

## **FISCAL IMPACTS OF CONSOLIDATING BELLEVILLE, MONTICELLO, AND NEW GLARUS: SUMMARY OF FINDINGS**

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In early 2009, the school districts of Belleville, Monticello, and New Glarus (BMNG) asked the Wisconsin Taxpayers Alliance (WISTAX) to analyze the fiscal implications of merging into a single district to serve area residents. Consolidation talk tends to occur in small, declining enrollment districts as they struggle with the impacts of fewer students and tightening revenue limits. While Monticello's enrollments are declining, Belleville and New Glarus are projected to have more students over the next five to seven years. This study examines the fiscal health of the three districts as currently constituted and as a consolidated district.

### **No Consolidation**

Over the next seven years, enrollment projections vary for the three districts:

- In Belleville, they are expected to rise 5.3% from 980 to 1,032;
- In Monticello, they are expected to decline 5.1% from 411 to 390; and
- In New Glarus, they are expected to rise 5.9% from 831 to 880;

State-imposed revenue limits are tied to district enrollment and allowable per student increases. In 2008-09, the state allowed districts to increase their revenue limits about \$275 per student. Due to state budget difficulties, that amount was reduced to \$200 for 2009-10 and 2010-11. With state budget uncertainties for 2011-13, it is unclear what legislators will allow for 2011-12 and beyond. We assume the state increases the allowable increases gradually, reaching \$274 per student by 2015-16.

For this study, we assumed the cost to continue current programming was about 4%. Monticello recently passed a referendum to temporarily exceed the revenue caps. This allows their cap to grow over 5% per year for the next three years. However, when the referendum expires after 2013-14, Monticello's cap space declines and then grows slowly (about 2%). Both Belleville and New Glarus are projected to have revenue cap increases of less than 4% annually.

### **Consolidation: Scale economies**

Can a new BMNG district achieve cost savings by becoming a larger school district, i.e., through economies of scale? WISTAX used its extensive school finance database to examine spending for various sized districts. Based on this analysis, scale savings of 5%-10% might be achieved through consolidation. We then examined staffing levels in districts similar in size to BMNG. At current staffing levels, BMNG would have 268 full-time equivalent (FTE) employees, of which 156 are teachers. Similar-sized districts average 255 staff (13 fewer), and 149 teachers (seven fewer). Based on these findings, the study assumes economies of 5% can be achieved through consolidation.

Scale economies of 5% would mean BMNG could spend about \$775,000 below the revenue limit in its first year, fully fund 4% cost-to-continue for about seven years, and save about \$2.4 million.

### **Consolidation: State incentives**

The state provides additional aid for five years to school districts that consolidate. The amount of the incentive aid depends on the consolidated district's spending and property value. This aid is not counted under the state revenue cap law. A consolidated BMNG district would be eligible for about \$12.1 million in incentive aid over five years (\$2.4 million per year). This figure could change slightly depending on district spending and state aid policy. The \$12.1 million is about 53% of a consolidated BMNG's revenue limit.

**Consolidation: Tax Rates**

A consolidated BMNG's tax rate would effectively be an average of the tax rates in the three districts. However, if the districts consolidated, Monticello's nonrecurring referendum would be voided. Thus, taxpayers in that district would benefit most. Estimated tax rates in BMNG would be about \$3 per \$1,000 of property value below current estimated rates for Monticello. Estimated BMNG tax rates are slightly below New Glarus rates in the first several years, then slightly above in later years. Estimated BMNG rates are \$0.50 to \$1.00 per \$1,000 of property value higher than Belleville's estimated rates.

**Facilities**

The above findings assume no new facilities in any of the three districts or in BMNG. However, school officials in Belleville and New Glarus indicate that, depending on future enrollment trends, additional space may be required. In these districts, it is estimated that each \$10 million of building costs would add \$1 to \$1.75 per \$1,000 of equalized value to the tax bill.

School officials also noted that, were consolidation to take place, a new centrally-located high school would be considered. We estimate that each \$10 million in facilities costs would add \$0.50 to \$0.75 to the BMNG tax bill. The tax cost is lower because the costs are spread over a broader tax base. Should the district spend \$50 million on a new high school, district expenditures would increase by about \$4 million per year and add \$2 to \$3 to the mill rate.

**OPEB Liabilities**

The three districts have different post-employment (OPEB) liabilities. Belleville's liability is \$5.9 million, Monticello's is \$1.1 million, and New Glarus' is \$600,000. A consolidated district would be responsible for these liabilities. The combined annual required contributions are between \$400,000 and \$500,000. These amounts are funded with the district's general revenues, just as they are currently funded by each individual district's general revenues.

**Summary**

The school districts of Belleville, Monticello, and New Glarus face difficult decisions in the years ahead. Belleville and New Glarus continue to grow and may face space issues in the near future. Monticello's student counts are falling which can lead to financial stress from tightening revenue limits. The tightening of the revenue caps in the recently-passed state budget will affect the finances of all three districts, putting additional strain on revenues.

If the districts were to consolidate, the state would provide incentive payments over five years totalling more than \$12 million. Additionally, a consolidated district would likely be able to operate at about 5% less than the sum of current operations of the three districts. This would allow the consolidated district to save an additional \$2.4 million over four years.

If the districts were to consolidate, it is likely that a new centrally-located high school would be built. At a cost of \$50 million, payments would average about \$4 million annually. The district could reduce that amount by using some or all of the incentive money to subsidize the new building.