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May 21, 2010

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Dear Administrators:

The following feasibility report was developed at the request of the East Central School district and the Mississippi Bend Area Education Agency as they revisit current and previous reorganization conversations and review the options for the future of the Preston, East Central, and Northeast Community School Districts. Data was gathered from Department of Education and Department of Management reports, from visits to the Preston and East Central districts, and from interviews with stakeholder groups on November 2, 2000 and October 25-26, 2005.

For a number of years, the East Central, Preston, and Northeast districts have utilized 28E agreements in order to meet the needs of high school students and to assure coverage of accreditation requirements. Buses run during passing time between each block, and travel to each attendance center as needed. A ten-minute passing period allows students to board a bus and move to a different district for one or more classes.

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## Enrollment

According to the Iowa Department of Education records, enrollment in all districts has been steadily declining. The following tables illustrate the enrollment trends since 1996.

### East Central

	K	1	2	3	4	5	6	7	8	9	10	11	12	Total
<b>1996</b>	29	19	38	36	33	51	43	36	40	45	43	44	37	495
<b>2001</b>	34	19	34	36	29	31	20	33	33	38	54	42	36	439
<b>2005</b>	29	32	29	29	28	20	40	29	34	29	20	38	33	390
<b>2007</b>	12	28	22	24	30	29	27	24	22	43	27	36	26	364
<b>2009</b>	24	30	10	30	25	29	30	26	31	26	20	35	30	346

### Preston

	K	1	2	3	4	5	6	7	8	9	10	11	12	Total
<b>1996</b>	22	33	25	32	28	35	35	25	29	38	27	36	37	399
<b>2001</b>	19	22	29	29	24	22	32	27	28	29	34	33	26	354
<b>2005</b>	29	28	32	19	20	24	27	31	23	23	35	27	33	351
<b>2007</b>	30	25	28	27	27	31	21	22	24	28	32	23	26	344
<b>2009</b>	24	20	34	24	30	26	26	30	18	22	27	29	33	343

### Northeast

	K	1	2	3	4	5	6	7	8	9	10	11	12	Total
<b>1996</b>	44	56	45	47	69	56	62	54	75	66	77	55	55	761
<b>2001</b>	47	42	35	52	53	47	62	51	49	77	62	69	49	695
<b>2005</b>	57	51	39	51	46	46	42	52	57	45	60	57	52	658
<b>2007</b>	52	38	49	62	53	47	53	57	49	51	53	57	47	668
<b>2009</b>	41	46	46	38	48	64	56	55	59	55	53	56	57	674

Source: 2009-2010 Iowa Public School District PreK-12 Enrollments by School, Grade, Race and Gender

- A slow but steady decline is evident in each district and is projected to continue for the next five years.
- East Central has experienced a thirty percent (30%) enrollment decline in the period from 1996 to 2009 and is approaching the critical threshold of 300 students where it becomes difficult to balance positive finances and meet general accreditation standards.
- Preston has experienced a fourteen percent (14%) decline for the same time period and is also approaching the 300 student threshold.
- Northeast has experienced the smallest enrollment decline in terms of percent (11%) for the same time period.
- From the 2000 feasibility study: Looking at the data, in 1979, Preston had a K-12 enrollment of 600; today it is 371. The five-year projection is 332. The district that these members of the community spoke about may soon be half of the size of the district that they attended and graduated from. Preston Community Schools is changing.

## Open Enrollment

Open enrollment also impacts the number of students served. The following tables illustrate the open enrollment numbers for East Central, Preston, and Northeast districts for the past two years.

	2003 In/Out	2004 In/Out	2005 In/Out	2007 In/Out	2009 In/Out
<b>East Central</b>	21 / 24	21 / 31	18 / 28	14/30	13/40
<b>Preston</b>	26 / 20	29 / 20	27 / 17	28/18	29/27
<b>Northeast</b>	92/58	96 / 62	122 / 56	135/57	173/48

Source: Iowa Department of Education BEDS Data

- The East Central District open enrollment trends reflect an overall loss in students.
- The Preston District open enrollment trends reflect a slight overall gain in students for 2009. Open enrollment out increased in 2009.
- The Northeast District open enrollment trends reflect a large gain in students

## II. Educational Program

In 2005, interviews in the Preston and East Central districts revealed a great deal of pride in the quality of education provided to students. Perceptions can be verified by reviewing student achievement data. The following tables show the percent of proficient students in grades 4, 8, and 11 in Reading, Mathematics, and Science as measured by the Iowa Test of Basic Skills (ITBS) and the Iowa Test of Educational Development (ITED) as reported in the 2008-09 Annual Progress Report (APR).

### Percent of students at or above the proficient level in Reading

Grade	East Central	Preston	Northeast	Mississippi Bend AEA	State
4 <sup>th</sup>	86.67%	81.48%	75.93%	79.25%	80.39%
8 <sup>th</sup>	62.96%	82.6%	81.82%	69.82%	73.29%
11 <sup>th</sup>	82.76%	77.42%	86.54%	75.76%	75.78%

Source: 2008-2009 Annual Progress Report Data.

### Percent of students at or above the proficient level in Math

Grade	East Central	Preston	Northeast	Mississippi Bend AEA	State
4 <sup>th</sup>	78.57%	100%	83.87%	81.39%	80.33%
8 <sup>th</sup>	84.61%	91.3%	92.59%	73.6%	75.87%
11 <sup>th</sup>	93.1%	80.65%	82.69%	75.9%	76.64%

Source: 2008-2009 Annual Progress Report Data.

### Percent of students at or above the proficient level in Science

Grade	East Central	Preston	Northeast	Mississippi Bend AEA	State
4 <sup>th</sup>	78.57%	92.59%	80.32%	81.07%	81.44%
8 <sup>th</sup>	88.89%	95.65%	90.91%	80.59%	82.91%
11 <sup>th</sup>	96.55%	87.1%	88.23%	78.93%	80.27%

Source: 2008-2009 Annual Progress Report Data.

- Proficiency levels at grade 11 exceed the averages for Mississippi Bend AEA and the state.
- Because of the small number of students included in the results for grades 4 and 8, readers are advised to interpret results with caution. True results may vary due to the error of measurement associated with small group sizes.

### Graduation Requirements

High school graduation requirements are locally determined (exception: 4-3-3-3 requirement in Chapter 12.5(5): Beginning with the 2010-2011 school year graduating class, all students in schools and school districts shall satisfactorily complete at least four units of English-language arts, three units of mathematics, three units of science, three units of social studies, and one full unit of physical education as conditions of graduation...). High school graduation requirements are identical in the East Central and Preston Districts.

	East Central	Preston	Northeast
<b>Total Units</b>	25	25	24
<b>Science</b>	3	3	3
<b>Math</b>	3	3	3
<b>Soc. Studies</b>	3	3	3
<b>English</b>	4	4	4
<b>Electives</b>	12	12	11

Source: Iowa BEDS Data

### Core Curriculum Units Taught

In order to maintain state accreditation, high schools are required to offer and to teach a minimum number of units in each curricular area. With the current sharing agreement, the schools have been able to maintain that number. The following table illustrates high school core curriculum units taught by schools in the area.

<b>Subject</b>	<b>State Requirement</b>	<b>State Average</b>	<b>East Central</b>	<b>Preston</b>	<b>Northeast</b>
<b>Science</b>	5.0	7.19	8.0	6.0	6.5
<b>Math</b>	6.0	8.79	7.0	7.0	7.5
<b>Social Studies</b>	5.0	6.41	6.0	6.0	7.5
<b>Language Arts</b>	6.0	8.8	6.0	8.0	8.0
<b>Foreign Language</b>	4.0	5.65	7.0	7.0	5.0
<b>Fine Arts</b>	3.0	7.48	9.0	7.0	5.5
<b>Vocational</b>	12.0	23.59	20.	16.5	19.0

Source: Iowa Department of Education Data Warehouse

### III. Facilities

East Central CSD has two attendance centers. The main facility is located in Miles and is a multi-level structure housing students in grades PK-2 and grades 9-12. A second facility in Sabula has grades 3-5 and grades 6-8. The Sabula building is a source of pride for its historical importance and its location for the local students. Sections of the building have been closed.

The building at Miles is clean and well-maintained, but also will require continued considerations for maintenance and upkeep. Visits to both East Central buildings raised questions about the sustainability of the structures, and arrangements for increasing handicapped accessibility. It is suggested that exterior and interior walls, windows, roofs, wiring, plumbing, heating, and kitchen equipment be carefully studied to determine the impact for the immediate and long-term future.

Preston CSD also has two attendance centers, both located in Preston. The middle school-high school is a one-story building, and the newest of all buildings in the Preston and East Central Districts. The elementary school is an older, two story building across the street from the middle/high school. This building also raises questions of a sustainable future, including provisions for safety and accessibility concerns. The same criteria for studying East Central buildings are suggested as a measure for analyzing the use of this building as well.

It is unclear if any structure is large enough to house all students in reorganization between Preston and East Central. Providing adequate space for all students in a particular grade or grade span, i.e. all middle school or junior high students in one building, might prove to be a concern if the districts were to merge.

Northeast CSD has modern one-story handicapped-accessible buildings at Goose Lake serving grades K-12. The facilities are clean and well-maintained.

### III. Geographical considerations

The districts are within easy driving distance. Paved roads make the sharing of programs possible. The current arrangement of busing high school students daily has made sharing of services possible.

District	Cost Per Student	Cost Per Mile
East Central	\$1225.53	\$2.40
Northeast	\$ 540.41	\$2.68
Preston	\$1011.07	\$2.50
Iowa Average	\$ 511.76	\$2.87

Source: Iowa Department of Education Transportation Report

- Although the per-mile costs in all districts are below the State average, the per-student costs are above. The frequency of transporting high school students among the three districts adds to this cost.
- Consideration of financial resources for transporting students, time needed for travel, and convenience for students and families should be a consideration as discussions about the future proceed.

### III. Economic factors

With decreasing enrollment come the implications of decreased funding. In 2006, funding issues were raised during interviews with board members, community / advisory members, and administrators. Each district (East Central and Preston) perceives that the other has significant financial problems.

Budget Enrollment	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Actual	FY07 Actual	FY08 Actual	FY09 Actual
PRESTON	339.0	343.0	335.0	336.0	345.0	332.1	346.0
EAST CENTRAL	433.8	409.8	407.8	392.8	398.2	381.6	395.0
NORTHEAST	672.4	648.6	631.7	620.5	583.6	567.2	555.0

- The budget enrollment is used for funding through the Iowa School Foundation Formula Program. The budget enrollment is the same number as the certified enrollment in the previous school year.

<b>District Cost Per Pupil (DCPP)</b>	<b>FY03 Actual</b>	<b>FY04 Actual</b>	<b>FY05 Actual</b>	<b>FY06 Actual</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
PRESTON	\$4,557	\$4,648	\$4,741	\$4,931	\$5,128	\$5,333	\$5,546
EAST CENTRAL	\$4,557	\$4,648	\$4,741	\$4,931	\$5,128	\$5,333	\$5,546
NORTHEAST	\$4,677	\$4,768	\$4,861	\$5,051	\$5,248	\$5,453	\$5,666

- The District Cost Per Pupil (DCPP) is the value assigned by the school finance formula to the pupils in a particular school district.
- The DCPP is the same for the East Central and Preston Districts.
- The DCPP is slightly higher for the Northeast District.

<b>Regular Program District Cost (Without Budget Adjustment)</b>	<b>FY03 Actual</b>	<b>FY04 Actual</b>	<b>FY05 Actual</b>	<b>FY06 Actual</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
PRESTON	\$1,544,823	\$1,575,672	\$1,626,163	\$1,651,885	\$1,723,008	\$1,839,885	\$1,841,827
EAST CENTRAL	\$1,995,055	\$2,016,302	\$1,942,862	\$2,010,862	\$2,014,278	\$2,123,601	\$2,116,354
NORTHEAST	\$3,271,094	\$3,206,003	\$3,152,845	\$3,190,717	\$3,256,384	\$3,182,371	\$3,213,755

- The Regular Program District Cost is calculated by the budget enrollment times the District Cost Per Pupil.
- Since the DCPP is equal for the Preston and East Central Districts, student enrollment accounts for the difference of the Regular Program District Cost.

<b>Budget Adjustment (Guarantee) Adopted</b>	<b>FY03 Actual</b>	<b>FY04 Actual</b>	<b>FY05 Actual</b>	<b>FY06 Actual</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
PRESTON	\$95,316	\$64,467	\$12,578	\$0	\$0	\$0	\$16,457
EAST CENTRAL	\$70,539	\$49,292	\$110,459	\$43,786	\$35,921	\$0	\$28,483
NORTHEAST	\$0	\$65,091	\$106,424	\$64,302	\$10,297	\$106,577	\$28,670

- The effects of the budget adjustment decline and the decline in enrollment create a budgetary position that must be closely monitored by districts.
- As the budget guarantee is phased out, districts with declining enrollment must become more financially efficient. This creates additional financial strains for districts with little spending authority and/or cash reserves.
- Zeroes indicate that the district did not qualify for a budget adjustment, or the board did not pass a resolution to request the budget adjustment.

<b>Combined District Cost</b>	<b>FY03 Actual</b>	<b>FY04 Actual</b>	<b>FY05 Actual</b>	<b>FY06 Actual</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
PRESTON	\$1,963,577	\$2,045,297	\$2,060,904	\$2,094,248	\$2,152,435	\$2,277,269	\$2,274,677
EAST CENTRAL	\$2,595,434	\$2,686,471	\$2,626,051	\$2,608,893	\$2,647,544	\$2,818,812	\$2,798,420
NORTHEAST	\$4,059,876	\$3,969,576	\$3,916,740	\$3,992,882	\$4,009,636	\$3,994,740	\$3,919,113

- The Combined District Cost is the sum of a district's regular program cost, budget guarantee adjustment, weighted funding including special education, AEA flow-through funding, and modified allowable growth for drop-out prevention programs.
- The Combined District Costs in East Central and Preston have shown an over-all increase.

<b>Combined District Cost Per Budget Enrollment</b>	<b>FY03 Actual</b>	<b>FY04 Actual</b>	<b>FY05 Actual</b>	<b>FY06 Actual</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
PRESTON	\$5,792	\$5,963	\$6,152	\$6,233	\$6,239	\$6,857	\$6,574
EAST CENTRAL	\$5,983	\$6,556	\$6,440	\$6,642	\$6,649	\$7,387	\$7,085
NORTHEAST	\$6,038	\$6,120	\$6,200	\$6,435	\$6,871	\$7,043	\$7,061
STATE	\$5,857	\$5,936	\$6,021	\$6,240	\$6,506	\$6,796	\$7,098

- This table considers Combined District Costs and Budget Enrollment data to compare the per pupil cost of the whole educational program, including at-risk and drop-out prevention programs, additional special education services, gifted and talented programs, AEA flow-through funding, and open enrollment out tuition.
- The Combined District Cost is the first and major element of a school district's authorized spending authority.

<b>Taxable Valuation Per Pupil</b>	<b>FY03 Actual</b>	<b>FY04 Actual</b>	<b>FY05 Actual</b>	<b>FY06 Actual</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
PRESTON	\$194,693	\$194,851	\$188,429	\$190,234	\$191,693	\$202,479	\$204,077

EAST CENTRAL	\$214,668	\$230,175	\$216,160	\$225,619	\$234,129	\$248,367	\$243,045
NORTHEAST	\$219,231	\$229,165	\$214,411	\$219,916	\$259,304	\$265,654	\$258,367

- Taxable Valuation per pupil is a reflection of both the pupil enrollment in the district and its relative property wealth. It is calculated by dividing the Taxable Valuation for the Budget Year by the Budget Enrollment for that Budget Year. On average, districts with smaller enrollments have higher per pupil taxable valuations than larger districts.

General Fund Tax Rate	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Actual	FY07 Actual	FY08 Actual	FY09 Actual
PRESTON	\$13.65593	\$14.94344	\$15.63957	\$15.72134	\$15.35557	\$15.40056	\$15.15423
EAST CENTRAL	\$12.91679	\$12.38807	\$14.20413	\$13.67532	\$12.02933	\$11.74928	\$12.73482
NORTHEAST	\$12.15057	\$11.67570	\$11.56352	\$11.24539	\$10.38778	\$10.87036	\$10.42521
IOWA (calculated average)	\$11.24170	\$11.26143	\$11.93979	\$11.82643	\$11.85627	\$12.04446	\$12.07053

- The General Fund (GF) tax rate reflects the levy necessary to fund the combined district cost and the optional instructional support and educational improvement levy programs. In addition, the levy can be increased or decreased by the local board by including a cash reserve levy or by requesting on its certified budget to use fund balance on hand to reduce the levy, and thereby the tax rate.
- The General Fund tax rate for the Preston District exceeds the General Fund tax rate for the East Central District by \$2.41941 per thousand dollars of assessed valuation and for the Northeast District by \$4.72902 per thousand dollars.
- All but Northeast have tax rates above the State average with Preston's being the highest.

Cash Reserve Levy	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Actual	FY07 Actual	FY08 Actual	FY09 Actual
PRESTON	\$107,090	\$147,560	\$211,039	\$209,104	\$209,672	\$196,152	\$185,256
EAST CENTRAL	\$138,382	\$31,248	\$94,647	\$114,747	\$0	\$0	\$96,002
NORTHEAST	\$250,000	\$110,000	\$0	\$0	\$0	\$0	\$0
District cash reserve levy per budget enrollment - District 1	\$315.90	\$430.20	\$629.97	\$622.33	\$607.74	\$590.64	\$535.42
Iowa average per budget enrollment of those levying cash reserve	\$190	\$193	\$200	\$202	\$248	\$278	\$324

- In FY09, 316 districts, or 87.3% percent, levied for cash reserve.
- The cash reserve levy generates local property tax revenue to be used for cash flow or to put cash behind budget authority. Budget authority could exceed actual budget revenues generated due to delinquent property taxes, programs funded by law off the top of state aid such as juvenile homes, and requests for modified allowable growth from the School Budget Review Committee (SBRC) for unique or unusual circumstances or for special education deficits. The cash reserve levy does not increase budget authority.
- Although cash reserve levy is within the limits set by the SBRC, it must be emphasized that the cash reserve levy does not increase budget authority.
- The Preston District consistently taxes for cash reserve levy.

<b>Instructional Support Authority</b>	<b>FY03 Actual</b>	<b>FY04 Actual</b>	<b>FY05 Actual</b>	<b>FY06 Actual</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
PRESTON	\$136,785	\$135,583	\$132,884	\$133,452	\$137,380	\$144,343	\$146,145
EAST CENTRAL	\$175,176	\$174,095	\$172,122	\$170,802	\$170,555	\$174,890	\$175,776
NORTHEAST	\$276,953	\$276,555	\$271,606	\$270,267	\$273,230	\$275,397	\$266,023

- The Instructional Support Program provides additional funding to a district's General Fund. Additionally, the Instructional Support Program increases budget authority in the General Fund.
- The Instructional Support Program must be approved through board action or a referendum. If the instructional support program is approved through a referendum, it may be imposed for up to ten years.
- The Instructional Support Program can be no more than ten percent (10%) of the regular program district cost (shown in an earlier table). The program is partially funded through state aid with the balance funded by either property tax or a combination of property tax and income surtax.
- In 2008-2009, nearly ninety percent (90%) of all Iowa school districts had implemented the Instructional Support Program. Board enactment will allow the program to be in place for up to five years.
- All three districts participate in an Instructional Support Program.

<b>Income Surtax Rate</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
PRESTON			
Instructional Support Income Surtax Rate	\$0.00	\$0.00	\$0.00
Educational Improvement Income Surtax Rate	\$0.00	\$0.00	\$0.00
Voter-Approved PPEL Income Surtax Rate	\$0.00	\$0.00	\$0.00
Total Income Surtax Rate (cannot exceed 20 percent)	\$0.00	\$0.00	\$0.00

<b>Income Surtax Rate EAST CENTRAL</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
Instructional Support Income Surtax Rate	\$0.00	\$0.00	\$0.00
Educational Improvement Income Surtax Rate	\$0.00	\$0.00	\$0.00
Voter-Approved PPEL Income Surtax Rate	\$0.00	\$0.00	\$0.00
Total Income Surtax Rate (cannot exceed 20 percent)	\$0.00	\$0.00	\$0.00

<b>Income Surtax Rate NORTHEAST</b>	<b>FY07 Actual</b>	<b>FY08 Actual</b>	<b>FY09 Actual</b>
Instructional Support Income Surtax Rate	\$0.11	\$0.11	\$0.11
Educational Improvement Income Surtax Rate	\$0.00	\$0.00	\$0.00
Voter-Approved PPEL Income Surtax Rate	\$0.00	\$0.00	\$0.00
Total Income Surtax Rate (cannot exceed 20 percent)	\$0.11	\$0.11	\$0.11

- Income surtax is a funding source that is used by a majority of school districts, especially those with enrollments below 2,500. A surtax is a tax on a tax. The income surtax rate is a percentage of tax applied on the income tax liability reported on the Iowa individual income tax form.
- A referendum or board resolution will indicate if the Instructional Support Program, Educational Improvement Program, or Voter-Approved Physical Plant and Equipment Levy (PPEL) will be funded with an income surtax component. However, the board annually sets the income surtax rate.
- All districts considered in this study utilize income surtax for Instructional Support Programs.
- The Educational Improvement Program is a program authorized by the voters and only available in a school district where the regular program district cost per pupil for a budget year is 110% of the regular program state cost per pupil for the budget year, or the district had adopted an enrichment levy of 15% prior to July 1, 1992, and the district participates in the Instructional Support Program. If a district is eligible to implement the Education Improvement Program, it may be expended for any purpose allowed from the General Fund.  
The total income surtax rate for all programs may not exceed twenty cents (0.20).

<b>District Income Taxes Paid Per Budget Enrollment</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
PRESTON	\$2,899	\$2,707	\$4,012	\$3,258	\$3,279	\$3,606	\$3,384
EAST CENTRAL	\$4,033	\$2,695	\$2,900	\$3,219	\$3,335	\$3,625	\$3,650
NORTHEAST	\$2,306	\$2,220	\$2,323	\$2,586	\$3,032	\$3,267	\$3,463

<b>Special Ed Deficit Modified Allowable Growth (Positive Balance Reduction)</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>
<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
PRESTON	\$21,192	\$67,104	(\$44,018)	(\$37,333)	\$0	\$83,614
EAST CENTRAL	\$33,955	\$41,697	\$0	\$68,999	\$264,680	\$44,367
NORTHEAST	(\$45,682)	\$17,334	\$94,933	\$0	(\$36,331)	(\$28,851)

- A district that has a negative special education balance (deficit) may request supplemental aid and modified allowable growth to the extent of the deficit. Most districts request the full amount of the deficit in modified allowable growth so that regular education funding is not used for special education costs. A few districts request less than the full deficit or do not request any modified allowable growth for the deficit. The district must make the request at the close of the fiscal year with the deficit balance rather than in a subsequent year. A district that has a positive special education balance may carryover ten percent (10%) of its special education receipts from weighting into the next budget year. Any positive balance that is in excess of the ten percent (10%) allowable carryover is reduced from budget authority, and State aid and property taxes are adjusted accordingly.
- Districts with a positive balance that is in excess of the ten percent (10%) allowable need to be very watchful of their financial position, because of the reduction in spending authority that follows as a result of the excess.
- A special education deficit balance will not harm a district as long as the district makes a request to the School Budget Review Committee (SBRC) for modified allowable growth. Any year the request is made to the SBRC, and when granted, is applied to the year the deficit occurred. Hence, the district is "held harmless".
- Districts need to carefully monitor special education expenditures to ensure that an appropriate amount is spent and to avoid a positive balance that must be reverted back to the State and the spending authority loss that follows.

<b>Other SBRC Modified Allowable Growth</b> (FY06 includes one-time GAAP hold-harmless)	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
	PRESTON	\$22,560	\$36,640	\$23,240	\$238,890	\$46,152	\$10,256
EAST CENTRAL	\$22,560	\$18,228	\$37,184	\$326,812	\$27,691	\$51,280	\$75,980
NORTHEAST	\$38,000	\$71,000	\$155,072	\$435,895	\$39,448	\$110,896	\$26,665

- In FY06, there was a one-time hold-harmless amount of modified allowable growth granted to districts in the exact amount of the difference between budgeting on the cash basis and budgeting on the Generally Accepted Accounting Principles (GAAP) basis. This was provided to implement administrative rules that require all districts to budget on the GAAP basis then forward. Although this modified allowable growth increased budget authority, the increase is only temporary because the FY06 unspent balance calculation will show increased expenditures to be taken from budget authority in the same amount to complete the budget basis conversion.
- Districts could also request an additional amount of modified allowable growth, if necessary, to complete the budget basis conversion. These requests are included in the FY06 column with other requests that the districts made to the SBRC. Other requests to the SBRC would include the application form for modified allowable growth for increased enrollment, open enrollment out not on the prior year's count, and excess costs of providing a Limited English Proficient program. Requests would also include unusual or unique circumstances in the district for which it needs modified allowable growth. Although Returning Dropout and Dropout Prevention Programs and special education deficits are also covered by Modified Allowable Growth, those two items are not included in the above table.
- Modified allowable growth, other than for Returning Dropout and Dropout Prevention Programs, is not granted until the budget year begins for which the growth is requested.
- The request for increasing enrollment and open enrollment out students not on the previous count are actually "on-time" budget authority for which the subsequent year's budget is no longer adjusted. In effect, this results in the district receiving budget authority for these students in the first year of enrollment, as well as in subsequent years' budget. This is one more year of budget authority for a resident student than is normally provided.

<b>Property Tax Levies FY10</b>	<b>General Fund Actual</b>	<b>Management Actual</b>	<b>VPPEL Actual</b>	<b>PPEL Actual</b>	<b>PERL Actual</b>	<b>Debt Service Actual</b>	<b>Total Actual</b>
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PRESTON	\$15.00436	\$1.36358	\$0.00000	\$0.33000	\$0.00000	\$0.00000	\$16.69794
EAST CENTRAL	\$12.16817	\$1.00000	\$0.00000	\$0.33000	\$0.00000	\$0.00000	\$13.49817
NORTHEAST	\$11.17303	\$0.59896	\$0.00000	\$0.33000	\$0.00000	\$1.70775	\$13.80974

### Federal Maintenance of Effort

When a district has to reduce expenditures, whether due to exceeding budget authority, economic conditions, declining enrollment, or local decisions, this can result in a failure to maintain local effort related to federal funding. Maintenance of Effort regulations require a district to maintain state and local effort (expenditures) from year to year in order to receive the full allocation of federal funding. The federal regulations require Maintenance of Effort at the ninety percent (90%) level either in total expenditures or on a per pupil basis.

Unspent Balance (of Authorized General Fund Budget)	FY03	FY04	FY05	FY06	FY07	FY08
	Actual	Actual	Actual	Actual	Actual	Actual
PRESTON	\$226,938	\$288,025	\$241,762	\$340,190	\$245,513	\$176,215
District unspent balance as a percent of expenditures	8.87%	10.97%	8.99%	11.79%	8.26%	5.60%
Iowa unspent balance as a percent of expenditures	14.19%	14.60%	14.51%	18.24%	17.24%	15.60%
Unspent Balance (of Authorized General Fund Budget)	FY03	FY04	FY05	FY06	FY07	FY08
	Actual	Actual	Actual	Actual	Actual	Actual
EAST CENTRAL	\$329,134	\$701,995	\$798,979	\$1,157,703	\$1,139,618	\$985,708
District unspent balance as a percent of expenditures	10.07%	22.01%	24.85%	34.60%	31.39%	26.02%
Iowa unspent balance as a percent of expenditures	14.19%	14.60%	14.51%	18.24%	17.24%	15.60%
Unspent Balance (of Authorized General Fund Budget)	FY03	FY04	FY05	FY06	FY07	FY08
	Actual	Actual	Actual	Actual	Actual	Actual
NORTHEAST	\$594,590	\$671,630	\$839,592	\$1,288,202	\$1,278,492	\$1,350,452
District unspent balance as a percent of expenditures	11.63%	12.61%	15.90%	23.42%	22.37%	22.66%
Iowa unspent balance as a percent of expenditures	14.19%	14.60%	14.51%	18.24%	17.24%	15.60%

- The DE has done projections on continuing revenues and expenditures trends of all the districts in the state. When the projections show that a given district could end the fiscal year with a negative authority balance, the DE, as a courtesy, has sent an e-mail to the superintendent, business manager, and board president notifying them of the findings. Preston was a recipient of such an e-mail in the current fiscal year.
- Each district must locally decide on the appropriate level of unspent authority to maintain and take the appropriate steps to achieve the goal set.
- All three districts' unspent balance declined in FY09 with Preston seeing a decline to \$31,261, East Central to \$587,348 and Northeast to \$1,122,178.

<b>Fund Balances in Selected Funds</b>	<b>General Fund Actual</b>	<b>Management Actual</b>	<b>PPEL Actual</b>	<b>PERL Actual</b>	<b>Capital Projects Actual</b>	<b>Debt Service Actual</b>
<b>PRESTON</b>						
Fiscal Year 2003	\$88,609	\$146,328	-\$6,196	\$0	\$24,620	\$90,372
Fiscal Year 2004	\$156,120	\$143,198	\$73,249	\$0	\$84,142	\$0
Fiscal Year 2005	\$340,263	\$131,279	\$76,271	\$0	\$85,246	\$0
Fiscal Year 2006	\$392,196	\$109,578	\$77,953	\$0	\$153,102	\$0
Fiscal Year 2007	\$414,589	\$92,819	\$106,259	\$0	\$221,734	\$0
Fiscal Year 2008	\$435,045	\$76,782	\$131,869	\$0	\$256,529	\$0

<b>Fund Balances in Selected Funds</b>	<b>General Fund Actual</b>	<b>Management Actual</b>	<b>PPEL Actual</b>	<b>PERL Actual</b>	<b>Capital Projects Actual</b>	<b>Debt Service Actual</b>
<b>EAST CENTRAL</b>						
Fiscal Year 2003	\$362,469	\$78,429	-\$3,807	\$0	\$1,072	\$0
Fiscal Year 2004	\$682,543	\$114,563	\$12,557	\$0	\$91,483	\$0
Fiscal Year 2005	\$844,852	\$60,970	\$26,674	\$0	\$41,358	\$0
Fiscal Year 2006	\$916,949	\$33,972	\$25,909	\$0	\$57,547	\$0
Fiscal Year 2007	\$605,736	\$66,025	\$1,710	\$0	\$64,272	\$0
Fiscal Year 2008	\$404,639	\$50,910	\$23,754	\$0	\$198,680	\$0

<b>Fund Balances in Selected Funds</b>	<b>General Fund Actual</b>	<b>Management Actual</b>	<b>PPEL Actual</b>	<b>PERL Actual</b>	<b>Capital Projects Actual</b>	<b>Debt Service Actual</b>
<b>NORTHEAST</b>						
Fiscal Year 2003	\$1,458,107	\$97,608	\$1,460	\$0	\$68,479	\$10,030
Fiscal Year 2004	\$1,439,953	\$18,868	\$1,302	\$0	\$33,059	\$2,785,631
Fiscal Year 2005	\$1,368,097	\$77,988	\$1,232	\$0	\$46,342	\$17,021
Fiscal Year 2006	\$1,393,126	\$174,373	\$1,381	\$0	\$43,821	\$19,640
Fiscal Year 2007	\$1,371,888	\$198,002	\$1,272	\$0	\$128,146	\$21,039
Fiscal Year 2008	\$1,328,438	\$155,667	\$1,477	\$0	\$215,437	\$25,192

- Iowa school districts are given authority under a school foundation finance formula. Iowa is unique compared to other states in that maximum spending authority is controlled in each district through the foundation plan. The authority sources include state aid, property taxes, unspent balances from the prior year, plus actual

miscellaneous income. Once spending authority has been granted, it generally is not removed even if authorized state aid or property tax revenues are not actually received. A district may levy for a cash reserve (property taxes) to replace any revenues not received, but this does not increase budget authority. It only provides cash to fund the budget authority. The district may request modified allowable growth from the SBRC, which if granted, will increase budget authority, but does not increase cash to the district. At the end of the fiscal year, the amount the district actually expended in its General Fund is subtracted from its total authorized budget authority in the General Fund to determine the amount that is unspent.

- It is illegal for any district to spend more than its authorized budget authority. Negative unspent balance is a serious financial situation for a school district and is a violation of Iowa Code subsection 257.7(1).
- If a district has a situation where its financial condition or negative unspent balance is preventing reorganization discussions to proceed when all other factors have been resolved, the district may request that the SBRC consider modified allowable growth if necessary to make the reorganization possible.

#### **IV. Options**

Discussions concerning redefinition of the school community are often difficult as the identity of individual schools merge into a new identity for the future. This can be a very positive experience if the focus remains on the future and the expanded opportunities for students. In the 2006 study, one student stated, "We are already one school. Let's quit talking about going together and just do it."

#### **Reorganization of East Central CSD and Preston CSD.**

The 2000 feasibility study stated that full-scale merger with East Central was not received well by any of the groups in Preston. Two different themes emerged from the meetings with the groups that day. A merger with East Central would be a short-term solution, and there would need to be a merger with East Central, Preston, and Northeast. Community members with the belief that a merger needed to include a third district, specifically Northeast, commented that partnering with these districts would give students the opportunities they needed to be successful. They felt if they did not start talking about partnerships with East Central and Northeast, they would be isolated because East Central would not wait for Preston.

The 2006 feasibility study again documented more opposition to reorganization from constituents in Preston. Patrons of the East Central district appeared to be generally open to reorganization at that time.

Today, given the critical enrollment of the Preston and East Central districts and the eroding finance, particularly in the Preston District, it is doubtful reorganization would accomplish more than to buy time before another reorganization becomes necessary. This solution lacks long-term stability in education programs for students and creates a disruption to the current sharing among the three districts. This is an inappropriate intermediate step if the goal is to eventually join the Preston, East Central, and Northeast Districts. It is also inappropriate given that it was motivated after whole grade

sharing negotiations between the Northeast and East Central districts had begun earlier this year.

### **Reorganization of East Central CSD, Preston CSD, and Northeast CSD**

The 2006 study indicated that a reorganization of the three districts would provide for long-term sustainability of the districts. The history of sharing services would make this option viable and worth discussion. The Iowa Department of Education's position regarding reorganization of the three districts has not changed in the last decade. A reorganization of the three districts provides the most long-term viability and given the history of sharing among the three districts, provides the least amount of disruption to students. The focus must remain on students first and foremost.

### **Reorganization of East Central and Northeast**

The 2006 feasibility study stated that due to the reluctance of the Preston constituents to reorganize, perhaps East Central might explore reorganization with Northeast, allowing Preston to continue to share services. The primary concern for this arrangement is the long-term implications for Preston, and the 10-minute passing times, which significantly decrease the amount of instructional time available.

## **VII. CONCLUSION**

It is important to remember that above all, the mission of an Iowa school district is to provide a strong educational program for all students of the community. **This consideration is given priority over other areas of concern.** The schools are encouraged to directly address the difficult questions about the future. Discussions need to be based on solid criteria such as test data, follow-up surveys of graduates, financial outlook, feedback from parents, and needs of the community.

Given the Preston District's historic reluctance to move forward with a restructuring plan that includes all three districts, the East Central and Northeast School Districts are encouraged to move forward with grade sharing, particularly since this process began before the reorganization petition for Preston and East Central. A grade sharing agreement is a step toward a viable, stable learning environment for students.

If you have any questions, please contact me at [del.hoover@iowa.gov](mailto:del.hoover@iowa.gov) or 515-281-8402.

Sincerely,



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