Postsecondary Success Team. There, she created a new costing framework to help improve financial reporting for universities nationwide. Prior to this work, Ms. Anguiano worked at Barclays Capital in public finance investment banking and at Deloitte & Touche in corporate and nonprofit auditing and financial statement analysis. Ms. Anguiano holds an MBA from the Stanford Graduate School of Business and a BA in Economics-Accounting and Spanish from Claremont McKenna College. She is a first generation college graduate.

Delaine Eastin served as the California State Superintendent of Public Instruction (SPI) for eight years from 1995 to 2003, the first and only woman in history elected to that position. As an elected constitutional officer, Delaine managed more than 40% of the California budget and oversaw the education of 6.1 million children. While serving as SPI, she advocated for reduced class size in K-3, better technology and more hands on learning, a restoration of arts, career and technical education, school gardens and improved nutrition for children, school libraries and a longer school year, state academic standards and assessments aligned to those standards. She was the architect of the first Net Day, an electronic barn raising, copied in 40 states and 40 countries. She also advocated for Universal Preschool and full-day mandatory kindergarten for which she continues to advocate.

Prior to serving as SPI, Delaine served eight years in the California State Assembly where she chaired several committees including the Education Committee. She authored what was the largest school bond in history. She also authored legislation to provide for better financial oversight of schools and a host of other educational improvements.

After retiring as SPI, Delaine was the first Executive Director of the National Institute for School Leadership in Washington, D.C., and then a Distinguished Visiting Professor of Educational Leadership at Mills College in Oakland. She now does speaking and consulting.

Michael H. Fine, serves as the Chief Administrative Officer for the state's Fiscal Crisis and Management Assistance Team (FCMAT). FCMAT provides fiscal advice, management assistance, professional development and other related school business services to assist local educational agencies fulfill their financial and management responsibilities. Prior to joining FCMAT in 2015, Michael served a combined thirteen years as Interim Superintendent and Deputy Superintendent for Business Services and Governmental Relations in the Riverside Unified School District. He has previous experience as Assistant Superintendent at Newport-Mesa USD, and at

Hughes Aircraft Company and General Dynamics Corporation as a Financial Administrator in accounting and indirect budgets.

Bill Lockyer, is a member of Brown Rudnick’s Government Law and Strategies team in the Orange County office. He is a widely admired California politician who never lost an election. He most recently served as the 32nd State Treasurer of California, elected in 2006 and re-elected in 2010 with more votes than any other candidate in the nation. He also has served as California Attorney General. Prior to that, he served over twenty five years in the California State Legislature, more than half that time in the State Senate, where, for the last four years of his tenure, he was chosen by his peers to be President Pro Tempore, the most powerful position of the upper legislative house.

Dr. Darline Robles, the former superintendent of Los Angeles County Office of Education, is a Professor of Clinical Education at the University of Southern California, Rossier School of Education. In addition to teaching in the school’s doctoral and masters programs, Dr. Robles is responsible for the development of a new online Master’s degree program in school leadership. She leads the program development effort in conjunction with faculty, external organizations and experts. She is also an expert in the areas of urban education, program development, and school leadership.

Dr. Robles was appointed County Superintendent of Schools in June 2002, and she led the nation’s largest regional education service agency, serving 93 school districts and 55 joint power agencies that educate 1.7 million students from pre-kindergarten through community college, until her retirement in August 2010. She was the first woman and Latina to serve in the post. As superintendent, Robles focused on at-risk and special needs students in schools run by the Office of Education, and directed services to cash-strapped districts, particularly those with low-performing schools. She also led a reorganization of the Office’s highly lauded Head Start preschool program. Dr. Robles and her co-authors, Dr. Ott and Dr. Franco wrote and published *A Culturally Proficient Society Begins in School: Leadership for Equity*, in 2011 by Corwin Press.

Prior to this position, Dr. Robles served as Superintendent of Schools for Salt Lake City School District where she was successful in closing the achievement gap and significantly reducing the dropout rate, and as Superintendent of Schools for Montebello Unified School. In October 2009 and 2011, Dr. Robles was named one of the nation’s top 100 influential Hispanic Americans by Hispanic Business magazine and in March 2010 was a “Women of the Year” recipient by the L.A. County Commission for Women. Dr. Robles is committed to public service and serves on many local and national boards. She was named to the President’s Advisory Commission on Educational Excellence for Hispanics. Dr. Robles received her Ph.D. in Education Policy and Administration from the University of Southern California, her M.A. in Education from the Claremont Graduate School, her B.A. in History from California State University, Los Angeles and her A.A. in History from East Los Angeles College.

Miguel Santana, serves as the City Administrative Officer for the City of Los Angeles since 2009. Mr. Santana reports directly to the Mayor and the City Council. As the CAO, his office has direct oversight over the City's \$8.1 billion budget, labor negotiations, debt management and major policy issues as directed by the Mayor and/or City Council, including the proprietary departments of Department of Water and Power, Airport and Harbor. He has more than 25 years of experience managing numerous fiscal, legislative, political, and community issues. Prior to this position, he served as one of five Deputy Chief Executive Officers for Los Angeles County. As Deputy CEO, Mr. Santana provided oversight to all of the County's social service departments including the Department of Children and Family Services, Public Social Services, Child Support, Military and Veterans Affairs and the Human Relations Commission. Collectively, these departments represented \$9 billion of the \$22 billion annual County budget.

A graduate of Whittier College and the John F Kennedy School of Government at Harvard University, Mr. Santana is also a proud parent of a Los Angeles Unified School District high school graduate.

Darrell Steinberg, shareholder in the Sacramento office of Greenberg Traurig LLP and Chair of the California Government Law & Policy Practice. He provides strategic counsel to clients with matters involving state and local government. He is one of the most respected political leaders in California, having most recently served as President Pro Tem of the State Senate from 2008 to 2014. His career of more than 20 years in public service also included six years in both the State Assembly and the Sacramento City Council. Over the course of his legislative tenure, Steinberg forged difficult agreements to usher the state from a \$42 billion deficit to a surplus budget, implemented groundbreaking mental healthcare legislation, strengthened the state's foster care system, improved K-12 education standards, reformed the statewide ballot initiative, and made historic investments in California's water and transportation infrastructure. Mr. Steinberg is also the Founder and Board Chair of The Steinberg Institute for Advancing Mental Health Policy.

Peter J. Taylor, serves as President of the ECMC Foundation, a grantmaking organization committed to facilitating improvement that affect educational outcomes—especially among underserved populations—through evidence-based innovation. From 2009 to 2014, he served as the Executive Vice President and Chief Financial Officer for the University of California (UC) system. During his time at the UC system, Mr. Taylor oversaw all aspects of financial management at the ten campuses and five academic medical centers. Previously, Mr. Taylor held senior positions in investment banking, including at Barclays Capital where he served as Managing Director of public finance. His experience encompasses governmental work as well, including six years on the legislative staff of the California State Assembly Majority Leader. Active in the community, Mr. Taylor currently serves on the Board of Trustees of the California State University system, the Kaiser Family Foundation, the California Community Foundation, and the J. Paul Getty Trust, where he serves as chair of the Audit Committee. Previously, he chaired the James

Irvine Foundation board of directors for three years, and was President of the Board of Directors of the UCLA Foundation. Mr. Taylor is a graduate of the Los Angeles Unified School District schools.

Kent Wong, serves as Director of the UCLA Labor Center, where he teaches courses in labor studies and Asian American studies. He previously served as staff attorney for the Service Employees International Union. He was the founding president of the Asian Pacific American Labor Alliance, the founding president of the United Association for Labor Education, and currently is vice president of the California Federation of Teachers.