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## Los Angeles County Office of Education

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Arturo Delgado, Ed.D.  
Superintendent

April 16, 2012

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Board of Education

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Dr. Felton Williams, Board President  
Long Beach Unified School District  
1515 Hughes Way  
Long Beach, CA 90810

Dear Dr. Williams:

In accordance with the provisions of Education Code (EC) Section 42131, a review of the Long Beach Unified School District's (District) Second Interim Report for fiscal year 2011-12 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent). 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 development and implementation of a fiscal stabilization plan that restores the District's required minimum level of Reserve for Economic Uncertainties (REU) for 2013-14. **We therefore concur with the District's positive certification** and offer our comments and concerns regarding the following issues.

### **DEFICIT SPENDING**

We have noted that the District is projecting a General Fund operating deficit of \$13.55 million, representing 1.93 percent of the District's projected expenditures and other outgo for fiscal year 2011-12. The District also projects operating deficits of \$28.16 million and \$42.78 million for 2012-13 and 2013-14, respectively. According to our review of the District's Second Interim data and assumptions, and as confirmed by the District, these projected deficits are primarily due to the loss of one-time Federal funding, loss of State revenue from declining enrollment and encroachment by categorical programs, including Special Education and transportation. While the District projects that it will maintain the required level of reserves, it is important that this trend in deficit spending be monitored so that it remains manageable.

## **RESERVE FOR ECONOMIC UNCERTAINTIES**

We noted in our review of the Second Interim Report that the District included unallocated expenditure reductions of \$15.0 million in 2012-13 and \$24.0 million in 2013-14, as place holders for budget adjustments that the Governing Board is either in the process of approving, or has formally acknowledged in a Board resolution and reflect a commitment to meet the District's reserve requirement in the subsequent fiscal years. We note that on February 21, 2012, the Governing Board approved approximately \$9.6 million of the \$15.0 million place holder in 2012-13 from its fiscal stabilization plan. District staff indicates that approximately \$11.0 million in additional 2012-13 reductions are scheduled for Board approval on April 17, 2012.

District staff also indicates that most of these reductions are ongoing and would decrease the \$24.0 million place holder in 2013-14 to approximately \$2.0 to \$3.0 million. We understand that details for the remainder of the 2013-14 place holder must still be developed and request the District submit an updated fiscal stabilization plan with its 2012-13 Adopted Budget, due to the Los Angeles County Office of Education (County Office) on or before July 1, 2012.

## **DECLINING ENROLLMENT AND REDUCED STATE FUNDING**

The District's 2011-12 Second Interim Report continues to project declining enrollment. The District's projected revenue limit average daily attendance (ADA) is 80,074 for 2011-12, 78,793 for 2012-13, and 77,533 for 2013-14. The estimated impact of the declining enrollment on the District's projected revenue limit ADA reflects a two-year loss totaling 2,541 ADA, representing a 3.17 percent decrease from the District's 2011-12 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.

Dr. Felton Williams, Board President  
Long Beach Unified School District  
April 16, 2012  
Page 3

## **LABOR CONTRACT NEGOTIATIONS**

According to the information provided by the District's Second Interim Report, certificated labor contract negotiations for 2011-12 remain unsettled and potential changes have not been calculated and incorporated into budgeted salary and benefit expenditures. 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 this analysis was included in Informational Bulletin No. 2, dated July 1, 2011, and is titled "2011-12 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](http://www.lacoe.edu/bas)

## **2012-13 MID-YEAR TRIGGER CUTS**

The Governor's Proposed 2012-13 Budget assumes revenue from the passage of a proposed tax initiative in the November 2012 election. If the ballot measure is not approved, the Governor proposes a backup plan that identifies \$5.4 billion in cuts affecting education and public safety that would go into effect on January 1, 2013. The K-12 education share of the cuts is currently estimated at \$370 per ADA. This would be equal to approximately \$29 million for the District, and the impact would be seen beginning in February 2013 with the monthly Principal Apportionment.

Although the Governor initially proposed to completely eliminate transportation program funding in 2012-13, he has revised his proposal and would fund transportation through a reduction in the proposed deferrals for 2012-13 if the tax initiative passes. If the tax measure fails, transportation would not be funded and districts would see an additional revenue limit cut of \$85 per ADA.

The District submitted a contingency plan with a list of potential solutions that would be considered by the Governing Board if the Governor's tax measure should fail. We request the District provide an update of its contingency plan with the submission of its 2012-13 Adopted Budget.

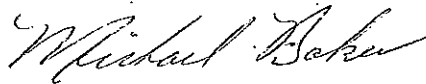
Dr. Felton Williams, Board President  
Long Beach Unified School District  
April 16, 2012  
Page 4

## 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 2011-12 Second 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 January 31, 2012, 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 2011-12 and develop your budget for 2012-13. We wish to express our appreciation to the District staff for their cooperation during the review of the 2011-12 Second 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. Novak, Chief Business and Financial Officer  
Ms. Takahashi, Financial Services Officer  
Ms. Ginder, Executive Director, Fiscal Services  
Dr. Cherniss, Los Angeles County Office of Education (LACOE)  
Mr. Iizuka, LACOE  
Ms. Dunn, LACOE  
Mr. Burdy, LACOE  
Ms. Fees, LACOE