January 12, 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 42131, the Los Angeles County Superintendent of Schools has completed a review of the Montebello Unified School District's (District) 2015-16 First Interim Report. 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 these comments.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2015-16 First Interim Report continues to project declining enrollment. The projected average daily attendance (ADA) is 27,781 for 2015-16, 26,799 for 2016-17, and 26,367 for 2017-18. The estimated impact of the declining enrollment on the District's projected ADA reflects a two-year loss totaling 1,414 ADA, representing a 5.0 percent decrease from the District's 2015-16 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.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District's First Interim Report, labor contract negotiations for 2015-16 remain unsettled and potential changes have not been calculated and incorporated into budgeted 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. 4158, dated July 15, 2015, and is titled “2015-16 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements.” This document can be found at this website:

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

DEFICIT SPENDING

The District is projecting operating deficits of approximately $528,000, representing less than one percent of the District’s Unrestricted General Fund projected expenditures and other outgo for fiscal year 2016-17 and $1.7 million for 2017-18. While the District continues to maintain the required level of reserves, deficit spending should be recognized and monitored so it remains manageable.

LCFF GAP FUNDING FOR 2017-18

We noted in our review that the District included an LCFF gap funding increase in its projections of $10.2 million for 2017-18, 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.

CONCLUSION

Thank you for providing documentation that supports the District's positive certification. The multiyear projections, with accompanying narrative and assumptions, were helpful in our analysis of the 2015-16 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, 2015, 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 2015-16 and develop your projections for 2016-17 and 2017-18. We wish to express our appreciation to the District staff for their cooperation during the review of the 2015-16 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: 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
April 5, 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 42131, the Los Angeles County Superintendent of Schools has completed a review of the Montebello Unified School District's (District) 2015-16 Second Interim Report. 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 these comments.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District’s 2015-16 Second Interim Report continues to project declining enrollment. The projected average daily attendance (ADA) is 27,745 for 2015-16, 26,906 for 2016-17, and 26,367 for 2017-18. The estimated impact of the declining enrollment on the District’s projected ADA reflects a two-year loss totaling 1,378 ADA, representing a 5.0 percent decrease from the District’s 2015-16 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.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District’s Second Interim Report, certificated labor contract negotiations for 2015-16 remain unsettled and potential changes have not been calculated and incorporated into budgeted 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. 4158, dated July 15, 2015, and is titled “2015-16 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements.” This document can be found at this website:

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

DEFICIT SPENDING

The District is projecting an **operating deficit of approximately $2.2 million**, representing less than one percent of the District’s Unrestricted General Fund projected expenditures and other outgo for fiscal year 2017-18. While the District continues to maintain the required level of reserves, this level of deficit spending should be recognized and monitored so it remains manageable.

LCFF GAP FUNDING FOR 2017-18

We noted in our review that the District included an LCFF gap funding increase in its projections of $9.7 million for 2017-18, 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.

DISCRETIONARY ONE-TIME PROPOSITION 98 FUNDS

The Governor’s 2016-17 Proposed Budget includes $1.28 billion in one-time funds representing a portion of the debt owed to LEAs for mandated cost reimbursement. The distribution of these unrestricted funds is currently estimated at $214 per ADA, which the District used in preparing its Second Interim’s multiyear projections. We recommend caution in formally committing these proposed funds until the state budget is adopted and the exact amount is known.

CONCLUSION

Thank you for providing documentation that supports the District's positive certification. The multiyear projections, with accompanying narrative and assumptions, were helpful in our analysis of the 2015-16 Second Interim Report and in verifying the District’s fiscal condition.
The information provided reflects the District’s financial position and assumptions as of January 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 2015-16 and develop your projections for 2016-17 and 2017-18. We wish to express our appreciation to the District staff for their cooperation during the review of the 2015-16 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:jj

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
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) 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 2015-16 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

The District’s 2015-16 Adopted Budget reflects declining enrollment, and projected average daily attendance (ADA) of 26,740 for 2015-16, 26,377 for 2016-17, and 25,901 for 2017-18. The estimated impact of the declining enrollment on the District’s projected ADA reflects a two-year loss totaling 839 ADA, representing a 3.1 percent decrease from the District’s 2015-16 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.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District’s Budget, labor contract negotiations for 2015-16 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 Informational Bulletin No. 4158, dated July 15, 2015, and is titled “2015-16 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements.” This document can be found at the following website:

www.lacoe.edu/BusinessServices/DocumentsForms.aspx

DEFICIT SPENDING

The District is projecting an operating deficit of $2.4 million, representing 1.0 percent of the total budgeted outgo for fiscal year 2016-17. The District is also projecting an operating deficit of $3.7 million for 2017-18. While the District is projecting that it will maintain the required level of reserves, we request that the District monitor the projected deficit spending to ensure that it remains manageable.

LCFF GAP FUNDING FOR 2016-17 & 2017-18
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 exercise caution in budgeting these funds and consider reserving any increases in fund balance as a result of Gap Funding in 2016-17 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).

2015-16 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. 4159 dated July 15, 2015, for additional information. This document can be found at the following website:

www.lacoe.edu/bulletins.aspx

CONCLUSION

We wish to express our appreciation to the District’s staff for their cooperation during the review of the District’s LCAP and budget for fiscal year 2015-16. 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: 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. Crafion, LACOE
Mr. Faulkner, LACOE
Mr. Burdy, LACOE
Mr. Young, LACOE
Ms. Smith, LACOE
Ms. Minor, LACOE
Ms. Fuentes, LACOE
Ms. McFarland, LACOE