August 8, 2014

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

Dear Mr. Vela:

In accordance with the provisions of Education Code (EC) Sections 52070(d) and 42127, a review of the Montebello Unified School District’s (District) Local Control and Accountability Plan (LCAP) and budget for fiscal year 2014-15 has been completed by the Los Angeles County Superintendent of Schools. That review has resulted in the approval of the District’s LCAP and budget with the following comments.

**DECLINING ENROLLMENT AND REDUCED STATE FUNDING**


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.
2014-15 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 (County Office) upon Governing Board approval.

LOCAL CONTROL FUNDING FORMULA (LCFF) GAP FUNDING ESTIMATES

The Department of Finance (DOF) announced revised estimates for closing the LCFF funding gap on July 3, 2014, as shown in the table below, to reflect the impact of the 2014-15 State Budget on LCFF implementation. This change comes shortly after school districts have already adopted their budgets for 2014-15.

The largest revision is in 2015-16 due to the retention of approximately $1 billion in deferrals. The DOF estimates that the funding gap closure percentage in 2015-16, the second-year of a district’s multiyear projection, drops by nearly 10 percentage points. The gap closure percentage is estimated to increase from 19.50 percent to 25.48 percent in 2016-17.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revised from</th>
<th>Revised to</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>28.05 percent</td>
<td>29.56 percent</td>
</tr>
<tr>
<td>2015-16</td>
<td>30.39 percent</td>
<td>20.68 percent</td>
</tr>
<tr>
<td>2016-17</td>
<td>19.50 percent</td>
<td>25.48 percent</td>
</tr>
</tbody>
</table>

There is no statutory requirement to provide Gap funding in any year; when projecting multiyear LCFF increases, it is recommended that districts assign, reserve or otherwise set-aside any projected increase in LCFF revenues as a result of Gap funding or alternatively have a contingency plan in place if anticipated revenues do not materialize. We request that districts assess the impact that these revised LCFF gap funding estimates have on their multiyear projections and make any necessary adjustments to their budget and multiyear projections. These adjustments should be reflected in the District’s 2014-15 First Interim Report, due to the County Office by December 15, 2014.
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 in the current or prior year. These requirements are specifically addressed by EC Section 42133 (a).

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 2014-15. 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

cc: Mr. Pell, Superintendent of Schools
Mrs. Contreras Smith, Superintendent of Education
Ms. Plotkin, Assistant Superintendent, Business Services
Ms. Tran, Controller
Ms. Dunn, 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
Ms. Fuentes, LACOE
Ms. McFarland, LACOE
Mr. Edgar Cisneros, Board President  
Montebello Unified School District  
123 S. Montebello Blvd.  
Montebello, CA 90640

Dear Mr. Cisneros:

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 2014-15 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent). 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 regarding the following issues.

**DECLINING ENROLLMENT AND REDUCED STATE FUNDING**

The District's 2014-15 First Interim Report continues to project declining enrollment. The District's projected average daily attendance (ADA) is 27,846 for 2014-15, 27,085 for 2015-16, and 26,299 for 2016-17. The District's estimated impact of declining enrollment on its projected average daily attendance reflects a two-year loss totaling 1,547 ADA, representing a 5.6 percent decrease from the District's 2014-15 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 as 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.
LABOR CONTRACT NEGOTIATIONS

According to the information provided by the District, certificated and classified labor contract negotiations were re-opened and settled for 2014-15. We received AB 1200 public disclosure documents indicating that an agreement between the District and its certificated bargaining unit was approved by the Board on November 20, 2014, for a 4.5 percent salary schedule increase and a total compensation increase of $6.7 million in 2014-15. The impact of this settlement was reflected in the District’s First Interim Report.

Additional AB1200 public disclosure documents were submitted by the District, which indicated that an agreement between the District and its classified bargaining unit was approved by the Board on December 18, 2014, for a 4.5 percent salary schedule increase and a total compensation increase of $2.9 million in 2014-15. While the cost of this settlement is not reflected in the First Interim projections, the updated multiyear projections as reflected in the public disclosure documents indicate that the District will be able to maintain the minimum required level of reserves when the settlement is implemented.

LCFF GAP FUNDING FOR 2015-16 AND 2016-17 & PROPOSITION 30 – EDUCATION PROTECTION ACCOUNT (EPA)

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, expiration of the temporary tax increases in 2016 and 2018, as well as uncertainty regarding the continued recovery of the State’s economy, results in uncertainty regarding future years’ increases in LCFF funding. 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 and consider reserving any increases in fund balance as a result of Gap Funding in 2015-16 and subsequent years.

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 positive certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2014-15 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, 2014, 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 2014-15 and develop your projections for 2015-16 and 2016-17. We wish to express our appreciation to the District staff for their cooperation during the review of the 2014-15 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

cc:  Mr. Pell, Superintendent of Schools
     Mrs. Contreras Smith, Superintendent of Education
     Ms. Plotkin, Assistant Superintendent, Business Services
     Ms. Tran, Controller
     Dr. Price, 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
Mr. Edgar Cisneros, Board President  
Montebello Unified School District  
123 S. Montebello Blvd.  
Montebello, CA 90640  

Dear Mr. Cisneros:

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 2014-15 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent). 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 regarding the following issues.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2014-15 Second Interim Report continues to project declining enrollment. The District’s projected average daily attendance (ADA) is 27,846 for 2014-15, 27,056 for 2015-16, and 26,269 for 2016-17. The District’s estimated impact of declining enrollment on its projected ADA reflects a two-year loss totaling 1,577 ADA, representing a 5.7 percent decrease from the District’s 2014-15 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 as 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.

DEFICIT SPENDING

The District projects an operating deficit of $3.7 million, representing 1.8 percent of the District’s Unrestricted General Fund projected expenditures and other outgo for fiscal year 2014-15. 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.
LOCAL CONTROL FUNDING FORMULA (LCFF) GAP FUNDING FOR 2016-17

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. 4043, dated February 25, 2015, and titled “2014-15 Second Interim Financial Reporting” recommended that districts assign, reserve or otherwise set aside any projected increase in LCFF revenue in 2016-17.

We noted in our review that the District included in its projections an LCFF gap funding increase of $12.7 million for 2016-17, 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.

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 positive certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2014-15 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, 2015, 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 2014-15 and develop your budget for 2015-16. We wish to express our appreciation to the District staff for their cooperation during the review of the 2014-15 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 of Schools
    Mrs. Contreras Smith, Superintendent of Education
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