



**NAPA COUNTY GRAND JURY
2017-2018**

June 5, 2018

FINAL REPORT

**Financial Challenges Persist at Napa Valley
Unified School District**

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SUMMARY

The Napa Valley Unified School District (NVUSD) has experienced operational budget deficits for the past four years. Budget deficits are now projected through 2022 and are estimated to total more than \$12 million. The deficits are primarily a result of shrinking student enrollment that has lowered District revenues, and increasing costs associated with two large pension programs, the Public Employee Retirement System (PERS) and the State Teachers Retirement System (STRS). Both of these factors are outside of the District's direct control.

Until 2014, the District enjoyed fifteen years of consistent enrollment increases and the increased funds accompanying those students. However, the District has lost 525 students to date from a peak enrollment of 18,343 in 2014. The enrollment today of 17,818 students is estimated to drop by well over another 1,000 students by 2022 according to the latest demographic projections. District officials and their demographic consultants primarily attribute the loss in enrollment to the lack of affordable housing in the cities of Napa and American Canyon, making it difficult for families with young children to buy or rent in the area.

As declining enrollment reduced revenue, sharp unexpected increases in District contributions to STRS and PERS have significantly increased costs. Over the past eight years, pension contributions have nearly doubled. This is primarily because pensions are underfunded by the state, and therefore school districts have been directed to increase their contribution percentage. For the NVUSD, the annual impact of these state-mandated rate increases will exceed \$2.5 million per year.

In order to bring the school budget into balance, the focus of the NVUSD has been to sharply reduce "rainy day" reserves below the District's 7.5 percent policy guideline, cut faculty and staff positions, and offer early retirement packages to employees.

In the recent FY2018/19 Budget Outlook presentation to the Board of Education in March 2018, the District said that it is looking at eliminating an additional 50 teaching positions as well as making further cuts to staff positions. Furthermore, program cuts such as eliminating seventh- period at middle schools and high schools, campus consolidations, and increasing class sizes are all being considered in the future.

The Grand Jury appreciates the difficulty in balancing the school budget, particularly in the context of declining enrollment and mandated cost increases. However, the Grand Jury believes that the school district must go beyond planning on a year-to-year basis and present the community with a comprehensive, five-year financial plan that articulates its vision for the future. We believe the development of a comprehensive, long-term plan will help the community better understand that the District is dealing with the issues and is on a path to fiscal solvency.

Furthermore, the Grand Jury believes that the school district should make a serious effort to find ways to increase revenues. In the March 2018 report to the Board of Education, the NVUSD Budget Advisory Committee recommended several ways that the District could add additional revenue. One good example was to increase attendance if only by 1 percent. While other ideas may require further

study, some can be implemented quickly. To that end, concrete plans should be developed to insure quick and effective implementation.

Finally, the Grand Jury believes that additional means of communication should be identified to make the community more aware of school budget issues and explain what the District is doing about them. The Budget Roadshow and Annual State of the School presentation are a good beginning. Other more frequent forms of communication should be identified.

GLOSSARY

BAC- Budget Advisory Committee- a group made up of teachers, staff, union representatives, principals, trustees, parents and residents that provides budget input and solutions to the Superintendent

BOE- Board of Education

Budget Roadshows- yearly presentations held at each high school where District staff discuss budget issues with the community

JSA- Jack Schreder & Associates- demographic consultant hired by the District to make student demographic projections

LCFF- Local Control Funding Formula- funding mechanism for school Districts established in 2013, that determines how much money per student each District receives from the state

NVUSD- Napa Valley Unified School District

PERS- Public Employee Retirement System

STRS- State Teachers Retirement System

BACKGROUND

In 2017-18 the Napa County Grand Jury received several inquiries regarding the NVUSD budget. There were concerns of deficits appearing to come out of the blue and also questions about how certain funds were spent. After a round of interviews and background research, the Grand Jury decided to focus an investigation on the state of the school budget.

The source of funds for schools in California changed dramatically in the late 1970s. Until then, schools were predominantly funded by local property taxes. However, in 1978, the voters of California approved Proposition 13. This fundamentally altered the relationship between state and local governments in terms of the financing of public education. Property tax increases are now limited to no more than 2 percent per year as long as the property is not sold. Once sold, the property is reassessed at 1 percent of the sale price and the 2 percent yearly cap becomes applicable to future

years. Importantly, Proposition 13 led to the state effectively taking control of local education funding and gave it the responsibility for allocating property tax revenues among local jurisdictions.

In 2013, another major change to school funding was enacted into law: the Local Control Funding Formula (LCFF). This has the objective of increasing local District control while ensuring that student needs drive the allocation of resources. Under this formula, each school District receives a base level of funding calculated on average daily attendance across four grade spans. Additionally, the Districts received a supplemental amount for each student who is either an English learner, eligible for free or reduced lunch, or in foster care. The NVUSD currently receives most of its revenue based on the LCFF, as do more than 90 percent of school Districts.

The District currently has 17,818 enrolled students. Projected revenue for FY 2017/18 is \$182.5 million. Expenditures for the current fiscal year are expected to be \$185.9 million, creating an operational deficit of over \$3 million. Approximately 85 percent of expenditures are committed to salaries and benefits for employees and retirees. The average daily attendance in FY2017/18 is estimated at 15,848 students (does not include charter schools), which translates to an average absentee rate of 4 percent for the year. In FY 2017/18 the District is expected to receive \$8,771 per student in state funding based on the LCFF. The budget reserve for the current year is 3.41 percent, well below the BOE's 7.5 percent policy guideline but above the state's 3.0 percent minimum target.

The annual budget planning process for the District is complex and takes place over a six-month period. Input from the community occurs at several points during this process. Planning begins in January with the announcement of the Governor's budget and ends in June, with Board of Education approval. Critical input from key stakeholders is received both during the Budget Roadshows that occur in February as well as from the Budget Advisory Committee that meets throughout the year and presents its recommendations to the Superintendent in March.

METHODOLOGY

Interviews

Multiple interviews were held with individuals responsible for budget planning, budget development and budget implementation within the NVUSD. In addition, interviews were conducted with the Napa County Office of Education and the Budget Advisory Committee.

Meeting Attendance

The Grand Jury attended several NVUSD School Board meetings. In addition, the jury attended a Budget Roadshow as well as the February State of the School presentation.

Documents

The following documents were reviewed by the Grand Jury:

2014/15 NVUSD Complete Budget

2015/16 NVUSD Adopted Budget

2016/17 NVUSD Adopted Budget

2017/18 NVUSD Adopted Budget

2018 Budget Advisory Committee Presentation to the Board

2016/17 Demographic Analysis and Facility Capacity Study

2017/18 Demographic Analysis and Facility Capacity Study

DISCUSSION

Enrollment

The NVUSD has been losing students for the past three years and is expected to continue experiencing declines for at least four more years. Even as recently as 2015, the District's demographic consultants, JSA, were predicting modest growth for the next 10 years.

From 2004 through 2014, NVUSD enrollment increased 8.1 percent, from 16,974 students to 18,343 students. In 2014, what appeared to be an ever-increasing student enrollment trend suddenly reversed course. Initially, the declines were modest, but have grown steeper more recently. In FY 2015/16, the first year of decline, enrollment decreased by a little over 100 students. In the next year, enrollment decreased by 258 students. Actual District enrollment for the past five years is shown below:

NVUSD Five Year Actual Enrollment

FY2013/14	18,230
FY2014/15	18,343
FY2015/16	18,216
FY2016/17	17,975
FY2017/18	17,818

Over the next four years, enrollment is expected to decline to 16,429 students. Thus, over a seven-year period the District is expected to lose over 1,400 students. Enrollment projections for the next four years are detailed below:

NVUSD Enrollment Projections

FY2018/19	17,124
FY2019/20	16,788
FY2020/21	16,429

There is a significant revenue impact to the school District as a result of declining enrollment. In the current year, revenues are estimated to decrease by \$2.8 million. Projections for the next three years indicate a total revenue decline of \$7.7 million.

School Budget Deficits

The school District has run operational deficits for the past five years. In fact, operational deficits existed before the enrollment decline began. Budget shortfalls over the past five years are shown below:

NVUSD Operational Budget Deficits

FY2013/14	\$1.112 million
FY2014/15	\$3.903 million
FY2015/16	\$4.304 million
FY2016/17	\$5.684 million
FY2017/18	\$3.386 million (est.)

An overview of the FY2018/19 school budget was presented to the BOE in March 2018. No long-term budget plan was included. A brief financial estimate for the two years following FY2018/19 was also included. The estimate projects deficits for FY2018/19 and a likelihood of deficits for the following two years. The multi-year projections included in the presentation are shown below:

Multi-Year Operational Deficit Projections (March 2018 Budget Overview Presentation)

FY2018/19	\$3.868 million
FY2019/20	\$3.644 million
FY2020/21	\$1.351 million

Budget Cuts

Efforts to balance the budget have focused on a combination of budget cuts and reductions in the reserve fund. Over the past two years, the District has made the following cuts to the budget:

1. Reducing non-personnel operating expenses by nine percent in 2016
2. Eliminating 110 full-time positions in 2017
3. Not filling vacant positions in 2016 and 2017
4. Offering an early retirement package to faculty and staff in 2017

In addition, for the past five years, reductions have been made to the percentage of funds that the District holds in reserve. BOE policy dictates that the District hold 7.5 percent of its annual budget in a reserve account for economic uncertainty. The state minimum is 3 percent. For the past two years, the reserve fund has been reduced to 4.5 percent in FY 2016/17 and 3.41 percent in FY2017/18. It is projected to be 5 percent in the coming year, and not expected to reach the 7.5 percent target until FY2020/21.

Impacts of Mandated Costs

The NVUSD is also facing mounting cost pressure, particularly as a result of increased pension costs. Pension costs are estimated to more than double over the next eight years, compared to the current year's cost. The employer-paid percentage of pension costs has risen to over 15 percent for PERS and over 14 percent for STRS in the current year. The increased contribution levels resulted in a \$2.5 million increase in the school budget this year. PERS and STRS contribution rates are projected to increase to over 20 percent for PERS and 25 percent for STRS by FY 2023/24.

Housing and Rental Costs

According to 2017 data from RealtyTrac, Napa County's housing market is currently ranked as the seventh least affordable in the United States. For perspective, the average wage earner would have to spend almost 85 percent of wages to be able to afford a median-priced home. Many families with small children are being priced out of the local market and are forced to look at other communities.

RealtyTrac data for the city of Napa indicates that for 2017, the median price of a house was \$594,000. This compares to a median price of \$340,000 in 2011. The housing crunch is made even more severe as a result of reduced inventory due to the wildfires in October.

Rental prices in Napa have also increased at a significant rate. Data from Zillow indicates that the average monthly rental cost in the city of Napa was \$2,800 in 2017, a \$300 increase over the year before.

Importantly, American Canyon, a major source of affordable single-family homes within the school District, is also experiencing major increases in home prices. The median home price in American Canyon is now \$478,000.

Community Input and Communication

The NVUSD has been more forthcoming about budget realities in the last few years and has taken steps to improve communication. The first comprehensive budget-shortfall presentation was made in Spring 2017. It included a detailed look at the nature of the budget issues and reviewed steps taken to address them. While there was mention that the District would make an effort to prepare quarterly budget reports and post them on the District's website, they have failed to do so. In addition, the District agreed to organize Budget Roadshows each year. Three of these took place in February 2018. In these presentations, District staff discussed budget issues as well as received input from key stakeholders in the community. Finally, for the past two years, the Superintendent addressed the state of the schools at annual public meetings. While the meetings did not include detailed budget discussions, financial issues were mentioned.

Budget Advisory Committee

The NVUSD Budget Advisory Committee consists of teachers, parents, staff, and members of the community. Its purpose is to make recommendations to the staff and BOE regarding the school budget. This year, the BAC made recommendations that included ways to increase revenues rather than simply cut expenditures. These recommendations included:

1. Increase the number of students admitted to the District (through inter-District transfers) resulting in \$600,000 in additional net revenue
2. Increase student attendance rates by .5 percent to 1 percent which could result in increased revenue of \$763,000 to \$1.5 million
3. Investigate the possibility of a "tourist" tax to support educational programs at NVUSD

FINDINGS

The Napa County Grand Jury finds that:

- F1. The FY2018/19 Budget Overview Presentation to the BOE in March 2018, indicates the likelihood of budget cuts for the next three years, but does not include a detailed, long-term plan for the future.
- F2. Over the past 3 years of budget deficits, District emphasis has been on cutting costs, not growing revenue.
- F3. The NVUSD has made significant strides to communicate budget issues as well as invite input from the community.

RECOMMENDATIONS

The Napa County Grand Jury recommends that:

- R1. By the end of calendar year 2018, the Napa Valley Unified School District should develop a detailed, five-year financial plan for the District.
- R2. In calendar year 2018, the District should develop and implement a comprehensive marketing program designed to increase attendance.
- R3. In calendar year 2018, the Napa Valley Unified School District should develop a website link devoted to budget news and post regular quarterly updates.

REQUEST FOR RESPONSES

Pursuant to Penal Code section 933.05, the Grand Jury requests responses as follows:

From the following governing bodies:

- Napa Valley Unified School District BOE (R1-R3)

INVITED RESPONSES

Pursuant to Penal Code section 933.05, the Napa County Grand Jury invites responses as follows:

- Napa County Office of Education (R1-R3)

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.

This report was issued by the 2017-2018 Napa County Grand Jury with the exception of a juror who is a former employee of the NVUSD. This grand juror was excluded from all parts of the investigation, including interviews, deliberations, and the writing and approval of this report.