The Current Financial Picture

SELECTED QUESTIONS FROM DECEMBER AND JANUARY BOARD BUDGET MEETINGS

Question 1 - **If total revenues have generally increased over the years and the district is operating fewer schools and students, why does the district still face a financial strain in 2025?**

- *Even though total revenues have increased over the years, the district is still experiencing financial strain in 2025, primarily due to rising personnel costs. Although the number of certified and classified personnel is lower than in 2017, the reductions have not kept pace with declining enrollment. Over the past several years, the number of full-time equivalent (FTE) positions has increased, and personnel expenses remain the largest portion of the district's budget. While student enrollment and the number of schools have decreased, the district has not made corresponding reductions in staff levels. As a result, staffing costs have continued to grow despite operating a smaller system. Additionally, salary schedules, required benefits, health insurance premiums, and retirement contributions have all increased significantly, further driving up personnel costs. In short, the financial strain is largely due to increased FTEs, rising compensation and benefit costs, and the failure to reduce staff levels in line with declining enrollment.*

Question 2 - **What conditions allowed the fund balance to increase by 15+ million in 2021-22, and what contributed to the fund balance being 33 million plus in 2017-18?**

- *The fund balance increased by more than $15 million in 2021–22 due to several unique, non-recurring financial conditions. That year, the district completed a debt restructuring that significantly reduced its required debt service payments, creating temporary budgetary relief. In addition, a substantial portion of employee salaries and benefits, typically funded through the district's operating budget, was paid with ESSER funds. These two factors combined to reduce general fund expenditures that year, allowing the district to accumulate an unusually high fund balance. It's important to note that these were one-time conditions and are not sustainable sources of long-term financial stability.*

- *The $33 million fund balance in 2017-18 resulted from the last desegregation payment before construction began on projects to replace McClellan High School.*

Question 3 - **Identify the years when LRSD had additional operating funds (desegregation and ESSER/COVID) and when LRSD did not. What is the impact of this change, and how does it contribute to our current financial stressors?**

- *This should not affect current conditions. However, the district's last desegregation payment was in 2017-18, and ESSER/COVID funds began in 2019-20. The significant implication is that district employees may have become accustomed to the district having "extra funds" to supplement areas of our budget. We used these "extra funds" for*

personnel, programs, resources, materials, and other expenses from 1989 to 2018 (a total of 600+ million in desegregation funds) and from 2019 to 2024 (a total of 100+ million in ESSER/COVID funds). *From 1989 to 2018 and then from 2019 to 2024, LRSD had "extra funds" for 34 years.* ***The new norm for LRSD is that we no longer have these "extra funds."*** *The district must understand and adapt to this new norm.*

Question 4 - **Identify recent significant categorical expenditure increases (within 3-5 years) and determine the cause(s) of the increase.**

- **Salaries** - *The significant increases in expenditures beginning in FY 2023 and the even larger increase in FY 2024 are primarily due to higher personnel costs. In FY23, the district implemented salary increases for certified staff, which substantially increased ongoing compensation obligations. In FY24, teacher salaries were increased again to align with the 50K minimum for new teachers and the additional compensation for veteran teachers required by the LEARNS Act. Unlike most districts in the state, LRSD maintained step increases for all teachers and additional compensation for advanced degrees. The transition to the new network support structure also added personnel across multiple areas, further expanding total staffing costs.*

- **Purchased Services** - *Mainly outsourced custodial service at a limited number of schools. The transportation services are explained below.*

- **Student Transportation** - *The increase in transportation costs is also driven by expanded magnet options for students, which require additional routes to accommodate broader school choice. At the same time, the district experienced higher contract rates with First Student under the new agreement. Together, the added routes and increased vendor costs have significantly contributed to the overall rise in transportation expenditures.*

- **Special Education Services** - While state funding for Special Education has decreased from 2017 to 2026, the number of students with disabilities in LRSD has increased significantly from 2017 (12%) to 2026 (18%). There is a $29 million gap between the revenue the district receives for SPED services and the amount it actually spends on SPED services from its operating budget. How is this high cost to the district explained?
    - *Although state revenues for Special Education declined from 2017 to 2026, the district's Special Education population grew significantly—from 12% of students in 2017 to 18% in 2025. This increase means the district must provide services to a much larger number of students, even as funding has not kept pace. Special Education services are federally and state-mandated, and many costs, such as specialized staffing, paraprofessionals, related services (OT, PT, speech), transportation, evaluations, and compliance requirements, are unavoidable. As the number of students with disabilities has grown, the district has had to add more personnel and services to meet legal obligations under IDEA,*

regardless of funding levels. The result is a significant funding gap between what the state provides for Special Education and what the district actually spends from its operating budget. In short, the high cost is driven by declining state funding, a substantial increase in the number of students requiring services, and the mandated nature of those services, all of which place additional financial pressure on the district.

THE CHALLENGE:

- Operating Expenditure Reduction Goal = **$12- 15 million estimated**
- Operating Fund Balance Goal = +2 - 2.5 million in FYs 27 - 30
    - Total of +8 -10 million over the next four fiscal years