

## **School District mergers: What is the real track record?**

When two or more school districts combine into one, some use the terms merger or consolidation. Officially it is called a “reorganization” of school districts by the State Education Department. Regardless of what it is called, talk of combining school districts has once again come into vogue across the state. According to Suzanne Spear, State Education Department representative for reorganization, there have been only a handful of newly reorganized school districts in all of New York State over the last decade. The mid-1990s saw a number of reorganization studies in Chautauqua County. As a result, in 1996, Chautauqua and Mayville districts reorganized. Spear notes three primary reasons for school districts to reorganize: high tax rates, unacceptable educational opportunities for students and major facilities needs. Since the state’s last round of highly funded building projects, only two reasons remain strong considerations for reorganization.

When New York's economy was expanding, maximizing cost effectiveness was not a tremendous concern, and the citizenry usually supported increased taxes. This condition no longer exists. Recently, school district budgets have been hit hard with the escalation of expectations for general education and special education students, the cost of additional unfunded mandates, high fuel prices, and increased pension plan and medical benefit expenses. Simultaneously, state aid headed for schools was reduced to rural and urban districts as tax bases diminished. A large financial burden has shifted from the state to local property taxpayers. Local citizens, in many cases, appear powerless to be able to lower taxes without cutting expenditures. School districts have sharpened their pencils to maintain local property taxpayer support.

Members of the Chautauqua County business community and others have suggested a range of remedies from full-blown school district reorganizations, to sharing superintendents between school districts, to the consolidation of central office duties with the management of BOCES. These suggestions, some believe, will save taxpayers money through economies of scale and increased efficiencies of services. In fact, the school district reorganization by-product publicized by the state is an economy of scale, resulting in lower property taxes as school districts increase their size and improve the quality of education. Reorganization aid is designed to provide money to school districts so they may move toward efficiency and effectiveness. State reorganization aid provides a tempting incentive to school districts that are financially strapped by high taxes and are unable to meet the needs of students.

Spear points out that students and taxpayers can benefit from reorganization and the process should be encouraged for small districts. After reorganization, the use of reorganization building aid and reorganization incentive aid enhanced the educational program and districts purchased needed equipment and upgraded the facilities to meet safety, utility and aesthetic standards. The educational programs of reorganized districts were initially enhanced through increased course offerings, staff development for teachers, upgraded facilities and educational environments and the purchase of equipment.

School district reorganization is a complicated process. A professional consultant is needed to flush out the key considerations for affected districts. Every school district is faced with a different set of educational, financial and political circumstances. The cost of a reorganization

study is about \$30,000 according to Spear. However, the state no longer funds reorganization studies. State law prohibits BOCES aid for a reorganization study, therefore, the cost of any study would have to be locally funded. Spear cautions that public and private conflict may surface in communities between those who favor reorganizations and those who do not.

There are benefits, drawbacks and side effects to school district reorganization. The most commonly noted include the fact that there are still only 11 players on a football field at a time in the reorganized district, instead of 11 from each of the pre-reorganization districts; fewer students can walk to school as often a new centralized campus is constructed; and residents note the loss of neighborhood schools or community identity. The old mascot and school logo are gone.

Educationally, examples of economy of scale can be found but not decreases in per pupil expenditures. Expenditures can and often do exceed real costs. Usually a very few of the reorganized staff is laid off. Further, union contracts are consolidated through a leveling up process which results in a new contract for employees that has a compilation of the best benefits and salaries of the two pre-reorganization contracts. As a result per enrolled child expenditure patterns, which are often high compared to local expenditure patterns, provide no evidence of increased educational opportunities compared to non-reorganized districts in the same BOCES region.

Financially, the initial contribution from school district taxpayers for many post reorganization projects was unnecessary or insignificant. New construction, deferred equipment purchases and maintenance are paid for with reorganization operating and building aid, and interest earnings. Right after reorganization there is a large decrease in the tax levy and an increase in the budgets of a newly reorganized district. This results in a corresponding decrease in tax rates to property owners. The bulk of the reorganization aid is used to continuously and significantly reduce taxes or to bolster reserves.

Educational and facility improvements are easy when the residents of reorganized districts are spending state money rather than their own. Taxes are reduced substantially. They remain at a very low level for at least a decade. During the first five years of reorganization educational initiatives are launched, facilities are built or extensively renovated, and taxes are greatly reduced and kept very low. During the next five years educational programs generally remain constant and districts use reserves to maintain relatively low tax rates.

In most cases, expenditures of reorganized districts appears to be in the middle of the pack. They expend perhaps fewer dollars per child on central administration than most other school districts. The reorganized districts have generally spent the same or less on regular day school than their neighboring school districts. Often operations and maintenance costs escalate. A new, large building and accompanying grounds built with reorganization aid still needs to be equipped, supplied, cleaned and maintained over time. Also, transportation costs increase as a result of transporting students in the newly reorganized school district who used to walk to school. Bus fleets increase and the bus garages are enlarged or built to house and maintain the expanded fleets.

Over time, some benefits of the reorganization prove to be short-lived. As responsibility for funding educational programs shifts to local taxpayers, by the middle of the second decade of reorganization, tax increases bring the reorganized districts closer to comparable non-reorganized districts. The reorganized districts exhaust reserves trying to minimize tax increases, while various attempts at efficiency and cost cutting begin to diminish educational advances made earlier in the reorganization process.

New educational upgrades diminish once the loss of reorganization aid begins to drain district reserves. The effort to keep taxes low takes precedence over low class sizes, advanced and diversified offerings, staff development for teachers, regular replacement of educational and transportation equipment, and maintenance of facilities. Equipment, maintenance and bus purchases are deferred and occasionally bus runs consolidated or eliminated. In such cases, the district leadership may appear more selective about educational programs, as if they are trying to get "the best bang for the buck". The belief is that residents will not provide the district enough money to operate the system that contains perceived "increased educational opportunities" unless the state continues to pay for it.

Once the reorganization aid is spent the district cannot get it back for future use. Such conditions make it difficult for reorganized districts to ask local property taxpayers to assume a larger tax burden as state reorganization funding decreases and finally ceases. No amount of facilities, bus garages, improved employment contracts or past low tax rates is of value to taxpayers when the money is gone.

Historically, in spite of their better judgments, boards and superintendents have used significant amounts of their fund balance to eliminate real or perceived public pressure as reorganization aid declines. This has served only to exacerbate the district's financial and political situation. To decrease the need for funds and make fund balances last longer, districts decrease expenditures. For instance, as reorganization aid dwindles reorganized districts again begin to defer maintenance and equipment purchases. Budgets become tighter as the "padding" is removed. Revenue projections become tighter as more realistic figures are used. Residents of reorganized districts are confused because the original reorganization studies stressed how reorganization would reduce taxes and increase course offerings. The long term implications of drastically lowering taxes, then sustaining them at very low levels for a long period of time while the state subsidized the cost of instructional programs, building renovations, equipment purchases, the transportation system, employment of staff and their benefits, and the funding of interscholastic and co-curricular programs are seldom mentioned. When the reorganization money is gone, all of this is the responsibility of district property owners.

Politically, boards of education and the taxpayers of reorganized school districts appear to have deluded themselves into thinking that the benefits of reorganization were unlimited by time. Residents, lulled by property tax relief, develop a complacent attitude and rarely get involved in school district political affairs. Many past and present school officials reveal a quiet political atmosphere within each reorganized district for most of the first decade of consolidation. Although reorganization aid was mentioned in the first years of reorganization, it is usually not mentioned again until dramatic increases in property taxes occur. Updated financial plans were recreated, when it was discovered that district reserves were nearly exhausted, needed to be

replenished, or that reserves were so low that the district needed to gradually wean itself from the use of reorganization aid.

District officials have been hard pressed to keep taxes low and continue current budget expenditure patterns as reorganization aid declines. It appears that the public will not be any more willing to accept tax increases, regardless of the fact that they continue to enjoy lower tax rates when compared to the residents of non-reorganized districts in their BOCES area. Residents of their communities at the time of the reorganization have not understood the complicated long-term financial structure of their school districts. Newer residents of the district arrived when taxes were very low and have no knowledge of the reorganization or any understanding of the district's finances. They do not understand why taxes should change so drastically. The taxpayers of reorganized districts do not appreciate the knowledge that their property taxes have been significantly and artificially subsidized by New York State reorganization incentive aid. Even after the decline in reorganization aid begins to influence taxes and educational programs, residents need sophisticated and continuous reminders about the reorganization process, a history on the use of funds by the district, and explanations about the effect of the property tax levy on the educational program. Thus, the reorganization history has become open to interpretation. For those taxpayers who do understand the reasons for tax increases, there remains a difference between understanding why taxes must increase and agreeing to pay the increase. Discussing the reasons for tax increases is an intellectual exercise; voting for and paying for tax increases is an emotional phenomenon. This political climate makes school tax increases unpalatable. Superintendents often resigned or retired just before the large tax increases become necessary. New superintendents, who inherit the loss of reorganization aid, often resign from the district after a few years, convinced that the public wanted to "shoot the messenger".

What lessons have been learned from the experience of school districts that have reorganized? Districts contemplating reorganization would be well advised of the implications for not having a plan for the use of their reorganization aid. The plan must be realistic. Articulating that annually, huge sums of money, supposedly paid for by reorganization aid, will be spent on the education of students and the preparation of teachers may not be realistic.

Districts that plan to reorganize should know that the state does not provide continuous expertise and guidance about how to plan for the use of reorganization money. Reorganization feasibility studies are the only guide provided to school districts. The whole school community needs to be involved in the entire reorganization process. The implications of reorganization are not always clearly understood by the affected populations. The implications of reorganization of school districts needs to be more clearly understood before, and revisited continuously after, a district reorganizes.

Economies of scale may influence the amount of money that can and should be spent on educationally related items. The amount of reorganization aid received by the newly formed district exceeds the cost of the actual reorganization. Financial, educational and political conditions change over the course of the reorganization. Provisions must be made to provide educational opportunities and reasonable taxes and care must be taken to use reorganization money efficiently, and in measured amounts so that a realistic plan for weaning the district of its

dependence on reorganization aid can be achieved with little pain. However, if a long-term financial plan is developed, the ability of a sitting board of education to bind future boards to maintain a specific financial plan is questionable.

All of this must be accomplished while regular state aid, the community, district leadership and state educational mandates and initiatives are continuously changing.

The amount that these plans could or should be reexamined, updated and implemented also depends on a number of factors such as enrollment trends, changing demographic characteristics of the community, and staffing needs based on specific characteristics of students.

Reorganization funds are provided so that course offerings and programs can be expanded and large capital projects can be completed, with ample funds left over to significantly lower local property taxes for a period of time. The period of time is not as long as one would think. An examination of fixed costs and future educational investment must point to the need for a plan to stretch out the positive effects of reorganization incentive aid before taxpayers again take on the burden of funding the school budget. It must be determined how big that burden will be and how quickly residents are willing to absorb it.

Residents become hostile when tax rates increase after years of being kept low artificially. Parents and students resent the decline of educational opportunity and increased class size after years of elective courses, field trips and low class sizes. Board of education members and administrators are blamed and chastised for what is characterized by residents and others with vested interests, as mismanagement.