



April 5, 2007

Rob Richardson, Board President
Santa Ana Unified School District
1601 East Chestnut Ave.,
Santa Ana, CA 92701-6322

Jane Russo, Interim District Superintendent
Santa Ana Unified School District
1601 East Chestnut Ave.,
Santa Ana, CA 92701-6322

RE: 2006-07 SECOND INTERIM REPORT

Dear Mr. Richardson and Ms. Russo:

Thank you for the timely submission of the Second Interim Report. Our office has completed our review and analysis of your 2006-07 Second Interim Report and the accompanying certification of financial solvency. We recognize that the District continues to act proactively and aggressively in addressing the long-term financial well-being of the District and upon completion of our review and analysis, our office is optimistic that the District will continue to meet their financial obligations for the current and subsequent two fiscal years, and that a positive certification is appropriate.

The District's Governing Board and Administration continue to act proactively to maintain fiscal solvency and bring revenues in line with expenditures. This is evidenced by the Governing Boards' recent action to approve \$15 million in budget reductions for the 2007-08 fiscal year. Under current assumptions, the District will need to make additional unspecified budget reductions of \$12 million in 2008-09 to maintain healthy reserves. These reductions are in addition to staffing reductions associated with the continuing decline in student enrollment. The Governing Board is aware of this potential shortage and the need to make budget reductions if current budget assumptions are realized. Based on previous actions taken by the District's Governing Board and Administration, our office remains confident that the District is committed to making the necessary budget reductions in future years to maintain fiscal solvency. Our office will continue to monitor future budget submissions to confirm that necessary, planned adjustments are being implemented.

It is also important to note that projections for 2007-08 and 2008-09 include revenue increases associated with statutory cost of living adjustments, yet negotiations with the certificated and classified bargaining units have not been completed, and no corresponding expenditures are included in 2007-08 and 2008-09.

The District began to experience substantial declines in student enrollment in 2003-04 with further declines in 2004-05, 2005-06, and 2006-07. This trend is

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Mr. Richardson
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projected to continue with future enrollment declines anticipated through 2008-09. As mentioned in previous correspondence, this is not unique to the Santa Ana Unified School District, in fact more than half of the school districts in California are expecting declines in enrollment in the current fiscal year. We continue to encourage the District to closely monitor future enrollment trends and prepare for appropriate budget adjustments should enrollment projections fluctuate adversely.

According to the Criteria and Standards, negotiations for the certificated and classified bargaining units have not been settled. However, subsequent to the filing of the Second Interim Report it is our understanding that the District has settled negotiations with the certificated bargaining unit. In accordance with AB 1200 (Statutes of 1991, Chapter 1213), Government Code 3547.5, amended by AB 2756, please complete the Disclosure of Collective Bargaining Agreements and send a copy to this office for review.

The State's financial position continues to be volatile evidenced by the Legislative Analyst's Office analysis of the Governor's 2007-08 Budget, which contains cautionary language regarding current and subsequent years' State revenue projections and continues to project future State Budget deficits through 2010-11. Given the current outlook of the State's financial position and potential implications on the stability of long-term education funding, our office recommends that the District continue to maintain unrestricted reserves above the State recommended minimum. Through experience, we have all learned that by maintaining reserves greater than the State recommended minimum level, districts are better prepared to face the uncertainty of the future.

Sincerely,



Wendy Benkert, Ed.D.
Assistant Superintendent
Business Services

WB:jf

cc: Don Trigg, Associate Superintendent