Contact: Linda Chew
Foreperson
(925) 957-5638

Contra Costa County Grand Jury Report 1102

FINANCIAL CHALLENGES PERSIST AT MDUSD

TO: Mt. Diablo Unified School District Board of Education

SUMMARY

Mt. Diablo Unified School District (District), like other school districts, has suffered revenue losses. The District has had ongoing budget deficits due to declining enrollment and reduced State funding. The District continues to face increasing costs for salaries and benefits. In an effort to address revenue losses and to complete identified projects not funded by a 2002 Bond, the District Board of Education (Board) sought passage of a bond measure (2010 Bond) that was later approved by the voters.

Four factors raised questions regarding the Board's procedures and transparency:

- an expedited bond initiation process,
- a lack of open discussion at Board meetings of the full range of costs for financing a bond,
- revisions to the organization's structure within the District, and
- continuing budget shortfalls.

Completed initial Bond offerings suggest that bond interest expenses should be less than the worst case scenario calculated by the bond advisor or reported in the news media. A potential 42-year life of the 2010 Bond could tie taxpayers to a long-term financial commitment that significantly impacts future Boards' ability to address funding shortfalls.

BACKGROUND

The Mt. Diablo Unified School District can be characterized as a microcosm of California demographics. One of the largest school districts in the State of California, the District has more than 56 school sites and programs. District statistics - for ethnic/racial diversity, average class size, test scores, number of Limited English Proficient (LEP) students and the primary languages they represent - mirror those of the State.

The District encompasses the cities of Concord, Pleasant Hill and Clayton, portions of Walnut Creek and Martinez, and unincorporated areas, including Lafayette, Pacheco, and Bay Point. Student population for K-12 is approximately 33,200 students.

The Board is composed of five elected members. As stated on the District's website, the Board recently set the following goals:

- Improve the achievement of all students and close the achievement gap
- Improve attendance and reduce lost average daily attendance
- Insure access to all programs and services for all students
- Improve maintenance and facilities and appearance of the grounds
- Address legal and programmatic mandates
- Support new program initiatives:
    - Career Integrated Academics
    - Early Childhood Education
    - Smaller Learning Communities
- Maintain sound fiscal procedures and practices.

The District Budget and Fiscal Services Department is responsible for developing and maintaining a balanced budget. The FY2010-11 Approved Operating Budget is $268.4 million.

The District has faced funding reductions from the State and from declining enrollment. In response to revenue losses of $20 million, the District has resorted to staff and service cuts by reducing its Approved Operating Budget by $17.9 million over the past three fiscal years (FY2008-09 thru FY2010-11).

Even with significant efforts to reduce operating expenses, the District's last two Annual Audits shows a cumulative deficit of $5.1 million as shown in the Table below:

	Expense(3)	***Revenue(3)***	***Deficit***
FY2008-09 Approved Budget(1)	*$286.3M*	*$279.8M*	*-$6.5M*
FY2008-09 Annual Audit Report(2)	*$341.2M*	*$357.4M*	*+$16.2M*
FY2009-10 Approved Budget(1)	*$267.2M*	*$266.8M*	*-$0.4M*
FY2009-10 Annual Audit Report(2)	*$327.7 M*	*$306.4M*	*-$21.3M*
FY2010-11 Approved Budget(1)	*$268.4M*	*$259.8M*	*-$8.6M*

Footnote:

1. An "Approved Budget" by the Board at the beginning of the Fiscal Year.

2. An "Annual Audit Report" reflects actual results for the Fiscal Year.

3. All data collected from District website.

Approximately 81% of the Approved Operating Budgets for the past three fiscal years has been committed to District employees' salaries and benefits.

Since 2007, the District has discussed and attempted passage of a parcel tax to remedy budget shortfalls. A parcel tax generates school revenues at the local level to be used for general operating expenses without incurring interest costs. The District was unsuccessful in 2009 when a parcel tax was narrowly defeated. Subsequent surveys validated that securing the necessary two-thirds voter approval for a parcel tax was unlikely.

After the parcel tax failed and still faced with revenue losses, the Board sought new cost savings measures and revenue sources to offset operating expenses. In January 2010, the District began considering a bond measure. By law, funds raised from a bond can be used only for capital projects. Bonds require a 55% voter approval and the appointment of a Bond Oversight Committee (Proposition 39 and Education Code Sections 15278k, 15280 and 15282). Previously the District had prepared a list of capital projects with an estimated cost of more than $1 billion. About one-third of these projects had been completed with funds from a 2002 Bond.

On March 9, 2010, a resolution to seek voter approval for a $348-million bond was unanimously approved by the Board. Alternative bond financing measures provided by a financial advisor were reviewed by District staff. However, these financing alternatives were not discussed at open Board meetings. The resolution was placed on the June ballot for voter approval. The terms and conditions of the Bond included maintaining the existing tax rate (currently $60 tax per $100,000 of property valuation), and extending the repayment duration for up to 42 years. In the judgment of the Board, this scenario provided the best opportunity for voter approval.

The initial Bond offerings were completed at an interest rate significantly lower than the projected worst case scenarios as calculated by the bond financial advisor. Based on current low interest rates for bonds the probability of reaching the worst case scenario is diminished.

One feature of the 2010 Bond allocated $68 million for installing a solar energy system that would decrease operating expenses (i.e. reduce utility bills). The savings could be used for other operating expenditures. The District estimated that the solar energy system would create $5 million per year in savings, based upon receiving energy rebates, for the first five years after installation. Subsequent savings are estimated at $3 million per year for the remaining life of the solar energy system.

Some parents mounted a 'Yes on C' campaign that was funded by an assorted group of interested parties. There was no formal rebuttal on the ballot measure filed with the Contra Costa County Elections Office. The 2010 ballot measure does not state a range of costs to the taxpayers for the entire bond term. Voters approved the bond in June 2010. The Bond measure, from inception to voter approval, took only five months.

Another approach to reduce expenditures included changes to the District's organization structure. This included eliminating some management positions and consolidating responsibilities into remaining positions. Specifically, the Assistant Superintendent of Administrative Services position was eliminated and some duties were assumed by General Counsel. The time demands of this newly assigned administrative work takes time away from conducting legal work. Recently another attorney was hired to assist with legal duties.

Despite cost cutting and revenue generating efforts during the past several years, the District still faces an operating expense deficit of approximately $8.6 million for FY2010-11.

FINDINGS

1. No discussion of the 2010 Bond's possible financial ramifications took place at open Board meetings before the Board passed the resolution to proceed with a ballot measure.

2. Some of the capital projects, such as solar panels, insulation and window replacement, to be financed with the 2010 Bond should generate energy cost savings for the Districts.

3. The organization restructuring of the General Counsel's responsibilities has not resulted in anticipated operational effectiveness and may not have fulfilled the cost savings originally projected.

4. In addition to the anticipated relief to the general fund from specific 2010 Bond projects, further savings could be achieved through further salary and benefit expenses reductions.

RECOMMENDATIONS

The Grand Jury recognizes the Board for their efforts in addressing funding problems in these challenging fiscal times. The Grand Jury has the following recommendations:

1. When contemplating future taxing measures, the Board should allow sufficient time for full disclosure to the public of financial information including legal fees, underwriting costs and repayment obligations. The Board should develop a written process addressing discussion of the financial consequences of taxing measures in a public forum and share their proposal with the public in the next 180 days.

2. To verify the estimated energy savings from specific planned capital projects, there should be an annual audit of energy expenditures. The audit should focus on and reflect any costs reduced by the use of solar panels funded by the Bond. This audit should be done within 180 days after the initial solar panels are installed and continue on an annual basis for 3 years.

3. The Board should review the effectiveness of combining the General Counsel's responsibility for legal work and services with transportation, maintenance and food services. They should also analyze the impact of combining these responsibilities on actual costs.

4. The Board should continue to pursue reducing salaries and benefits to address the District's 2011-2012 budget shortfalls.

REQUIRED RESPONSES

Findings

Mt. Diablo Unified School District Board of Education	1 through 4

Recommendations

Mt. Diablo Unified School District Board of Education	1 through 4