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# Los Angeles County Office of Education

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August 14, 2009

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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 42127, a review of the Long Beach Unified School District's (District) budget for fiscal year 2009-10 has been completed by the Los Angeles County Superintendent of Schools. **That review has resulted in the approval of the District's budget** with comments regarding the following issues.

## **RESERVE FOR ECONOMIC UNCERTAINTIES**

We noted in our review that the District's 2009-10 Adopted budget reflects projected reserve levels of 2.0 percent for 2009-10, 2010-11, and 2011-12. While the projected reserves meet the requirements of the State Criteria and Standards, the District's budget included unallocated expenditure reductions of \$31 million in 2010-11 and \$66 million in 2011-12 that District staff has indicated are yet to be determined and approved by the Board of Education.

When the budget is adjusted for these nonspecific and unapproved expenditure reductions, the General Fund balance for both 2010-11 and 2011-12 are negatively impacted and decrease to \$6.25 million for 2010-11, and negative \$50.7 million for 2011-12. The corresponding projected reserve levels decrease to negative 2.34 percent for 2010-11 and negative 11.34 percent for 2011-12. The adjusted reserve for each of these years is below the level required by the State Criteria and Standards.

## **Actions Required of the District**

The District is required to include in its First Interim Report, a fiscal stabilization plan with specific Board-approved revenue enhancements and/or expenditure reductions that allow it to project reserve levels that meet the minimum requirements of the State Criteria and Standards for 2010-11 and 2011-12. Any reductions that require

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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.

### **DEFICIT SPENDING**

While the District is projecting an operating surplus for 2009-10, it is projecting an operating deficit of \$20.0 million, or 1.7 percent of total outgo, for 2010-11. However, when the nonspecific and unapproved budget reductions for 2010-11 and 2011-12 are factored out of the Adopted Budget and multiyear projections, potential operating deficits of \$51.0 million (7.0 percent) for 2010-11 and \$57.0 million (7.7 percent) for 2011-12 would occur. We request that the District monitor the projected deficits to ensure that they remain manageable and concentrate on reducing the projected deficit spending when it develops the fiscal stabilization plan that we requested above.

### **DECLINING ENROLLMENT AND REDUCED STATE FUNDING**

The District's 2009-10 Adopted Budget reflects declining enrollment. The District's projected revenue limit average daily attendance (ADA) is 82,351 for 2009-10, 81,113 for 2010-11, and 79,897 for 2011-12. The estimated impact of the declining enrollment on the District's projected revenue limit ADA reflects a two-year loss totaling 2454 ADA, representing a 2.98 percent increase 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 if the decline in enrollment continues.

### **LABOR CONTRACT NEGOTIATIONS**

According to the information provided in the District's Budget, certificated and classified labor contract negotiations for 2009-10 remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. 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](http://www.lacoe.edu/bas)

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## **2009-10 STATE BUDGET**

The District's Board of Education developed and adopted its 2009-10 Budget based on the funding assumptions for K-12 education contained in the Governor's May Revision. Due to the State's continuing financial crisis, we caution the District that additional midyear funding reductions are possible. The District should therefore be prepared to develop and implement an alternative expenditure plan should State funding differ significantly from amounts used by the District in its Budget development process.

## **CASH FLOW**

It is critical for the District to review its 2009-10 cash flow projections in order to determine its cash requirements in the budget year, due to numerous cash deferrals and the revised Principal Apportionment payment schedule. The State's continued use of education funding deferrals underscores the need for the District to monitor its cash balances. Because of the current cash flow conditions, it is advisable that the District have a Board-approved temporary cash borrowing resolution in place for 2009-10. Please refer to Informational Bulletin No. 295, dated March 23, 2009, for instructions and sample resolutions.

## **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 2009-10. If our office can be of further assistance, please call me at (562) 940-1704.

Sincerely,



Steve Budhraj  
Business Services Consultant  
Division of Business Advisory Services

SB:lc

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