Catalina Foothills School District ▪ Established in 1931 ▪ Tucson, Arizona 85718
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January 4, 2005

Ms. Debbie Davenport, Auditor General
State of Arizona
2910 North 44 Street
Phoenix, Arizona 85018

Dear Ms. Davenport:

This is the Catalina Foothills Unified School District #16 (CFSD) response to your report of the performance audit you conducted in our school district. We understand that this response will be published as a part of your final report.

Our response here is confined to the recommendations you made in five areas – administration, food service, student transportation, plant operation and maintenance, and Proposition 301 monies.

1. ***Administration***

Auditor General's Recommendation: The District should continue to review its staffing levels to determine whether the number of administrative positions can be reduced and identify other administrative cost-saving measures.

CFSD Response: Agree with the findings and recommendation.
Will implement the recommendation.

We review our staffing patterns, including the administrative costs, each year as part of our budget process. We will continue to do so.

Our expectations of all administrators require that highly competent and hard-working individuals fill our positions at both the school and district level. There is a correlation between a complete skill set with a solid work ethic and the experienced administrator. Experienced administrators require a higher salary level. One can hire inexperienced, less capable administrators; however, when they leave because they are unable to meet the expectations of the job, the recruitment and training costs to rehire easily equal or exceed the salary differential between a lower and a higher paid person.

School principals, including assistant principals, must be learning leaders in our school district. Quality leadership positively influences student achievement. In all cases where assistant principals are part of the administrative team of a school, we believe their contribution to our excelling schools more than offsets the cost of salary and benefits. In our opinion, a school of 600 or more requires more than one administrator.

2. ***Food Service***

Auditor General's Recommendation: The District should consider recovering all food service program-related costs, including indirect costs, such as electricity.

CFSD Response: Agree with the findings and recommendation.
Will implement the recommendation.

We think this is a good idea.

3. ***Student Transportation***

Auditor General's Recommendation: The District should explore ways to reduce its student transportation lease costs, including determining whether it could reduce lease costs by allowing the use of buses older than 5 years and/or increasing the bus capacity utilization rates. In addition, the District could also consider other alternatives to its current lease structure including lease-purchasing its buses or providing all or part of the program in-house.

CFSD Response: Agree with some of the findings and part of the recommendation.
Will implement part of the recommendation.

We are willing to include the option of maintaining older buses when rebidding the contract in the future. We will also include a request for a detailed breakdown of all costs going into the lease and operating rates when rebidding student transportation. This will ensure that any decision regarding the district bus lease costs will receive careful consideration. While we think the plan for assigning bus capacity is reasonable now, we will ask our transportation service provider to review the plan to determine what would be required if we were to increase the utilization rate to an average of 70%.

We are willing to consider other alternatives to our current lease structure sometime in the future. However, if the alternative required us to ask our CFSD taxpayers to underwrite a lease-purchase or ownership of all or part of the transportation program to purchase buses, acquire land, and/or build a bus maintenance facility, it is highly unlikely we would do so in the near future. CFSD voters just approved selling bonds and a capital override on November 2, 2004. At best, these elections come around about every five to seven years for us.

While we are always interested in finding ways to determine how we can reduce our transportation costs, we believe that the analysis presented in the Auditor General's report on this topic failed to account for all the costs associated with district run transportation services when comparing them to our district's expenses for leased bus transportation services. For example:

- District transportation costs. The report states that CFSD's transportation costs were higher than the comparable districts' average. The analysis concludes that our cost per mile ($3.20) is higher than the comparable district average of $3.18, and the district's cost per rider ($632) was much higher than the average of comparable districts ($530). The analysis fails to account for all the costs associated with providing transportation in-house. We believe the report fails to account for the cost of capital, including depreciation of buses; buildings and major equipment; rental or lease of land or buildings used for bus repair and office space; districts' investment in land; and the interest cost of investment in vehicles, buildings, and equipment. It also fails to account for operating expenses, such as wages and salaries for management and support staff working in other offices to support the transportation function, insurance, equipment maintenance, tools, utilities, two way radios, other equipment, office supplies, and furnishings.

  According to Robert O'Neill, principal in the Sacramento, California office of KPMG Peat Marwick and author of the *Handbook for Identifying and Analyzing Pupil Transportation Costs and Contracting for Pupil Transportation Service*, a district can easily understate the cost of its transportation program by 25 percent.

  Capital costs are probably the largest of the hidden costs of pupil transportation. If one had depreciated the comparison districts' fleets over a ten-year period at a cost of $72,000 per bus (the low end of the cost of a bus), it would make a dramatic difference in the cost comparison in Table 6.

Dist	Regular Riders	Special Ed. Riders	Total Route Miles	Noncapital Expenditure	Cost per Rider	Yearly Capital Expense*	Total Costs Include Assumed Capital Costs	Total Transp. Costs Per Mile
Flowing Wells	1.995	120	228,984	1,041,377	492	208,800	1,250,177	5.45
CFSD	**1,985**	**27**	**397,238**	**1,271,186**	**632**	**-**	**1,271,186**	**3.20**
Pendergast	1,848	273	409,181	1,283,531	605	273,600	1,557,131	3.81
Tolleson	1,836	81	417,631	1,264,879	659	273,600	1,538,479	3.68
Agua Fria	1,308	69	316,488	865,462	628	223,200	1,088,662	3.44
Chino Valley	2,171	24	242,968	589,910	269	144,000	733,910	3.02
Average	1,832	113	323,050	$1,009,032	$530		$1,239,924	3.77

  *Capital expenditure assumptions: districts replace their buses after ten years at a cost of $72,000 per bus.

  For a more valid comparison, one would also need to include all the other costs mentioned above, e.g., maintenance facilities and equipment, real estate, utilities, insurance, support staff, etc.

The report does point out correctly that the transportation of special needs students is costly. While the district transports only 27 special needs students, it requires 4 mini buses to do so. This is because students come from all over the district and must be transported to seven different schools. This inefficiency from an accounting standpoint cannot be avoided.

- District's bus lease costs. The report determines that CFSD's transportation costs are high primarily due to the capital costs of leasing buses that are no more than 5 years old. The report mentioned that the requirement that buses are 5 years old or less is based on the belief that newer buses are safer than 6- to 10-year-old buses. This is not just a safety issue. Our analysis of the value of a used bus after five years and the cost of maintenance on an older bus has led us to believe that the point at which CFSD will maximize its investment is by selling the bus after 5 years. Citizen Auto estimates the life of a bus at 10 years. We are charged for a 10th of the cost of a bus each year it is leased. Financially, this allows us to benefit by having a newer fleet while paying only for the first 5 years of the life of a vehicle.

  We don't, however, want to down play the safety factor. With a newer bus fleet, the district believes it can largely avoid disruptions in services caused by bus breakdowns and significant maintenance issues. The report rightly mentions that "despite the challenging terrain...the vendor's buses have been involved in only one minor accident in the past 2 years." This safety record can be attributed in part to the operating performance of the fleet.

- Leasing vs. Owning. The report states that the annual bus lease payment is equivalent to the cost of purchasing an entire new fleet every five years. The report fails to mention that purchasing buses would require the district to contract for personnel qualified to operate, service, maintain, repair, dispatch and supervise the personnel necessary to maintain the bus fleet. These personnel would require land, facilities, and equipment that the district would have to purchase and/or build.

  Further, this analysis fails to take into account the fact that the bus lease costs in the district's contract include more than just the vehicle depreciation costs for 30 buses. By contract, the lease rate also includes the costs of "furnishing, maintaining and operating the unit except the cost of fuel and the cost of the driver."

- Bus capacity costs. At the elementary level, the number of students assigned to each run is 100% of the rated capacity of the bus. (Actual ridership tends to run as high as 90% of the registered students). At the middle school level, the number of students is equal to the rated capacity of the bus plus 20%. (Actual ridership tends to be less than 80% of registered students.) And at the high school level, the number of students is equal to the rated capacity plus 100%. (Actual ridership tends to be less than 50% of registered students.)

We think the plan for assigning bus capacity is reasonable; however, we will revisit it again to determine if the utilizations rates should be revised based on ridership during the 2004-2005 school year.

- Bus utilization costs. The report states that the cost-per-rider is high because the district, for safety reasons, requires separate routes for preschool, elementary, middle, and high school students; the terrain presents routing issues; and CFSD limits the maximum length of an elementary school route to no longer than 45 minutes, and middle and high school routes to no more than 65 minutes. We believe it is unacceptable to do otherwise.

4. ***Plant Operation and Maintenance***

Auditor General's Recommendation: The District should continue its efforts to monitor and reduce energy and other plant costs.

CFSD Response: Agree with the findings and recommendation
Will implement the recommendation.

We are committed to becoming even more efficient in this area.

5. ***Proposition 301 Monies***

Auditor General's Recommendation: The District should ensure that its Proposition 301 plan also addresses how it intends to spend base pay and menu options monies. Further, the plan should specify which of the six allowable options it is addressing with its menu options monies and it should exclude any expenditure not allowable by law, including paying athletic stipends.

CFSD Response: Agree with some of the findings and part of the recommendation.
Will implement a modification to the recommendation.

The base pay plan was fully implemented in FY03. The same "plan" is required in subsequent years so the base pay allocation that is already part of our salary schedule can be sustained throughout the time period in which Proposition 301 is in effect (20 years total).

We have had annual plans for the expenditure of menu options monies. Reallocation of these dollars is done as a part of our annual budget planning cycle and is subject to change on the same time schedule.

We will adjust our budget format to clearly identify under which of the six allowable options each of our expenditures falls.

We do not agree that we made a Proposition 301 expenditure that was "a matter of noncompliance" related to athletic program stipends for Fiscal Year 2004 (FY04). We are permitted by law to complete transactions after June 30. We made several journal entry adjustments for FY04, including this one, after June 30, 2004.

Regardless of the decision we made during our budget planning cycle in spring 2003 to use some of our 301 menu monies to underwrite new compensation for certified teacher coaches and club sponsors, we knew early FY04 that we needed to transfer these costs from Proposition 301 to M & O. We chose to make this correction after June 30, 2004, which is allowable by law. Our audited FY04 general ledger indicates the correct coding of these expenditures.

Sincerely,

Mary Kamerzell, Ph.D.
Superintendent of Schools