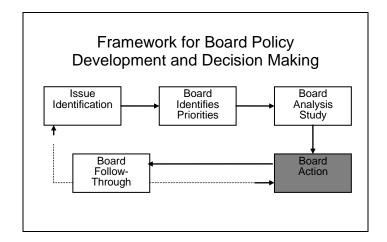
Iowa State Board of Education

Executive Summary

March 29, 2012



Agenda Item: Recommendation for a Phase II visit to Exira Community

School District

lowa Goal: All PK-12 students will achieve at a high level.

Equity Impact: Students across the state should have access to a high

quality education program.

Presenter: Jeff Berger, Deputy Director

Division of School Finance and Support Services.

Attachments: 2

Recommendation: It is recommended that the State Board direct the

Department to conduct a Phase II accreditation visit to

the Exira Community School District.

Background: Because of ongoing financial difficulties and the inability

of the district to correct the issue, the School Budget Review Committee is recommending to the State Board of Education that they direct the Department of Education

to conduct a Phase II accreditation visit to the Exira

Community School District.

SCHOOL BUDGET REVIEW COMMITTEE

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Jason E. Glass, Chairperson

Dave Roederer, Secretary

DATE: January 18, 2012

TO: Iowa State Board of Education

FROM: School Budget Review Committee (SBRC)

RE: Recommendation for a Phase II Fiscal Review in Conjunction with a Phase II

Accreditation On-Site Visit

On January 18, 2012, in unanimous action, the SBRC recommended to the State Board of Education that the Department of Education conduct an on-site Phase II visit to the Exira Community School district pursuant to section 257.31, subsection 18 of the Iowa Code.

Iowa Code section 256.11, subsection 10, paragraph "b", subparagraph (1), subparagraph division (e) addresses a Phase II accreditation on-site visit to a school district when recommended by the SBRC pursuant to section 257.31, subsection 18. Section 257.31, subsection 18, states that if a school district exceeds its authorized budget or carries a negative unspent balance for two or more consecutive years, the Committee may recommend that the Department implement a Phase II onsite visit to conduct a fiscal review pursuant to section 256.11, subsection 10, paragraph "b". subparagraph (1), subparagraph division (e).

The Exira Community School District's unspent balance declined each fiscal year 2003 through 2007 prior to becoming negative each year, beginning in fiscal year 2008. The SBRC has granted \$599,314 in modified allowable growth to this district to assist the district in reaching a positive unspent balance, but this assistance has not resulted in a positive unspent balance. Had the SBRC not granted this previous modified allowable growth, the Exira district would have a negative unspent balance at the end of fiscal year 2011 in the amount of \$730,368 with a \$2.6M budget. The negative unspent balance in fiscal year 2011 is greater than the negative unspent balance in fiscal year 2010, indicating that the district did not make progress on its corrective action plan.

In December 2010, the SBRC, under its own Code authority, requested a fiscal study of the Exira Community School District by the Department of Education. The district had a recent feasibility study, so the Department conducted a fiscal desk review without an on-site review or accreditation follow-up. A copy of the conclusions of that study was released to the district for comments prior to release to the SBRC during its 2011 summer work session. The desk review did not support that the district had its spending under control and did not support any further modified allowable growth being granted to the district.

The certified enrollment in the district in the current school year is 233.2 full-time equivalent students, and has decreased each year since fiscal year 2007. Open enrollment out of the district as a percentage of total enrollment has increased each year since fiscal year 2007, and is currently 20 percent. This is almost four times the statewide percent of 5.6.

Exira's whole-grade sharing partner is Elk Horn-Kimballton. Whole grade sharing began with the current school year. Exira sends students in grades 1-3 and 9-12 to Elk Horn-Kimballton. Elk Horn-Kimballton sends

Public Members

students in grades 4-8 to Exira. Elk Horn-Kimballton's certified enrollment in the current school year is 237.2 full-time equivalent students, and 7 percent are open enrolled out, slightly more than the statewide percent. That makes a total certified enrollment for the two districts in the current year of 470.4. This number is more than the minimum of 300 students required by Iowa Code, so the combined enrollment is enough for the two districts to create a new district through reorganization. The unspent balance in Elk Horn-Kimballton has remained relatively stable over the past years.

In its current corrective action plan, the district states that it is the intent of the district and its whole-grade sharing partner to reorganize in FY14, after maximizing sharing incentives. It is a concern that the district's board and administration are not currently taking steps to improve the financial position, and instead are choosing to wait two more fiscal years. The district has had a recent feasibility study, the district has had a fiscal desk review, and the district has submitted four years of corrective action plans without actually correcting the fiscal condition issue. If the district were to reorganize as soon as possible, and the combined enrollment was sufficiently more than 300 resident students to sustain the new district into the next decade, the Department would recommend that the SBRC consider modified allowable growth to implement the reorganization.

STATE OF IOWA SCHOOL BUDGET REVIEW COMMITTEE (Cite as 12 SBRC Dec. 12-016)

In the matter of		
Exira Community School District	 DECISION 	
	 [SBRC Doc. #12-016]	

The above-entitled matter was heard on January 18, 2012, before the School Budget Review Committee consisting of the following: Director Jason Glass, Department of Education; Director Dave Roederer, Department of Management; and public members Jane Babcock, Gina Primmer, Leland Tack, and Brian Thilges.

The district is appearing before the Committee to present its corrective action plan to eliminate its fourth year of a negative unspent balance at the end of fiscal year 2010-2011 of \$131,054. The district is requesting modified allowable growth in the amount of \$131,054, which is the amount for which it was negative in its third year, as part of its corrective action plan. The district is represented by Superintendent Dean Schnoes and Cindy Paulsen, business manager. Also present were the president and vice president of the district board and the president of the board of the district's sharing partner.

The hearing was held pursuant to Committee rules found at 289 Iowa Administrative Code. The Committee has jurisdiction in this matter in Iowa Code chapter 257.

SUMMARY AND ANALYSIS

The district incurred its first year of a negative unspent balance at the end of fiscal year 2007-2008 of \$305,275. The district requested and was granted modified allowable growth for the 2008-2009 school year in the amount of \$305,275 as part of its corrective action plan. The district incurred its second year of a negative unspent balance at the end of fiscal year 2008-2009 of \$294,039. The district requested and received modified allowable growth for the 2009-2010 school year in the amount of \$294,039 as part of its corrective action plan for the second and final year.

In its previous corrective action plan, the district stated that it was sharing a staff member, transporting students for classes and sharing costs for extra-curricular activities. Discussions were taking place to explore future sharing opportunities, and the district had taken steps to reduce interest costs and increase dropout prevention program funds for FY10. Reductions in staff, supplies, and equipment would result in a savings of \$279,555 for FY09, according to the district. Staff reductions for FY10 were anticipated to result in a savings of \$148,731.

In its progress report, the district stated it was using monthly board reports that reflect financial position in relation to published budget control lines and spending authority. The report stated the total for the line item budget is less than the projected authority from line 17.9 of the Aid & Levy worksheet for the current fiscal year. The district submitted a progress report that stated it was cutting expenditures and/or increasing revenue for FY10 in the amount of \$322,549. The district projected an unspent balance for FY09 of -\$277,422 and for FY10 of \$14,000.

In its second corrective action plan, the district stated it has initiated formal actions leading towards whole grade sharing with Elk Horn-Kimballton effective for the 2011-2012 school year. The district stated it would reduce staff in FY2010 and in FY2011 in preparation for entering into whole grade sharing. The district projected it will have a positive unspent balance at the end of fiscal year 2009-2010 if granted modified allowable growth.

At its March 2010 meeting, the Committee approved modified allowable growth for the 2009-2010 school year in the amount of \$294,039 for its second and final year and received and accepted the district's corrective action plan. However, even with the modified allowable growth granted, the district did not end the year with a positive unspent balance.

In its corrective action plan presented in December 2010, the district stated it had placed a freeze on expenditures. The district reduced certified staff and began sharing a superintendent with a neighboring district. The district was in the process of establishing a whole-grade sharing contract beginning in the 2011-2012 school year. The district stated it is closing an elementary building at the end of the 2010-2011 school year and estimated a savings of \$100,000. The district planned to reduce two non-certified positions in FY12. The district projected it will be positive by the end of FY12.

The district did not request modified allowable growth for the 2010-2011 school year as part of its corrective action plan, according to the district, because it had already received modified allowable growth for two years.

The decision of the Committee in this matter in December 2010 was to recommend to the Department of Education that it conduct a desk review, and possibly an on-site visit, for fiscal review. The Department shall report to the Committee the results of any fiscal review in order for the Committee to determine further action that may be recommended. That report was released to the district and following a comment period was released to the SBRC at its work session in 2011.

In May 2011, the district again requested modified allowable growth in the amount of \$117,933. The district stated that the Exira Community School District and the Elk Horn-Kimballton School District will be whole-grade sharing in school year 2011-12. Each district will host preschool and kindergarten. Elk Horn-Kimballton will host grades 1-3 and 9-12. Exira will host grades 4-8.

The district also stated that the existing elementary building is being closed at the end of the 2010-2011 school year and an addition/renovation was underway to the existing high school building to allow for a middle school building. The estimated cost savings for closing the elementary building was \$50,000. (General Fund reduction). Including the closing of the elementary building, the total general fund estimated savings for FY12 was \$236,196.

The decision of the SBRC was to deny modified allowable growth for the 2010-2011 school year in the amount of \$117,933 as part of the corrective action plan and to recommend that the district return in FY12 with a revised corrective action plan after receipt of the fiscal desk review and to consider requesting modified allowable growth at that time.

Findings and conclusions provided to the district from the fiscal study:

It is recommended that the district board and administration continue to solidify their knowledge of district finances with continuing education on financial position in relation to published budget control lines and spending authority.

The board and administration will need to seriously consider methods to increase revenues, which may include levying more in cash reserve, establishing a foundation, or soliciting donations to improve the fund balance and the assets to liabilities ratio.

It is recommended that the board and administration closely monitor its balance of expenditures between those for administration and those for the classroom. It is anticipated that sharing a superintendent and entering into a whole grade sharing agreement will help improve this expenditure imbalance.

It is recommended the district make sufficient cuts in staff to bring it in line with the level of enrollment. As stated earlier in this report, Exira would have needed to reduce 10.70 FTE teaching staff to keep pace with the decline in enrollment it has experienced, but the district actually reduced 5.24 FTE teachers. Awareness of the difficulty of reducing the budget should be in the forefront. If the reductions will jeopardize the district's accreditation, the district will have to make serious consideration to increasing its whole-grade sharing, or moving into a reorganization or dissolution of the district. Actions taken by the board to correct the deficiencies will not be easy, but it is better for the decisions to be made locally than by state agencies.

It is recommended that the district be vigilant in monitoring the combined enrollment of Exira and Elk Horn-Kimballton. The anticipated continued decline in enrollment may necessitate a change in whole grade sharing partners or reorganization or dissolution to maintain sufficient opportunities for students and a stable fiscal environment.

Recommendation to the SBRC as a result of the SBRC-requested fiscal study:

• At the hearing, the Committee asked if this district qualified for modified allowable growth for a new superintendent under SBRC precedents. The

precedent is for the situation where a superintendent accepts a position on July 1 in a district with a history of positive unspent balances. When the unspent balances are calculated in September-December, s/he is surprised to learn that the district incurred a negative unspent balance in the fiscal year just ended and the previous superintendent has certified the budget and completed negotiations for the current year. A superintendent in that situation is at a disadvantage in that s/he could not have anticipated that major reductions were required in the spending patterns and most of the spending in her/his first year of employment with the district has already been set by someone other than the new superintendent. Exira does not qualify for additional modified allowable growth under this precedent.

• The district should be commended for the staff reductions and sharing implemented to date, but the desk review does not support that the district has its spending under control and does not support the SBRC granting any further modified allowable growth. The SBRC could wait one year to see if the district shows substantial improvement in controlling its expenditures after one-year of whole grade sharing. If the negative unspent balance is not significantly improved, it is recommended that the SBRC consider recommending that the Department perform an on-site fiscal review in conjunction with a Phase II accreditation visit.

Information provided by the District:

In its current corrective action plan, the district states that it is the intent of the district and its whole-grade sharing partner to reorganize in FY14, after maximizing sharing incentives.

Information provided by the Department:

- The district received a financial condition warning letter from the Department regarding its unspent balance trend. The letter was sent during fiscal year 2007-2008, the same year in which it incurred a negative unspent balance. It has been negative every year since.
- The superintendent has been the superintendent in the district beginning in 2010.
- The district has previously projected it would end the year with a positive unspent balance, but did not, even though modified allowable growth was granted for two years.
- Modified allowable growth granted to date totals \$599,314 for this purpose.
- The corrective action plan does not result in a positive unspent balance at the end of the year without the modified allowable growth requested.
- The projected expenditures do not reflect the cuts the district says they made.
- Board reports were provided, but numbers were not accurate.
- The district did not provide all the required corrective action plan exhibits, so the unspent balance projection and explanation of discrepancies between planned and actual could not be analyzed.
- The negative unspent balance for FY11 is greater than FY10, indicating that even without a projection, the district did not make progress on its corrective action plan.

- This district has met the criteria for the SBRC to recommend to the Director of the Department of Education that they send a fiscal team to the district for an onsite fiscal review in conjunction with a Phase II accreditation visit.
- Other options include a feasibility study, a fiscal review in conjunction with a Phase I accreditation follow-up visit, a desk review and possible on-site visit for fiscal review, or a district-provided follow-up to its corrective action plan. The district has had a recent feasibility study, the district has had a fiscal desk review, and the district has submitted four years of corrective action plans without actually correcting the fiscal condition issue.
- If the district were to reorganize as soon as possible, and the combined enrollment was sufficiently more than 300 resident students to sustain the new district into the next decade, the Department would recommend that the SBRC consider modified allowable growth to implement the reorganization.
- The SBRC history on similar requests is to approve modified allowable growth in the first year a district is negative if the corrective action plan is accurate, reasonable, and shows a net decrease in expenditures from the previous year of at least the amount by which the district is negative. The SBRC history on subsequent years of modified allowable growth is to grant a second year only if the district's plan is accurate, reasonable, and supports that the district will end the fiscal year with a positive unspent balance.
- A summary of the board minutes which were published in the newspaper has been provided.
- June 30 unexpended fund balance was -\$557,017, which is -19.97 percent of total expenditures.
- June 30 unspent balance was -\$131,054, which is -4.7 percent of total expenditures.
- Modified allowable growth in the amount of \$131,054 is \$532.52 per budget enrollment. This increases the district to 109.05 percent from 100 percent of the state cost per pupil.

DECISION

The decision of the Committee in this matter is to deny modified allowable growth for the 2011-2012 school year in the amount of \$131,054 as part of its corrective action plan, and to recommend to the Department of Education that the Department implement a phase II on-site visit to conduct a fiscal review.

Jason Glass, Director

Jason E. Glass