August 12, 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 42127, a review of the Montebello Unified School District’s (District) budget for fiscal year 2013-14 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

The District is projecting an operating deficit of $13.5 million, representing 5.2 percent of the District’s projected expenditures and other outgo for fiscal year 2013-14. The District also projects operating deficit of $826,000 for 2015-16. According to our review of the District’s 2013-14 Adopted Budget data and assumptions, the projected deficit is primarily due to declining enrollment and continued Special Education program encroachment. We request that the District monitor the projected deficit spending to ensure that it remains manageable.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District’s 2013-14 Adopted Budget, certificated and classified labor contract negotiations for 2013-14 remain unsettled and potential changes 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 Informational Bulletin No. 3595, dated June 21, 2013, and is titled “2013-14 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

**DECLINING ENROLLMENT AND REDUCED STATE FUNDING**

The District’s 2013-14 Adopted Budget reflects continued declining enrollment. The District’s projected average daily attendance (ADA) is 29,335 for 2013-14, 28,758 for 2014-15, and 28,509 for 2015-16. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two year loss totaling 826 ADA, representing a decrease of 2.8 percent from the District’s 2013-14 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.

**2013-14 BUDGET REVISIONS AFTER STATE BUDGET ADOPTION**

Since the District’s budget assumptions may have changed from the Board adopted budget as a result of the state Adopted Budget and trailer legislation, this is a reminder that EC 42127(i)(4) states:

"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"

Districts should take steps to make any necessary adjustments to their adopted budget. The adjustments should be submitted to the Los Angeles County Office of Education upon approval by the District’s Governing Board.
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 2013-14. 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  
     Mrs. 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. Faulkner, LACOE  
     Mr. Burdy, LACOE  
     Mr. Young, LACOE  
     Ms. Smith, LACOE  
     Ms. Minor, LACOE
January 7, 2014

Mr. David Vela, Board President
Montebello Unified School District
123 S. Montebello Boulevard
Montebello, CA 90640

Dear Mr. Vela:

In accordance with the provisions of Education Code (EC) Section 42131, the Los Angeles County Superintendent of Schools has completed a review of the Montebello Unified School District's (District) First Interim Report for fiscal year 2013-14. Our analysis of the data provided indicates that the District may not be able to meet its financial obligations for 2014-15 without the implementation of budget reductions and/or a Board-approved fiscal stabilization plan that restores and maintains the District’s required minimum level of Reserve for Economic Uncertainties for 2014-15. We therefore concur with the District’s qualified certification and offer our comments and concerns regarding the following issues.

DEFICIT SPENDING

The District is projecting an operating deficit of $18.0 million, representing 6.2 percent of the District’s projected expenditures and other outgo for fiscal year 2013-14. The District also projects an operating deficit of $3.4 million for 2014-15. According to our review of the District’s 2013-14 First Interim data and assumptions, the projected deficits are primarily due to declining enrollment and continued Special Education program encroachment. While the District projects to eliminate operating deficits in 2015-16, we request that the current level of deficit spending be monitored closely to ensure that it remains manageable.

RESERVE FOR ECONOMIC UNCERTAINTIES

We noted in our review of the First Interim Report that the District is projecting reserve levels at 3.3 percent for 2013-14, 2.2 percent for 2014-15, and 3.9 percent for 2015-16. While the reserve levels for 2013-14 and 2015-16 meet the minimum requirements of the State Criteria and Standards, the reserves for 2014-15 are below the required minimum level. Therefore, we are requesting that the District reevaluate its spending priorities and make the necessary Board-approved adjustments to the 2013-14 budget and multiyear projections in order to restore and maintain the reserves at the required level. The District is requested to submit a Board-approved fiscal stabilization plan, including any necessary 2013-14 budget adjustments, with its 2013-14 Second Interim Report, due to the Los Angeles County Office of Education on or before March 17, 2014.
LOCAL CONTROL FUNDING FORMULA (LCFF) GAP FUNDING FOR 2014-15 AND 2015-16

During the anticipated eight-year transition to fully fund LCFF, there is no statutory guaranteed increase in any given year until full implementation is reached. Furthermore, there are potential restrictions on the increase on LCFF revenue. Therefore, our Informational Bulletin No. 3708, dated November 7, 2013, and titled “2013-14 First Interim Financial Reporting” recommended that districts assign, reserve, or otherwise set aside any projected increase in LCFF revenue in 2014-15 and 2015-16.

We noted in our review that the District included LCFF gap funding increases in its projections of $15.7 million for 2014-15 and 2015-16, but did not assign or restrict these amounts in the ending fund balances. We are concerned by the potential impact on the District’s fiscal solvency should the increases not materialize and recommend that the District use caution in budgeting these funds.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2013-14 First Interim Report reflects continued declining enrollment. The District’s projected average daily attendance (ADA) is 29,230 for 2013-14, 28,658 for 2014-15, and 28,249 for 2015-16. The estimated impact of the declining enrollment on the District’s projected revenue limit ADA reflects a two year loss totaling 981 ADA, representing a decrease of 3.36 percent from the District’s 2013-14 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.

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).
CONCLUSION

Thank you for providing documentation that supports the District's qualified certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2013-14 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, 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 2013-14 and develop your projections for 2014-15 and 2015-16. We wish to express our appreciation to the District staff for their cooperation during the review of the 2013-14 First Interim Report. If our office can be of further assistance, please call Mr. Michael Jamshidi at (562) 922-6802.

Sincerely,

Alex Cherniss, Ed.D.
Chief Financial Officer
Business Services

AC/MJ:lc

cc: Mr. Pell, Superintendent
    Mrs. Contreras-Smith, Superintendent
    Ms. Plotkin, Assistant Superintendent, Business Services
    Ms. Tran, Controller
    Ms. Dunn, Los Angeles County Office of Education (LACOE)
    Mr. Faulkner, LACOE
    Mr. Burdy, LACOE
    Mr. Young, LACOE
    Mr. Jamshidi, LACOE
    Ms. Smith, LACOE
    Ms. Minor, LACOE
June 13, 2014

Mr. David Vela, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Vela:

This letter to the Montebello Unified School District (District) Governing Board is a summary of the analyses completed by the Los Angeles County Superintendent of Schools (County Superintendent) regarding the financial status of the District during the 2013-14 fiscal year. The summary reflects the main concerns noted in the County Superintendent’s assessment of the District’s Adopted Budget, First Interim Report and Second Interim Report. It also provides a reminder regarding any future debt issuance that may be considered by the District. This report fulfills the requirement of Education Code (EC) Section 1240(e) that the County Superintendent present an annual report summarizing the previous year’s financial history to the Governing Board and the Superintendent of Public Instruction for any district that had a qualified interim report certification during the fiscal year.

2012-13 FISCAL SOLVENCY SUMMARY

The County Superintendent approved the District’s 2013-14 Adopted Budget, concurred with the qualified certification for the First Interim Report, and concurred with the positive certification for the Second Interim Report.

FIRST INTERIM REPORT

The County Superintendent concurred with the District’s qualified certification of the First Interim Report. The District projected operating deficits of $18.0 million for 2013-14 and $3.4 million for 2014-15. Reserves were projected at 3.3 percent for 2013-14, 2.2 percent for 2014-15, and 3.9 percent for 2015-16. The County Superintendent requested that the District submit a fiscal stabilization plan that would restore reserves at the required level with its Second Interim Report.
SECOND INTERIM REPORT

The County Superintendent concurred with the District’s positive certification of the Second Interim Report. The District projected an operating deficit of $18.9 million for 2013-14 and no deficit spending in the two subsequent fiscal years. The multiyear projections met the minimum reserve requirements in all three years.

DEBT ISSUANCE

EC Section 42133(a) specifies the statutory requirements placed on debt issuance for the current and next fiscal year by school districts with qualified interim report certifications.

CONCLUSION

We are aware that the information provided with each of the District’s financial reports submitted during fiscal year 2013-14 reflected the District’s financial position and assumptions at specific points in time and that further adjustments were made as data became available. We hope that these comments will be helpful to the District administration and Board as you begin fiscal year 2014-15. We wish to express our appreciation to the District staff for their cooperation during all of the financial report reviews we conducted during 2013-14. If our office can be of further assistance, please call me at (562) 922-6802.

Sincerely,

[Signature]

Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services

cc: Mr. Pell, Superintendent of Schools
Mrs. Contreras Smith, Superintendent of Education
Ms. Plotkin, Assistant Superintendent, Business Services
Ms. Tran, Controller
Mr. Faggiato, California Department of Education
Mr. Chiang, California State Controller
Dr. Cherniss, Los Angeles County Office of Education (LACOE)
Ms. Dunn, LACOE
Mr. Faulkner, LACOE
Mr. Burdy, LACOE
Mr. Young, LACOE
Ms. Smith, LACOE
Ms. Minor, LACOE