



November 8, 2011

Confirmation Letter

Steven Lawrence, Ph.D., Superintendent  
Mount Diablo Unified School District  
1936 Carlotta Drive  
Concord, CA 94519-1397

Dear Superintendent Lawrence:

The purpose of this letter is to confirm the observations and recommendations by the Fiscal Crisis and Management Assistance Team (FCMAT) in conjunction with the Mount Diablo Unified School District's immediate assistance request dated October 25, 2011.

The district requested that FCMAT assist by conducting an on-site review of the district's estimated costs associated with the possible conversion of Clayton Valley High School to an independent charter school. The study agreement specifies the following scope of work:

1. Mount Diablo Unified School District is requesting the FCMAT team to provide a fiscal analysis of the district's funding model for a conversion charter school and provide recommendations or corrections, if any.

FCMAT visited the district on November 1, 2011 and met with you and members of cabinet, and interviewed the district's chief financial officer.

The team reviewed the district's assumptions and calculations for the potential financial impact of converting Clayton Valley High School to an independent charter school commencing with the 2012-13 school year.

FCMAT utilized the following items to prepare this assessment:

- Reviewed enrollment and average daily attendance (ADA) assumptions and comparison to historical averages
- Verified the source of revenue and expenditure data utilized in the analysis by the district
- Verified the allocation of unrestricted general fund central service costs
- Verified the district's contribution to special education for the prior year actuals in the district's general ledger

**FCMAT**

Joel D. Montero, Chief Executive Officer

1300 17<sup>th</sup> Street - CITY CENTRE, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647  
422 Petaluma Blvd North, Suite. C, Petaluma, CA 94952 • Telephone: 707-775-2850 • Fax: 707-775-2854 • [www.fcmat.org](http://www.fcmat.org)  
Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

## Background

The district has conditionally approved the petition to convert Clayton Valley High School to a charter school. As the district prepares its first interim financial report, the fiscal impact associated with the conversion should be recognized in the multiyear financial projection.

On October 19, 2009, the governor signed into law Senate Bill 191 (SB 191), which amended the funding formula established under Senate Bill 319 for the conversion of an existing public school within a unified school district on or after January 1, 2010. New law provides that the newly converted charter school will receive general purpose apportionment funding through the charter general purpose block grant.

Districts experiencing conversion of an existing public school to a charter school are impacted either positively or negatively under SB 191 depending on the differential between the district's base revenue limit per average daily attendance (ADA) and the general purpose block grant per ADA.

Unified school districts experiencing the conversion of a high school generally see a negative impact of approximately \$900 per ADA. In addition, the district is required to pass through \$127 per ADA for supplemental categorical grant funding to compensate newly formed charter schools in lieu of flexibility categorical funding.

## Findings and Recommendations

### District Assumptions

The district utilized the following assumptions to project the financial impact, including cost savings, of converting Clayton Valley High School to a charter school for the 2012-13 fiscal year:

Item	Amount	Source
Enrollment	1,843.00*	Current year (2011-12)
Average daily attendance	1,756.37	Current year
ADA ratio	95.3%	Historical average
Base revenue limit (deficited)	\$5,207.18	Current year
General purpose block grant	\$6,148.00	School Services of California dartboard
CVHS unrestricted revenues generated by the district per ADA	\$9,145,735	Current year
Revenue generated by the charter per ADA	\$10,798,163	Current year
CVHS expenditures	\$7,006,097	Current year
Special education encroachment per ADA – district wide average	\$877.74	Prior year actuals (2010-11)
Special education encroachment – site allocation	\$1,541,636	Prior year
Site contribution to unrestricted general fund	\$690,508	Current year revenue less prior year central service contribution
Cost savings – restricted routine maintenance	\$3,215.00	Current year
Cost savings – athletics	\$43,766.00	Current year

\*These figures do not include 42 special day class students, or 40 ADA.

Calculations prepared by the district to analyze costs associated with Clayton Valley High School are accurate, reasonable and based on either current year projections or prior year actuals when applicable. The enrollment and average daily attendance ratio projections coincide with the charter school's assumptions as well as the district's historical averages.

The district included 23 students that are currently enrolled but reside outside the district's boundaries. Students that reside outside district boundaries should not be included in calculating the amount due to the charter school.

## ***Special Education***

The original petition by the charter organizers stated that the charter would continue to have the district support the needs of special education students. An agreement would be established for the charter to pay its proportionate share of the district wide encroachment based on ADA. However, the charter organizers now have informed the district of their intent to join the El Dorado County Charter Special Education Local Plan Area (SELPA) for services.

The calculation has not been adjusted to reflect this change as of this date. Several considerations should be addressed when amending this portion of the calculation, including the costs of special education programs that exist on the campus and non-public school students whereby the student residence is within the school boundaries.

According to the El Dorado County Charter SELPA director, special education students that reside within the current boundaries of Clayton Valley High School must be included in the official notification to parents "without any reference to a disability." The charter school organizers cannot deny admission to special education students based on their disability, and must provide the services needed either through the charter or through arrangements with the SELPA.

As of this date, Clayton Valley High School has 166 special education students, 123 of which reside within the school boundaries. Another 38 special education students reside within the school boundaries but attend programs at other district school sites. In addition to these students, there are 10 non-public school students whose official residence is within Clayton Valley High School boundaries, for a total of 171 special education students.

Current law provides that special education students are entitled to transportation services identified in their individualized educational program. Therefore, the cost of special education should be included in the expenditure projections for the charter school, with a corresponding offset to the district.

All associated costs, particularly those related to non-public school placement and transportation, must be included as an offset to the district's calculation should the charter organizers elect to operate special education through the El Dorado County Charter SELPA.

Ultimately, the district is required to serve all special education students. Families within the attendance area have the right to go with the charter or stay with the district.

## ***Returning Teachers***

When a public school converts to a charter school, teachers and classified support staff can elect to stay with the district. This election must be provided no later than June 30, 2012. However, the district must issue layoff notices to teachers no later than March 15, 2012, and by April 30, 2012 to classified employees in accordance with the Education Code. Layoff notices will be based on seniority.

The district will experience an increase in salary and benefits costs as teachers that elect to stay with the district replace teachers with less seniority. Existing employees of the school have many considerations that will impact their ultimate decision, including but not limited to:

- Salary placement
- Health benefit offerings
- Whether the charter elects to provide STRS and PERS
- Post-retirement benefits
- Other fringe benefits
- Unionization
- Working conditions

### ***Facility Considerations***

Education Code 47613 allows a charter authorizing entity to charge 3% of the revenue of the charter school's general purpose entitlement and categorical block grant funding if the authorizer provides substantially rent-free facilities for use by the charter school. In the alternative, the charter authorizer can charge 1% for oversight plus a direct charge to the charter school for the allocated space based on a per-square-foot charge.

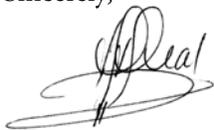
The district has prepared calculations for both scenarios that show a wide variance, and continues negotiations regarding facility usage. In either case, the charter may purchase services from the district such as maintenance, operations, grounds and custodial.

### ***Conclusion***

FCMAT reviewed the district's cost impact based on a defined set of assumptions. As these assumptions change, so will the costs either positively or negatively, as these findings are based on a particular point in time. The district and the charter organizers have not completed negotiations regarding some major areas such as facility arrangements and serving special education students. In addition, the charter organizers have resubmitted adjusted financial statements since FCMAT's fieldwork. The financial impact associated with special education and facilities can be substantial. The district is encouraged to clarify these issues with the charter organizers.

The team provided Mount Diablo Unified School District management with suggestions on potential cost impacts associated with the possible conversion. FCMAT verified the source of the data utilized by the district in its calculations but did not perform an in-depth fiscal review or financial audit of Mount Diablo Unified School District, and accordingly, FCMAT does not express any opinion in this regard.

Sincerely,



Debi Deal, CFE  
Fiscal Intervention Specialist

c: Bryan Richards, Chief Financial Officer