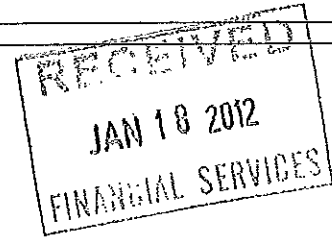




Los Angeles County Office of Education

Leading Educators • Supporting Students • Serving Communities



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Superintendent

January 17, 2012

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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) First 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 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.

FISCAL STABILIZATION PLAN

In our August 4, 2011, letter, the County Superintendent requested that the District develop, adopt and submit an updated fiscal stabilization plan that would restore and maintain the minimum required reserve for 2013-14 with the First Interim Report. We note that the District submitted a list of options under consideration by the Governing Board in order to achieve a \$17.0 million reduction of unallocated expenditures to restore and maintain the minimum required reserve for 2013-14

DEFICIT SPENDING

We have noted that the District is projecting an unrestricted General Fund operating deficit of \$12.59 million, representing 1.78 percent of the District's projected expenditures and other outgo for fiscal year 2011-12. The District also projects unrestricted General Fund operating deficits of \$36.23 million and \$30.66 million for 2012-13 and 2013-14, respectively. The District's unrestricted General Fund ending balance is projected to decrease as a result of deficit spending, which is illustrated in the chart below.

**Unrestricted General Fund Projection
 (\$ millions)**

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Beginning Unrestricted General Fund Balance	\$97.17	\$84.58	\$48.35
Projected Deficit Spending	(\$12.59)	(\$36.23)	(\$30.66)
Ending Unrestricted General Fund Balance	<u>\$84.58</u>	<u>\$48.35</u>	<u>\$17.69</u>
REU	\$15.98	\$14.44	\$14.25
REU Percent	2.26 percent	2.00 percent	2.00 percent

While the District projects that it will maintain the required level of reserves with the implementation of its fiscal stabilization plan, it is important that this level of deficit spending be monitored so that it remains manageable.

CASH FLOW PROJECTIONS

Due to enacted cash deferrals, it is critical for all districts to monitor their 2011-12 cash flow in order to ensure their cash requirements are met during the budget year. Current law requires the deferral of a portion or all of the Principal Apportionment, as well as some State categorical apportionments, in the months of February, March, April, May, and June 2012.

We have noted that the District is projecting inter-fund borrowing of \$34.0 million from the Self-Insurance Fund to the General Fund in May 2012 and additional inter-fund borrowing of \$37.5 million from the Self-Insurance Fund, Capital Facilities Fund and the Special Reserve for Capital Outlay Projects to the General Fund in June 2012. Without these temporary loans, the General Fund ending cash balances for May and June would be negative.

We also note that these temporary loans are projected to be repaid between July and September 2012 when the District receives its deferred principal apportionments from the State. We request that the District notify the County Office immediately if a cash shortfall is projected that cannot be covered through local means.

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LABOR CONTRACT NEGOTIATIONS

According to the information provided by the District's First 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

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2011-12 First Interim Report continues to project declining enrollment. The District's projected revenue limit average daily attendance (ADA) is 80,076 for 2011-12, 78,795 for 2012-13, and 77,534 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.

MID-YEAR TRIGGER CUTS

On December 13, 2011, the State Department of Finance estimated that the 2011-12 Budget Act's revenue will fall short by \$2.2 billion, triggering the implementation of \$327.6 million in reductions to K-12 education state-wide funding. These reductions are a combination of \$248 million in transportation funding and \$79.6 million revenue limit funding. These reductions in State education funding are likely to be on-going, but further clarity is expected when the Governor releases his proposed budget in January.

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The District's reduction in transportation funding is estimated to be \$3.32 million and will be effective in January, so no further apportionments are anticipated. The revenue limit funding reduction is estimated to be 0.25 percent or an average of \$13 per ADA, and the District will see the impact beginning in February with the monthly Principal Apportionment. As a result of these mid-year reductions, the District will need to adjust its revenue and cash flow projections.

COST OF LIVING FUNDING FOR 2012-13

The District included a 3.10 percent Cost of Living Adjustment (COLA) in its revenue limit projection for 2012-13, as directed in Bulletin No. 109, dated October 28, 2011. However, the State's economic crisis is expected to continue, with the Governor's Proposed 2012-13 Budget in January eliminating the COLA for next year. The District's revenue limit funding for 2012-13 would be reduced by approximately \$12.84 million with the elimination of the COLA. The District should be prepared to adjust its revenue forecast for the upcoming year.

CONCLUSION

We are aware that the information provided reflects the District's financial position and assumptions as of October 31, 2011, 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 projections for 2012-13 and 2013-14. We wish to express our appreciation to the District staff for their cooperation during the review of the 2011-12 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. Novak, Chief Business and Financial Officer
Ms. Ginder, Executive Director, Fiscal Services
Mr. Iizuka, Los Angeles County Office of Education (LACOE)
Ms. Dunn, LACOE
Mr. Burdy, LACOE
Ms. Fees, LACOE