

## **THE FISCAL IMPACTS OF AN ARGYLE/PECATONICA MERGER: SUMMARY OF FINDINGS**

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In January 2009, the Argyle and Pecatonica school districts asked the Wisconsin Taxpayers Alliance (WISTAX) to analyze the fiscal implications of merging into a single district to serve area residents. A summary of the study's findings follows.

### **No consolidation**

To evaluate of the advantages and disadvantages of consolidation, WISTAX initially looked at the two districts separately. Assumptions were made about future enrollments, property values, and state policies. Enrollments statewide are expected to rise slowly from 2008-09 to 2015-16. They are projected to fall in both Argyle (from 336 to 291) and Pecatonica (from 443 to 402). Due to falling enrollments, Argyle's revenue cap is projected to rise 0.5% per year; Pecatonica's 1.8% annually. To the extent that continuing costs rise faster than district revenue caps, spending reductions can be expected.

### **Consolidation: Scale economies**

Can a new Argyle-Pecatonica district achieve cost savings by becoming a larger school district, i.e., through economies of scale? This study approached that question in two ways. First, 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. Separately, the Argyle and Pecatonica district administrators reviewed their spending and identified areas where savings might be achieved. Their analysis showed possible savings of 7%-8%. In addition, the district might consider closing the Hollandale school in a consolidation. The study assumes economies of 5% can be achieved through consolidation.

### **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 Argyle-Pecatonica district would be eligible for about \$3.1 million in incentive aid over five years. This figure could change depending on district spending and state aid policy. The \$3.1 million is about 35% of the new school district's revenue limit.

### **Consolidation: Alternatives**

A consolidated Argyle-Pecatonica district would have a range of financial options due to the temporary state aid incentives and projected scale economies (5%).

1. The district could save those monies, adding them to fund balance. This would leave the district with a \$3.6 million financial cushion. The district tax rate would be an average of the rates in Argyle and Pecatonica. Tax rates would fall slightly for Pecatonica residents, but rise slightly for Argyle residents (compared to the status quo).

2. The district could spend the incentive money on new programs or to reduce property taxes. The district receives the money over a five-year period, so spending it all on new programs could be problematic as the district would have to find new revenue sources after five years. If the district used the extra money to reduce property taxes, it could "roll over" revenue cap room to future years. Under a tax "buy down," all district residents would have lower taxes for the first five years.

3. A middle ground option would be for the district to save some of the incentive money and spend the rest. One alternative would be to hold all taxpayers harmless (i.e., use some of the money to reduce the tax

rate Argyle residents do not experience a tax hike). This would allow the district to save \$2.2 million (as opposed to \$3.6 million in the first scenario) in the first five years. If it continued this policy, it would spend \$870,000 of the \$2.2 million in the next two years to “buy down” the rate.

### **Summary of Findings**

The school districts of Argyle and Pecatonica face difficult decisions in the years ahead. In both districts, costs are growing faster than state-imposed revenue caps. As a result, the districts will have to make difficult spending decisions or ask voters for more money via referendum. The Pecatonica district faces additional costs for the repair or replacement of the Hollandale school.

Consolidation cannot solve the declining enrollment problem, and thus, revenue caps will continue to grow slower than costs. However, scale economies would likely generate cost savings of 5% or more. In addition, the state would provide, over a five year period, approximately \$3 million in additional state aid. These dollars could be saved, spent on new or improved programming, or used to reduce property taxes.

In a consolidation, the Hollandale school would likely close. Other issues that might be considered, but were not analyzed in this study are programming and transportation. Would there be opportunities for additional or improved programming in a larger district? In terms of transportation, there would be additional costs (which were considered) as well as increased bus time for some students.