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Debra Duardo, M.S.W., Ed.D.
Superintendent

January 15, 2021

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Board of Education**

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Mr. Matt Smith, Board President
Temple City Unified School District
9700 Las Tunas Drive,
Temple City, CA 91780

Dear Mr. Smith:

Pursuant to Education Code (EC) Section 42131, the Los Angeles County Superintendent of Schools (County Superintendent) has completed our review of the Temple City Unified School District's (District) 2020-21 First Interim Report. Our analysis of the data provided indicates that the District should be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years. **We therefore concur with the District's positive certification** and offer our comments and concerns below.

DEFICIT SPENDING AND RESERVE FOR ECONOMIC UNCERTAINTIES (REU)

For the 2020-21 fiscal year, the District is projecting an operating deficit of \$1.99 million, representing 3.95 percent of the District's Unrestricted General Fund projected expenditures and other outgo. The District is also projecting operating deficits of \$1.88 million and \$5.28 million, representing 3.69 percent and 10.07 percent for 2021-22 and 2022-23, respectively. According to our review of the District's First Interim Report, and as confirmed by the District, these projected deficits are primarily due to declining enrollment, increases in STRS and PERS employer contributions, Special Education contributions, and spending down of prior year carry-over. We are concerned about the projected trend of deficit spending and its impact on the District's ability to maintain the required REU levels in future years. We recommend the District monitor the causes for deficit spending to minimize further erosion of the fund balance. **Therefore, we request the District to address the deficit spending through submission of a Board-approved Fiscal Stabilization Plan (FSP) with the 2020-21 Second Interim, due to our office on or before March 17, 2021.**

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2020-21 First Interim Report reflects declining enrollment with projected average daily attendance (ADA) of 5,463 for 2020-21, 5,471 for 2021-22, and 5,342 for 2022-23. The estimated impact of the declining enrollment on the District's projected ADA reflects a one-year loss totaling 121 ADA, representing a 2.21 percent decrease from the District's 2020-21 ADA. This rate of projected decline in enrollment represents a loss of revenue for the District in the current and future years. We recommend that the District continue to assess and adjust staffing needs and facilities planning for upcoming years based on the projected rate of decline in enrollment. We also request that the District carefully monitor its enrollment trends and adjust its financial projections for the current and subsequent fiscal years, if further material reductions in enrollment occur or are expected to occur.

Pursuant to the provisions of Senate Bill (SB) 98, EC 43502 ADA is held harmless for the 2020-21 fiscal year using 2019–20 Second Principal Apportionment and Annual Principal Apportionment figures. For 2021-22 ADA and pursuant to provisions of SB 820, EC Section 43505(b)(2), ADA will be funded based on the greater of the prior year ADA (FY 2019-20) or the **current year** 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 a one-year delay for loss of revenue due to declining enrollment/attendance. However, the District will continue to lose State funding over time as enrollment declines.

CASH FLOW

As indicated in our memorandum entitled "2020-21 Updated Enacted Budget Guidance," dated July 21, 2020, the Enacted Budget includes significant principal apportionment payment deferrals from 2020-21 to 2021-22. The estimated effects of these deferrals on the principal apportionment schedule for February 2021 through June 2021 are as follows:

- 53 percent from February 2021 to November 2021
- 82 percent from March 2021 to October 2021
- 82 percent from April 2021 to September 2021
- 82 percent from May 2021 to August 2021
- 100 percent from June 2021 to July 2021

The scheduled payment deferrals will have a significant negative impact on district cash flows, and if not addressed, may cause disruptions in districts' ability to meet their financial obligations and/or cash reserve requirements for 2020-21. The District's First Interim cash flow projections reflect the scheduled payment deferrals while indicating sufficient ending cash balances for the remaining periods in 2020-21. **We request that the District continue to monitor its cash flow**

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projections on a monthly basis and submit updated projections with the 2020-21 Second Interim Report.

LABOR CONTRACT NEGOTIATIONS

According to our review of the District's First Interim Report, certificated and classified labor contract negotiations for 2020-21 remain unsettled, and potential changes have not been calculated and incorporated into projected salary and benefit expenditures. As a reminder, 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 is included in Informational Bulletin No. 5247, dated July 23, 2020, and is titled "2020-21 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements." This document can be found at the following website:

<https://www.lacoe.edu/Portals/0/zBulletins/5247.pdf>

BUDGET OVERVIEW FOR PARENTS

Senate Bill 98 requires that all districts local Governing Board adopt and submit the Budget Overview for Parents (BOP) on or before December 15, 2020. While the BOP does not require approval by the County Superintendent, it should align with the District's First Interim Report.

The County Superintendent has received the District's BOP as submitted and will continue to work with the District to ensure alignment with the First Interim Report, the Learning Continuity Plan (LCP) and the 2019-20 Local Control and Accountability Plan (LCAP). The District is advised that they will be required to provide detailed information in the upcoming Annual Update to document their implementation of this year's LCP and the 2019-20 LCAP. Ensuring that the BOP aligns to these plans will position the District to address the sections required in the Annual Update, to be submitted with the 2021-22 LCAP to the County Superintendent by July 1, 2021, and which requires approval by the County Superintendent.

As a reminder, districts Supplemental and Concentration (S&C) grant funding is included in the Local Control Funding Formula to increase and/or improve services to low-income, English learner and foster youth student populations. To properly serve these targeted student groups who generated the funding, it is expected that S&C grant dollars be fully expended each fiscal year.

CONCLUSION

Thank you for providing documentation that supports the District's positive certification. The multiyear projections, with narrative and assumptions, were helpful in our analysis and

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verifying the District's financial condition. The information provided reflects the District's financial position and assumptions as of October 31, 2020, and further adjustments will be made during the year as additional data becomes available.

We express our appreciation to the District staff for their cooperation during our review. If our office may be of further assistance, please call me at (562) 940-1704.

Sincerely,

Merle S. Ordoñez

Merle Ordoñez
Business Services Consultant
Business Advisory Services

MSO:vb

cc: Kimberly Fricker, Ed.D., Superintendent
Marianne Sarrail, Chief Business Official
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