



CSIS California School Information Services

May 23, 2007

Dr. Donald A. Phillips, Superintendent
Poway Unified School District
13626 Twin Peaks Road
Poway, CA 92064

Dear Dr. Phillips:

The purpose of this management letter is to present the findings and recommendations developed by the Fiscal Crisis and Management Assistance Team (FCMAT) for the Poway Unified School District.

In March 2007, the district requested that the Fiscal Crisis and Management Assistance Team (FCMAT) address the following aspects regarding the district's Transportation Department operations:

1. Will continued parent pay fee increases help offset expenditures and result in budgetary savings?
2. At what point will parent fee increases result in a loss of ridership, decreased revenues, and the need for increased general fund contributions to the program?
3. Are there levels of transportation service that may no longer be justified?
4. Would there be any substantial transportation savings if the district eliminated home-to-school regular education transportation?
5. What would be the effect to the special education transportation program and expenses should the district eliminate or reduce home-to-school regular education transportation services?
6. Review the organizational structure and staffing efficiency of the Transportation Department.
7. What is the district's transportation encroachment percentage in comparison with other like districts?
8. What is the district's transportation "cost per mile" comparison with other like districts?

FCMAT visited the district on April 30, 2007 and May 1, 2007 to collect information and interview employees. This management letter is the result of that effort. FCMAT's study team consisted of the following members:

FCMAT

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Findings and Recommendations

District Background

Located in northeast San Diego County, the Poway Unified School District serves approximately 33,000 students in kindergarten through twelfth grades. The district's Transportation Department provides daily, fee-based home-to-school transportation covering a geographical area of 100 square miles. Approximately 5,900 students ride the bus each day on 62 routes. The district has nontransportation distances of one mile for elementary school students, 1 1/2 miles for middle school students and two miles for high school students. Free transportation is also provided to approximately 680 special education students on 62 routes. In addition, the department provides transportation for approximately 2,800 athletic and field trips each year.

Parent Fees

The state does not mandate home-to-school transportation service for regular education students. This service is provided as districts see fit.

Article 6.50 of the Poway Unified School District Board Policy and Administrative Regulations define the services provided by special education transportation as dictated by the student's Individualized Education Program.

In general, state funding for transportation is insufficient to cover the program operational costs. Until the last few years, the state did not add cost-of-living increases to transportation revenue. All school districts face demands for increased service, especially related to transporting special education students, while struggling to keep costs down to prevent further encroachment on the unrestricted general fund.

The state allows districts to charge parents for home-to-school transportation. Many districts implemented fees so that they could continue providing home-to-school transportation for regular education students. Operational costs have increased because of employee bargaining unit contract settlements for salary and benefit enhancements, rising fuel costs, and expensive equipment replacement. Costs have been managed by extending nontransportation zones,

adjusting school bell schedules, and combining bus routes. Poway Unified has implemented all these strategies, but still experiences increased pressure to cover revenue shortfalls by using resources from the general fund.

The district has charged parents for home-to-school transportation for many years, and these fees have increased several times since the inception of the program. The district is considering a fee increase for 2007-08, and FCMAT was asked to evaluate this option based on an analysis of the district's program and a comparison with other districts throughout the state.

The California Department of Education does not collect data or information on the fees collected for student transportation. The state annually publishes the maximum daily amount that may be charged for pupil transportation, which is approximately \$1,375 per year. Poway Unified currently has one of the highest fees for pupil transportation in the state. Although it appears that revenue has increased over the past few years, the increase in fees has caused ridership to decline and, most recently, at a significant rate.

The following table illustrates Poway Unified's historic schedule of fees and revenues for the past few years.

Year	Cost of Bus Pass	Percent Increase	Revenue Increase	Percent Rider Decline
03-04	\$275	15%		
04-05	\$303	10%	\$36,184	3%
05-06	\$333	10%	\$4,538	4%
06-07	\$366	10%	\$91,986	10%

This data shows a trend clearly linking ridership decline to fee increases. The resulting additional revenue is often not significant enough to justify the increase in bus pass fees because costs do not decrease as riders decrease. If fees increased and the historical pattern of decreasing ridership continued next year, the district likely would lose students on each bus, but may not experience significant savings. This is because actual routes may or may not decrease depending on where the decline in student ridership occurs. Throughout the state, raising parent fees often results in a loss of riders.

Like Poway Unified, many school districts have been forced to reduce home-to-school transportation services by expanding nontransportation zones, and charging fees in an effort to address growing encroachment on the unrestricted general fund.

The historical data related to the impact on ridership and the overall impact on revenues suggests that increasing fees next year would not be in the best interest of the transportation program. However, if the district decides to increase fees, the increase should be aligned with the district's budgetary plan for 2007-08.

Recommendations

The district should

1. Review the impact of transportation fee increases over the years.
2. Consider waiting another year to increase transportation fees.

Areas of Possible Reduction

Significant savings in the district's transportation budget will occur only if an entire route and driver are removed from service. Incrementally reducing bus stops by transporting fewer students from routes will provide some savings, but not the significant savings needed to offset increasing encroachments.

FCMAT found that the district provides certain home-to-school services that are in excess of administrative regulations. Approval was granted to provide transportation to and from at least one elementary school for families that live within the board policy's nontransportation zones. Although some high school attendance areas have changed, transportation has been offered to the previous and current school population, effectively doubling route service to these communities. At one elementary school, fewer than 10 students ride the bus. According to district policy, routes with only 10 students or within the established nontransportation zones should not receive bus route service. If ridership rose to 20 students, the cost effectiveness of this route could improve.

Ridership on the elementary school bus routes has declined significantly over time, reducing income from parent fees for this service. The district should investigate the feasibility of discontinuing or limiting this area of service. However, caution should be exercised since elementary school parents often depend on district transportation to get their children to school.

Special education transportation has increased significantly. Students should be placed in the appropriate programs that are closest to their home school or should be transferred to their home schools as soon as sufficient space and the appropriate programs are available.

Technology has improved routing and efficiency. Using devices linked to the Global Position System (GPS), for example, can decrease driving times and improve safety. This provides management with several benefits, including the ability to obtain information on the location of drivers, traffic bottlenecks, stop and wait times, and the number of miles driven. This information may allow the district to further control operational costs.

The district has coordinated school bell times to increase transportation efficiency and consolidate routes. Bell times should be constantly reviewed, and the Transportation Department should be consulted as new schools open.

The district should determine whether the number of bus routes could be reduced by expanding the rider eligibility radius. In addition, attendance boundaries for schools can significantly affect school transportation costs. The Transportation Department should be consulted when plans are being discussed to further develop future school attendance boundaries.

Recommendations

The district should

1. Explore the possibility of discontinuing or limiting elementary school transportation services.
2. Review the possibility of assigning special education students to programs located closer to their homes.
3. Limit the number of cross-district placements for special education students and consult transportation when determining the placement of special education programs.
4. Explore technology enhancements that could potentially yield operational savings.

Home-to-School Transportation

Many school districts are concerned about the impact of school buses on the road and the cost of providing home-to-school transportation. FCMAT is unaware of any school districts similar in size and demographics to Poway Unified that have recently eliminated their home-to-school transportation services.

Several factors should be considered when making a decision on the possible elimination of these services. For example, the district should determine the effect on attendance. Also, parents driving children to school could create heavy traffic congestion. Instead of eliminating transportation services, many school districts have increased nontransportation distances and/or coordinated bell times in an effort to decrease or reduce costs.

Elimination of home-to-school transportation would also result in a total loss of home-to-school transportation state revenue as well as all parent fees. As a result, the district would have to provide special education transportation service with very limited state funding.

The district has not specifically allocated the Transportation Department's total costs by resource for home to school, special education, and athletic and field trips. The actual cost of each operational segment is unknown because no distinction between fixed and variable costs has been made or properly recorded. Only variable direct costs such as salaries, employee benefits, fuel, and maintenance of special education buses have been charged to the special education program. All the department's fixed costs and overhead such as management, maintenance, insurance, training, and dispatch have been charged to the home-to-school program.

The district's estimated transportation cost per pupil is unclear. If home-to-school transportation were eliminated, most of the fixed overhead costs would remain. Because of the loss of revenue for home-to-school transportation, remaining costs would be added to special education costs, which would not significantly reduce the general fund encroachment. Because the current cost allocation model does not charge fixed costs and overhead to special education, the home-to-school transportation program is in essence subsidizing the special education transportation program.

Another important factor concerning the possible elimination of the home-to-school program is the district's ability to provide transportation for athletic and field trips. The district provides nearly 2,800 such trips per year, and few are contracted to other vendors. Using outside vendors is more expensive, and the availability of vendor buses is limited, even for the district's current level of use.

Based on current field trip needs, the district would need to retain and contract with as many as 25 bus drivers to continue this service. Each driver would need to be guaranteed approximately five hours of work per day regardless of whether the driver was needed for that amount of time. To provide for a sufficient number of spare vehicles, the district would also need to retain, operate and maintain approximately 30 large school buses at all times. FCMAT estimates that maintaining an adequate field trip fleet would cost the district approximately \$1.5 million per year. Current field trip receipts total approximately \$500,000. The elimination of home-to-school transportation could therefore result in an additional \$1 million deficit.

To help offset current field trip costs, the district could revise its method and rate for charging sites for field trip services. The current charge is \$4.11 per mile. This type of rate structure may undercharge for trips that are low in mileage but take a relatively long amount of time, and overcharge for trips that are high in mileage but take a short amount of time.

The state expects districts to report special education severely handicapped (SH/OH) transportation costs according to its guidelines. However, for informational purposes, the district can account for special education costs differently in-house.

Eliminating the district's home-to-school transportation program and maintaining special education and some field trip capability could actually increase the district's transportation encroachment.

Recommendations

The district should

1. Carefully analyze the Transportation Department's fixed and overhead costs to determine which would remain if home-to-school transportation was eliminated.
2. Consider the impact to the schools if the current level of athletic and field trip transportation could not be provided by the district.
3. Evaluate the overall cost to retain as many as 25 drivers to provide athletic and field trips.
4. Weigh the economic advantages and disadvantages of eliminating home-to-school transportation if special education and athletic and field trip transportation would still have to be provided.

Organizational Structure

Considering the district's size and the number of bus routes it operates, the district's organizational structure is reasonable. The Operations Supervisor for special education transportation and the Operations Supervisor for home-to-school transportation have extensive responsibility to manage a large number of school bus drivers and staff members (80 for special education and 65 for home to school). The second person working in the parent pay program, the Office Specialist, has been absent for most of the current year, and the duties have been adequately assumed by a part-time substitute.

A chart reflecting the district's current organization is attached as an appendix to this management letter.

Recommendation

The district should

1. Maintain the current level of management if home-to-school transportation is continued.
2. Consider providing the two operations supervisors with assistance in evaluating bus drivers to reduce the number of employees evaluated by each position.
3. Review the need for a full-time Office Specialist to assist with bus pass fees.

Operations Costs and Encroachment

The district's increasing level of general fund encroachment is closely related to inadequate state funding, bargaining unit settlements, and the high cost of fuel. In the 1982-83 fiscal year, the state capped the reimbursement that school districts received for home-to-school transportation. In subsequent years, the state occasionally granted a cost-of-living adjustment (COLA) to the program. Consequently, the state funds on average only 45% of school transportation costs with school districts paying the remaining 55%. State COLAs have been insufficient to offset the increased costs of operating a school transportation program.

Despite requests from districts, the California Department of Education (CDE) does not publish data on the encroachment of transportation budgets on the general funds of school districts so that transportation costs can be compared. This data currently exists only in various, separate reports. As a result, accurately comparing costs and encroachment percentages is often futile. Some school districts have significantly higher or lower encroachments, and this is based on many factors such as the negotiated salary and benefits of employees, geographical territory, cost accounting methodology, the level of services provided, parent pay programs, and the number of riders and routes.

The San Diego County Office of Education has compiled cost per mile and cost per student data as reported on the districts' TRAN report for 2005-06 (the most current data). This information is as follows:

DISTRICT	COST PER MILE		COST PER STUDENT	
	HTS	SH/OH	HTS	SH/OH
Poway	\$8.78	\$2.65	\$810	\$5,500
County Avg.	\$4.99	\$3.35	\$1,617	\$6,278

Based on the information provided, Poway Unified has a lower than average cost per student, but a higher cost per mile for home-to-school transportation. The cost per mile is a ratio, and a high cost per mile may indicate only that the district has low miles with reasonable costs. The district's cost per student supports this concept. The higher cost per mile for home-to-school transportation further indicates that most costs are reported under home-to-school transportation instead of being properly apportioned between home-to-school and special education transportation.

Following is a list of districts that are comparable to Poway Unified in size of operation as excerpted from the state TRANS report. Because reporting by districts throughout the state is inconsistent on the TRAN report, this data is likely not as useful as it could be.

Local Educational Agency	2004-05 Cost/ mile H/S	2004-05 Cost/Pupil H/S	2004-05 Cost/mile SH/OH	2004-05 Cost/Pupil SH/OH
Antelope Valley Schools	4.410	945.710	2.620	3455.680
Capistrano Unified	5.854	637.442	4.448	7163.699
Clovis Unified	4.235	903.803	2.101	4388.658
Elk Grove Unified	3.041	726.154	6.162	5016.402
Mt. Diablo Unified	5.119	911.253	4.173	4914.725
Poway Unified	7.648	658.009	2.218	4378.301

Analysis of the Poway Encroachment

Poway Unified's accounting methodology has not adequately separated the costs for home-to-school and special education transportation. Because the SACS document reports these programs together, it is difficult to determine each program's actual encroachment from the financial report.

Over time, the district has changed the funding sources that have been allocated to the transportation budget. At one time, supplemental grant funds were added to transportation as were various flexible transfers from other categorical programs. The administration's decisions on allocating various funds and the state's decision to remove supplemental grant funding have increased transportation encroachment. Without parent pay fees, the department's budget would be in a significantly worse condition. Instead of charging employee salaries and benefits directly to the various program budgets, the district has historically prepared journal entries at the end of each year to move costs to the special education program. This accounting practice likely led to undercharging special education for all employee related-costs such as substitutes, overtime, dispatching, and training.

In reviewing the Poway Unified transportation program's budgets over the past several years, including activity in the current year and proposed budget for 2007-08, FCMAT noted an inadvertent error of \$106,643 in the year-end accounts receivable accrual of state revenue in 2005-06. This caused that year's recorded revenue to be understated, the encroachment to be higher, and the revenue projections for the current year and budget year to be understated. The following spreadsheet shows the impact of this error and the corrected revenue and encroachment figures.

Poway Transportation Budget Analysis

	Actual	%	Actual	%	Actual	%	Working	%	Adjusted	
	2003-04	chg	2004-05	chg	2005-06	chg	Budget	chg	Budget	%
							2006-07		2007-08	chg
Home to School Transportation										
Revenue										
COLA and Growth			3.38%		4.90%		5.90%		4.53% est	
State Apportionment Per District	1,329,526	0	1,374,502		1,335,886		1,527,927		1,589,655	
State Apportionment (Recalculated)					1,442,529	4.95%	1,527,638	5.90%	1,596,840	4.53%
Parent Fees	1,445,930		1,510,079		1,536,110		1,700,000		1,700,000	
Outside Agency Fees	34,865		13,016		6,979		15,000		15,000	
Flex Transfers										
Gate	58,278		25,964		27,019		27,249		28,350	
SIP	329,028		204,527		253,119		273,223		287,379	
EIA	112,257		62,610		71,116					
Adjustment for Stores	336		-10,047		7,936					
Vandalism	90		104		50					
Total Home to School	3,310,310		3,180,755		3,344,858		3,543,110		3,627,569	
Special Education Transportation										
Revenue										
COLA and Growth			3.38%		4.90%		5.90%		4.50% est	
State Apportionment Per District	560,911	0	579,886		563,594		644,614		670,656	
Corrected State Apportionment					608,586		644,493		673,495	
Total Special Education	560,911	0	579,886	3.38%	608,586	4.95%	644,493	5.90%	673,495	4.50%
Total Transportation Revenue	3,871,221		3,760,641		3,953,444		4,187,603		4,301,064	
Total Transportation Expenditures										
COLA to Employees										
			0		4.00%		5.00%			
Classified Salaries	4,426,884		4,742,812		5,021,216		5,462,935		5,495,259	
Benefits	1,648,615		1,796,170		1,865,907		2,014,533		2,048,336	
Total Salaries and Benefits	6,075,499	-5.66%	6,538,982	7.63%	6,887,123	5.32%	7,477,468	8.57%	7,543,595	0.88%
Supplies	976,066		1,157,106		1,397,098		1,615,389		1,737,439	
Other Services	-68,489		-162,124		1,651		92,794		295,210	
Equipment	129,940									
Total Expenditures	7,113,016		7,533,964		8,285,872		9,185,651		9,576,244	
Encroachment (Recalculated)	(3,241,795)		(3,773,323)		(4,332,428)		(4,998,048)		(5,275,180)	
Total Home to School and Special Education combined										

Another more important factor in the budget analysis is the way the fixed and variable costs have been historically calculated as discussed previously in this letter. If the home-to-school transportation program were eliminated, actual encroachment for special education transportation would greatly increase, although that is not obvious from the current program's financial reports. The cost to provide athletic and field trip transportation would also increase. Those increased costs would either place an additional burden on the school site budgets, or the general fund would have to allocate more funds to the sites to cover athletic transportation.

Recommendations

The district should

1. Implement a reasonable and effective method to allocate costs to the three major areas of transportation, home to school, athletic and field trips, and special education.
2. Determine the employees who will be working with special education transportation, including drivers and management, and begin charging salaries and benefits directly to the appropriate program through payroll.
3. Make the accounting adjustment of \$106,643 related to the incorrect revenue accrual in 2005-06 to the transportation budget this year.
4. Recalculate the state's proposed cost-of-living adjustment in the budget development process for 2007-08 based on the revised revenue after the correction has been made.

This management letter concludes FCMAT's review of the Poway Unified School District's transportation program. FCMAT would like to express its gratitude to the district and staff for their assistance. Please let us know if we can be of service in the future.

Sincerely,

Michele McClowry
Fiscal Intervention Specialist

Business Support Services Transportation Department



