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Darline P. Robles, Ph.D.
Superintendent

August 7, 2008

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 42127, a review of the Long Beach Unified School District's (District) budget for fiscal year 2008-09 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 and concerns regarding the following issues:**

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2008-09 budget assumptions and multiyear projections indicate that enrollment/attendance continues to decline in the current year by approximately 1,876 average daily attendance (ADA) and is projected to further decline in 2009-10 by an additional 1,833 ADA. While these declines are significant, they represent a slower rate of decline than previously reported with the District's 2007-08 Second Interim Report.

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. The District's projected revenue limit funding losses for 2009-10 and 2010-11 are approximately \$11.4 million for each year. To offset these funding losses, District staffing levels are projected to be reduced, as necessary.

DEFICIT SPENDING

The District is projecting an operating deficit of \$10.1 million, representing 1.34 percent of the District's projected expenditures and other outgo for fiscal year 2008-09. According to our review of the District's adopted budget, and as confirmed by the District, this projected deficit is primarily due to increased unrestricted General Fund support of categorical programs, including Special Education and transportation; and the budgeted expenditure of designated and restricted fund balances carried forward from the prior year. We request that the District monitor the projected deficit to ensure that it remains manageable and provide our office with an explanation along with the First Interim Report, if the level of deficit spending increases.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District's budget, 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

CHILD DEVELOPMENT FUND

We noted in our letter to the District dated April 11, 2008, that the District's Child Development Fund has required a contribution from the District's General Fund since 2004-05. We requested that the District submit a Child

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Development Fund fiscal recovery plan with its 2008-09 adopted budget. Our review of the Child Development Fund budget indicates that a General Fund contribution was eliminated for 2008-09 and a positive year-end balance is projected.

2008-09 STATE BUDGET

The District's Board of Education developed and adopted its 2008-09 Budget based on the funding assumptions for K-12 education contained in the Governor's May Revision. Due to the delay in the passage of the 2008-09 State Budget, we caution the District that the assumptions it used to build its budget are subject to change, based on final action by the Legislature and the Governor.

We note that the District's 2008-09 budget and multiyear assumptions include the Governor's May Revision flexibility option to reduce its Restricted Maintenance Account contribution from 3.0 percent to 2.4 percent for 2008-09 only. Pursuant to EC Section 42127(i)(4), the District should therefore be prepared to revise its budget if the State Budget provisions differ significantly from those budget assumptions used by the District .

CASH FLOW

During 2008-09 it will be critical for all districts to conduct an ongoing review of their cash flow projections in order to monitor their cash requirements in the budget year. As part of the 2007-08 mid-year budget reductions adopted by the state earlier this year, payment of the July 2008 Advance Apportionment was deferred until September 2008.

In addition, the Legislature's Budget Conference Committee has approved a proposal to shift distribution of \$2.8 billion in K-3 Class Size Reduction and First Principal Apportionment funding for K-12 school districts and community colleges from January, February and March 2009 to April 2009. While this proposal would need approval by the Legislature and the Governor before it would take effect, it still should be taken into consideration for cash flow planning purposes.

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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 2008-09. 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, Budget Director
Ms. Thorpe, Accounting Director
Mr. Shelton, Los Angeles County Office of Education (LACOE)
Ms. Simons, LACOE
Mr. Iizuka, LACOE
Mr. Burdy, LACOE
Ms. Dunn, LACOE
Ms. Fees, LACOE