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January 13, 2015

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Mr. Ed Porter, Board President
Acton-Agua Dulce Unified School District
32248 North Crown Valley Road
Acton, CA 93510

Dear Mr. Porter:

In accordance with the provisions of Education Code (EC) Section 42131, a review of the Acton-Agua Dulce 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 and concerns regarding the following issues.

FISCAL STABILIZATION PLAN

In our October 8, 2014, letter, we requested a fiscal stabilization plan that included a status of positions, including any positions that have been restored, be submitted with the District's First Interim Report. According to District staff, a total of 2.5 full-time equivalent (FTE) certificated positions were restored for 2014-15 in order to address the K-3 Grade Span Adjustment requirements. In addition, certificated reductions of 7.5 FTEs and 12.6 FTEs were projected for 2015-16 and 2016-17, respectively, to address the District's projected declining enrollment. We request that the District submit another update of its positions, including any additional positions that have been restored, with the Second Interim Report, due to our office by March 16, 2015.

LEGAL COSTS

In our October 8, 2014, letter, we requested an update on total legal costs incurred and projected. According to District staff, legal costs incurred to date total \$221,000 with \$441,000 projected for 2014-15. We request that the District submit another update on its legal costs incurred and projected with the Second Interim Report.

DEFICIT SPENDING

We have noted that the District is projecting an Unrestricted General Fund operating deficit of \$117,000, representing 1.13 percent of the District's projected expenditures and other outgo for fiscal year 2015-16. The District also projects an operating deficit of \$12,000 for 2016-17. According to our review of the District's First Interim data and assumptions, and as confirmed by the District, the projected deficits are primarily due to program encroachment, including Special Education. While the District continues to maintain the required level of reserves, it is important that deficit spending be recognized and monitored so that it remains manageable.

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 1,083 for 2014-15, 958 for 2015-16, and 833 for 2016-17. The District's estimated impact of declining enrollment on its projected average daily attendance reflects a two-year loss totaling 250 ADA, representing a 23.1 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.

CASH FLOW PROJECTION

We have noted that the District is projecting a negative General Fund ending cash balances in 2015-16 of \$178,000, \$539,000, \$23,000 and \$151,000 for the months of October 2015, November 2015, February 2016 and March 2016, respectively. We request that the District submit a revised cash flow projection that identifies solutions that addresses the negative cash balances, e.g, tax and revenue anticipation note (TRAN) borrowing and/or inter-fund borrowing with the Second Interim Report.

LABOR CONTRACT NEGOTIATIONS

According to the information provided in the District's First Interim Report, certificated and classified labor contract negotiations for 2014-15 remain unsettled and potential changes have not been calculated and incorporated into budgeted salary and benefit expenditures.

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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. The document used for this analysis was included in Informational Bulletin No. 3882, dated July 11, 2014, and is titled "2014-15 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/BusinessTechnology/DocumentsForms

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.

LCFF GAP FUNDING FOR 2015-16 AND 2016-17

We noted in our review that the District included an LCFF gap funding increase in its projections of \$320,000 for 2015-16 and \$290,000 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. Therefore, we recommend that districts carefully consider any actions related to any projected increases in expenditures related to projected LCFF revenue, and consider assigning any of these increases in revenue, as a result of Gap Funding in 2015-16 and subsequent years.

FUND 14

In our October 8, 2014, letter, we noted that the District erroneously used object code 8091 to transfer funds from Fund 14 to the General Fund, and that object code 7619 should have been used for this transfer. The District's First Interim Report reflects the use of the correct object code.

DEBT ISSUANCE

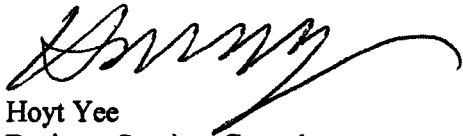
This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with negative interim report certifications. These requirements are specifically addressed by EC Section 42133 (a).

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CONCLUSION

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) 940-1705.

Sincerely,



Hoyt Yee
Business Services Consultant
Division of Business Advisory Services

HY:gm

cc: Dr. Woodard, Superintendent
Dr. Budhraj, Chief Financial Officer
Ms. Dunn, Los Angeles County Office of Education (LACOE)
Mr. Faulkner, LACOE
Mr. Burdy, LACOE
Mr. Young, LACOE
Ms. Smith, LACOE
Ms. Minor, LACOE