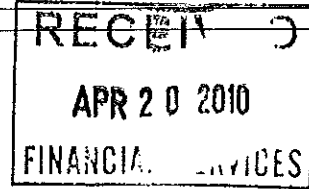




Los Angeles County Office of Education

Leading Educators • Supporting Students • Serving Communities



Darline P. Robles, Ph.D.
Superintendent

April 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) Second 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.

FISCAL STABILIZATION PLAN AND RESERVE LEVEL

In our letter to the District dated January 14, 2010, we noted that the District submitted Board-approved budget reductions and revisions that allowed the District to maintain a positive unrestricted General Fund balance and meet the State Criteria and Standards minimum reserve level of 2.0 percent for 2009-10 and 2010-11. However, the unrestricted General Fund ending balance for 2011-12 was projected to be negative \$41.84 million with a corresponding reserve level of negative 5.79 percent. We requested that the District adopt and submit a fiscal stabilization plan that restored the required minimum reserve level for 2011-12 with its Second Interim Report.

We noted in our review of the Second Interim Report that the District's Governing Board approved specific expenditure reductions and revisions for 2010-11 in order to maintain a positive unrestricted General Fund balance and meet the minimum 2.0 percent reserve requirement.

However, the District's multiyear projections include \$58 million in yet-to-be identified expenditure reductions and revisions for 2011-12. Consequently, with the \$58 million in reductions adjusted out, the 2011-12 unrestricted General Fund ending balance is projected to be negative \$41.92 million with a corresponding reserve level of negative 6.03 percent. We request that the District adopt and submit a fiscal stabilization plan with specific expenditure reductions and/or revenue enhancements that restore the required minimum reserve level for 2011-12 with its 2010-11 Adopted Budget.

DEFICIT SPENDING

The District is projecting an unrestricted General Fund operating deficit of \$5.12 million, representing 0.69 percent of the District's projected expenditures and other outgo for fiscal year 2009-10. The District also projects an operating deficit of \$26.33 million (3.66 percent) for 2010-11 and \$7.95 million (1.18 percent) for 2011-12. However, when the 2011-12 unallocated expenditure reductions of \$58 million is reversed in 2011-12, the operating deficit becomes \$65.95 million (9.03 percent) for 2011-12. As a result of deficit spending, the District's unrestricted General Fund ending balance for 2011-12 becomes negative \$41.92 million, as illustrated below.

Unrestricted General Fund Projections (\$ millions)

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Unrestricted General Fund Beginning Balance	\$55.48	\$50.36	\$24.03
Projected Deficit Spending	<u>(\$5.12)</u>	<u>(\$26.33)</u>	<u>(\$7.95)</u>
Less: \$58 million yet-to-be identified reductions			(\$58.00)
Unrestricted General Fund Ending Balance	\$50.36	\$24.03	(\$41.92)

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 2010-11 Adopted Budget.

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 \$13.3 million in June 2010. However, we note that the District has a temporary inter-fund cash borrowing resolution adopted by the Board on June 16, 2009. We request that the District provide an updated cash flow with its 2010-11 Adopted Budget.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District's Second 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. 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 Second Interim reflects declining enrollment. The District's projected revenue limit average daily attendance (ADA) is 82,553 for 2009-10, 81,320 for 2010-11, and 80,182 for 2011-12. The estimated impact of the declining enrollment on the District's projected revenue limit ADA reflects a two-year loss totaling 2,371 ADA, representing a 2.87 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.

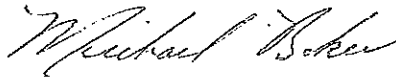
CONCLUSION

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 Second 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 January 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 2009-10 and develop your budget for 2010-11. We wish to express our appreciation to the District staff for their cooperation during the review of the 2009-10 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. 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. Villanueva, LACOE
Mr. Burdy, LACOE
Ms. Dunn, LACOE
Ms. Fees, LACOE