August 9, 2012

Arturo Delgado, Ed.D.
Superintendent

Los Angeles County
Board of Education

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Mr. Hector Chacon, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Chacon:

In accordance with the provisions of Education Code (EC) Section 42127, a review of the Montebello Unified School District’s (District) budget for fiscal year 2012-13 has been completed by the Los Angeles County Superintendent of Schools. That review has resulted in the approval of the District’s budget with the following comments.

DEFICIT SPENDING

We have noted that the District is projecting an operating deficit of $19.8 million, representing 7.53 percent of the District’s projected expenditures and other outgo for fiscal year 2012-13. The District also projects operating deficits of $11.4 million and $5.5 million for 2013-14 and 2014-15, respectively. The District’s General Fund ending balance is projected to decrease as a result of deficit spending, which is illustrated in the chart below.

<table>
<thead>
<tr>
<th>General Fund Projection</th>
<th>2012-13</th>
<th>2013-14</th>
<th>2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning General Fund Balance</td>
<td>$43.2</td>
<td>$23.4</td>
<td>$12.0</td>
</tr>
<tr>
<td>Projected Deficit Spending</td>
<td>($19.8)</td>
<td>($11.4)</td>
<td>($5.5)</td>
</tr>
<tr>
<td>Ending General Fund Balance</td>
<td>$23.4</td>
<td>$12.0</td>
<td>$6.5</td>
</tr>
<tr>
<td>Reserve for Economic Uncertainties (REU) Amount</td>
<td>$17.6</td>
<td>$8.7</td>
<td>($4.82)</td>
</tr>
<tr>
<td>REU Percent</td>
<td>6.79 percent</td>
<td>3.39 percent</td>
<td>1.91 percent</td>
</tr>
</tbody>
</table>

We are concerned that, if this deficit spending continues as projected, it could severely impact the District’s fiscal solvency in future years. Therefore, we are requesting that the District address deficit spending in its fiscal stabilization plan to be submitted with the First Interim Report, due to our office on or before December 17, 2012.
RESERVE FOR ECONOMIC UNCERTAINTIES

As a result of deficit spending, the District’s Reserve for Economic Uncertainties (REU) is projected to be 6.71 percent in 2012-13, 3.39 percent in 2013-14, and 1.91 percent in 2014-15. While the reserve levels for 2012-13 and 2013-14 meet the minimum requirements of the State Criteria and Standards, the reserves for 2014-15 is below the required level.

In our letter dated April 9, 2012, we requested that the District submit an updated fiscal stabilization plan with the 2012-13 Adopted Budget that would restore and maintain reserves at the required level. The updated plan submitted by the District does not address the projected reserve shortfall in 2014-15. We request the District submit a revised fiscal stabilization that allows the District to restore and maintain reserves at the required level in 2014-15 with the First Interim Report.

CASH FLOW

Because of the State’s continued use of education funding deferrals, it is advisable that all districts have a Board-approved temporary cash borrowing resolution in place for 2012-13. Please refer to Informational Bulletin No. 243, dated April 23, 2012, for instructions and sample resolutions.

Information included with the 2012-13 Adopted Budget indicates that the District will obtain a Board-approved interfund borrowing resolution for 2012-13; and plans to issue an $18.0 million Tax and Revenue Anticipation Note (TRANs) in March 2013 to ensure positive cash balances. We request that the District notify the Los Angeles County Office of Education (County Office) immediately if a cash shortfall is projected that cannot be covered through local means.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2012-13 Adopted Budget reflects continued declining enrollment. The District’s projected average daily attendance (ADA) is 30,110 for 2012-13, 29,551 for 2013-14, and 29,217 for 2014-15. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two-year loss totaling 893 ADA, representing a 2.97 percent decrease from the District’s 2012-13 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.
SELF-INSURANCE FUND

In our letter dated April 9, 2012, we noted that the District’s Self-Insurance Fund (Fund 67) was projected to have a negative fund balance in 2011-12 and requested that an updated projection for the fund be submitted with the 2012-13 Adopted Budget. Information received with the 2012-13 Adopted Budget indicates that Fund 67 is projected to have a positive ending balance in 2012-13.

DEBT ISSUANCE

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by EC Section 42133 (a).

CONTINGENCY PLAN

Districts were requested to submit a board-approved contingency plan with their adopted budget outlining what actions would be considered to offset a potential $441 per ADA ongoing reduction in 2012-13 should the Governor’s tax initiative not pass in November. With the passage of the 2012-13 Budget Act, the potential reduction has grown to $457 per ADA.

Information included with the 2012-13 Adopted Budget indicates that the District plans to negotiate with its bargaining units for furloughs and/or other compensation concessions if failure of the Governor’s tax initiative triggers a mid-year reduction. The District indicates that if negotiations are not successful, a plan for alternative cost reductions will be submitted to its Governing Board for approval. When the District’s budget and multiyear projections are adjusted for the potential $457 per ADA reduction, the reserves fall to 1.47 percent in 2012-13, negative 7.24 percent in 2013-14 and negative 14.0 percent in 2014-15 as shown in the table below.

<table>
<thead>
<tr>
<th>Reserve for Economic Uncertainties (REU) ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>District Adopted Reserves</strong></td>
</tr>
<tr>
<td>Ending General Fund Balance</td>
</tr>
<tr>
<td>REU Amount</td>
</tr>
<tr>
<td>REU Percent</td>
</tr>
<tr>
<td>Potential $457 per ADA Ongoing Reduction</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Reserves As Adjusted</strong></td>
</tr>
<tr>
<td>Adjusted REU Amount</td>
</tr>
<tr>
<td>Adjusted REU Percent</td>
</tr>
</tbody>
</table>
The adjusted reserves are below the minimum required levels in all three years. We are requesting that the District submit an updated contingency plan that shows how the District would maintain reserves at the required levels should the tax initiative fail, as part of its fiscal stabilization plan with the First Interim Report.

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 2012-13. If our office can be of further assistance, please call me at (562) 922-6802.

Sincerely,

Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services
MJ:lc

cc: Mr. Henke, Interim Superintendent
    Mr. Pell, Interim Superintendent
    Ms. Plotkin, Assistant Superintendent, Business Services
    Ms. Tran, Controller
    Dr. Cherniss, Los Angeles County Office of Education (LACOE)
    Ms. Dunn, LACOE
    Mr. Burdy, LACOE
    Ms. Smith, LACOE
January 9, 2013

Mr. Hector Chacon, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Chacon:

In accordance with the provisions of Education Code (EC) Section 42131, a review of the Montebello Unified School District's (District) First Interim Report for fiscal year 2012-13 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 for the current and two subsequent years. We therefore concur with the District’s positive certification and offer our comments and concerns regarding the following issues.

FISCAL STABILIZATION/CONTINGENCY PLAN

In our letter dated August 9, 2012, we requested the District to submit a revised fiscal stabilization that addressed deficit spending and the projected reserve shortfall in 2014-15, as well as a contingency plan that indicated how the District would maintain reserves at the required levels should the Proposition 30 fail, with the First Interim Report. With the passage of Proposition 30, the District’s projected reserves as reflected in the First Interim Report meet the minimum required level for all three years.

DEFCIT SPENDING

We have noted that the District is projecting an operating deficit of $16.8 million, representing 6.3 percent of the District’s projected expenditures and other outgo for fiscal year 2012-13. The District also projects operating deficits of $11.9 million and $6.9 million for 2013-14 and 2014-15, respectively. According to our review of the District’s First Interim data and assumptions, the projected deficits are primarily due to program encroachment by Special Education. While the District continues to maintain the required level of reserves, it is important that this level of deficit spending be recognized and monitored so that it remains manageable.
DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2012-13 First Interim Report reflects continued declining enrollment. The District’s projected average daily attendance (ADA) is 30,110 for 2012-13, 29,595 for 2013-14, and 29,157 for 2014-15. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two-year loss totaling 953 ADA, representing a 3.2 percent decrease from the District’s 2012-13 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.

CASH FLOW

Because of the state’s continued use of education funding deferrals, it is advisable that all districts have a Board-approved temporary cash borrowing resolution in place for 2012-13. Please refer to Informational Bulletin No. 243, dated April 23, 2012, for instructions and sample resolutions.

We have noted that the District has obtained a Board resolution for interfund borrowing and plans to issue a $28.0 million Tax and Revenue Anticipation Note in February 2013 in order to maintain positive cash balances in 2012-13. We request that the District notify our office immediately if a cash shortfall is projected that cannot be covered through local means.

DEBT ISSUANCE

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by EC Section 42133 (a).

FEDERAL SEQUESTRATION

In August 2011, Congress passed the Budget Control Act, which directed a Congressional “Supercommittee” to trim Federal spending by at least $1.2 trillion over the next decade. The Supercommittee’s failure to present a specific program of spending reductions triggers automatic cuts through a process known as sequestration, which applies an across-the-board percentage cut to most Federal spending streams, including funding of most Federal education programs.
The largest education programs affected are Title I and IDEA, and for school districts, this equals approximately an 8.2 percent reduction in funding for these programs. Information Bulletin No. 3454 dated November 9, 2012, advised school districts to develop contingency plans for these Federal sequestration cuts that could impact budgets for 2013-14. According to our review of the District’s First Interim Report and assumptions, the multiyear projection for 2013-14 does not reflect a potential reduction to Title I and IDEA from sequestration.

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 2012-13 First 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 October 31, 2012, 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 2012-13 and develop your projections for 2013-14 and 2014-15. We wish to express our appreciation to the District staff for their cooperation during the review of the 2012-13 First Interim Report. If our office can be of further assistance, please call me at (562) 922-6802.

Sincerely,

Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services

MJ:gm

cc: Mr. Pell, Superintendent
    Ms. Plotkin, Assistant Superintendent, Business Services
    Ms. Tran, Controller
    Dr. Chermisn, Los Angeles County Office of Education (LACOE)
    Ms. Dunn, LACOE
    Mr. Burdy, LACOE
    Ms. Smith, LACOE
April 11, 2013

Mr. Hector Chacon, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Chacon:

In accordance with the provisions of Education Code (EC) Section 42131, a review of the Montebello Unified School District’s (District) Second Interim Report for fiscal year 2012-13 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 for the current and two subsequent years. **We therefore concur with the District’s positive certification** and offer our comments and concerns regarding the following issues.

**DEFICIT SPENDING**

We have noted that the District is projecting an operating deficit of $17.4 million, representing 6.5 percent of the District’s projected expenditures and other outgo for fiscal year 2012-13. The District also projects operating deficits of $11.0 million and $9.3 million for 2013-14 and 2014-15, respectively. According to our review of the District’s Second Interim data and assumptions, the projected deficits are primarily due to declining enrollment and program encroachment by Special Education. While the District continues to maintain the required level of reserves, it is important that this level of deficit spending be recognized and monitored so that it remains manageable.

**DECLINING ENROLLMENT AND REDUCED STATE FUNDING**

The District’s 2012-13 Second Interim Report reflects **continued declining enrollment.** The District’s projected average daily attendance (ADA) is 30,110 for 2012-13, 29,554 for 2013-14, and 28,860 for 2014-15. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a 4.2 percent decrease from the District’s 2012-13 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.

CASH FLOW

Because of the State’s continued use of education funding deferrals, it is advisable that all districts have a Board-approved temporary cash borrowing resolution in place for 2012-13. Please refer to Informational Bulletin No. 243, dated April 23, 2012, for instructions and sample resolutions.

We have noted that the District has a Board-approved resolution for interfund borrowing and issued a $28.0 million Tax and Revenue Anticipation Note in February 2013 in order to maintain positive cash balances in 2012-13. We request that the District notify our office immediately if a cash shortfall is projected that cannot be covered through local means.

DEBT ISSUANCE

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by EC Section 42133 (a).

FEDERAL SEQUESTRATION

In August 2011, Congress passed the Budget Control Act, which directed a Congressional “Supercommittee” to trim Federal spending by at least $1.2 trillion over the next decade. The Supercommittee’s failure to present a specific program of spending reductions triggers automatic cuts through a process known as sequestration, which applies an across-the-board percentage cut to most Federal spending streams, including funding of most Federal education programs.

The largest education programs affected are Title I and IDEA, and for school districts, the reduction in funding for these programs is currently estimated to be approximately 5.9 percent. Informational Bulletin No. 3512, dated February 19, 2013, and titled “2012-13 Second Interim Financial Reporting” advised school districts to develop contingency plans for these Federal sequestration cuts that could impact budgets for 2013-14 and 2014-15. According to our review of the District’s Second Interim Report and assumptions, the multiyear projection for 2013-14 and 2014-15 does reflect a potential reduction to Title I and IDEA from sequestration.
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 2012-13 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, 2013, 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 2012-13 and develop your budget for 2013-14. We wish to express our appreciation to the District staff for their cooperation during the review of the 2012-13 Second Interim Report. If our office can be of further assistance, please call me at (562) 922-6802.

Sincerely,

Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services

MJ:lc

cc:  Mr. Pell, Superintendent
     Ms. Contreras-Smith, Superintendent
     Ms. Plotkin, Assistant Superintendent, Business Services
     Ms. Tran, Controller
     Dr. Cherniss, Los Angeles County Office of Education (LACOE)
     Ms. Dunn, LACOE
     Mr. Burdy, LACOE
     Ms. Smith, LACOE
     Ms. Minor, LACOE