

# **Nevada County Schools: The Lesson Never Learned**

2021-2022 Nevada County Grand Jury

Report Date: June 23, 2022

Release Date: June 29, 2022

# **Nevada County Schools: The Lesson Never Learned**

## **Summary**

The Nevada County Grand Jury researched and conducted two surveys and has recommendations for the Nevada County Superintendent of Schools office, individual schools, and districts.

The Nevada County Grand Jury focused on three key areas:

- survey responses from the schools and districts
- attendance/enrollment statistics
- review of independent financial audits of school districts

The survey responses indicated the relationship between administrators and teachers is healthy. Covid issues and related problems have been addressed by the entire Nevada County educational system. The Nevada County Grand Jury has given a special commendation in this report.

The Nevada County Grand Jury received a complaint regarding the handling of a Covid related issue. Upon investigating the complaint other issues surfaced. The Nevada County Grand Jury discovered enrollment and district revenues are declining at the same time as pension and other expenses are increasing.

The Nevada County Superintendent of Schools Office needs to make it a priority to work with the districts in a transparent way to ensure current and future solvency. Also, make short-term and long-term plans with the districts, with particular attention to unfunded liabilities, pensions, potential consolidation or unification, decreasing teaching staff, and administrative duplication. These are hard and essential decisions.

The Nevada County Grand Jury reviewed audits and found some school districts were repeatedly non-compliant with some education code requirements and the handling of Associated Student Body funds. These issues need to be remedied.

## Glossary

- ADA Average Daily Attendance
- ASB Associated Student Body
- County Western Nevada County
- Jury 2021 – 2022 Nevada County Grand Jury
- NCOE Nevada County Office of Education
- NCSOS Nevada County Superintendent of Schools
- NJUHSD Nevada Joint Union High School District
- PERS Public Employees Retirement System (aka “CalPERS”)
- STRS State Teachers Retirement System (aka “CalSTRS”)

## Background

The Nevada County Grand Jury (Jury) received a complaint about the inequities of a district’s handling of Covid protocols. The Jury conducted a survey and discovered other information which changed the direction of the investigation. The information revealed:

- declining enrollment
- declining revenue
- drop in Average Daily Attendance (ADA)
- recurring problematic audit findings

The Jury considered how the Covid pandemic had affected the schools within western Nevada County (County). As a result of the 2020 United States Census, the Jury compiled additional school census enrollment statistics. As of October 2020, County public and charter schools educated approximately 11,000 students. It hasn’t always been this way.

The first schools in the County were private schools established in the early 1850’s. Funding came from contributions of parents, and the schools were often run by local community members. Public schools followed soon thereafter. The first public school opened in Nevada City and was partially funded by a banquet held by women in the community to benefit the school. The first high school was built in 1866. At one time there were as many as 38 school districts. Today, there are nine school districts in the County. In addition, the Nevada County Superintendent of Schools (NCSOS) Office is responsible for the financial oversight and professional development opportunities for personnel in the nine school districts. There are a total of 14 charter schools and 21 non-charter schools within these districts.

Each district has an elected Board of Trustees consisting of five members. The Board provides instructional support and service to schools as well as the responsibility of noninstructional operations (custodial, grounds, physical plants, etc.).

Each district has an appointed Superintendent. The Superintendent leads in developing administrative regulations and organizational structures, decision-making processes, and staff action plans to ensure the district fulfills its mission.

Each school within the district has a principal. The number of administrative support staff, teachers, etc., will vary district to district based on student population and specific district needs.

The NCSOS is an elected position within the Nevada County Office of Education (NCOE). The NCSOS oversees budgets and curriculum for public and charter schools, oversees programs such as special education. The NCSOS is also responsible for providing professional development opportunities for administrative, instructional, and support staff assigned to all western County schools and districts.

The Nevada County Board of Education is the elected governing body of the NCOE. The board has five members; their primary responsibilities are to work with the NCSOS to establish the direction and priorities for the NCOE through its budgetary determinations and to provide leadership to support the success of county school districts. In addition, supervisory oversight is provided for any charter school whose petition was accepted by the NCOE.

The Tahoe-Truckee Unified School District is overseen by the Placer County Office of Education. This district includes students from Nevada, Placer, and El Dorado Counties. This report is focused on schools overseen by the NCOE.

## **Approach**

In preparation for this report, the Jury conducted independent research, including:

- Surveys to the following:
  - District Superintendents
  - School Principals
  - Parent Organizations
  - NCSOS
- School District audit reports, budgets, and enrollments
- Interviews
- 2010 and 2020 United States Census data for the County
- Educational Data Partnership, California Department of Education (CDE) Ed Source/FCMAT
- California Education Code
- CDE Fiscal Services
- Prior Grand Jury reports

## Discussion

The public school system in western Nevada County consists of one county office of education and nine individual school districts representing kindergarten through grade 12. These public-school districts have enrollments from as few as 83 students in Twin Ridges Elementary School District to 2,500 students in Nevada Joint Union High School District (NJUHSD). There are two high school campuses and various satellite campuses. These encompass several different secondary programs including special needs programs.

The Jury conducted several surveys distributed to the school site councils, principals, and superintendents. The purpose was to ascertain the current state of affairs, and the health and welfare of the schools including the management and response to the pandemic.

The Jury's analysis of data determined that pandemic protocols were being handled appropriately. The analysis further identified four specific areas (as listed in Background) considered to be dominant themes; some were either new areas or areas that have been broached before by prior Grand Juries.

### Declining Enrollment/Average Daily Attendance

Declining enrollment continues to plague the nine school districts in the County. The County public school enrollment has declined 27% over the past decade, 2010-2020, according to the U.S. Census Bureau on school enrollments and the NCSOS. In addition, Educational Systems Data Corporation reported a 2016-2017 total student enrollment of 14,523 students and four years later in 2020-2021 a total county enrollment of 12,544, a decline of 1,979 students (13.6%). County public school enrollment is anticipated to continue to decline further in the coming years as reported by the Independent Auditor's Report of June 30, 2021, as well as by the U.S. Census Bureau and the NCSOS.

A portion of a district's annual operating revenue is dependent upon not only enrollment within the district, but also upon the Average Daily Attendance (ADA) of those enrolled students. A lower total district enrollment will create a decline in the total ADA.<sup>1</sup> This decline in funding associated with declining ADA was also noted in the Auditor's Report of 2021. In addition, the Educational Data Systems Corporation report of October 18, 2021, headline reads: "California Districts Anticipate major hits to their 2022-2023 budgets as enrollments drop". This is important because the same article goes on to explain that district baseline funding depends on the number of students enrolled, minus the daily average number of absent students.

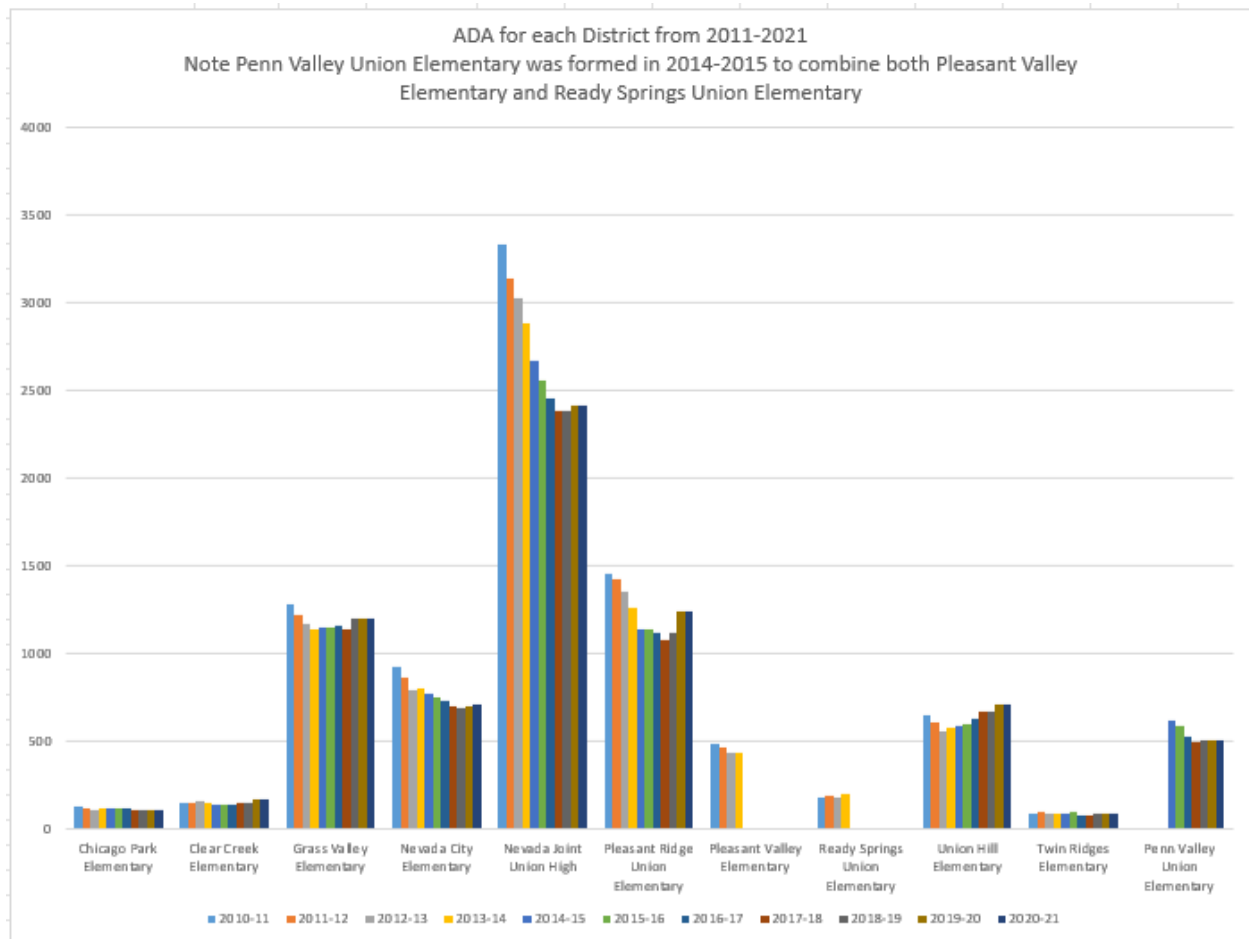
The 2020 US Census reports the 18 years and younger population in the County continues to decline. The state uses a census day (October 1<sup>st</sup>) of each year to determine funding for the school year. According to Educational Data Systems Corp. research, the 2016-2017 school year showed 11,607 students enrolled in County schools; the following year 2017-2018 enrollment had dropped to 11,077 (4.5%).

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<sup>1</sup> Current Expense of Education and Per Pupil Spending, California Department of Education.

In summary, 2002-2005 was the height of enrollment in County schools according to Educational Data Research. Enrollment has been declining every year since 2006-2007. The peak of 15,000 students declined to 11,500 in 2018-2019 (-24%). The greatest decline was in the lower grades, which will result in a decline in high school enrollment. Between 2010 and 2019 Kindergarten population decreased 51%, grades 1-4 decreased 28%, grades 5-8 decreased 20% and grades 9-12 decreased 16%.

Clearly there are trends in the County that are creating challenging funding issues for the nine County school districts. These numbers are illustrated in the chart below for each of the nine districts. The state of California mandated the ADA figures for 2019-2020 be used for the 2020-2022 pandemic years (Figure 1), artificially inflating the numbers.



**Figure 1: ADA for each District from 2011 – 2021**

The apparent upturn in student attendance for the past two years is because the state required the use of ADA numbers from 2019-2020. Due to Covid, many students did not attend school, so the state was not recording ADA. The audit reports, discussed later, anticipate a decline in ADA.

The subject of declining enrollments, possible consolidations and or potential unification options have been discussed at other times by previous Grand Juries, most notably the Nevada County

Grand Jury Report for 2011-2012. Multiple scenarios were discussed at length in a study from the School Services of California consulting firm. The predictions of the 2011-2012 report have been realized.

## **Unfunded Liabilities**

Amplifying the financial concerns County school districts have with declining enrollment and the accompanying decreases in funding, are the ever-increasing costs of unfunded liabilities, more specifically the State Teachers Retirement System (STRS) contributions and Public Employees Retirement System (PERS) contributions.

School districts, employers in this case, are being required to pay an ever-increasing percentage of their general funds to STRS and PERS contributions as part of their employee benefits. Certified and classified employees are also increasing their personal contributions to those same state retirement funds.

The challenge for County school districts is the intersection of declining revenues and the ever-increasing school district's liabilities to pay for their portion of their employees' pension obligations. When will this intersection occur? And what are the remedies? Districts receive a large percentage of their general operating budgets from ADA. The general fund for each district must have enough to cover the district's pension contributions. At what future date will the decrease in funds and the increase in expenses drive the districts to make hard choices to remain solvent?

This is not a new phenomenon; previous Grand Juries have addressed these issues many times, including the 2017-2018 report titled "*Will the Public Suffer Due to Unfunded Pension Liabilities?*". Responses by districts included:

- "District is projecting additional years of contribution increases to both pensions systems, these increases will create further fiscal and policy challenges to the district in the near future."
- "We are budgeting for many years of increased contributions to both PERS and STRS. We will decrease other areas of spending to meet these additional costs."
- "It's the Legislature's responsibility or the Governor's responsibility to pay down unfunded liabilities."

The burden remains on the school districts to meet their obligations in an environment of declining enrollment. The school districts in the County need to address this scenario to avoid the looming negative impact to the fiscal health and overall quality of education.

The NJUHSD General Fund ending balance decreased by \$2,371,000 since 2019 and the total long-term obligations have increased by \$4,887,000 since 2019.<sup>2</sup> Much of those long-term obligations are contributions to pension funds. Again, how does this play out in an environment of declining enrollment?

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<sup>2</sup> 2020-2021 Audit Report. p 66, Schedule of Financial Trends and Analysis

There are clear trends throughout the County's school districts:

- Districts are experiencing declining enrollment, leading to declining revenues.
- All districts are experiencing increased costs for unfunded liabilities which are creating cuts in other areas such as deferred maintenance. These cuts in funding for deferred maintenance could create issues in safety if left unattended, and they could lead to potential cuts in instructional personnel.<sup>3</sup>

As an example of the ADA's significance to a district's budget, NJUHSD anticipates a decline of 119 ADA during 2021-22 resulting in a loss of \$1,914,782 based on \$16,090 per ADA. Not all districts receive the same dollar amount per ADA; however, the funding associated with ADA is a substantial part of the district's revenue.

There are several factors which could contribute to this decline such as parents home schooling during the pandemic, parents opting for private schools, and a general decline in school age children in the County. The latter two, private schooling and the decline in school aged children, have been the trend for the past decade. The use of 2019 ADA has helped the districts offset the trend of declining enrollment.

The net change in the General Fund balance increased in all nine districts from the previous year. This is good; the concern is where the fund balance increases will come from in the future. As we have shown ADA money is anticipated to decline, and unfunded mandates are increasing.

### **School District Audit Findings**

The County has nine school districts comprised of a total of 27 schools. The Jury reviewed all nine of the district audit reports dated June 30, 2021. The audits were conducted by a Certified Public Accountant. Not all audit report findings require further discussion; however, the following findings do:

- Nevada City School District and Penn Valley School District had a repeat finding of being non-compliant with waivers per the California Education Code Section 41372 (minimum percentage of current cost of education expended for teachers' salary compensation). Refer to the audit report for details.
- Grass Valley Elementary School District, Penn Valley Union Elementary School District, and NJUHSD had findings related to the handling of Associated Student Body (ASB) funds.

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<sup>3</sup> District Audit Reports, School District Administration responses to Audit Reports, 2017-2018 Grand Jury report responses (NJUHSD 1<sup>st</sup> Interim Audit Report Oct. 2021)



- Penn Valley Union Elementary School District also was found to be non-compliant with California Education Code Sections 32280-32289 (Comprehensive School Safety Plan). Refer to the audit report for details.
- Twin Ridges Elementary School District had multiple repeat auditor findings listed as follows:
  - Purchases and Cash Disbursements
  - Cash Receipts
  - School Accountability Report Card

### **Commendation**

The past two school years 2020-2022 have been very difficult and trying for all concerned, students, parents, and school districts.

The Jury commends all the school districts in the County for their extraordinary efforts for providing educational services to the students of the County under extremely trying times during the nation's pandemic. Striving to provide these services was made more difficult because of continuously changing virus protocols.

The Jury also commends the teachers and staff in these districts for providing services to the students, while keeping their own families safe and healthy. This devotion to duty exemplifies the higher standards of their profession in the face of an extraordinary national public health crisis.

## Findings

- F1** All nine school districts in the County are seeing a decline in enrollment which directly affects the ADA, negatively impacting revenue for each district.
- F2** Nevada City School District and Penn Valley School District have not provided evidence of a waiver approved by the NCSOS for either 2019-20 or 2020-21 school years.
- F3** The Nevada City School District has not complied with California State Education Code 41372, resulting in a deficit of \$389,232 in audit finding #2020-001 and an additional \$586,089 in audit finding #2021-001, for a total of \$975,321 in the two school years.
- F4** The Penn Valley School District has not complied with California State Education Code 41372, resulting in a deficit of \$96,365 in audit finding #2020-002 and an additional \$288,501 in audit finding #2021-001, for a total of \$384,866 in the two school years.
- F5** Grass Valley School District and Penn Valley School District (two of the nine districts) were found to be non-compliant in handling ASB funds, documentation, or process/procedures related to ASB funds.
- F6** Unfunded pension liabilities for both STRS and PERS contributions are increasing, straining district budgets.
- F7** Reduced funding for deferred maintenance projects could have negative impact on buildings and grounds, potentially creating safety issues for students and staff.<sup>4</sup>
- F8** Special governmental funding, such as federal Covid relief funding, is not guaranteed year to year and cannot be depended upon.

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<sup>4</sup> NJUHSD 2021-22 1<sup>st</sup> interim report.

## Recommendations

The Nevada County Grand Jury recommends the following:

- R1** Each District develop and implement a strategic plan which addresses the potential continued loss of revenue and devise contingencies based on the projected revenues.
- R2** The NCOE consider consolidation, unification plans, and shared services of two or more districts within their term of office.
- R3** Nevada City School District comply with California Education Code Section 41372 (teacher salaries).
- R4** Penn Valley School District comply with California Education Code Section 41372 (teacher salaries).
- R5** The NCOE validate and assure compliance with California Education Code Sections 41372 and 41374 from Nevada City School District and Penn Valley School District (teacher salaries and class size).
- R6** The NCOE provide a mandatory annual workshop to review all processes and procedures for the handling of ASB funds, requiring attendance of representatives from all nine districts.
- R7** The NCOE conduct an analysis of past and current revenue and expenditure trends to be used for evaluating the overall future fiscal health of all County school districts.
- R8** The NCOE develop and implement planning contingencies to cover deficits the districts may experience when special governmental funding ends and ADA dollars continue to decline.
- R9** The NCOE develop and implement policy and procedures requiring all school districts to analyze their budgets to address critical maintenance of buildings and grounds.

## **Request for Responses**

Pursuant to Penal Code § 933.05, the following responses are required:

- The Nevada County Superintendent of Schools: respond to R2, R5, R6, R7 and R8 within 60 days of receipt of this report.
- The Nevada City School District, Board of Trustees: respond to R3 within 90 days of receipt of this report.
- The Penn Valley School District, Board of Trustees: respond to R4 within 90 days of receipt of this report.
- All Nevada County School Districts Boards of Trustees: respond to R1 and R9 within 90 days of the receipt of this report.
- The Nevada County Board of Education: respond to R2, R5-R8 within 90 days of receipt of this report.

Responses are to be submitted to the Presiding Judge of the Nevada County Superior Court in accordance with the provisions of Penal Code section 933.05. Responses must include the information required by section 933.05