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# Los Angeles County Office of Education

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Interim Superintendent

April 14, 2011

Los Angeles County  
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 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 with the implementation of a specific Board-approved 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.

## FISCAL STABILIZATION PLAN

In our January 6, 2011, letter, the District was requested to identify specific Board-approved adjustments for \$53 million in unallocated expenditure reductions that were necessary to meet the reserve requirement for 2012-13 and submit them with the Second Interim Report. The District has succeeded in identifying approximately \$43 million in specific reductions, leaving \$10 million yet-to-be identified. We request that the District provide an updated fiscal stabilization plan that would allow the District to meet its reserve requirements with the 2011-12 Adopted Budget.

## DEFICIT SPENDING

We have noted that the District is projecting an operating deficit of \$3.12 million, representing 0.44 percent of the District's projected expenditures and other outgo for fiscal year 2010-11. The District also projects operating deficits of \$22.54 million and \$50.91 million for 2011-12 and 2012-13, respectively. According to our review of the District's Second Interim data and assumptions, and as confirmed by the District, the projected deficits are primarily due to reduced state funding, loss of one-time federal 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 fiscal stabilization plan requested below.

## RESERVE FOR ECONOMIC UNCERTAINTIES

We noted in our review of the Second Interim Report that the District included \$10.0 million in unallocated expenditure reductions in 2012-13, as a place holder for budget adjustments that the Governing Board has acknowledged and resolved to make 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 0.54 percent, which is below the level required under the State Criteria and Standards, as illustrated in the chart below.

### Reserve for Economic Uncertainties (\$ millions)

	<u>2012-13</u>
<b><u>District Adopted Reserves</u></b>	
District Reserve Amount	\$13.73
District Reserve Percent	2.00 percent
Unallocated Expenditure Reductions in 2012-13	(\$10.00)
<b><u>Reserves As Adjusted</u></b>	
Adjusted Reserve Amount	\$3.73
Adjusted Reserve Percent	0.54 percent

As a result of this potential shortfall in the 2012-13 reserve level, we are requesting that the District Board develop, adopt, and submit a fiscal stabilization plan that restores and maintains the reserve for 2012-13 at the required level along with its 2011-12 Adopted Budget, due to our office no later than July 1, 2011. The District's ability to project the required reserve level in the current and two subsequent fiscal years will be a factor in our review and approval of the District's 2011-12 Adopted Budget.

## CASH FLOW PROJECTIONS

There are several factors presenting a significant disruption to normal cash flow patterns in 2010-11. The State is deferring approximately 29 percent of the Principal Apportionments for 2010-11 into the next fiscal year. The District incorporated the new Principal Apportionments Payment Schedule enacted by SBX4 16 into its cash flow projections. As a result, we note that the District projects that the General Fund cash balance will be only \$5.78 million in June 2011 with an average monthly payroll of approximately \$56 million.

We also note that the District's Board adopted a temporary inter-fund borrowing resolution for fiscal year 2010-11. 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.

## DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2010-11 Second Interim Report continues to project declining enrollment. The District's projected revenue limit ADA is 81,148 for 2010-11, 79,849 for 2011-12, and 78,252 for 2012-13. The District's estimated impact of declining enrollment on its projected ADA reflects a two-year loss totaling 2,895 ADA, representing a 3.57 percent decrease from the District's 2010-11 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.

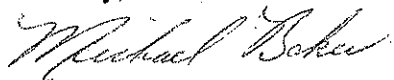
We request that the District carefully monitor its enrollment trends and adjust its financial projections accordingly for the current and subsequent fiscal years, if further material reductions in enrollment occur or are expected to occur.

## 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 2010-11 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, 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 2010-11 and develop your budget for 2011-12. We wish to express our appreciation to the District staff for their cooperation during the review of the 2010-11 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. Fortson, Interim 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. Dunn, LACOE  
Ms. Fees, LACOE