

SCHOOL REORGANIZATION-- AND TAXING

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Reorganization Series I

School District Reorganization Report

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SCHOOL DISTRICT REORGANIZATION REPORT

This report is part of the series of publications that have been written about reorganization since 1980. Every year, one or more reports are produced that summarize and analyze current reorganization activities and address special topics about school consolidation. The articles included in this edition are:

- Number of Districts Drops Again
- Reorganization and Taxes

NUMBER OF DISTRICTS DROPS AGAIN

Fourteen districts voted to reorganize effective July 1, 1994. The final date for those reorganization elections was November 30, 1993. This reduces the number of districts from 397 in 1993-94 to 390 in 1994-95.

TABLE 1
REORGANIZATIONS
July 1, 1994, Effective Dates

ELECTION DATES	PASSED-FAILED	ORIGINAL DISTRICTS	NEW DISTRICTS
03/23/93	Failed	Blakesburg & Eddyville	
04/06/93	Passed	Britt & Kanawha	West Hancock
04/06/93	Passed	Dow City-Arion & Dunlap	Boyer Valley
09/14/93	Passed	Mar-Mac & M-F-L	MFL MarMac
09/14/93	Passed	Floyd Valley & Maurice-Orange City	MOC-Floyd Valley
09/14/93	Passed	Battle Creek & Ida Grove	Battle Creek-Ida Grove
11/09/93	Passed	Belmond & Klemme	Belmond-Klemme
11/30/93	Passed	Blakesburg & Eddyville	Eddyville-Blakesburg

All fourteen districts in the "Class of 94" are currently whole-grade sharing. However, four of the districts required second election attempts. The Floyd Valley and Maurice-Orange City reorganization failed in the prior year, but passed for 1994. Blakesburg and Eddyville conducted a failed election early in the "1994 season," but passed the second one on November 30, 1993.

Eight districts signed new whole-grade sharing contracts for the 1994-95 school year. This brings the number of districts operating their own high schools down to 354.

TABLE 2
NUMBER SCHOOL DISTRICTS

Year	Number Districts	Number Districts With High Schools
1984-85	438	437
1985-86	436	431
1986-87	436	426
1987-88	436	415
1988-89	433	405
1989-90	431	389
1990-91	430	378
1991-92	425	371
1992-93	418	362
1993-94	397	358
1994-95	390	354

Requests for reorganization studies are indicators of possible change, and the number of requests has remained at a very high level. In 1993 the Department of Education conducted 31 studies involving 67 districts.

Since 1980, through December 31, 1993, there have been 218 different studies involving 263 districts. During that period of time many districts have asked for two or more studies, bringing the number of district contacts up to 491.

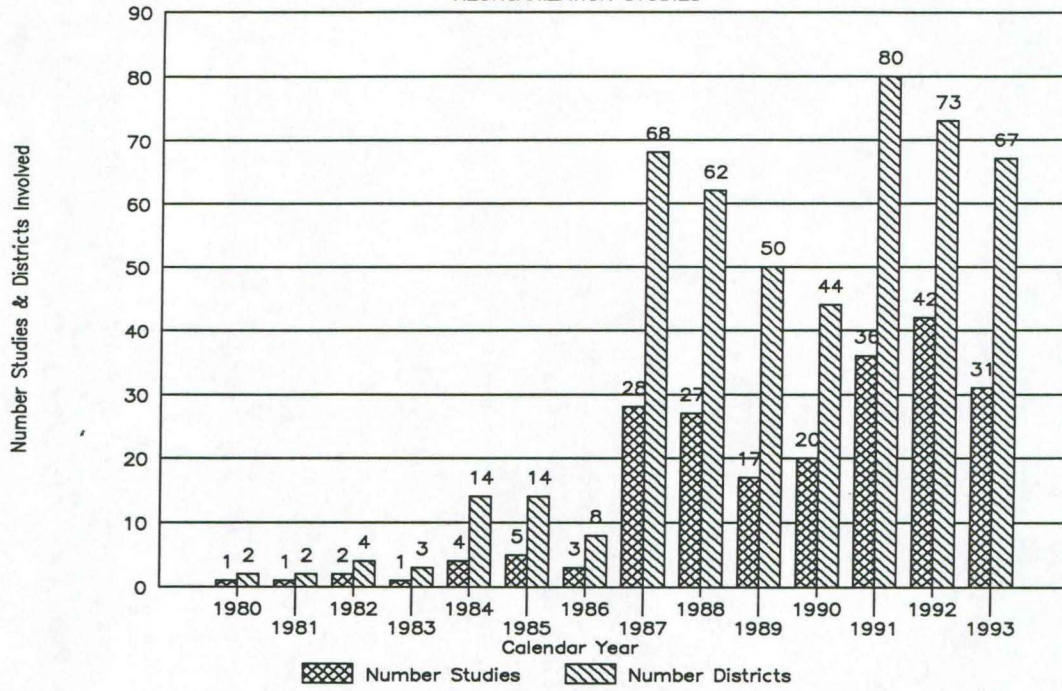
For many years the districts involved in studies were those that were examining the options of whole-grade sharing or reorganization. However, some of the recent studies included districts that consolidated in the last year or two. They wanted follow-up assistance.

A continuing change is the increasing request for more data to be included in studies. This consultant is now taking up to three days in preparation for visits to school districts.

In general, the reorganization movement seems to be remaining in motion. The amounts of whole-grade sharing activities, reorganizations, and studies have been at high levels since 1985. Earlier, this consultant was optimistic that the era would come to an end around 1995.

Recent predictions aimed toward a later date when stability would return. Current indicators seem to support the later date forecast.

TABLE 3
REORGANIZATION STUDIES



REORGANIZATION AND TAXES

One of the major events that takes place during a school reorganization is the combination of the individual district's tax rates. Gary Meyer, from the Department of Management, and this consultant receive numerous questions about this process--from districts that are reorganizing and from those that may be thinking about it. An analysis of the individual tax rates and an estimation of the combined rate are two components of reorganization studies conducted by this consultant. This article examines both elements, along with providing a brief explanation of Iowa's school taxing structure.

This article is intended to be read by school board members and other interested citizens, as well as superintendents and school business officials. All too often, the State's school finance formula appears to be overwhelming, and hundreds of board members throw up their hands when trying to understand the process of determining tax rates.

There are two problems that surface when board members accept the concept that taxing is too difficult to be understood by citizens. First, there are many options imbedded within the tax determination process. To give up on the comprehension of the taxing process is to relinquish the responsibility for purposely addressing the options. The other problem comes to bear at the time of a reorganization. If taxing is not purposely examined prior to a reorganization, too much is merely left to chance. A few general principles regarding taxing and reorganization are:

- The combined tax rate of districts that reorganize tends to move toward the average of the individual districts, and in most instances becomes slightly lower than the average of the two.
- Many reorganization taxing components are totally governed by the mechanism of state laws, and the resulting tax rates are not within the control of local officials.
- On the other hand, several ingredients within the taxing laws offer options that are available to the individual boards of directors and to the board of the newly formed district.

Officials and citizens of districts that are planning reorganizations need to have some idea of what will take place and what taxing alternatives they have. Otherwise, there will not be a full understanding of what the merger will do to them, immediately or over a period of time. Also, failure to study the issue of reorganization and taxing could eliminate the local control over optional items. In order to provide an overview of this issue, this article includes a brief explanation of the taxing process (hopefully geared toward a layperson's perspective), an example of the tax combining process that takes place during a reorganization, and an illustration of how districts can compare their taxing structures to those of other Iowa districts.

SCHOOL TAXING STRUCTURE

Taxes are based upon funding, therefore the explanation in this portion of the report addresses the twin components of taxing and funding. Each is dependent upon the other.

- The State funding formula is very complex. The complexity is not caused by abstract concepts, but rather by the existence of a myriad of components. The situation is even more compounded by the intertwining of the elements. One of the keys to understanding Iowa school funding is to be able to categorize the individual parts in order to prevent the large amount of details from getting in the way.
- All school accounting is managed through separate funds. This is somewhat like a husband and wife who maintain two check books--one for each. They each deposit money from specific sources and pay specified bills. However, they are still a single family unit. The difference between this example and school districts is that the division into funds is required by law or dictated by generally accepted accounting principles. The major school fund is called the Operating Fund. A few others are Management, Voted Physical Plant and Equipment, and Debt Services Funds.
- Which comes first--the decision to raise a certain amount of money or the decision to levy a specific tax rate? This depends. The majority of the Operating Fund revenue is determined through a formula that basically multiplies the number of students by a legislated dollar amount. The product of the formula is then run through another formula that breaks funding into state aid and property taxes. The dollar amount is known first. The tax rate follows. However, in the case of the Regular Physical Plant and Equipment Levy, the State specifies that the maximum levy is \$0.33 per thousand assessed valuation. If the district decides to levy the maximum, the rate is adopted, and the dollar amount follows.
- The state funding formula that is governed by the Department of Management addresses funding from three sources. The equation determines all school property tax rates, income surtax rates, and state aid amounts. Schools may receive revenues from other sources, such as interest income, student fees, miscellaneous state sources, and federal revenue. These sources of funding are not changed by the finance formula when schools merge. The general assumption is that the districts add the amounts from these origins together when they combine.
- This consultant uses a different taxing and funding perspective when he works with school boards and officials. The state aid, property taxes, and income surtaxes are divided into three other groupings. They are the state minimum per pupil funding, conditional funding, and optional funding.

The division into these three categories is extremely important for understanding the establishment of the funding and taxing for consolidated districts. Refer to Table 5 for an example of the division into these classifications. The general principles are:

- In 1993-94 the state **minimum funding** is \$3,406 per pupil. All districts receive at least this much, and the minimum is applied to the number of students enrolled on headcount day, plus the extra weighting for special education students. Of the 397 districts, 202 are at the minimum level. The maximum is \$3,595. Two other funding amounts that fit into the minimum category are area education agency flowthrough and enrollment audit adjustment. Both amounts are set by the Code of Iowa, they are outside of the control of local boards, and are not influenced by local conditions.
- **Conditional funding** includes those calculations that provide extra revenues from state aid, property taxes, and income surtaxes; that are beyond the minimum per pupil amount; but are not among the optional taxing programs. Included in this category is the amount of money received by the 195 districts that are funded beyond the minimum \$3,406. Funding beyond the minimum per pupil amount is not the result of school board choice, is not caused by specific actions of the district, nor is it the result of special needs of certain school districts. It is the consequence of the districts' interactions with the funding formula over a long period of time--"luck."

Supplemental weighting, which is extra funding for sharing, is another conditional type of revenue. Not all districts receive this financing--only those that share with other districts.

A third type of conditional funding is called the budget adjustment, also known as 100 percent guarantee. This is another source of revenue that is out of the control of a local district and is not available to all schools. It is a type of cushion for declining enrollment.

- There are several sources of funding that are **optional to school boards**, such as talented and gifted, the management levy, and the regular physical plant and equipment levy. They are funded from property taxes, and in some cases, a mixture of property tax and income surtax.

There are several sources of funds that are **optional to the voters**, such as the voted physical plant and equipment levy and the bonds and interest levy. The instructional support taxing program is optional to the voters, but a board can impose it under certain conditions if the citizens do not petition for an election. This is also the only optional funding plan that provides for additional state aid. The fundings that are optional to the voters receive revenues from property tax or a combination of property tax and income surtax.

COMBINING DISTRICTS' TAX RATES

As a part of the reorganization consulting work, studies include simulations of the formula that combines school funding and taxing. **Tables 4 and 5** are from a series of tables that estimate the combined funding from the three basic sources of state aid, property taxes, and income surtaxes. **Table 6** is one of the exhibits that estimate combined property tax and income surtax rates. Those included in this article were developed for the Grand and Ogden school districts. They are examining a possible merger.

Table 4 is a calculation of the combined funding that Grand and Ogden would have received, had they been reorganized as of July 1, 1993. The table is presented in the order that follows the worksheets and forms school districts use to calculate funding and taxes. **Table 5** depicts the same funding combination, but in a different order--according to minimum per pupil, conditional, and optional fundings.

The first part of **Table 5** combines the minimum funding plan. All districts receive at least \$3,406 per regular and weighted special education student, plus the other minimum elements explained earlier. Other than minor adjustment due to rounding or change of AEA, reorganization does not alter these calculations.

The second part of **Table 5**, noted as conditional funding, includes the added revenues received because of higher per pupil district costs. Grand's per pupil amount is \$3,443, which is larger than the minimum. Ogden is at \$3,406; therefore, it receives no extra per pupil funding beyond the minimum. Both districts are receiving extra money for sharing (supplemental weighting), and neither receive the budget adjustment.

The calculated average of the two individual per pupil amounts is \$3,343.49, and that was rounded down to \$3,343, which would have been the per pupil cost for the potentially reorganized district during 1993-94. Reorganization does not change this feature, other than possible small gains or losses resulting from rounding, or from future changes in enrollments.

There are three general types of sharings--administrator, whole-grade, and ordinary teacher and pupil sharing. The administrator and whole-grade sharing plans have five year limitations, and reorganized districts are allowed to keep the funding until the five year limits lapse.

The budget guarantee of a reorganized district could be equal to the sum of the two if both are receiving this 100 percent guarantee. If one of the districts is not getting this extra funding, the combined district will receive less than what the one district is now getting, or the new district could possibly receive none. Also, if neither individual district is eligible for the budget guarantee, the merged district will not be qualified. In summary, a merger can alter the budget adjustment amount, and the alteration is always a reduction in funding. This means less money for the school, but it also is a reduction in property taxes.

In the example, of Grand and Ogden, a merger reduces the conditional funding by \$1,225. This is minor, and was the result of rounding. Extra conditional funding is seldom added as the result of a merger, and often less is raised through the budget adjustment mechanism.

The third part of **Table 5** is a complete list of the optional taxing plans available to boards and voters. The taxes optional to boards are not changed by reorganization. In other words, if the old boards could impose the levy, the new board can. When estimating combined funding optional to school boards, this consultant merely adds the amounts levied by the individual districts.

The voter approved taxing amounts are governed by specific Code sections. Generally, the rule is that if both districts have the levy prior to the reorganization, the new district is able to keep it for the least time left and the least rate authorized. In the case of Grand and Ogden, they both have the instructional support tax; therefore, it would have been kept in a new reorganization. However, since only Ogden has the playground levy, it would be removed from a reorganization, unless the measure to impose the tax was placed on the reorganization ballot.

Tables 6 displays the combined property tax rates. The individual rates are \$9.41 per thousand assessed valuation at Grand, and \$11.20 at Ogden. If the two districts had reorganized as of July 1, 1993, and if the combined board would have chosen the options this consultant chose for the study, the property tax rate of the consolidated district would have been approximately \$10.62.

The sample table indicates a tax movement for both districts resulting from a merger. The variations between the two districts are moderate compared to those of other districts that have reorganized. Taxing is an issue for Grand; however, it should not be considered a potentially fatal concern.

Existing individual school boards have many funding and taxing choices, Boards of reorganized districts have these alternatives too.

COMPARING DISTRICTS' TAX RATES

A major component of reorganization studies is the comparison of district data with statewide information. **Table 7** is a sample of property tax comparisons. The \$9.41 and \$11.20 rates at Grand and Ogden are considerably below the state average of \$13.17. The lowest rate in the state is \$8.23, and the highest is \$24.15.

The potential combined merger rate between Grand and Ogden is \$10.62, and that rate is roughly half-way between the minimum and average--a very favorable position. As can be seen, the range of property tax rates from the lowest to the highest is almost threefold.

However, if tax rates were not equalized to the extent they now are, the potential variation from low to high could be seven-fold.

It is important for boards and communities to understand that the great variations in tax rates do not result from superior or inferior financial management. This is not to say that certain amounts of expertise do not have some effect, but the large range in rates largely results from conditions beyond local control. All too often this consultant finds board members being critical of their own tax management efforts, when in reality they have usually not been causing what they perceive as high rates.

Reorganization is difficult enough without adding taxing problems to it. This consultant's strong advice is that boards, administration, and citizens lay the taxing conditions on the table. Study them and make the necessary decisions. Almost always reorganization moves the tax rates of the two combining districts to their average, or slightly lower. This means that property owners of one former district will have a rate increase and the other a decrease.

TABLE 4 COMBINATION REPORT

Funding from State Aid, Property Tax, and Income Surtax
All Funds
If Reorganization Effective 1993-94

	Grand	Ogden	Combined	Combined w/o merger	Reorganization Gain/Loss
OPERATING FUND:					
Regular Program Per Pupil Funding:					
Reg Prog Per Pupil	3,443	3,406	3,413		
x Budget Enrollment	183.0	680.6	863.6	863.6	0.0
= Reg Prog Dst Cost	630,069	2,318,124	2,947,467	2,948,193	(726)
Budget Adjustment	0	0	0	0	0
Cost for Suppl Wtg	25,065	51,090	76,042	76,155	(113)
Special Ed Instr	71,890	117,371	188,875	189,261	(386)
AEA Flowthrough	39,930	142,573	182,503	182,503	0
Talented & Gifted	5,555	20,862	26,417	26,417	0
Dropout	0	24,523	24,523	24,523	0
SBRC Allow Growth-1	0	0	0	0	0
SBRC Allow Growth-2	0	0	0	0	0
Enrollment Audit Adj	0	0	0	0	0
Combined Distr Cost	772,509	2,674,543	3,445,827	3,447,052	(1,225)
Instructional Supp	61,682	224,960	286,727	286,642	85
Educational Improve	0	0	0	0	0
Asbestos	0	0	0	0	0
Enrichment	0	0	0	0	0
Cash Reserve-SBRC	0	0	0	0	0
Cash Reserve-Other	0	50,000	50,000	50,000	0
Use of Fund Balance	0	0	0	0	0
Total Operating Fund	834,191	2,949,503	3,782,554	3,783,694	(1,140)
OTHER FUNDS:					
Management Fund	20,000	56,402	76,402	76,402	0
Library Fund	0	0	0	0	0
Voted PPEL	0	0	0	0	0
Regular PPEL	16,391	43,361	59,752	59,752	0
Schoolhoue	0	0	0	0	0
Playground	0	17,738	0	17,738	(17,738)
Debt Services	0	0	0	0	0
Total Other Funds	36,391	117,501	136,154	153,892	(17,738)
Grand Total	870,582	3,067,004	3,918,708	3,937,586	(18,878)

TABLE 5 COMBINATION REPORT

Minimum Funding, Conditional Funding, & Optional Funding
All Funds
If Reorganization Effective 1993-94

	Grand	Ogden	Combined	Combined w/o merger	Reorganization Gain/Loss
MINIMUM FUNDING:					
Enrollment Base	183.00	680.60	863.60		
+ Weighting--Spec Ed	20.88	34.46	55.34		
= Weighted Enroll	203.88	715.06	918.94	918.94	0.00
x State Per Pupil Mn	3,406	3,406	3,406		
Minimum--Reg + Sp Ed	\$694,415	\$2,435,494	\$3,129,910	3,129,910	(0)
AEA Flowthrough	\$39,930	\$142,573	\$182,503	182,503	0
Enrollment Audit Adj	\$0	\$0	\$0	0	0
Total Minimum Fdg	\$734,345	\$2,578,067	\$3,312,413	3,312,413	(0)
CONDITIONAL FUNDING:					
Beyond \$3,406					
Reg + Sp Ed Instr	\$7,544	\$1	\$6,432	7,544	(1,112)
Suppl Weighting	\$25,065	\$51,090	\$76,042	76,155	(113)
Budget Adjustment	\$0	\$0	\$0	0	0
Total Conditional	\$32,609	\$51,091	\$82,474	83,699	(1,225)
OPTIONAL FUNDING:					
Talented & Gifted	\$5,555	\$20,862	\$26,417	26,417	0
Dropout	\$0	\$24,523	\$24,523	24,523	0
SBRC Allow Grow #1	\$0	\$0	\$0	0	0
SBRC Allow Grow #2	\$0	\$0	\$0	0	0
Instructional Supp	\$61,682	\$224,960	\$286,727	286,642	85
Educ Improvement	\$0	\$0	\$0	0	0
Asbestos	\$0	\$0	\$0	0	0
Enrichment	\$0	\$0	\$0	0	0
Cash Reserve--SBRC	\$0	\$0	\$0	0	0
Cash Reserve--Other	\$0	\$50,000	\$50,000	50,000	0
Use of Fund Balance	\$0	\$0	\$0	0	0
Management Fund	\$20,000	\$56,402	\$76,402	76,402	0
Library Fund	\$0	\$0	\$0	0	0
Voted PPEL	\$0	\$0	\$0	0	0
Regular PPEL	\$16,391	\$43,361	\$59,752	59,752	0
Schoolhouse	\$0	\$0	\$0	0	0
Playground	\$0	\$17,738	\$0	17,738	(17,738)
Debt Services	\$0	\$0	\$0	0	0
Total Optional	\$103,628	\$437,846	\$523,821	541,474	(17,653)
Grand Total	\$870,582	\$3,067,004	\$3,918,708	3,937,586	(18,878)

TABLE 6
COMBINATION REPORT

Estimate of Combined Property Tax Rates
Per \$1,000 Assessed Valuation
All Funds
If Reorganization Effective 1993-94

				Changes for	
	Grand	Ogden	Combined	Grand	Ogden
OPERATING FUND:					
Tax--District Cost	8.04943	9.29948	8.95037	0.90094	(0.34912)
Beyond District Cost	0.62782	1.00464	0.92255	0.29474	(0.08209)
Total Operating Fund	8.67725	10.30412	9.87292	1.19567	(0.43121)
ALL OTHER FUNDS:					
Management Fund	0.40267	0.42925	0.42196	0.01929	(0.00729)
Library Fund	0.00000	0.00000	0.00000	0.00000	0.00000
Voted PPEL	0.00000	0.00000	0.00000	0.00000	0.00000
Regular PPEL	0.33000	0.33000	0.33000	(0.00000)	0.00000
Schoolhouse	0.00000	0.00000	0.00000	0.00000	0.00000
Playground	0.00000	0.13500	0.00000	0.00000	(0.13500)
Debt Services	0.00000	0.00000	0.00000	0.00000	0.00000
Total Other Funds	0.73267	0.89425	0.75196	0.01929	(0.14229)
Grand Total Prop Tax	9.40992	11.19837	10.62488	1.21496	(0.57349)

**TABLE 7
PROPERTY TAX RATES
1993-94 BUDGET YEAR**

District Name	Budget Enroll Sep 92	Op Fund Prop Tax Rate	Management Tax Rate	Library Tax Rate	Voted PPEL Tax Rate	Regular PPEL Tax Rate	Schoolhouse Tax Rate	Playground Tax Rate	Debt Service Tax Rate	Total Tax Rate
GRAND	183.0	8.67725	0.40267	0.00000	0.00000	0.33000	0.00000	0.00000	0.00000	9.40992
OGDEN	680.6	10.30412	0.42925	0.00000	0.00000	0.33000	0.00000	0.13500	0.00000	11.19837

STATEWIDE DATA:

Minimum		7.29093	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	8.22537
Average		11.26368	0.45094	0.00046	0.11256	0.29556	0.22618	0.00511	0.82285	13.16528
Maximum		21.76799	3.09996	0.20000	0.67000	0.33000	0.71395	0.13500	4.21576	24.14820
Number Taxing Districts		431	431	431	431	431	431	431	434	431

DISTRICTS WITH LOWEST TOTAL RATES:

NEWELL-FONDA (FONDA)	0.0	7.58219	0.31318	0.00000	0.00000	0.33000	0.00000	0.00000	0.00000	8.22537
MARCUS-MERIDEN CLEGHORN (MARC)	710.2	7.67352	0.52296	0.00000	0.04641	0.00000	0.00000	0.00000	0.00000	8.24289
MARCUS-MERIDEN CLEGHORN(MERID)	0.0	7.72409	0.52296	0.00000	0.04641	0.00000	0.00000	0.00000	0.00000	8.29346
SOUTHERN CAL (LOHRVILLE)	0.0	7.77740	0.40940	0.00000	0.00000	0.33000	0.00000	0.00000	0.00000	8.51680
POCAHONTAS AREA (HAVELOCK-PLOV)	0.0	7.55233	0.28972	0.00000	0.00000	0.00000	0.67500	0.00000	0.00000	8.51705
BUFFALO CENTER-RAKE-LAKOTA (LAK)	0.0	8.06861	0.22920	0.00000	0.00000	0.33000	0.00000	0.00000	0.00000	8.62781
DELWOOD	268.0	8.71675	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	8.71675
CLARION-GOLDFIELD (GOLDFIELD)	0.0	7.57257	0.25484	0.00000	0.00000	0.33000	0.67500	0.00000	0.00000	8.83241

DISTRICTS WITH HIGHEST TOTAL RATES:

MELCHER-DALLAS	493.7	17.22976	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	2.24055	19.47031
CARDINAL	736.0	15.65866	0.83234	0.00000	0.67000	0.33000	0.00000	0.00000	2.26605	19.75705
MADRID	611.6	16.23128	0.89670	0.00000	0.00000	0.00000	0.00000	0.00000	2.65023	19.77821
PRESTON	410.0	19.31817	0.65491	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	19.97308
BOONE	2,404.6	16.09703	0.58048	0.00000	0.00000	0.32303	0.66075	0.00000	2.88284	20.54413
CARLISLE	1,278.9	17.31507	0.66102	0.00000	0.27000	0.33000	0.00000	0.00000	2.61414	21.19023
NORWALK	1,854.5	16.87726	0.59169	0.00000	0.67000	0.33000	0.00000	0.00000	3.15941	21.62836
BLAKESBURG	234.0	21.76799	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	2.38021	24.14820

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