



CSIS California School Information Services

February 13, 2013

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

Dear Superintendent Lawrence:

The purpose of this management letter is to confirm the observations, findings and recommendations made by the Fiscal Crisis and Management Assistance Team (FCMAT) in conjunction with the signed study agreement of October 3, 2012.

In August 2012, the district requested FCMAT to conduct a review of the district's funding model associated with the conversion of Clayton Valley High School to an independent charter school effective with the 2012-13 school year. The study agreement specifies that FCMAT will:

1. Provide the district with the cost impact associated with the conversion of Clayton Valley High School in the current fiscal year in accordance with SB 191. FCMAT visited the district, interviewed the district's chief financial officer and obtained financial records to calculate the cost impact to the district related to the conversion of Clayton Valley High School to an independent charter school in accordance with SB 191 regulations.

FCMAT used the following items to prepare this analysis based on the 2011-12 fiscal year unaudited actuals:

- Reviewed actual enrollment and average daily attendance (ADA) in comparison to historical averages
- Verified the source of actual revenue and expenditure data utilized in the cost impact analysis prepared by the district
- Verified the allocation of unrestricted general fund central service costs
- Verified the district's contribution to Special Education based on current year actuals in the district's general ledger

Background

On October 11, 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 in a unified school district to a charter school on or after January 1, 2010.

SB 191 provides that the newly converted charter school receives general purpose funding through the charter school general purpose block grant. In addition, the district is required to pass through \$127 per

FCMAT

Joel D. Montero, Chief Executive Officer

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average daily attendance (ADA) for supplemental categorical grant funding to compensate newly formed charter schools in lieu of categorical flexibility funding

Unified school districts that experience a conversion of an existing high school to a charter school are typically impacted negatively under SB 191 based on the differential between the district's base revenue limit per ADA and the charter school general purpose block grant per ADA.

Contra Costa County Office of Education has approved the petition to convert Clayton Valley High School (CVHS) to a charter school commencing with the 2012-13 fiscal year. The district has prepared cost estimates to inform the governing board, staff and community of the additional budget cuts that the district will be required to make because of SB 191.

As the district prepared its adopted budget for 2012-13, the fiscal impact associated with the conversion was recognized in the current year budget and multiyear financial projections and the district requested FCMAT to provide a fiscal analysis of the district's funding model utilizing financial data from the 2011-12 unaudited actuals.

Findings and Recommendations

Assumptions

FCMAT utilized the following sources and assumptions to validate the financial impact, inclusive of cost savings, to convert Clayton Valley High School to an independent charter school for the 2011-12 fiscal year:

Item	Source
Enrollment – CVHS	2011-12 - Per District
Districtwide Average Daily Attendance	2011-12 - Form Revenue Limit P2
Average Daily Attendance - CVHS	2011-12 - Per District
ADA Ratio	Historical Average – Per District
Base Revenue Limit (Deficited)	2011-12 P2 Form RL – Per California Department of Education (CDE)
General Purpose Block Grant	School Services of California dartboard, September 12, 2011
CVHS Unrestricted Revenues (Deficited Base Revenue Limit) Generated by the District per ADA	1,776.50 X \$5,195
General Purpose Block Grant Revenue Generated by the Charter per ADA	1,776.50 X \$6,148
CVHS Expenditures – Unrestricted and Restricted	2011-12 – Unaudited Actuals
Tier III Pass-Through \$127/ADA	Estimated based on CVCHS ADA projections net of site allocation less site expenditures
Special Education Encroachment per ADA – Districtwide Average	2011-12 Actual
Special Education Encroachment – Site Allocation	2011-12 Actual Site Per ADA
Site Contribution to Unrestricted General Fund Central Services	2011-12 Revenue per ADA less Central Service Contribution
Facility Rental Income - CVCHS	Per District

Calculations prepared by FCMAT to estimate the cost associated with Clayton Valley High School conversion are based on 2011-12 fiscal year actual revenues and expenditures with the exception of average daily attendance, which is based on the historical average of 95%. The following methodology was used:

Unrestricted Income: Revenue limit income is generated districtwide based on total average daily attendance. However, to estimate the cost of the school’s conversion to a charter school, the deficiated revenue limit per ADA generated at CVHS was applied and unrestricted expenditures deducted.

Tier III: SBX3 4 granted flexibility in 39 categorical programs from 2008-09 through 2012-13 (in subsequent legislative sessions, the flexibility has been extended to 2014-15) and provided greater local flexibility with these previously restricted programs designed to offset large unrestricted funding cuts. Programs were divided into three sections, or tiers. The legislation suspended the statutory and regulatory requirements specified in law for Tier III programs and allowed districts to use these funds for any educational purpose.

The district allocated \$82,526 to CVHS in 2011-12 yet spent \$108,946, or \$26,420 more than the allocation. The new charter school supplemental block grant funding was authorized by the budget act of 2010 (Charter 712, Statutes of 2010) and EC 42606 providing \$127 per ADA to a newly established charter school that began operation during or after the 2008–09 fiscal year. For a conversion charter school that commenced operations in the district, the district is obligated to provide funding based on the charter school’s average daily attendance. A total of \$225,616, based on 1,776.50 ADA, will be transferred from Mt. Diablo USD to Clayton Valley CHS. The district is entitled to retain the \$82,526 in funding that will be used to offset the pass-through amount; therefore, the net financial effect is \$116,670 as follows:

Tier III Funding Allocation	\$82,526
CVHS Expenditures 2011-12	<u>(108,946)</u>
District Contribution to Tier III Funding at CVHS-New Charter School Supplemental Block Grant	<u>\$26,420</u>
Pass-through to CVCHS - \$127/ADA	\$225,616
Less: Tier III Funding Retained by the District	(82,526)
Less: District Contribution to Tier II Funding	<u>(26,420)</u>
Net Financial Effect	<u>(\$116,670)</u>

Restricted Funding – CPA Green Grant, Athletics Local Grant, ROP/C, EIA, EIA-LEP and Special Education (State and Federal Funding): Each funding source was analyzed independently. Certain grants and entitlements will stay with the district and will be redistributed to other school sites while others made from direct application will cease but may be available to the charter upon request and submittal of the proper application.

Routine Restricted Maintenance Account (RRMA): RRMA is a restricted account that is typically funded by the district’s unrestricted general fund and provides funding for ongoing and major maintenance of school buildings. The districtwide contribution requirement to participate in the School Facility Program was reduced from 3% to 1% of the district’s total general fund expenditures as part of SBX3 4 categorical flexibility. During 2011-12, the district allocated \$3,215 and spent \$2,345 at Clayton Valley High School.

Special Education Encroachment: The cost to operate special education programs districtwide exceeds the revenues received from state and federal sources. This differential is referred to as encroachment. The districtwide encroachment for 2011-12 was \$35,998,599 and the prorated cost attributable to CVHS is \$1,105.40 per ADA, or \$1,963,743. While this calculation is based on the 2011-12 fiscal year, the total impact on encroachment is unknown until parents and/or guardians of special education students make an independent decision to either stay with the district or move to the charter school. The calculations presented in the table below anticipate that the majority of special education students will stay with the district due to the spectrum of specialized program offerings especially since the district is a single SELPA.

The district moved one specialized classroom. Startup costs of \$14,372 were incurred by the district for this relocation because of the charter school conversion.

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. Since the county office is the authorizing agency but the district is supplying the school site, the district can charge a direct charge per square foot. The ratio of space allocated to the charter school is divided by the total districtwide space and the pro rata share of facilities costs that the school district pays for with unrestricted general fund revenues may be charged to the charter school (EC 47614 (b)(1)). According to district records, Clayton Valley High School, excluding exterior space, is 164,558 square feet, and the district has determined the rate to be \$1.84 per square foot.

The district and the charter school have negotiated an annual fee for facilities rental totaling \$302,557 based on the per-square-foot formula that will offset the financial impact of the conversion.

Unrestricted General Fund Central Service Allocation:

The district provides many support programs that benefit school sites and other educational programs. Central office departments, utilities and professional services comprise the majority of these costs. A portion of these costs based on total annual costs divided by the district's total ADA multiplied by CVHS's ADA, as reflected in the School Accountability Report Card (SARC), is included in the table below.

Net Financial Impact: FCMAT reviewed the district's cost impact based on actual financial data for the 2011-12 fiscal year provided by the district, and projects the estimated net cost of the conversion without special education encroachment savings is \$3,390,060 as shown in the table on the next page. Should the district realize a reduction of all special education students from CVHS to the charter school, an encroachment of \$1,963,743 would offset the net financial impact.

Mt. Diablo Unified School District

CVHS Charter Conversion Effects

Program Title Resource Code	Unrestricted Program		Restricted Programs							
	Unrestr. GF 0000	Tier 3 09XX	Fed Sp Ed 3310	Sp Ed 6500	EIA-SCE 7090	EIA-LEP 7091	Athletics 9010	RRM 8150	ROP 9010	CPA Green 6386
Enrollment	1,870.00									
Historical ADA @ 95%	1,776.50									
District BRL (deficit w/COLA)	5,195.22			5,207.18						
Charter BRL	6,148.00	127.00		6,148.00						
District Revenue based on CVHS ADA (11/12)	9,229,308.33	82,526.00	224,713.00	-	88,587.00	26,922.00	194,349.00	3,215.00	162,828.00	42,000.00
Charter Revenue from District	10,921,922.00	225,615.50			88,587.00	26,922.00	194,349.00	-	162,828.00	42,000.00
Additional Cost Transfer to Charter	(1,692,613.67)	(143,089.50)			-	-	-	3,215.00	-	-
CVHS Exp Actuals (11/12)	7,124,471.00	108,946.00	224,713.00	857,766.00	93,154.00	38,065.00	345,594.00	2,345.00	147,113.00	124,290.00
CVHS portion of UGF Ctrl (11/12)*	1,533,234.20									
Net Contribution to other district programs, or cost savings where expenses exceed current revenue generated by the program	571,603.13	(26,420.00)	-	(857,766.00)	(4,567.00)	(11,143.00)	(151,245.00)	870.00	15,715.00	(82,290.00)
Financial effect on District	(3,797,451.00)	(116,669.50)	-	-	4,567.00	11,143.00	151,245.00	2,345.00	(15,715.00)	82,290.00
Net effect	(3,797,451.00)	(116,669.50)	-	-	4,567.00	11,143.00	151,245.00	2,345.00	(15,715.00)	82,290.00
*Per ADA Proration of District Unrestricted Expenditures		District pay \$127 per ADA. Current revenue generated is less than expenses therefore, offset by \$26,420	Stays with District	Stays with District	Costs exceed revenue generated	Costs exceed revenue generated	Costs exceed revenue generated	Costs exceed revenue generated		Costs exceed revenue generated
Net cost at CVHS	(3,678,245.50)	Cost	No Impact	No Impact	Savings	Savings	Savings	Savings	Cost	Savings

Net Cost at CVHS	(3,678,245.50)
Classroom relocation cost -Specialized special education	(14,372.00)
Facility Rental Income	302,557.00
Net Cost Districtwide	(3,390,060.50)

The calculation follows generally accepted accounting principles applied consistent with client supplied information.

Sincerely,



Debi Deal, CFE
Fiscal Intervention Specialist