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January 14, 2010

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Mrs. Mary Stanton, Board President
Long Beach Unified School District
1515 Hughes Way
Long Beach, CA 90810

Dear Mrs. Stanton:

In accordance with the provisions of Education Code (EC) Section 42131, a review of the Long Beach Unified School District's (District) First Interim Report for fiscal year 2009-10 has been completed by the Los Angeles County Superintendent of Schools. Our analysis of the data provided indicates that the District should be able to meet its financial obligations for the current and two subsequent years with the implementation of specific Board-approved budget reductions and a fiscal stabilization plan that restores the District's required minimum level of Reserve for Economic Uncertainties for 2011-12. **We therefore concur with the District's positive certification** and offer our comments and concerns regarding the following issues.

RESERVE FOR ECONOMIC UNCERTAINTIES

We noted in our review of the First Interim Report that the District is projecting reserve levels at 5.20 percent for 2009-10, 2.13 percent for 2010-11, and 2.24 percent for 2011-12. While the projected reserves meet the minimum 2.0 percent requirement of the State Criteria and Standards, the District's First Interim Report included unallocated expenditure amounts of \$23 million for 2010-11 and \$89 million for 2011-12.

When the District's multiyear projections are adjusted for these nonspecific expenditure reductions, the unrestricted General Fund balances for both 2010-11 and 2011-12 are negatively impacted and decrease to negative \$5.64 million for 2010-11 and negative \$72.04 million for 2011-12. The corresponding projected reserve levels for 2010-11 and 2011-12 decrease to negative 0.93 percent and negative 9.45 percent, respectively. Both reserve levels are below the minimum 2.0 percent requirement of the State Criteria and Standards.

However, concurrent with the First Interim Report, the District Board on December 15, 2009, adopted "2010-11 Budget Reductions and Revisions - Phase I." These budget revisions include several actions that have partial implementation beginning in 2009-10. When the District's multiyear projections are adjusted for these expenditure reductions and transfers, the unrestricted General Fund balances are projected to be \$55.60 million for 2009-10, \$16.86 million for 2010-11 and negative \$41.84 million for 2011-12. The corresponding projected reserve levels become 7.33 percent for 2009-10, 2.06 percent for 2010-11 and negative 5.79 percent for 2011-12. While the reserve levels for 2009-10 and 2010-11 meet the minimum 2.0 percent requirement, the reserve level for 2011-12 does not. We are requesting that the District adopt and submit a fiscal stabilization plan that restores the required minimum reserve level for 2011-12 with its 2009-10 Second Interim Report, due to the Los Angeles County Office of Education (County Office) on or before March 17, 2010.

DEFICIT SPENDING

The District is projecting an operating deficit of \$31.8 million, representing 4.26 percent of the District's projected expenditures and other outgo for fiscal year 2009-10. The District also projects an operating deficit of \$37.0 million (4.98 percent) for 2010-11 and no deficit for 2011-12. However, when the 2010-11 and 2011-12 unallocated expenditure amounts are reversed in the multiyear projections, the operating deficits become \$60.0 million (7.83 percent) for 2010-11 and \$88.7 million (11.40 percent) for 2011-12.

When the 2010-11 Budget Reductions and Revisions - Phase I are included in the District's multiyear projections the projected operating deficits become \$17.0 million (2.32 percent) for 2009-10, \$37.5 million (5.04 percent) for 2010-11 and \$58.5 million (7.82 percent) for 2011-12. We request that the District address the projected deficits along with its 2011-12 fiscal stabilization plan and provide the County Office with a narrative, along with its Second Interim Report.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District's First Interim Report, labor contract negotiations for 2009-10 remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. Because labor costs make up a large portion of the District's budget, we are concerned that any salary and benefit increase, if paid from reserves or other one-time resources, could adversely impact the fiscal condition of the District.

This letter is a reminder that, before the District's Board of Education takes any action on a proposed collective bargaining agreement, the District must meet the public disclosure requirements of Government Code Section 3547.5 and the California Code of Regulations Title V, Section 15449.

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The document used for this analysis was included in Urgent Bulletin No. 2, dated July 1, 2009, and is titled "2009-10 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements." This document can be found at the following Web site:

www.lacoe.edu/bas

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2009-10 First Interim reflects declining enrollment. The District's projected revenue limit average daily attendance (ADA) is 82,553 for 2009-10, 81,316 for 2010-11, and 80,178 for 2011-12. The estimated impact of the declining enrollment on the District's projected revenue limit ADA reflects a two-year loss totaling 2,375 ADA, representing a 2.88 percent decrease from the District's 2009-10 ADA.

We remind the District that EC Section 42238.5(a)(1) allows districts with declining attendance to continue to receive funding based on **the greater of** prior year or current year actual attendance. This provides, in effect, a one-year cushion for the loss of revenue due to declining enrollment/attendance. However, the District will lose state funding over time if the decline in enrollment continues.

We request that the District carefully monitor its enrollment trends and adjust its financial projections accordingly for the current and subsequent fiscal years, if further material reductions in enrollment occur or are expected to occur.

CASH FLOW PROJECTIONS

There are several factors presenting a significant disruption to normal cash flow patterns in 2009-10. The State is deferring approximately 25 percent of the Principal Apportionments for 2009-10 into the next fiscal year, pursuant to SBX4 16. The District incorporated the deferrals in its cash flow projections, resulting in a cash balance of only \$6.95 million in June 2010. However, if the State continues or increases apportionment deferrals that would result in a reduced revenue stream, the District's cash flow would be adversely affected and could become negative in June 2010.

We note that the District has a temporary inter-fund cash borrowing resolution adopted by the Board on June 16, 2009. Please provide an update on the District's ability to maintain a positive cash balance with the Second Interim Report.

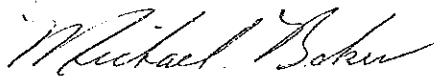
CONCLUSION

Thank you for providing documentation that supports the District's positive certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2009-10 First Interim Report and in verifying the District's fiscal condition.

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We are aware that the information provided reflects the District's financial position and assumptions as of October 31, 2009, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2009-10 and develop your projections for 2010-11 and 2011-12. We wish to express our appreciation to the District staff for their cooperation during the review of the 2009-10 First Interim Report. If our office can be of further assistance, please call me at (562) 922-6226.

Sincerely,



Michael Baker
Business Services Consultant
Division of Business Advisory Services

MB:gm

cc: Mr. Steinhauser, Superintendent
Mr. Stallings, Chief Business and Financial Officer
Ms. Ng, Financial Services Officer
Ms. Ginder, Executive Director, Fiscal Services
Mr. Shelton, Los Angeles County Office of Education (LACOE)
Mr. Iizuka, LACOE
Mr. Burdy, LACOE
Ms. Dunn, LACOE
Ms. Fees, LACOE