



Los Angeles County Office of Education

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Darline P. Robles, Ph.D.
Superintendent

August 23, 2010

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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 42127, a review of the Long Beach Unified School District's (District) Budget for fiscal year 2010-11 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent). **That review has resulted in the "conditional approval" of the budget.** A conditional approval means that the County Superintendent approved the budget on the condition that the District take certain specific actions to address deficiencies in the multiyear projections.

We recognize that the District has made significant expenditure reductions to adopt its 2010-11 Budget. We also recognize that the State's financial condition is the source of an increasing level of fiscal distress to the District and is outside of the District's control; however, the District is still required to meet State Standards and Criteria for a current year budget and two subsequent fiscal years. The budget submitted to the Los Angeles County Office of Education (County Office) does not fully address the minimum requirements.

The District's 2010-11 Adopted Budget included \$57 million of ongoing cost reductions and/or revenue enhancements in fiscal year 2011-12, and an additional \$41 million in fiscal year 2012-13. On August 17, 2010, the District's Board adopted Resolution No. 081710-E that identified potential areas of expenditure reduction, revenue enhancement and flexibility transfers that the Board would consider to resolve the shortfall in 2011-12 and 2012-13. This resolution and commitment by the Governing Board provided additional information in the County Superintendent's analysis and conditional approval of the District's Budget. This letter will highlight specific areas of concern and additional actions required of the District.

DEFICIT SPENDING

We have noted that the District is projecting an unrestricted General Fund operating deficit of \$25.60 million, representing 3.82 percent of the District's projected expenditures and other outgo for fiscal year 2010-11. The District also projects operating deficits of \$15.10 million for 2011-12 and \$0.11 million for 2012-13. However, the District's projections included unallocated ongoing expenditure reductions of \$57 million for 2011-12 and an additional \$41 million for 2012-13. When the District's multiyear projections are revised for these reductions, the operating deficits become \$72.09 million for 2011-12 and \$98.11 million for 2012-13. As a result of projected deficit spending, the District's unrestricted General Fund ending balance is projected to be negative \$41.52 million for 2011-12 and negative \$139.64 million for 2012-13, as illustrated in the table below.

Unrestricted General Fund Projections
 (\$ millions)

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
As Adopted			
Beginning Unrestricted General Fund Balance	\$56.17	\$30.57	\$15.48
Projected Deficit Spending	(\$25.60)	(\$15.09)	(\$ 0.11)
Ending Unrestricted General Fund Balance	\$30.57	\$15.48	\$15.37
Amount Available for Reserves For Economic Uncertainties (REU)	\$13.42	\$13.68	\$13.56
REU Percentage	2.00%	2.05%	2.05%
As Adjusted			
Less: Unallocated Expenditure Reductions	-	(\$57.00)	(\$98.00)
Revised Ending Unrestricted General Fund Balance	-	(\$41.52)	(\$139.64)
Adjusted Amount Available for REU	-	(\$57.78)	(\$156.60)
Board-Adopted Adjustments			
Add: Reductions/Enhancements/Transfers (ongoing)	-	\$57.00	-
Add: Reductions/Enhancements/Transfers (one-time)	-	-	\$41.00
Revised REU Percentage with Board resolution	2.00%	2.05%	2.05%

With the Board's August 17 action, the District is able to meet the Criteria and Standards commitment.

RESERVE FOR ECONOMIC UNCERTAINTIES

We noted in our review that the District's 2010-11 Adopted Budget reflected projected reserve levels of 2.00 percent for 2010-11, 2.05 percent for 2011-12, and 2.05 percent for 2012-13. While the projected reserves meet the requirements of the State Criteria and Standards, the District's projections included the unallocated expenditure reductions noted above that District staff indicated were yet-to-be determined and approved by the Board of Education.

When the District's financial projections are adjusted for these nonspecific and unapproved expenditure reductions, the projected reserve levels for 2011-12 and 2012-13 decrease to negative \$57.78 million and negative \$156.60 million, respectively. The adjusted reserves for each of these years are below the level required under the State Criteria and Standards.

The Board-approved resolution of August 17, 2010, noted above includes potential adjustments that exceed the amounts necessary to offset the reserve shortfalls in 2011-12 and 2012-13. Only the exact shortfall amounts were used in the table to illustrate the restoration of the District's reserves to the required level in 2011-12 and 2012-13.

CASH FLOW

It is critical for all districts to review their 2010-11 cash flow projections in order to determine their cash requirements in the budget year, due to an enacted cash deferral and a newly-proposed cash deferral. 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 July and October 2010, and February, March, April, May, and June 2011. The state's continued use of education funding deferrals underscores the need for all districts to monitor their cash balances. It is advisable that all districts have a Board-approved temporary cash borrowing resolution in place for 2010-11. Please refer to Informational Bulletin No. 295, dated March 23, 2009, for instructions and sample resolutions.

We note that the District projects that its General Fund will end 2010-11 with a cash balance of approximately \$15 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 Budget and multiyear projections reflect continued declining enrollment. The District's projected revenue limit average daily attendance (ADA) is 81,353 for 2010-11, 80,215 for 2011-12, and 79,096 for 2012-13. The estimated impact of the declining enrollment on the District's projected revenue limit ADA reflects a two-year loss totaling 2,257 ADA, representing a 2.77 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.

PROJECTED COST OF LIVING ADJUSTMENTS IN 2011-12 AND 2012-13

Informational Bulletins No. 348, dated June 2, 2010, titled "May 2010 Revision Update" and No. 349, dated June 10, 2010, titled "2010-11 Budget Development and Financial Reporting Software: Assumptions and Instructions" cautioned that there is no assurance a statutory cost-of-living adjustment (COLA) will be funded for 2011-12 and 2012-13 because of the uncertainty of the State's economy and financial resources. The County Office recommended that should districts include the COLA in their revenue projections for 2011-12 and 2012-13, an alternative plan be submitted with the Adopted Budget that includes other revenue enhancements and/or expenditure reductions to offset the potential loss of COLA revenue in both years.

Our review noted that the District's revenue limit projections for 2011-12 and 2012-13 include the COLAs currently forecast at 2.10 percent and 2.40 percent, respectively, with no alternative plan currently in place. If the projected COLAs are not funded, the potential revenue limit shortfalls of approximately \$8.36 million in 2011-12 and \$17.84 million in 2012-13 should be included in the District's fiscal stabilization plan submitted with the First Interim Report.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District's budget, classified labor contract negotiations for 2009-10 and 2010-11 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 referenced in Informational Bulletin No. 2, dated July 1, 2010, and is titled "2010-11 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements." This document can be found at the following Web site or by calling your Business Services Consultant.

www.lacoe.edu/bas

ACTIONS REQUIRED OF DISTRICT

By September 8, 2010, the District is required to submit to the County Office any additional and relevant information, including any carryover from closing the District's finances for 2009-10. If this date cannot be met, please inform the County Office in writing when the information will be made available.

By December 15, 2010, the District is required to include in its First Interim Report, a fiscal stabilization plan with specific Board-approved revenue enhancements, expenditure reductions

and/or flexibility transfers that allow it to project a reserve level that meets the minimum requirement of the State Criteria and Standards for 2011-12 and 2012-13. Any reductions that require negotiation with the District's bargaining units should be included only if those negotiations have been settled. Revenue enhancements that require approval by the District's voters, such as a parcel tax, cannot be considered until voter approval is obtained.

LATE STATE BUDGET ADOPTION

The County Office's evaluation of district budgets was based on assumptions from the Governor's May Revision. There is still significant uncertainty surrounding the passage of the State budget in terms of the final impact upon K-12 education. Districts may find it necessary to make adjustments to their budgets once the State budget is passed. Please remember that EC Section 42127(i)(4) requires that:

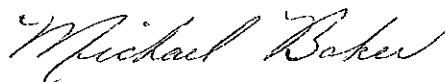
"Not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act."

The County Office will issue a bulletin with additional guidance for districts to follow once the State budget is adopted. Based on the impact the State Adopted Budget will have on education, our office may require additional budget adjustments with or before the First Interim Report submission.

CONCLUSION

We wish to express our appreciation to the District's staff for their cooperation during the review of the District's budget for fiscal year 2010-11. 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: Board of Education
Mr. Steinhauser, Superintendent
Mr. Stallings, Chief Business and Financial Officer
Ms. Ng, Financial Services Officer
Ms. Ginder, Executive Director, Fiscal Services