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January 12, 2009

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Mr. Jon Meyer, Board President
Long Beach Unified School District
1515 Hughes Way
Long Beach, CA 90810

Dear Mr. Meyer:

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 2008-09 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 2009-10 and 2010-11. **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 included various unallocated expenditure reductions as a place holder for reductions that District staff have indicated are yet to be determined and approved by the District's Governing Board. The District has indicated that these reductions are to be determined by future Board actions and reflect a commitment by the Board to meet the District's reserve requirements in the subsequent fiscal years. Without Board action, the District's adjusted reserve levels would be 1.25 percent and negative 2.36 percent for 2009-10 and 2010-11, respectively.

The District is requested to develop and submit a detailed list of Board-approved specific and ongoing budget reductions for 2009-10 and 2010-11 that will enable the District to meet its reserve commitment with its

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2008-09 Second Interim Report, due to the Los Angeles County Office of Education on or before March 16, 2009.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2008-09 First Interim Report continues to project declining enrollment. The District's projected revenue limit funded average daily attendance (ADA) is 83,169 for 2008-09, 81,506 for 2009-10, and 79,877 for 2010-11. The District's estimated impact of declining enrollment on its projected average daily attendance reflects a two-year loss totaling 3,292 ADA, representing a 3.96 percent decrease from the District's 2008-09 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 as 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.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District's First Interim Report, labor contract negotiations for 2008-09 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. The document used for

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this analysis was included in Urgent Bulletin No. 2, dated July 10, 2008, and is titled "2008-09 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

GOVERNOR'S FLEXIBILITY OPTIONS

As adopted, the State Budget did not include the Governor's May Revision flexibility options. We had noted in our budget approval letter dated August 7, 2008, that the District's assumptions included the flexibility option to reduce its Restricted Maintenance Account (RMA) contribution from 3.0 percent to 2.4 percent for 2008-09. As requested, the District has restored the RMA contribution to the required amount.

CASH FLOW

We recommend to all districts that they continue to monitor their cash flow. As the State deals with its financial crisis, there are several proposals which include the potential deferral and/or reduction of apportionment payments to school districts and agencies, both for the current and upcoming budget year. Should any of these proposals be enacted, there could be a significant impact on the availability of cash for district use. We recommend that districts review their cash requirements as they plan for the rest of this fiscal year and in planning for 2009-10.

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 2008-09 First Interim Report and in verifying the District's fiscal condition.

We are aware that the information provided reflects the District's financial position and assumptions as of October 31, 2008, 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

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you plan for the remainder of 2008-09 and develop your projections for 2009-10 and 2010-11. We wish to express our appreciation to the District staff for their cooperation during the review of the 2008-09 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, Budget Director
Ms. Thorpe, Accounting Director
Mr. Shelton, Los Angeles County Office of Education (LACOE)
Mr. Iizuka, LACOE
Mr. Villanueva, LACOE
Mr. Burdy, LACOE
Ms. Dunn, LACOE
Ms. Fees, LACOE