



Presentation to the School District Boundary Appeals Board (SDBAB) on the Proposed Dissolution of the Palmyra-Eagle Area School District (PEASD)

Daniel Bush
Director, School Financial Services
December 5, 2019




Agenda

- Apportionment Process
- Assets and Liabilities
- State Aids and Revenue Limit
- PEASD Audit Findings




Disclaimers

- Information in this presentation is provided for background and context.
- The Department of Public Instruction **does not** have a position on whether the SDBAB should affirm or deny the dissolution of PEASD.




Disclaimers

- Nothing in this presentation should be considered legal advice.
- PEASD and the surrounding districts should continue to rely on their own legal counsel for legal advice.



Disclaimers

- Any "post-dissolution" process information assumes the SDBAB votes to affirm and there is no circuit court challenge that delays the July 1, 2020 date in law.



What is Apportionment?


- Apportionment is the division of a school district's assets (what it owns) and liabilities (what it owes) in a reorganization, such as a dissolution.



Tension in State Law

- Wis. Stats. § 117.10(4): An order by the SDBAB to affirm the dissolution shall assign assets and liabilities under Wis. Stats. § 66.0235(2c).
- Wis. Stats. § 66.0235(2c) & (5): Apportionment process starts with the dissolution order.

What comes first, the order or the apportionment of assets and liabilities?



Tension in State Law


- An order by the SDBAB to affirm the dissolution identifies assets and liabilities, and then the apportionment process begins.



Who Decides?

- **Apportionment Board**
All members of affected school boards, OR
Members of committees appointed by the affected school boards.
Includes the PEASD school board.


Wis. Stats. § 66.0235(5)



Who Decides?

- PEASD school board continues to exist throughout the apportionment process.
- Spring 2020 election held as usual.
- Members as of 6/30/2020 continue in office until apportionment is complete.


Wis. Stats. § 66.0235(5)



How Does it Work?

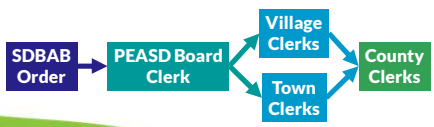
- Default is by shares of equalized property values.
- Alternative could be approved by ¾ votes of all affected boards no later than October 29, 2020.

Wis. Stats. § 66.0235(2c)



How Does it Work?


1. Boundary changes are communicated up the chain.



```

    graph LR
      A[SDBAB Order] --> B[PEASD Board Clerk]
      B --> C[Village Clerks]
      B --> D[Town Clerks]
      C --> E[County Clerks]
      D --> E
  
```

Wis. Stats. § 66.0235(2c)



How Does it Work?

2. Local governments certify latest assessed values to DOR & DPI.

```
graph LR; CC[County Clerks] --> R[R]; VC[Village Clerks] --> R; TC[Town Clerks] --> R; R --> G[Globe]
```

Wis. Stats. § 66.0235(2c)

How Does it Work?

3. DOR converts assessed values to equalized values.

```
graph LR; R[R]
```

Wis. Stats. § 66.0235(2c)

How Does it Work?

4. Districts assuming territory get equalized values from DOR.

```
graph LR; R[R] --> DA[District A]; R --> DB[District B]
```

Wis. Stats. § 66.0235(2c)

How Does it Work?

5. Districts provide values to the Apportionment Board.

```
graph LR; R[R] --> DA[District A]; R --> DB[District B]; DA --> AB[Apportionment Board]; DB --> AB
```

Wis. Stats. § 66.0235(2c)

How Does it Work?

6. Apportionment board adopts a final agreement and files it with all state agencies that pay state aid funds to PEASD.

Wis. Stats. § 66.0235(5)

How Does it Work?

7. Final disposition of assets and liabilities takes place, after which both the PEASD school board and the apportionment board will cease to exist.

Wis. Stats. § 66.0235(5)

Practical Considerations

- 2019-20 fiscal year would need to be reconciled, audited, and closed out.
- September 2020 debt payments would need to be made from calendar 2020 tax levy dollars.



Practical Considerations

- Calendar 2020 taxes and retirement would need to be reported to IRS, DOR, and ETF.
- Best practice: Adopt a fiscal agent agreement with a district/CESA, or hire a vendor/consultant, to close out finances.



Assets and Liabilities

- **Assets:** What the district owns.
- **Liabilities:** What the district owes.



Assets and Liabilities

Assets	Liabilities
Real Property	Long-Term Debt
Vehicles & Equipment	Payables
Other Property	Other Post-Employee Benefits
Financial Assets	
State Aids	



Real Property

- **School sites and buildings:**
 - Eagle Elementary
 - Palmyra Elementary
 - Palmyra-Eagle Middle/High School and District Office



Real Property

- **Q: What is a school worth?**
- **A: "The value of the use of the buildings and sites."**

Wis. Stats. § 66.0235(3)(b)



Real Property

- “Value in Use is the value of a property assuming a specific use, which may or may not be the property’s highest and best use...[and] may or may not be equal to market value but is different conceptually.

Wisconsin Department of Revenue,
Wisconsin Property Appraisal Manual
(Madison, Wis.: 2019), 9-7.



Vehicles, Equipment & Other Property

- Example: In Wisconsin, agricultural land is valued for tax purposes based on rental for agricultural use, not fair market value or the land’s highest and best use.


Wis. Stats. § 70.32(2r)



Real Property

- Use value is different from the book value shown in the district’s audit reports.


Book value is original cost minus depreciation over time.



Vehicles, Equipment & Other Property


- Values are determined by the apportionment board “from the best information obtainable.”

Wis. Stats. § 66.0235(7)(a)




Vehicles, Equipment & Other Property

- **Considerations:**
 - Most PEASD vehicles and equipment have been fully depreciated (\$0 book value) but could have value at sale or auction.
 - Non-capital items (books, supplies, desks, etc.) aren’t included in the district’s book value.



Financial Assets

- **Cash and investments**
- **Taxes receivable**
August 2020 final settlement from counties
- **Other receivables**
Accounts receivable
Outstanding 2019-20 federal grant & Medicaid claims



Financial Assets

- **Custodial assets: Money held by but not belonging to PEASD.**

Would mostly be scholarships & student activities not under administrative control.
 Need to analyze purposes and original donor instructions, some may have to be refunded.
 Does not include fundraising under district supervision.



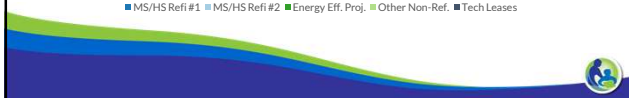
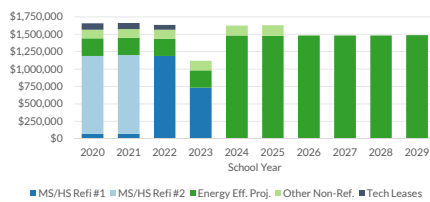
Long-Term Debt

- **PEASD debt principal as of 6/30/2019: \$12,888,650**

MS/HS construction referendum: \$3,990,000
 Energy efficiency project: \$7,965,000
 Other non-referendum debt: \$705,000
 Technology leases: \$228,650



Debt Principal & Interest Due by Year



Payables

- **Accounts payable**
- **Payroll payables**
- **Nearly all resolved early in the apportionment process**

PEASD board would likely have expenses for the apportionment process and winding down.



Other Post-Employee Benefits (OPEB)

- **Post-retirement HRA contributions:**

Eligibility based on longer service.
 Closed to new entrants.



Other Post-Employee Benefits (OPEB)

- **Retiree buy-in to health plan:**

Retiree pays full premium to district.
 Reduced cost for buying coverage through the district rather than on the private market is called "implicit rate subsidy."



Other Post-Employee Benefits (OPEB)

- **Leave payouts:**
Accrued sick leave payout at resignation or retirement from district.
Unused vacation time paid out at year-end.



State Aids

- DPI and other agencies pay state aids that would be due to PEASD in 2020-21, which “have the same force and effect as if” there was no dissolution.

Wis. Stats. § 66.0235(5)



State Aids

- **Who’s paid depends on where we’re at in the process:**
While the apportionment board is working, the PEASD board receives & holds funds.

Wis. Stats. § 66.0235(5)



State Aids

- **Who’s paid depends on where we’re at in the process:**
After the apportionment agreement is filed, districts assuming territory are paid directly in shares specified by the agreement.

Wis. Stats. § 66.0235(5)



State Aids

- **Estimated \$4.7 million due from DPI in 2019-20 under aid programs PEASD would be eligible for in 2020-21.**
Nearly all are based on prior year data.



State Aids in 2020-21

- **General Aids: No less than 85% of \$3.5 million.**
- **Per Pupil Aid: About 2/3 of \$770,000.**
- **Common School Fund (Library) and Transportation Aid: Less than \$100,000.**



State Aids in 2020-21

- **Special Education Aids:**
2019-20 estimate is about \$400,000.
Money would have to go into a district's Special Education Fund and could not be used for a different purpose ("same force and effect" clause).

Wis. Stats. § 66.0235(5)



What About Federal Funds?

- Federal grant programs are current year allocations.
- Without students, there would be no 2020-21 PEASD eligibility.
- Unused "carryover" from 2019-20 would not be part of the apportionment.

Source: DPI federal grant staff



Revenue Limits

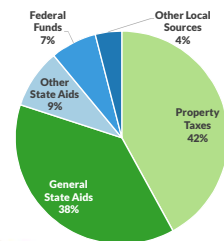
- A district's revenue limit is:

GENERAL STATE AIDS + PROPERTY TAXES



Revenue Limits

- Statewide, 81% of school district revenues fall under revenue limits.



Revenue Limits

- Based on "revenue per member."
- "Membership" is resident students who are the district's financial responsibility to educate.



Revenue Limits

- Revenue limit membership is a "3-year rolling average":

$$\text{Sept. 2019 Average} = \frac{\text{Sept. 2017} + \text{Sept. 2018} + \text{Sept. 2019}}{3}$$



Revenue Limits After a Dissolution

- Resident students appear in their new district after dissolution.
- Nothing in law lets the new district count them for previous years.

Revenue Limits After a Dissolution

- 1st year: New resident student adds 1/3 to membership.
- 2nd year: New resident student adds 2/3 to membership.
- 3rd year onward: Fully counted.

Revenue Limits After a Dissolution

- Districts assuming territory can request a one-time “transfer of territory” exemption to increase their revenue limits.

Wis. Stats. § 121.91(4)(b)1

Revenue Limits After a Dissolution

- Transfer of territory is for “the cost of extending services to the attached territory,” as determined by DPI.

Wis. Stats. § 121.91(4)(b)1

PEASD Audit Findings


- DPI SFS Team asked by SDBAB to review the district’s last three audited financial statements.
- PEASD received findings common to small and medium-sized districts.

PEASD Audit Findings

1. Segregation of duties: Are there enough employees involved in different aspects of district finances as would be ideal?


PEASD Audit Findings

2. Preparation of financial statements: Does the district have CPA level expertise in-house to prepare financial statements under GAAP and GASB requirements?



PEASD Audit Findings


3. Material audit adjustments: Did the year-end audit identify items that needed to be reported differently?



PEASD Audit Findings

4. Expenditures above budget: Did the district amend its budget to account for all unplanned expenditures?


Total in 2018-19: \$184,000 (1.6%).



PEASD Audit Findings

5. Were all special ed staff properly licensed?


Program compliance item, not financial.
Can be as much a DPI issue as a district one.



PEASD 2018-19 Audit Report


- **Emphasis of Matter: "Substantial doubt about the district's ability to continue as a going concern."**

Reason: PEASD board's vote to dissolve.



Reminder!

- The Department of Public Instruction **does not** have a position on whether the SDBAB should affirm or deny the dissolution of PEASD.
- This presentation was about what happens next **if** the SDBAB affirms the dissolution of PEASD.



Contact

- **Daniel Bush**
Director, School Financial Services
608-266-6968
daniel.bush@dpi.wi.gov

