

# IOWA SCHOOL REORGANIZATION

## WHOLE-GRADE SHARING-- A GOVERNMENT BUSINESS DEAL

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### Reorganization Series I

### Annual School District Reorganization Report

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Des Moines, Iowa 50319-0146

June 30, 1993

3-1548  
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## SCHOOL DISTRICT REORGANIZATION REPORT

The purposes of this annual report, coded as Reorganization Series I, are to chronicle reorganization activities for future reference, analyze the current conditions, and provide some direction for subsequent years. The major topic of the 1993 document is about a type of thinking that is emerging as school boards enter into whole-grade sharing contracts and eventually move their districts toward reorganization. The boards are negotiating business contracts--government business. They are perceiving their schools as government business units that are subject to the same natural conditions that relate to the private enterprise services provided in their communities.

Two special Series I reports were written regarding the large number of reorganizations this year and an update of superintendent sharing. Both reports were sent to all school districts and are available at the Bureau of School Administration and Accreditation.

### CURRENT REORGANIZATION ACTIVITIES

The 1993-94 school year will begin with 21 less school districts. On July 1, 1993, 41 districts will merge into 20 new school corporations. This reduces the number of districts from 418 to 397. This period of change began with 438 school districts in 1985.

Beginning July 1, 1993, 358 school districts will be operating their own high schools within their boundaries. The difference between 397 total districts and 358 with high schools, which is 39, is the number of whole-grade sharing districts that are sending their high school students to other districts. In 1992-93 there were 362 districts operating their own high schools. The drop from 362 to 358 is the least amount of change since 1985.

One of the whole-grade sharing agreements to begin in 1993-94 is the first of its kind. Lincoln Central is sending all students in grades K-12 to Estherville. This move came after a failed attempt last year to reorganize, which was then followed by a large scale exodus by open enrollment.

As of the date this publication is being written, four districts have reorganized with July 1, 1994, effective dates, four more have reorganization petitions filed with their area education agencies, and this consultant is aware of several more reorganization petitions being developed. November 30, 1993, is the final election date for July 1, 1994, reorganizations.



Two new whole-grade sharing agreements have already been signed for 1994-95. This consultant has information about one more whole-grade sharing agreement that is past the public announcement stage, and about several more whole-grade sharing plans that are in the earlier phases of development. February 1, 1994, is the final date for signing a contract to begin in 1994-95.

For several years the prediction has been for a 10 year period of school reorganization change. This projection was based in part upon the fact that the two prior school consolidation eras were both approximately 10 years in duration. Also, the rate of high school reduction, close to 10 per year, seemed to fit the 10 year pattern. In addition, the legislative school finance model appears to be a plan to equalize funding and spending, and the smaller districts tend to spend more per pupil.

It now seems that the cycle of merging could extend a few more years beyond 1995. Legislation to prolong the adjustment for guarantee (a form of funding beyond the set per pupil amount for some districts) through 1995-96 may be giving added life to some districts, as will the legislated easing of some of the minimum standards. However, the natural conditions that are causing the movement are still grinding away. The demographic and economic changes have not abated. If we are looking for school organization stability to establish itself again--maybe 1998, or a little later?

Reorganization studies are indicators of continuing and future change. Since 1980, this consultant has conducted studies involving more than 250 school districts. The pace of activity, which dramatically increased in 1987, has since then continued at a very high rate. The number of districts involved in studies each year has ranged from 50 to 75.

A notable change in the studies is the increasing interest in more detail. During 1992-93 boards and other school officials working with this consultant have been requesting much more factual information. Some of the recent studies have included 30 to 50 or more pages of data tables.

Another mark of change in the studies is the increase in the request for combination financial studies. More than one-half of the studies this past year were those that predict tax rates, calculate combined assets, and combine numerous other financial features of districts that are planning whole-grade sharing or reorganization. A few of the studies were for districts that have passed their reorganization elections and need more financial combination assistance. This trend seems to indicate that finance is becoming more of an important factor as districts plan mergers.



## REORGANIZATION LEGISLATION--1993

The Legislature enacted several bills that directly affect whole-grade sharing and reorganization situations. Senate Files 141, 191, and 425 (in part) address optional levies after reorganization, reorganization tax breaks, and whole-grade sharing supplemental weighting issues. The provisions of the bills are fairly narrow in scope and apply to a few districts that seemed to "slip through the cracks" as they entered into new consolidation partnerships.

House File 496, a more comprehensive reorganization bill, also dealt with one of the corrective issues. The first section more clearly defines the counting of supplemental weighting for a maximum of five years, with an additional counting of five more years after reorganization.

House File 496 then proceeds to confront some reorganization procedural issues. For example, the procedures for the division of assets and liabilities after a reorganization are brought into line with a court case on the topic that was settled in the early 1980s. Also, the precise stipulations for formulating the initial board of a reorganized district are eased to allow for more local control.

The only provision of House File 496 that tends to address a more substantive issue is the requirement for the area education agency board, when it is establishing boundary lines, to abide by the principle that, "The exclusion of territory shall represent a balance between the rights of the objectors and the welfare of the reorganized district." This measure was enacted in order to encourage more of the weight in the boundary drawing decisions to be given to the individual citizens. The practice in many instances has been to favor the reorganizing districts if they did not want territory to be excluded. This has resulted in complaints from citizens to legislators and to the Department of Education.

### A GOVERNMENT BUSINESS DEAL

During this era of school structure change, the number of districts maintaining high schools and the total number of districts is being reduced dramatically. The conditions and activities are similar to those of the previous period of high school merger that took place from 1952 through 1962, but there is one very important difference. The earlier generation of consolidation involved mainly the reorganization process, which is largely a political procedure. With very few exceptions, the mergers that have now taken place since 1985, first consist of whole-grade contracts negotiated by the boards of directors of the local school districts. These contracts, which do not



require voter approval, have in all cases united the high schools. In most instances other grades were also combined. The strong tendency is then, after a period of a few years of whole-grade sharing, for a voted reorganization to follow.

This portion of the annual report examines some of the elements of the government business deals (whole-grade sharing contracts) that are being negotiated by school boards. How is the process different than reorganization?

### **Reorganization and Whole-Grade Sharing.**

Reorganization is a legal process that has been in the Code of Iowa for many years. It requires a petition signed by electors, an objection mechanism, a public hearing conducted by the area education agency, decisions made by the area education agency board of directors, and elections passed by a 50 percent majority in each of the districts involved.

State law requires only a few components to be included in the petition. They are the name of the new district, the legal description of the new district, the number of members on the initial board, and the method of election of the new board. Two common optional elements of the petition are the usage of the alternative method of selecting the initial board and provisions for the division of assets and liabilities. Virtually all other arrangements for the combining of the districts are within the authorities of the board of the new district. Very little can be negotiated between the boards of the original existing districts.

In the final analyses, the voters approve or reject the petition to reorganize. This is a political process, like all other elections. There are factions on all sides of the issue, they vote accordingly, and try to persuade others to vote in a similar manner.

Reorganization elections are usually emotional events that have very few trappings of a business deal, unless the districts have been first whole-grade sharing. If whole-grade sharing began the merger process, the boards negotiated and had been operating the schools under a sharing contract. The parents and citizens have had the opportunity to see what this type of consolidation of program has done for them. Then when the reorganization issue is presented on a ballot, the electors are generally endorsing what they have seen through whole-grade sharing and finalizing the arrangement.

Whole-grade sharing does have political elements in it, and it is an emotional process. However, boards almost always



approach the task of developing a contract by emphasizing the factual and business components and minimizing the political, emotional, and personal preference influences.

Most school boards have gone to the limit to collect information and conduct studies. Citizens' committees are formed, and outside consultants are used. Many districts have had outside consultants conduct two, three, and sometimes more studies before they make decisions to whole-grade share. Districts cannot be accused of rushing into whole-grade sharing without adequate planning and study.

Before signing contracts, boards have generally been conducting numerous meetings between the boards involved. These meetings seem to involve the stages of getting acquainted, the development of the larger elements of the contract, such as who gets the high school, and the hammering out of the details. Boards cannot be charged with lack of adequate contract negotiation.

Another important part of the contract development is public involvement--both for input and information purposes. All boards are required to have a legal hearing prior to approval of a whole-grade sharing contract, and almost all, if not all of them, conduct information meetings at various stages along the way. This consultant has attended and presented information at more than 200 board meetings--some of them with up to 500 people in the audience. Boards have made heroic efforts to bring their actions to the public.

As can be seen, reorganization is basically a brief consolidation plan that is approved by the voters. It is often a very emotional issue, and has the characteristics of other elections that use all means possible to sway the minds of the uncommitted.

Whole-grade sharing, in contrast, is the planning, negotiation, and operation of government business entities through a cooperative contract. The situation may have political overtones, but the boards of education of Iowa's local school districts have risen above the factional circumstances that are more likely to control reorganization.

#### **Whole-Grade Sharing Contract Features.**

The whole-grade sharing agreement is a business contract, like those in the private sector. It binds parties, it has time limits, it sets financial conditions, etc. These are complicated documents, and this consultant strongly urges



districts to use the services of attorneys in order to develop them.

The early contracts from the mid 1980s were each unique; however, since then, most agreements have used existing documents as samples. Therefore, there are many similarities among the contracts, but most of them still have individual features. This part of the report notes a few of the more common contract components.

- All contracts include articles about the services provided. This is the key part of the agreement that specifies where the high school program will be located, where the junior high or middle school will be, etc. Usually the locations are obvious because of the sizes of the districts or the types of buildings. However, in some of the situations where districts are equal in size, this is a heavily negotiated issue. Often more grade levels are brought into the whole-grade sharing plan in order to even out the gain and loss of students.
- All contracts specify the duration. The most common length seems to be three years. There are various types of extension clauses and methods for terminating the contracts.
- All contracts list the financial terms. In one-way agreements, there is a dollar amount that is in effect a tuition. The tuition amounts range from one-half of a district's regular program per pupil cost to one hundred percent of the per pupil cost. There are many variations between the two extremes. Two-way contracts have a variety of negotiated features. The only finance restriction imposed by state law is that in a one-way agreement, the cost shall be no less than one-half of the per pupil cost.
- Beyond the three basic contract provisions noted above, the "sky is the limit." The districts are able to negotiate and include in the agreements almost anything that they could have done for themselves.
- Most whole-grade sharing districts use common board policies, administrative rules, and common practices for mutual purposes. In other words, the districts have mechanisms for developing features of the program combinations without going to the extreme of including everything in the contract.

The important points are that over 150 boards of directors have successfully negotiated whole-grade sharing contracts,



and their agreements have included a wide latitude of provisions, just as do contracts among any group of businesses. The state has only three basic restraints:

- There is the restriction of paying no less than one-half the per pupil cost in a one-way agreement.
- There are procedures and timelines districts must follow in order to sign a contract.
- In general, if a district is not permitted to do something by itself, it still can't do it even if the school is whole-grade sharing.

#### **Similarities to Private Sector Contracts and Conditions.**

The contract features listed above are similar to almost anything done in the private sector. The contractual agreements have time limits and they are enforceable. They provide something of value to all parties. There are individuals and groups that are authorized to make the agreements. Usually the advice and assistance provided by attorneys are no different than that given to non-governmental clients.

When a board studies its situation and plans for whole-grade sharing, it often views its district as one of the many service entities in the area. In other words, it looks at the various service industries within the economic community. For example, the purchase of new automobiles may extend the economic community across several counties. Citizens may not have nearby dealerships, and may be forced to travel for the purpose of buying a car. A county may have seven towns, and four of them may have banks or branch banks. These are smaller economic service areas than those for buying cars. A county may have only one full-scale grocery store, and this in turn specifies the shopping area.

An examination of the past may reveal that in 1950 there were several car dealerships in the county, all towns had banks, all communities had grocery stores, and some had more than one grocery. Times have clearly changed for rural Iowa.

Schools have not escaped the forces that have caused the changes in the private sector. In 1933 there were 937 school districts operating high schools. In 1993 there are now only 358. The regions for school attendance have become larger. This current movement that started in 1985 is another period of expansion of school district boundary lines.



The similarities of the school situations to the private sector are abundant. Communities that at one time had grocery stores, hardware stores, drug stores, banks, etc. are now existing with very few or none of these within their borders. These towns also had K-12 school districts. They are now faced with the business situation that they can no longer provide the services expected for a full K-12 school district or be able to pay for it at an economical and efficient level. The whole-grade sharing movement is merely local government doing now what it would have done as private enterprise several years ago.

Generally, as schools whole-grade share and reorganize, they are redefining their boundaries and bringing together a larger volume of business. There seems to be a level of business that needs to be achieved. Three significant benchmarks that appear to be governing the number of students are:

- The double section school districts, those that are large enough to have two teachers per grade, seem to be able to meet the state minimum standards with minimal effort. These districts enroll in the neighborhood of 600, or maybe down to 500, students.
- The triple section schools and larger, appear to reach a level of economic efficiency that normally is not achieved by the smaller units. Although individual situations vary, using the average actual per pupil expenditures, the greatest efficiency seems to begin at this level. Then, low per pupil expenditure levels are maintained through all larger enrollment classifications, until a slight increase occurs at the districts over 10,000 students.
- A more subjective conclusion is that the greatest citizens satisfaction and comfort seems to begin at the quadruple section district. It is at this level that hundreds of conversations with citizens and board members indicate that there is a greater sense of security about the future.

The above analysis does not purport to indicate that any size is better in all situations than any other. It merely reflects upon the characteristics of the increasing volumes of business that school districts are achieving by whole-grade sharing. Just as car dealerships have gone away from being low volume businesses with minimal inventories, to far fewer dealerships with large inventories, schools are moving to larger enrollments.



Another business factor that impinges upon school operation in a manner comparable to private enterprise is the availability of capital. Businesses need to have financial backing, and so do schools.

Schools, for example, need taxable valuation in order to construct buildings. Districts are limited to bonding themselves for no more than they can pay off in 20 years at a maximum property tax rate of \$2.70 per thousand assessed valuation. If the bond referendum includes a separate question, the maximum tax can be raised to \$4.05.

Some smaller districts, particularly those with lower assessed valuation amounts, may find it very difficult to replace old school buildings. For example, in a recent study, a small school district with only 22 million in assessed valuation was estimated to have a construction limit of \$650,000. The maximum, with the \$4.05 rate, was \$970,000. These amounts are hardly enough to replace the existing structures. Another business related concern is whether voters will have enough confidence in the future of the district in order to bond their properties for 20 years.

The nature of the capital necessary to farm has changed significantly during this century. Farming has gone from a labor intensive industry to one that requires large amounts of capital. Schools have not experienced anywhere near as dramatic a change in capital requirements, but it is clear that the common 1920 vintage buildings were comparatively much less costly than those being erected in the 1990s. Discounting 60 years of inflation, it is much more difficult now for a small district to build a school large enough to house the entire K-12 program.

As boards wrestle with the whole-grade sharing and reorganization issues, they frequently think of what private enterprise would have done in similar situations. Schools are not profit motivated, and they are required to more equally serve their entire constituencies, but they still respond to the same pressures that change business.



Table  
 Per Pupil Expenditures  
 Operating Fund\*  
 1991-92

1	2	3	4	5	6	7
September, 1991 Enrollment Ranges	Number Districts	Number Students	Total Expenditure	Average Per Pupil Expenditure	Expenditure Range Within Category Low High	
0 199	19	2,978	18,192,464	6,109	4,698	7,565
200 299	54	13,403	68,231,150	5,091	4,107	6,731
300 399	53	18,422	89,321,922	4,849	3,933	6,312
400 499	50	22,598	102,972,493	4,557	3,954	5,779
500 749	99	60,845	271,581,851	4,464	3,961	5,609
750 999	40	34,215	146,801,123	4,291	3,925	4,992
1,000 1,499	40	49,192	211,831,829	4,306	3,956	5,055
1,500 1,999	28	47,263	203,099,805	4,297	3,957	4,769
2,000 2,999	17	41,148	177,635,333	4,317	3,989	5,115
3,000 9,999	19	98,497	428,653,985	4,352	4,014	4,950
10,000 30,998	6	102,881	479,968,185	4,665	4,342	5,008
Totals	425	491,442	2,198,290,140			
Minimum				3,925		
Average				4,473		
Median				4,478		
Maximum				7,565		

\* Similar tables included in prior reports listed total general fund expenditures. This report is limited to the operating fund, which is the major portion of the general fund. The change was necessary since additional sub-funds were recently added to the general fund, and the reporting practices of the local districts are not uniform.



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