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April 16, 2012

Mr. Ron Esquivel, Board President
Rosemead School District
3907 N. Rosemead Blvd.
Rosemead, CA 91770

Dear Mr. Esquivel:

In accordance with the provisions of Education Code (EC) Section 42131, a review of the Rosemead School District's (District) Second Interim Report for fiscal year 2011-12 has been completed by the Los Angeles County Superintendent of Schools (County Superintendent). Based on our analysis of the data provided, it appears that the District may not be able to meet its financial obligations for the 2013-14 fiscal, without the implementation of specific Board-approved fiscal stabilization plan. **We therefore concur with the District's qualified certification.** We offer our comments and concerns regarding the following issues.

DEFICIT SPENDING

Our January 12, 2012, letter requested that the District submit a deficit reduction plan with the Second Interim Report. Because the District projected ongoing inter-fund transfers from the Special Reserve Fund for Postemployment Benefits (Fund 20) in order to maintain required General Fund reserves, we also requested that the District submit multiyear projections for Fund 20. The District submitted a Board-approved deficit reduction plan with the Second Interim Report, which included items that have yet to be negotiated.

However, the District did not submit multiyear projections for Fund 20. Our analysis indicates that the projected transfers from Fund 20 of $1.4 million in 2012-13 and $400,000 in 2013-14 would exhaust the fund's current balance of $1.8 million by the end of 2013-14. We are concerned by the District's ongoing reliance on a one-time resource in order to meet the General Fund's State Criteria and Standards minimum reserve requirement.

Excluding the inter-fund transfers from Fund 20, the District is projecting an operating deficit of \$1.08 million representing 4.50 percent of the District's projected expenditures and other outgo for fiscal year 2011-12, \$1.93 million for 2012-13 and \$1.99 million for 2013-14. The District's General Fund ending balance is projected to decrease as a result of deficit spending, which is illustrated in the table below.

General Fund Projection
(\$ millions)

	2011-12	2012-13	2013-14
Beginning General Fund Balance	\$3.24	\$2.16	\$1.61
Projected Deficit Spending	(\$1.08)	(\$1.93)	(\$1.99)
Transfers from Fund 20	-0-	\$1.38	\$0.42
Ending General Fund Balance	\$2.16	\$1.61	\$0.04
REU	\$1.26	\$0.79	(\$0.78)
REU Percent	5.26 percent	3.37percent	(3.32 percent)

We are concerned that, if this deficit spending continues as projected, it could severely impact the District's fiscal solvency in future years. Therefore, we are requesting that the District address deficit spending in a fiscal stabilization plan discussed below.

RESERVE FOR ECONOMIC UNCERTAINTIES

As noted above, the District is projecting reserve levels at 5.26 percent for 2011-12, 3.37 percent for 2012-13, and negative 3.32 percent for 2013-14. While the reserve levels for 2011-12 and 2012-13 meets the minimum 3.0 percent requirement of the State Criteria and Standards, the reserve for 2013-14 is below the required reserve level.

As a result of the potential shortfall in the District's 2013-14 reserve level, we are requesting that the District reevaluate its spending priorities and develop, adopt and submit a fiscal stabilization plan that restores and maintains the reserve at the required level along with its 2012-13 Adopted Budget, due to the our office on or before July 1, 2012.

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2011-12 Second Interim Report continues to project declining enrollment. The District's projected average daily attendance (ADA) is 2,877 for 2011-12, 2,817 for 2012-13, and 2,757 for 2013-14. The District's estimated impact of declining enrollment on its projected average daily attendance reflects a two-year loss totaling 120 ADA, representing a 4.2 percent decrease from the District's 2011-12 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 PROJECTIONS

Due to enacted cash deferrals, it is critical for all districts to monitor their 2011-12 cash flow in order to ensure their cash requirements are met during the budget year. Current law requires the deferral of a portion or all of the Principal Apportionment, as well as some State categorical apportionments, in the months of March, April, May, and June 2012. Because of the state's continued use of education funding deferrals, it is advisable that all districts have a Board-approved temporary cash borrowing resolution in place for 2011-12. Please refer to Informational Bulletin No. 256, dated March 31, 2011, for instructions and sample resolutions.

We have noted that the District is projecting a negative General Fund ending cash balance of $960,445 for the month of June 2012. Information included with the 2011-12 Second Interim Report indicates that the District has an inter-fund borrowing resolution in place and cash available in other funds in order to address any potential shortfalls during the year. We request that the District notify the County Office immediately if a cash shortfall is projected that cannot be covered through local means.

2012-13 MID-YEAR TRIGGER CUTS

The Governor's Proposed 2012-13 Budget assumes revenue from the passage of a proposed tax initiative in the November 2012 election. If the ballot measure is not approved, the Governor proposes a backup plan that identifies $5.4 billion in cuts affecting education and public safety that would go into effect on January 1, 2013. The K-12 education share of the cuts is currently estimated at $370 per ADA. For the District, this would be equal to approximately $1.04 million, and the District would see the impact beginning in February 2013 with the monthly Principal Apportionment.

Although the Governor initially proposed to completely eliminate transportation program funding in 2012-13, he has revised his proposal and would fund transportation through a reduction in the proposed deferrals for 2012-13 if the tax initiative passes. If the tax measure fails, transportation would not be funded and districts would see the loss as an additional revenue limit cut of $85 per ADA. Therefore, districts should have a contingency plan to cover a potential revenue limit reduction of $455 per ADA if the tax initiative fails to pass.

We note that the District projects no transportation funding in 2012-13 or 2013-14, and reduced its projected revenue limit by $370 per ADA in the Second Interim Report. The Governing Board passed Resolution 11-12/7 and adopted a contingency plan with options for how the District would address the potential trigger reductions in 2012-13 and 2013-14 in order to maintain the required level of reserves. The District indicates a more refined, specific plan will be submitted with its 2012-13 Adopted Budget.

END OF YEAR FINANCIAL STATEMENT

Pursuant to EC Section 42131(e), any school district that files a qualified Second Interim Report, must provide the County Superintendent, the State Controller's Office, and the Superintendent of Public Instruction with a financial statement projecting the district's fund and cash balances through June 30th, for the period ending April 30, 2012. This financial statement and supporting assumptions should be submitted to the County Office not later than June 1, 2012.

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).

ANNUAL REPORT

Pursuant to the provisions of EC Section 1240(e), the County Superintendent is required to present an annual report to a school district's governing board and to the Superintendent of Public Instruction (SPI) regarding the fiscal solvency of any school district with a qualified interim certification. This report will be issued in June 2012.

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 2011-12 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, 2012, 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 2011-12 and develop your budget for 2012-13. We wish to express our appreciation to the District staff for their cooperation during the review of the 2011-12 Second Interim Report. If our office can be of further assistance, please call me at (562) 922-6132.

Sincerely,

Marlene P. Dunn
Assistant Director
Division of Business Advisory Services

MPD:jj

cc: Dr. Enomoto-Perez, Superintendent, Rosemead Unified School District (RUSD)
Ms. Wang, Business Administrator, RUSD
Mr. Hannan, California Department of Education
Mr. Chiang, California State Controller
Dr. Cherniss, Los Angeles County Office of Education (LACOE)
Mr. Iizuka, LACOE
Mr. Burdy, LACOE
Ms. Fees, LACOE
Dr. Budhraja, LACOE