May 18, 2016

Mr. Benjamin Cardenas, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Cardenas:

Under Assembly Bill (AB) 1200 (Chapter 1213/Statutes 1992), AB 2756 (Chapter 52/Statutes 2004) and Government Code Section 3547.5, the Los Angeles County Superintendent of Schools has reviewed the Montebello Unified School District’s (District) “Public Disclosure of Collective Bargaining Agreement” (Disclosure) concerning an agreement with the Montebello Teachers Association (MTA) bargaining unit. The agreement is for the period from July 1, 2015, through June 30, 2018, and is scheduled for the District’s Governing Board action on May 19, 2016.

The agreement provides for a one-time payment to the bargaining unit members equal to 2.3 percent of their 2015-16 annual salary. In addition, effective July 1, 2016, salary schedules will be increased by 3.25 percent for 2016-17, and effective July 1, 2017, by another 3.25 percent for 2017-18. The rate for all additional assignments in 2016-17 and 2017-18 will also be increased to $45 per hour, which the District estimates to increase costs by $311,000 in each year. The District projects an increase of approximately $3.5 million in total employee compensation costs in 2015-16, $5.7 million in 2016-17 and $11.6 million in 2017-18.

The Disclosure document reflects after settlement Reserve for Economic Uncertainties (REU) of 3.3 percent for 2015-16, 3.1 percent for 2016-17, and 3.2 percent for 2017-18. The projected REUs are based in part on these assumptions:

- $2.0 million expenditure reductions for books and supplies in 2015-16
- $2.9 million of unallocated expenditure reductions in 2016-17
- $12.9 million of unallocated expenditure reductions in 2017-18
Mr. Benjamin Cardenas, Board President  
Montebello Unified School District  
May 18, 2016  
Page 2

We are concerned that if the unallocated expenditure reductions in the out years are not realized, implementing the salary increases will lead to decreased REUs of 2.3 percent in 2016-17 and negative 1.4 percent in 2017-18. These projected reserves are below the minimum required level as set by the State Criteria and Standards. Therefore, we request the District address the potential shortfalls in its reserves in a board-approved fiscal stabilization plan that includes detailed cost categories which will be considered for reductions in 2016-17 and 2017-18. This plan will be a major factor in our review and approval of the District’s 2016-17 Adopted Budget, due to the Los Angeles County Office of Education by July 1, 2016.

The projections in the Disclosure use the latest Local Control Funding Formula (LCFF) funding assumptions for the 2015-16 and two subsequent years. However, there are no statutory guarantees that the LCFF will be funded in future years at the current projected levels. In addition, the State Board of Education (SBE) regulations require specific uses of the Supplemental and Concentration Grants of the LCFF funds that may limit or restrict allocating all or portions of those funds in any expenditure categories not deemed to directly benefit the District’s unduplicated pupils. We recommend the District be prepared to adjust its projections based on the potential changes in LCFF funding levels and to meet the SBE regulations’ requirements.

We wish to express our appreciation to the District staff for their cooperation during the review of the AB 1200 public disclosure and salary settlement analysis. 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

MJ:jj/gm

cc:  Mrs. Contreras Smith, Superintendent of Schools  
Mr. Pell, Chief Financial and Operations Officer  
Mr. Rojas, Chief Business Officer  
Ms. Tran, Controller  
Dr. Price, Los Angeles County Office of Education (LACOE)  
Mr. Crafton, LACOE  
Mr. Faulkner, LACOE  
Mr. Burdy, LACOE  
Mr. Young, LACOE  
Ms. Smith, LACOE  
Ms. Minor, LACOE
August 25, 2016

Mr. Benjamin Cardenas, Board President
Montebello Unified School District
123 S. Montebello Blvd.
Montebello, CA 90640

Dear Mr. Cardenas:

Under Education Code (EC) Section 52070(d), the Los Angeles County Superintendent of Schools (County Superintendent) has completed a review of the Montebello Unified School District’s (District) Local Control and Accountability Plan (LCAP) for fiscal year 2016-17. The three criteria for LCAP approval per EC Section 52070(d) include:

1. Adherence to the State Board of Education (SBE) Template
2. Sufficient Expenditures in Budget to Implement the LCAP
3. Adherence to SBE Expenditure Regulations

Through the review and oversight process it has been determined that your District’s LCAP has met all three criteria. This letter serves as your District’s notification of approval.

We remind districts that Supplemental and Concentration (S&C) grant funding is included in the Local Control Funding Formula to increase and/or improve services to targeted student populations. It may be difficult for a district to meet the Minimum Proportionality Percentage at full implementation if S&C grant dollars have not been expended in each fiscal year to serve the targeted students who generated the funding.

BUDGET APPROVAL

Under EC Section 42127, the County Superintendent has completed a review of your District’s adopted budget for fiscal year 2016-17. That review has resulted in approving the District’s budget with the following comments.

FISCAL STABILIZATION PLAN

As requested in our letter dated May 18, 2016, the District submitted a Board-approved fiscal stabilization plan (FSP) with its 2016-17 Adopted Budget. The plan is primarily based on staffing realignment in response to the District’s continued declining enrollment by eliminating 192 certificated and classified full time equivalency (FTE) positions.
Based on the FSP projections, the District is expected to realize a total savings of $24.7 million in employee compensation costs over three years beginning with 2016-17. The cost reductions have been incorporated in the District’s current year budget and multiyear projections, which indicate Reserve for Economic Uncertainties (REU) of 4.4 percent in 2016-17, 5.0 percent in 2017-18 and 4.0 percent in 2018-19.

While we commend the District for its efforts in adopting the current FSP, it is also important to note that the projected REUs are predicated on the District’s continued implementation of the FSP in 2017-18 and 2018-19. Without full implementation of the proposed cost reductions, the District may not be able to maintain the minimum reserve requirements in future year.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2016-17 Adopted Budget reflects declining enrollment, and projected average daily attendance (ADA) is 26,888 for 2016-17, 26,349 for 2017-18, and 25,982 for 2018-19. The estimated impact of the declining enrollment on the District’s projected ADA reflects a two-year loss totaling 906 ADA, representing a 3.4 percent decrease from the District’s 2016-17 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 the loss of revenue due to declining enrollment/attendance. However, the District will lose state funding over time if the decline in enrollment continues and it must 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.

DEFICIT SPENDING

The District projects an operating deficit of approximately $2.9 million, representing 1.2 percent of the District’s unrestricted General Fund projected expenditures and other outgo in 2016-17. The District also projects a deficit of $4.1 million, or 1.7 percent, in 2018-19. While the District projects to maintain the required level of reserves in all three years, this level of deficit spending should be monitored so it remains manageable.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District’s budget, the classified labor contract negotiations for 2016-17 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 affect 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 Informational Bulletin No. 4385, dated July 13, 2016, and is titled “2016-17 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements.” This document can be found at the following website:

http://www.lacoe.edu/BusinessServices/DocumentsForms.aspx

LOCAL CONTROL FUNDING FORMULA (LCFF) GAP FUNDING FOR 2017-18 AND 2018-19

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. Expiration of some temporary tax increases in 2016 and 2018, and uncertainty regarding the continued recovery of the State’s economy, results in uncertainty regarding future years’ increases in LCFF funding. Therefore, our Informational Bulletin No. 4375, dated June 2, 2016, and titled “2016-17 Budget Development and Financial Reporting Software: Assumptions and Instructions” recommended that districts assign, reserve or otherwise set aside any projected increase in LCFF revenue as a result of Gap Funding in 2017-18 and subsequent years.

We noted in our review that the District included LCFF gap funding increases in its projections for 2017-18 and 2017-18 but did not assign or restrict the increased amounts in the ending fund balance. 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.

2016-17 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 Governing Board approval. Please refer to Informational Bulletin No. 4386 dated July 13, 2016, for additional information. This document can be found at the following website:

http://www.lacoe.edu/Bulletin.aspx
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 2016-17. If you have questions regarding your District’s budget approval, please call me at (562) 922-6802.

Sincerely,

[Signature]
Michael Jamshidi
Business Services Consultant
Division of Business Advisory Services

MJ

cc:  Mrs. Contreras-Smith, Superintendent of Schools
     Mr. Pell, Chief Financial and Operations Officer
     Mr. Rojas, Chief Business Officer
     Dr. Martinez, Assistant Superintendent, Instructional Services
     Ms. Tran, Controller
     Ms. Hale, Director, Integrated Technology and Instruction
     Dr. Price, Los Angeles County Office of Education (LACOE)
     Dr. Gilleland, LACOE
     Mr. Crafton, LACOE
     Mr. Faulkner, LACOE
     Mr. Burdy, LACOE
     Mr. Young, LACOE
     Ms. Smith, LACOE
     Ms. Minor, LACOE
     Ms. Fuentes, LACOE
     Ms. McFarland, LACOE
     Ms. Keith, LACOE
January 6, 2017

Dr. Lani Cupchoy, Board President  
Montebello Unified School District  
123 S. Montebello Blvd.  
Montebello, CA 90640

Dear Dr. Cupchoy:

Under Education Code (EC) Section 42131, the Los Angeles County Superintendent of Schools (County Superintendent) has completed a review of the Montebello Unified School District’s (District) 2016-17 First Interim Report. Our analysis of the data provided indicates that the District may not meet its financial obligations for 2017-18 and 2018-19 without implementing budget reductions and a Board-approved fiscal stabilization plan (FSP) that restores and maintains the required minimum Reserve for Economic Uncertainties (REU) for 2017-18 and 2018-19. We therefore concur with the District’s qualified certification and offer our comments and concerns.

FISCAL STABILIZATION PLAN

The District submitted a revised FSP with the 2016-17 First Interim report. The plan primarily calls for implementing personnel reductions commencing with 2017-18 based on a “Fair Share Model”. The FSP has identified $15.0 million as necessary cuts in staffing costs for 2017-18 and an additional $16.4 million for 2018-19 without providing details of positions targeted for reduction. The impact of the cuts is to be distributed among the District’s management group and two bargaining units based on a fair share formula.

The District’s First Interim multiyear projections incorporate the FSP’s proposed cost reductions in order to maintain minimum required level of REU in 2017-18 and 2018-19. While we commend the District for its efforts in adopting the current FSP, it is important to note that the projected REUs are predicated on the District’s implementing the adopted FSP in 2017-18 and 2018-19. Without full implementation of the proposed cost reductions, the District’s ability to maintain the minimum reserve requirements and its fiscal solvency may be severely impacted beginning with 2017-18. We request that the District submit to our office an updated FSP on or before February 17, 2017.
The updated plan must detail areas of cost reductions, include an adopted board resolution stating the need and extent of staff reductions, identify all positions targeted for reductions, and include a list of positions to be placed on March 15 notices. In the event of failure by the District to comply with our request, the County Superintendent may take further actions under Education Code Section 42127.6(a), which may include declaring the District “not a going concern” and taking necessary steps to assist the District in regaining its financial stability.

**RESERVE FOR ECONOMIC UNCERTAINTIES (REU)**

The First Interim Report includes unallocated expenditure reductions of $9.1 million in 2017-18 and $24.2 million in 2018-19 for projected cost reductions that the Governing Board has approved as part of a FSP to meet the District’s reserve requirements in 2017-18 and 2018-19, currently projected at 4.0 percent and 4.3 percent, respectively. Without the unallocated expenditure reductions, the District’s REUs will decrease to 1.4 percent in 2017-18 and negative 5.0 percent in 2018-19, both of which are below minimum reserve requirements as set by the State Criteria and Standards. **We request that the District allocate these adjustments in its 2016-17 Second Interim Report, due to our office by March 17, 2017.**

**DEFICIT SPENDING**

The District projects an [highlighted text: operating deficit of approximately $1.0 million, representing less than one percent of the District’s unrestricted General Fund projected expenditures and other outgo in 2016-17. The District also projects a deficit of $5.4 million, or 2.2 percent, in 2017-18 after implementing the proposed cost reductions as reflected in the District’s Board-adopted FSP. Without the cost reductions, deficit spending is projected to balloon to $14.5 million, or 5.6 percent in 2017-18, and $23.6 million, or 9.0 percent in 2018-19. This level of deficit spending, if not addressed, will render the District insolvent beginning with the fiscal year 2017-18.**

**DECLINING ENROLLMENT AND REDUCED STATE FUNDING**

The District’s 2016-17 First Interim Report continues to project declining enrollment. The projected average daily attendance (ADA) is 26,824 for 2016-17, 26,119 for 2017-18, and 25,470 for 2018-19. The estimated impact of the declining enrollment on the District’s projected ADA reflects a two-year loss totaling 1,354 ADA, representing a 5.0 percent decrease from the District’s 2016-17 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 the loss of revenue due to declining enrollment/attendance. However, the District will lose state funding over time if the decline in enrollment continues and it must 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.
LCFF GAP FUNDING FOR 2017-18 AND 2018-19

During the anticipated eight-year transition to fully fund LCFF, there is no statutory guaranteed increase in any year until full implementation is reached. In addition, expiration of the temporary tax increase in 2016 and uncertainty regarding the continued recovery of the State’s economy results in uncertainty regarding future years’ increases in LCFF funding.

We noted in our review that the District included an LCFF gap funding increase in its projections of $11.6 million and $4.0 million for 2017-18 and 2018-19, but did not assign or restrict this amount in the ending fund balance. 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. Therefore, we recommend that districts carefully consider any actions related to any projected increases in expenditures related to projected LCFF revenue, and consider assigning all Gap Funding in 2017-18 and subsequent years.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District’s First Interim Report, classified labor contract negotiations for 2016-17 remain unsettled and potential changes have not been calculated and incorporated into projected salary and benefit expenditures. Because labor costs make up much 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 affect 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 Informational Bulletin No. 4385, dated July 13, 2016, and is titled “2016-17 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements.” This document can be found at the following website:

http://www.lacoe.edu/BusinessServices/DocumentsForms.aspx

ACTION REQUIRED BY THE DISTRICT

Because the District filed a qualified First Interim Report certification, the District is required to submit an updated FSP on or before February 17, 2017. The updated plan must detail specific areas of cost reductions, include an adopted board resolution stating the need and extent of staff reductions, identify staffing positions targeted for reductions and include a list of certificated positions to be place on March 15 notices.
Dr. Lani Cupchoy, Board President
Montebello Unified School District
January 6, 2017
Page 4

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 helpful in our analysis of the 2016-17 First Interim Report and in verifying the District's fiscal condition.

The information provided reflects the District's financial position and assumptions as of October 31, 2016, and further adjustments will be made during the year as additional data becomes available. We hope these comments will be helpful to the District administration and board as you plan for the remainder of 2016-17 and develop your projections for 2017-18 and 2018-19. We wish to express our appreciation to the District staff for their cooperation during the review of the 2016-17 First Interim Report. If our office can be of further assistance, please call Mr. Charles Faulkner, Assistant Director, at (562) 922-6132 or Mr. Michael Jamshidi, Business Services Consultant, at (562) 922-6802.

Sincerely,

Scott Price, Ph.D.
Chief Financial Officer
Business Services

SP: MJ

cc: Anthony J. Martinez, Ph.D., Interim Superintendent of Schools
Ruben Rojas, Chief Business Officer
Peter Foggiato, California Department of Education
Betty Yee, California State Controller
Keith D. Crafton, Los Angeles County Office of Education (LACOE)
Charles Faulkner, LACOE
Jeff Young, LACOE
Chris Burdy, LACOE
Michael Jamshidi, (LACOE)
Pat Smith, LACOE
Tracy Minor, LACOE