

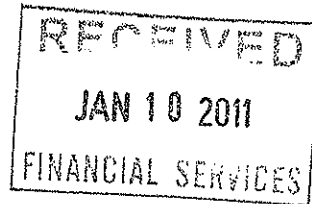


Los Angeles County Office of Education

Leading Educators • Supporting Students • Serving Communities

Jon R. Gundry
Interim Superintendent

January 6, 2011



Los Angeles County
Board of Education

Thomas A. Saenz
President

Douglas R. Boyd
Vice President

Rudell S. Freer

Leslie K. Gilbert-Lurie

Gabriella Holt

Rebecca J. Turrentine

Maria Elena Yepes

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) First Interim Report for fiscal year 2010-11 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 reductions and a fiscal stabilization plan that restores the District's required minimum level of Reserve for Economic Uncertainties for 2012-13. **We therefore concur with the District's positive certification** and offer our comments and concerns regarding the following issues.

2010-11 BUDGET CONDITIONAL APPROVAL

In our August 23, 2010, letter, the Los Angeles County Office of Education (County Office) conditionally approved the District's 2010-11 Budget. The District submitted a Board-adopted resolution on August 17, 2010, that identified potential areas of expenditure reduction, revenue enhancements and flexibility transfers that the Board would consider to resolving the REU shortfall in 2011-12 and 2012-13. Our letter also noted two conditions the District needed to meet by September 8, 2010, and December 15, 2010.

The first condition was met with the District's 2009-10 unaudited actuals submission and \$20.25 million in budget reductions Board-approved on September 7, 2010. The second condition was partially met with the District's First Interim Report that included revenue enhancements and Board-approved expenditure reductions allowing it to project a reserve level that meets the minimum requirements of the State Criteria and Standards for 2011-12. While the REU for 2011-12 meets the minimum requirement, the REU for 2012-13 does not.

RESERVE FOR ECONOMIC UNCERTAINTIES

We noted in our review of the First Interim Report that the District included unallocated expenditure reductions of \$53 million in 2012-13, as a place holder for adjustments that the Governing Board has acknowledged and resolved to make with a fiscal stabilization plan in order to meet the District's reserve requirements. When the District's financial projections are adjusted for the unallocated expenditure reductions, the projected reserve level for 2012-13 decreases to negative 5.01 percent and is below the level required under the State Criteria and Standards as illustrated below.

Reserve for Economic Uncertainties			
(\$ millions)			
	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
<u>District Adopted Reserves</u>			
District Unrestricted Ending Fund Balance	\$78.57	\$48.96	\$16.34
District Reserve Amount	\$76.71	\$47.46	\$14.83
District Reserve Percent	10.82 percent	6.53 percent	2.09 percent
Unallocated Expenditure Reductions			(\$53.00)
<u>Reserves As Adjusted</u>			
Adjusted Reserve Amount	\$76.71	\$47.46	(\$38.17)
Adjusted Reserve Percent	10.82 percent	6.53 percent	(5.01) percent

We therefore request that the District take steps to reevaluate its spending priorities and make the necessary Board-approved adjustments in order to restore and maintain the reserve at the required level for 2012-13. The District is further requested to incorporate those changes in its 2010-11 Second Interim Report, due to the County Office on or before March 17, 2011.

DEFICIT SPENDING

We have noted that the District is projecting an operating deficit of \$8.83 million, representing 1.24 percent of the District's projected expenditures and other outgo for fiscal year 2010-11. The District also projects operating deficits of \$34.20 million and \$33.95 million for 2011-12 and 2012-13, respectively. However, the projected operating deficit for 2012-13 increases to \$86.95 million when \$53 million in unallocated expenditures, noted above, is included. According to our review of the District's First Interim data and assumptions, and as confirmed

by the District, the projected deficits are primarily due to reduced state funding; loss of one-time revenues; loss of revenue due to declining enrollment; and increased Special Education costs. It is important that this trend of deficit spending be recognized and addressed with the Board-approved adjustments mentioned above.

LABOR CONTRACT NEGOTIATIONS

We noted in our letters dated October 29, 2010, and November 12, 2010, that classified bargaining agreements for 2009-10, 2010-11 and 2011-12 were approved by the Board on November 2, 2010, and November 12, 2010. The agreements specified no change to the existing salary schedules for 2009-10. For 2010-11 and 2011-12, the work year will be reduced by five and seven furlough days, respectively, and step advancement will be suspended for both years. We note that the savings resulting from these settlements is reflected in the budget and multiyear projections.

CASH FLOW PROJECTIONS

There are several factors presenting a significant disruption to normal cash flow patterns in 2010-11. The State is deferring approximately 28 percent of the Principal Apportionments for 2010-11 into the next fiscal year. We note that the District has incorporated the new Principal Apportionments Payment Schedule enacted by SBX4 16 into its cash flow projections. However, we also note that the District projects that the General Fund will end 2010-11 with a cash balance of only approximately \$1.9 million. We request that the District continue to carefully monitor its cash status throughout the fiscal year, and notify the County Office immediately if a cash shortfall is detected that cannot be covered through local means such as inter-fund borrowing.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2010-11 First Interim Report continues to project declining enrollment. The District's projected revenue limit average daily attendance (ADA) is 81,170 for 2010-11, 79,547 for 2011-12, and 77,957 for 2012-13. The District's estimated impact of declining enrollment on its projected ADA reflects a two-year loss totaling 3,212 ADA. This is a significant increase from the two-year loss of 2,257 ADA submitted with the July 1 Adopted Budget and represents an annual enrollment decline of approximately 2.0 percent.

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.

BUDGET ASSUMPTION UNCERTAINTIES

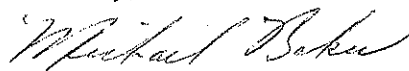
The current State budget crisis has received considerable attention over the last month. State budget deficits have been projected to be as high as \$28 billion over the remainder of this fiscal year and next. We caution Districts that the planning assumptions used in the First Interim Report could change dramatically over the next several months as the State begins the budget planning process for 2011-12. This could result in mid-year reductions in 2010-11 and/or significant revenue reductions in 2011-12. Districts should exercise caution in their spending plans for the rest of this and the upcoming fiscal year and develop alternate scenarios for a worsening financial outlook for next year.

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 2010-11 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, 2010, 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 2010-11 and develop your projections for 2011-12 and 2012-13. We wish to express our appreciation to the District staff for their cooperation during the review of the 2010-11 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. Iizuka, Los Angeles County Office of Education (LACOE)
Mr. Burdy, LACOE
Ms. Fees, LACOE