

# Palmyra-Eagle Area School District

**Presentation to the School District  
Boundary Appeal Board**

**November 7, 2019**

# Purpose of Presentation

- To provide facts and evidence to the SDBAB that PEASD in its current structure should be dissolved
- To give background on the fiscal constraints PEASD is facing
- To give background on the business side of PEASD
  
- PEASD School Board is focused on its own dissolution.
  - Board members may offer individual opinions of how division should occur at later hearings
  - Board members will be speaking as individuals, not on behalf of the Board

# BIAS OF PRESENTER

# Beliefs of PEASD BOE

- We believe we have excellent educators that provide a high quality education to our students.
- We believe that while our district is a different shape and size compared to other districts, our school district is second to none
- We believe that reasonable and effective cuts have been made to make appropriate budgets over the years while maintaining a high quality education

# Beliefs of PEASD BOE

- We believe we have made significant changes to the district in an attempt to reduce open enrollment.
- We believe that potential cuts that remain will have a negative impact on students and families and/or will not have a fiscal impact significant enough to prolong the life of the District
- We believe an operational referendum is necessary to be viable on a short and long term basis, and it is unlikely to be passed

# Beliefs of PEASD BOE

- We believe that the current structure of funding at the state and local level combined with the significance of open enrollment and declining enrollment do not allow a short or long term funding plan to exist for PEASD

# Timeline of Process

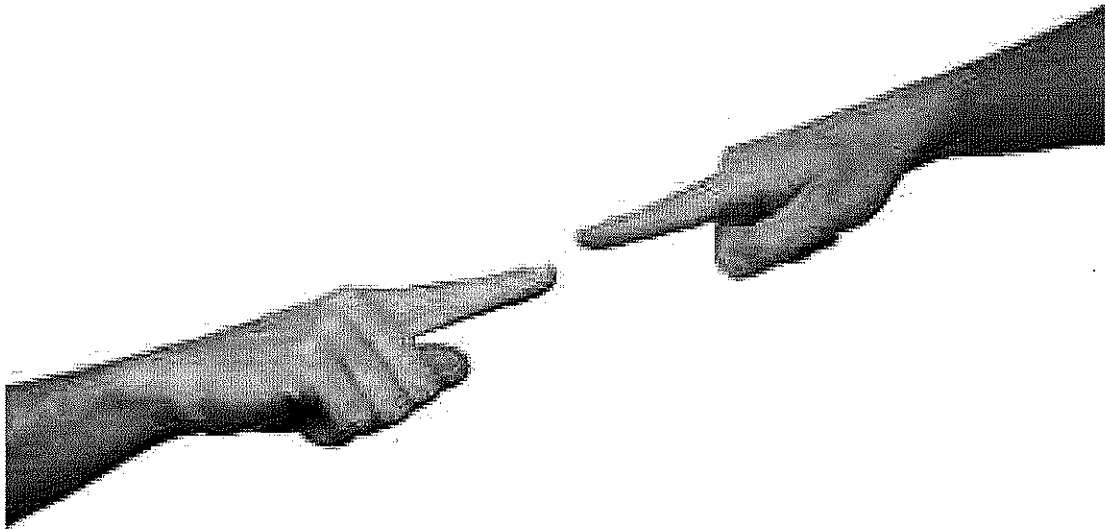
- PEASD Board and Administration has followed every statute and legislative guideline, via advice from District legal counsel or Wisconsin DPI.
- Announced referendum question on November 15, 2018 for February 19, 2019
  - No general election in February
- Election day: April 2, 2019
- Approved Dissolution Resolution: July 1, 2019
- SDBAB Meeting: November 7, 2018

138 days from announcement to Election day

357 days from announcement to first SDBAB Meeting

PEASD Community is full of emotion

“We” versus “They”, and “We” are always right

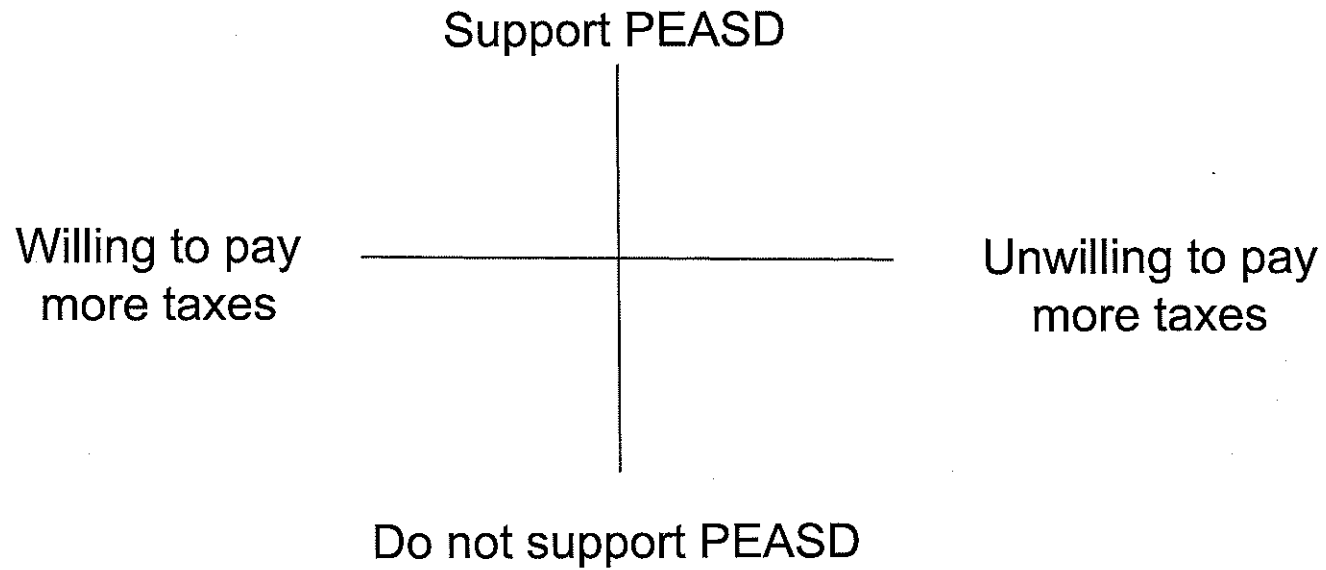




# Range of Emotions

- I support PEASD and am willing to pay higher taxes
- I don't support PEASD, but am willing to pay higher taxes
- I support PEASD, but am not willing to pay higher taxes
- I don't support PEASD and am not willing to pay higher taxes

# Range of Emotions



# Actions of PEASD Board of Education

- Made many years of cuts that were reasonable and necessary
  - General fund instructional budget: Function 100000
    - Direct instruction of students: Classroom teachers
    - Reduction of 41.7% from 2010-11 to 2018-19 (-\$1.762 million)
    - Based on fewer kids in buildings to educate
  - General fund Support Services budget: Function 200000
    - Supporting instruction: Library, Guidance, Admin
    - Decreased 15% from 2010-11 to 2018-19 (-\$628,000)
    - More difficult to decrease because one person serves many
  - Delayed referendum until the money was needed

# Actions of PEASD Board of Education

- Continued to make cuts until we were out of options
  - Had to recognize the impact of open enrollment
    - OE out spending increased \$1.5 million from 2010-11 to 2018-19
    - OE out annual spending for 2018-19 was greater than the Referendum amount for the first year (\$1.75 million)
  - Listened to those that left
    - Improved curriculum rigor and alignment - surveys
    - Implemented anti-bullying program - surveys
    - Consistency of administration - surveys

# Actions of PEASD Board of Education

- Recognized the costs involved to taxpayers
  - Made projections using Baird's financial modeling tool
  - Developed an escalating referendum to ask for only what was needed to remain operational
    - \$1.75 million year one, increased by \$750,000 yearly for 3 more years
- Recognized the time limits and potential future elections
  - Projections showed fund balance would cover only 2019-2020
  - No second chance in November 2019
    - Different from previous Dissolution hearings in Florence and Wausaukee

# Actions of PEASD Board of Education

- Shared all facts regarding the financial situation of the district, including potential to file for dissolution
  - Informational flyers, website, Facebook
  - Held informational sessions and public forums
- Changed Referendum type from Recurring to Non-Recurring based on public feedback

# Referendum Outcome

## April 2, 2019 Election Results

- Turnout was very high
  - Village of Eagle
    - 888 Voters
    - 932 voters in November 2016 for President
    - 413 voters in Spring 2018 for State Supreme Court
  - Village of Palmyra
    - 779 Voters
    - 901 voters in November 2016 for President
    - 275 Voters in Spring 2018 for State Supreme Court

# Referendum Outcome

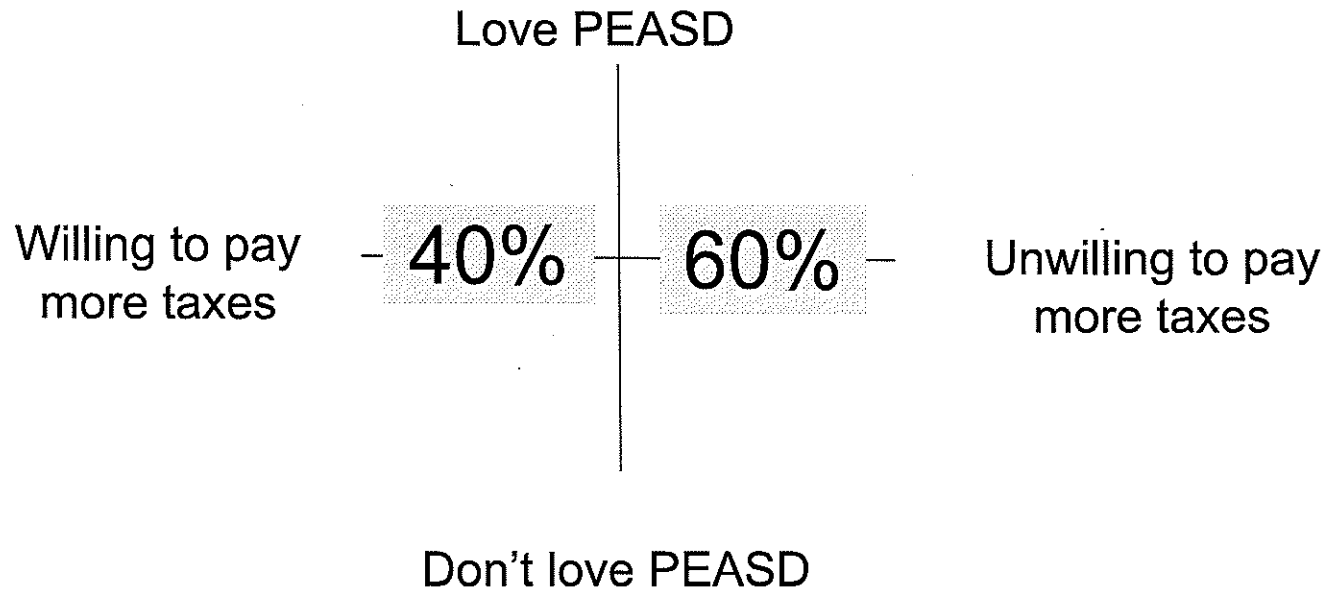
## April 2, 2019 Election Results

1473 Yes Votes (39.2%)

2276 No Votes (60.8%)



# Referendum Outcome



# Actions of PEASD Board of Education

After the election:

- No board member wants to dissolve from an emotional viewpoint
  - 4 of 7 are graduates
  - All currently have, or recently have had students in PEASD
- Board actions could not be based on emotion
- Determined that PEASD in its current form is not financially viable
- Actively decided to make no more cuts to limit disruption to staff/ students

**DECISION IS BASED ON FINANCES ONLY**

# Actions of PEASD Board of Education

- Options for Board to Consider
  - Consolidation -
    - One or more districts begin, ends as one district
  - Territory Transfer
    - One district begins, small or large parcel are transferred to another district
  - Dissolution
    - One district begins, can end assigned to one or more

# Why dissolution?

- Consolidation
  - Footprint of district
  - Not all constituents may want to go to one place
  - Long term debt
  - Negotiations could be viewed as “backroom deals”
- PEASD Board has not engaged in any talks with other districts
  - Let the dissolution process play out

# Why dissolution?

- Territory transfer - Large or Small
  - “Let them go” strategy
    - Lessons learned during the multiple Small Parcel Transfers of 2014
    - Creates “Winners” and “Losers”
    - Major problem is the Asset/ Debt calculation
      - 49% of Taxable Lands in Jefferson County
      - 85% of Assets are in Jefferson County by “Use” value by precedent
      - Payment to other district is allowed
        - Taxpayer groups/ challenges in court
      - Dissolution has no precedent under current laws

# Why dissolution?

- Time frame versus Territory Transfer
  - Dissolution outcome is decided earlier by statute
    - File papers before February 1 to become effective July 1 if initiated by petitions
    - Resolutions adopted in March to become effective July 1 if initiated by districts
      - Dissolution is decided by January 15

# Why dissolution?

- Dissolution offers an outcome that matches Consolidation and Transfer
  - District can be divided into one or more other districts
    - “One” = Consolidation
    - “Or more” = Territory Transfer

## Why dissolution?

Given all of the options and factors, the PEASD Board felt that dissolution offered the best opportunity for a successful transition that could benefit more parties and provide other districts the maximum amount of time.



# Dissolution Rules

- Dissolution laws allow for Advisory Referendum
  - By Order of School Board or by Citizen petition
  - PEASD Advisory Referendum called for by Citizens
- Advisory referendum held on November 5

“Shall the Palmyra-Eagle Area School District dissolve?”

# Results of Advisory Referendum

Unofficial Results of Advisory Referendum - November 5, 2019

“Shall the Palmyra-Eagle Area School District dissolve?”

Yes: 1218 (53%)

No: 1080 (47%)

## PEASD Finances - Three Factors of Finances

- **Expenses - Impact of Open enrollment**
  - Board Controlled
- **Revenues - Impact of Declining enrollment**
  - Not Board Controlled
- **Mil Rate Calculation - Impact of Growth**
  - Not Board Controlled

# PEASD Expenses - Board Controlled

- Expenses grow year over year - Educational, Insurance, Utilities
- Cuts made by elimination or attrition
  - From 2013-14 to present - reduced 16.5 FTE certified positions district-wide
    - Classroom teachers, Pupil services, Administrative
  - From 2013-14 to present - reduced 5.5 FTE support staff
  - Board worked to limit pain - most were made by attrition/ voluntary departure
    - No hearings/ announcements/ angry board meetings in the last 5 years
- General Budget decrease over time
  - Instructional Budget decreased 41.7% from 2010-11 to 2018-19 (-\$1.762 million)
  - Delayed/ Cancelled Maintenance Projects
  - Limits of new programs
- Open Enrollment expenses nearly \$3 million for 2019-20

# PEASD Expenses - Board Controlled

- Potential Cuts versus increased open enrollment
  - Every cut comes with a cost
    - Closing a building
      - Gross savings of \$650,000
      - Extra Bussing of ~ \$50,000 per route
      - Open Enrollment of ~\$7,500 per student
    - Eliminating Co- or Extra-Curricular
      - Gross savings of \$250,000
      - Open Enrollment of ~\$7,500 per student
    - Split classes/ combined grade levels
      - Reduces one staff member @ \$37,492 base salary
      - Open Enrollment of ~\$7,500 per student

# PEASD Revenues - Not Board Controlled

- Impact of Declining enrollment - Revenues
  - State Revenue Limit for PE is \$9,857.30 for 19-20
  - Resident district membership count decreased 274 from 2010-11 (September 3rd Friday)
  - Resident district membership count decreased 167 from 2015-16 (September 3rd Friday)
    - $\$9,857 \times 167$  students is decrease of \$1.65 million since 15-16

# PEASD Mil Rate - Not Board Controlled

$$\text{Mil Rate} = \frac{((\text{Resident Count} \times \text{Revenue limit}) - \text{Aid})}{\text{Property value}}$$

- School Boards have no control on any of the factors of Mil Rate
- Through entire referendum process, PEASD spoke about mil rate cost of referendum, not the entire mil rate.
- We make no guarantee or projection about total mil rate with or without dissolution

# PEASD Mil Rate - Not Board Controlled

$$\text{Mil Rate} = \frac{((\text{Resident Count} \times \text{Revenue limit}) - \text{Aid})}{\text{Property value}}$$

- Impact of growth - Mil Rate Calculation
  - Kettle Moraine State Forest - Unbuildable
    - Stipend amount from State of \$90,000
      - Equivalent to ~9 students worth of revenue



# PEASD Mil Rate - Not Board Controlled

$$\text{Mil Rate} = \frac{((\text{Resident Count} \times \text{Revenue limit}) - \text{Aid})}{\text{Property value}}$$

- Impact of growth - Mil Rate Calculation
  - Comparative increases over 5 year
    - PEASD: increase of \$148 million (20.2%)
    - Kettle Moraine: increase of \$489 million (14.3%)
    - Mukwonago: increase of \$567 million (18.3%)
  - Dependent on type of growth
    - Real estate increases value and may increase number of students
    - Commercial and industrial increases value without any new students

# PEASD Finances - Current Projections

Begin 2020-21 projected fund balance of \$2.2 million

- Budgeted for 1.85% increase in wage (predicted CPI)
- Budgeted for necessary maintenance
- Budgeted for all staff members to be offered contracts
- Budgeted for benefits to remain the same
- Budgeted for regular lease payments on technology - no payoffs

Created an annual deficit for 2020-21 of \$2.5 million

# PEASD Finances - Current Projections

2019-2020 ending fund balance: ~\$2.2 million

2020-2021 budget deficit: ~\$2.5 million

2020-2021 ending fund balance: -326,260

With a projection of a negative fund balance at its end, we cannot begin the 2020-2021 school year.

# PEASD Finances - Butterfly Effect in the Original Model



# PEASD Finances - Butterfly Effect in the Original Model

- Original presentation projected ending 2019-20 with fund balance of \$948,569 if the referendum failed
- Baird Model can account for numbers, but not actions of people
  - Predictions were as accurate as they could be at the time
- Once dissolution was announced, the original year 1 model fell apart to determine fund balance (the starting point)
- District went into survival mode by decreasing spending
  - Post election projection showed we may not have enough to finish 2019-20
    - OE applications increased overnight
    - Budgeted for all staff to return

# PEASD Finances - Butterfly Effect in the Original Model

- Staff turnover/ attrition reduced wages and benefits by ~\$600,000
- Less open enrollment than applications
- Updated model uses information learned from experience of 2019-20 post-announcement
  - Reduced projected open enrollment losses
  - New employee wages accounted for
  - Still a “best guess” model
- Year 2 of original and current model was for \$2.5 million deficit in year 2
- Both models show a negative fund balance at the end of 2020-21
  - No extra payouts, programs, changes

## PEASD Finances - Current Projections

Based on the most current financial projections, the PEASD Board holds firm in its belief that the district is unable to exist financially in its current structure.

# Business Based Factors: Operate Like a Business

- Staff turnover
  - Replaced 23 of 67 certified staff members for 2019-20 (34%)
  - 8 more positions not replaced by reassignment of duties
  - Potential to lead to more open enrollment
    - Has been a “reason to leave” in previous surveys
- Bond ratings
  - Credit rating has dropped from AA- to BBB
    - More difficult to borrow
    - More difficult to deal with vendors
- Not reasonable or responsible to expect help from State of WI/ DPI
  - Would create precedent for every other school district in financial trouble



# Business Based Factors: Operate Like a Business

- Long Term Potential
  - Kettle Moraine Sustainability Study Report - August 20, 2019
    - Followed their failed referendum
    - Made up of parents and non-parents - not school board driven
    - Looked at multiple options for long term sustainability - 3 primary options
      - Increase Open Enrollment students in
      - Ask for Legislative changes to state funding formula
      - Seek an operational referendum
  - PEASD
    - 40% OE Out
    - Current legislation offers consolidation incentives
    - Failed an operational referendum 60:40

# Business Based Factors: Operate Like a Business

- No long term funding structure
  - Long term debt until 2029
    - Accounts for \$1.86 of \$9.89 local mil rate for 2019-20
    - Board made prepayment of long term debt in 2018-19 to save interest
  - Have reduced short term borrowing by \$1 million over 5 years
  - Cuts only last for a finite period of time
    - Once you make the cut, it can't be cut again
      - Cutting summer school
      - Cutting staff
      - Reducing Bus Route

# Business Based Factors: Operate Like a Business

- No long term funding structure
  - Open enrollment is a huge factor
    - OE out parents may be less likely to support a PEASD referendum
    - Every cut made has the potential to increase open enrollment
    - Structural deficit is close to our Open Enrollment payments
      - May not need operational referendum if PEASD students stayed in
    - Surrounding districts have built budgets around attracting outside students
      - OE money is outside of revenue limit - no effect on revenue limits
      - Kettle Moraine study
      - Mukwonago Fund 46 - Long Term Capital Improvement Trust Fund
        - 2018-19 projected deposit of \$1.75 million
      - Elkhorn Flyer - October 2019

# Business Based Factors: Operate Like a Business

- Potential future referendums
  - Community Support
    - Very high from some
    - Vocal group against PEASD
  - Last successful referendum in PEASD was 2003
    - From 1991 to present, 14 failed versus 2 passed
  - Referendum Losses
    - Operational Referendum: Lost by 803 votes - 60% to 40%
    - 1453 No votes in Waukesha county versus 1473 Yes votes Total
    - Open and vocal campaigns against PEASD
    - Advisory referendum - Yes to dissolve 53% to 43%

# Business Based Factors: Operate Like a Business

- Potential future referendums
  - Referendum Comparisons to neighboring districts
    - Whitewater - Passed November 2018
      - \$30/\$100k for \$2 mil, \$2.8 mil, \$3.6 mil, \$4.4 mil
    - Kettle Moraine - Failed April 2019
      - \$16/\$100k for \$5.975 million for 5 years
    - PEASD - Failed April 2019
      - \$125/\$100k for \$1.75 million for year 1
      - \$295/\$100k for \$4 million for year 4
- Fund balance would be depleted so next question would be for more
- Taxes/ Mil Rate effect will be dependent on property value growth

## Summary

PEASD is full of wonderful educators and serves the majority of students living within its boundaries. It is supported by great families that dedicate large amounts of time and effort to the district. For those served by PEASD, there is no good emotional reason to dissolve.

## Summary

However, given all of the factors involved, including the current structure of public school finance at the state and local level, fiscal failure is unfortunate but inevitable for PEASD in its current shape and size. The PEASD BOE believes that the district needs to dissolve.