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April 14, 2009

Los Angeles County
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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) Second 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 for 2009-10 and yet to be determined budget reductions for 2010-11 that restores the District's required minimum level of Reserve for Economic Uncertainties in 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 First Interim Report letter dated January 12, 2009, that the District included various unallocated expenditure reductions as a place holder for reductions to be determined and approved by the District's Governing Board. The District indicated that these reductions would be determined by future Board actions and reflected a commitment by the Board to meet the District's Reserve for Economic Uncertainties (REU). Without Board action, the District's adjusted REU would be 1.25 percent for 2009-10 and negative 2.36 percent for 2010-11, and below the minimum 2.0 percent requirement of the State Criteria and Standards. Therefore, the District was requested to develop and submit a detailed list of Board-approved specific and ongoing budget reductions for 2009-10 and 2010-11.

The District's Second Interim Report reflects flexibility transfers and budget reductions as allowed by Senate Bill X3 4 (Chapter 12/Statutes 2009). When these transfers and reductions are added to specific ongoing 2009-10 budget reductions and revisions Board-approved on April 7, 2009, the District's REU for 2009-10 is restored

to 2.0 percent. When these ongoing budget reductions are carried forward, the REU for 2010-11 improves to approximately 0.50 percent. In order to restore the 2010-11 REU to 2.0 percent, it will require an additional \$11.22 million in expenditure reductions and/or revenue enhancements, as illustrated below.

**Projected Reserve for Economic Uncertainties
(\$ millions)**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Unrestricted General Fund Ending Balance	\$40.45	\$39.66	\$ 5.97
Amount Available for REU	\$28.61	\$14.69	\$ 3.72
REU Percentage	3.71%	2.00%	0.50%
Amount Required for REU			\$14.94
REU Shortfall			(\$11.22)

Therefore, we are requesting that the District submit a fiscal stabilization plan that restores the 2010-11 REU to 2.0 percent with its 2009-10 Adopted Budget, due to our office on or before July 1, 2009.

DEFICIT SPENDING

We have noted that the District is projecting an operating deficit of \$18.07 million, representing 2.34 percent of the District's projected expenditures and other outgo for fiscal year 2008-09. According to our review of the District's Second Interim data and assumptions, and as confirmed by the District, this projected deficit is primarily due to the budgeted expenditure of restricted fund balance carried forward from the prior year.

With the inclusion of the proposed 2009-10 Board-approved budget reductions, the District's projected operating deficits are \$7.44 million and \$44.82 million for 2009-10 and 2010-11, respectively. According to our review, these deficits are primarily due to the District's declining enrollment, planned reduction in the Restricted carryover fund and reduced state funding.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2008-09 Second Interim Report continues to project declining enrollment. The District's projected revenue limit funded average daily attendance (ADA) is 83,174 for 2008-09, 81,511 for 2009-10, and 79,882 for 2010-11. The District's estimated impact of declining enrollment on its projected average daily

Mr. Jon Meyer, Board President
Long Beach Unified School District
April 14, 2009
Page 3

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 Second 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 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

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 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, 2009, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments

Mr. Jon Meyer, Board President
Long Beach Unified School District
April 14, 2009
Page 4

will be helpful to the District administration and board as 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 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