

The Fiscal Impacts of Creating a Caledonia School District

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EXECUTIVE SUMMARY

In late 2007, the Caledonia Village Board approved a study by the Wisconsin Taxpayers Alliance (WISTAX) analyzing the potential *fiscal* impacts of leaving the Racine Unified School District (RUSD) and creating a new school district in the Village of Caledonia. The study was initiated in January 2008; this report is the culmination of that work.

Now in its eighth decade, WISTAX is a non-profit, nonpartisan organization dedicated to public-policy research and citizen education.

Analysis, Data and Assumptions

This report was prepared by WISTAX Research Director Dale J. Knapp and President Todd A. Berry. They used a computer model of the state's school finance system to estimate the fiscal impacts of creating a new Caledonia school district.

Data for the analysis were secured primarily from: RUSD administration; WISTAX's *SchoolFacts* database; and the state Departments of Public Instruction (DPI) and Revenue (DOR).

Assumptions were made regarding: enrollments, property values, asset and liability division, expenditures under revenue caps, state law, and school district costs. The assumptions were developed, tested, and revised to ensure reasonableness based on likely district comparables and statewide trends.

Important Insights

Critical insights were gained from this modeling process and similar projects conducted for other school districts. First, we have found

through previous studies that state laws governing general school aids, revenue limits, and division of assets and liabilities are paramount in the resulting tax and financial impacts.

While laws regarding revenue limits and school aids matter in this case, the two biggest factors driving expected tax rates in a new Caledonia school district would be the division of assets and liabilities and the size and cost of a new high school.

Key Findings

Summarized here are:

- Estimated assets and liabilities for RUSD and their division should the district be split;
- Current facilities for a new school district in Caledonia and costs associated with building a new high school; and
- Projected school tax rates and typical property tax burdens with and without a new Caledonia school district.

Assets and Liabilities. State law requires buildings to be valued based on their "value in use," but leaves that term undefined. In this study, buildings were valued using three methods: replacement value and two depreciation methods.

Replacement value provides the highest estimated values. The results of the study are based on the estimate using the slower depreciation. In terms of value, this estimate is the middle of the three.

We estimate RUSD has assets totalling \$626.1 million and liabilities totalling \$212.3 million. Given its total property value, Caledonia's share (24.0%) of net assets would be \$99.2 million. However, land and buildings in Caledonia are valued at \$54.7 million. Thus, RUSD would owe the new Caledonia school district just over \$44 million should a split occur.

Facilities. WISTAX researchers contacted experts in the school construction industry to get estimates of facility needs and the associated costs. A new Caledonia district would have sufficient facilities to house K-8 students. However, a new high school would be needed at a cost ranging from \$55 million to \$73 million. We assume a facility could be built and furnished for \$65 million.

School Taxes. To estimate the fiscal impact of Caledonia leaving RUSD, we forecast school taxes under the status quo and compare them to projected school taxes should a split occur.

Due to state-mandated revenue limits, school property tax rates in RUSD will generally decline through 2015-16. There will likely be a one-year increase in 2009-10 due to a recently-passed maintenance referendum.

School tax rates in a new Caledonia district would show a similar pattern, but would be higher. We estimate school tax rates would be higher by about \$1.50 per \$1,000 of value initially, though the gap would fall to \$.80 per \$1,000 by 2015-16.

Residents in a new Caledonia district would pay, on average, \$111 in additional school property taxes for each \$100,000 worth of property. That additional school tax is projected to range from \$88 to \$170 depending on the year and the property's growth in value. Slower-growing properties would see smaller increases, while faster-appreciating ones would experience larger increases. The additional school tax is due almost entirely to the construction of a new high school.

Asset/Liability Delay. WISTAX researchers recognized the possibility of a delay in the division of assets and liabilities. The recent experience of Shawano and Gresham highlight the difficulties in valuing school district property.

Should a delay occur, a new Caledonia district would have to borrow additional funds to operate in its first year. This would increase the school tax rate by an additional \$1.50 per \$1,000 of property value. The rate would be approximately \$3 higher than in RUSD. However, the school tax rate would fall once a settlement occurred.

■ INTRODUCTION

Creating a new school district by detaching from an existing district, as is being considered in the Village of Caledonia, is a complex task. It takes individual and community will, knowledge of state law and processes, and an understanding of the implications of such a move, including the financial impacts on taxpayers.

Since 2001, three Wisconsin school districts have seriously considered splitting—creating two new districts from one. In each instance, the Wisconsin Taxpayers Alliance (WISTAX) was hired to examine the financial implications of such a move. After considering the financial impacts, two districts (Middleton-Cross Plains in 2001 and Monona Grove in 2005), decided against a split. A third (Shawano-Gresham in 2005) recently split. The two new, smaller school districts—Shawano School District and Gresham School District—began operating on July 1, 2007.

Recent community concerns about local education led the Caledonia Village Board (board) to explore the possibility of leaving the Racine Unified School District (RUSD) and creating a new school district. The board approached WISTAX about analyzing the financial implications of leaving RUSD.

WISTAX researchers addressed the Caledonia Planning Commission and Village Board to outline their expertise. A proposal was submitted to the board in late September 2007. The study was approved at the board's annual budget meeting and research began in January 2008.

Parameters

This study provides estimates of the current and future finances of RUSD and for a hypo-

thetical Caledonia School District (CSD). If the reorganization began immediately, the new district could not be created before July 1, 2010 (see page 23 for a timeline).

The study assumes a new district would begin operating in the 2008-09 school year. Financial projections are provided through 2015-16, with finances for a new CSD compared to those in RUSD as now configured. Caledonia residents would ultimately need to evaluate the differences between the CSD and RUSD estimates. Timing does not appreciably impact study results.

The report focuses on the school property tax rate and property taxes for a typical homeowner. The study also discusses other financial measures, and compares a new Caledonia district with similarly-sized districts statewide.

Tax impacts are, of course, just one factor village residents must consider when deciding whether to create a new district. Among others that might be considered are program offerings, the impact on current students, and the economic impact on the community. This study does not address these issues.

Methods

The primary analytical tool is a detailed model of state general school aids and school district revenue limits. The model uses information on school district budgets, enrollments, equalized property values, and state aid policies to estimate a district's revenue limit, school aid, and tax rate.

Data Collection. WISTAX began by collecting current and past information on enrollment, property values, revenues, and spending. Asset and liability estimates were also developed, with

This study reports on the financial implications of the Village of Caledonia splitting from RUSD and creating a new school district.

Care was taken to make accurate assumptions about future enrollments, property values, and state school finance law.

allocation between the two districts based on equalized (market) property values.

Forecasts. Future enrollments, property values, revenues, and spending were then estimated for RUSD and for the new CSD. When possible, study estimates for RUSD were compared with any forecasts developed by the Racine district.

Assumptions regarding state school finance policy were also required. The study assumes no changes to the school aid formula or to state-mandated revenue limits. However, assumptions were made about the parameters of school finance law. Those assumptions are discussed in the next section.

A challenging aspect of analyzing district divisions is interpreting state law regarding state aid calculations, revenue limits, and the division of assets and liabilities for a newly-created school district. For prior studies, WISTAX staff met with Wisconsin Department of Public Instruction (DPI) officials to clarify relevant aspects of state law. In addition, the limited experience of the newly-created Gresham School District informs the study.

Assumptions

Considerable time was spent developing and testing assumptions. These are outlined here and detailed in Appendix A.

Enrollments. RUSD enrollments declined steadily from 1994-95 through 2000-01. Since then, they have fluctuated between 21,000 and 21,750. Based on all information available, WISTAX projects a gradual decline in student numbers through 2011-12, followed by slow

growth. We project 2015-16 enrollments will be about the same as in 2007-08.

Enrollment projections for Caledonia were more difficult due to lack of historical information. We know there were 3,063 Caledonia students enrolled in RUSD in 2007-08, and an additional 204 students who open-enrolled in other districts. An unknown number of Caledonia students attended private schools in the area.

Using DPI information on private schools in Caledonia and limited data from a survey of private schools in Caledonia and surrounding municipalities, we estimate there are approximately 360 Caledonia students attending private schools.

The study assumes that the Caledonia district will, over time, attract some of the private school students and some of the open enrollment students. Thus, district enrollment is assumed to gradually increase from its current level to 3,831 in 2015-16.

Property Values. Statewide, equalized property values grew an average of 8.5% annually from 2000 through 2006. Growth slowed to 5.8% in 2007. We project statewide values will increase 5.0% in 2008, 6% in 2009, and 7.0% per year after that. Based on historic trends, RUSD property values are projected to grow slower: 4.5% in 2008; 5.4% in 2009; and 6.3% thereafter.

From 2000 through 2007, property values in Caledonia grew slightly faster than the state average. We expect that to continue, with property values in the village expected to grow 5.2% in 2008, 6.2% in 2009, and 7.2% thereafter.

State Aid Formula. To calculate state aid, assumptions about state law had to be made. The state's equalization aid formula is complex. WISTAX researchers used projections of total

state aid, property values, and per student costs to forecast the parameters of the formula, such as cost ceilings and aid guarantees.

Revenue Limits. Per student increases in state revenue caps are tied to annual inflation rates. With inflation rising, we assume the per student limits will increase 4.0% in 2008-09, and then slowly decelerate to 3.0% in 2012-13 and thereafter.

Assets and Liabilities. Several assumptions were made regarding division of assets and liabilities. State law requires the division of buildings to be made based on “use value.” Those values were not available. However, RUSD has replacement costs for insurance purposes, which were used instead.

Also, our reading (as well as DPI’s for previous studies) of state law is that RUSD state aids in the first year are part of the asset/liability split. These aids are based on costs from the prior-year, when Caledonia would be part of the Racine district.

However, after Gresham split from the Shawano-Gresham district, Shawano claimed these aids were not part of the divisible assets. That issue has not been resolved. This study assumes these aids are part of the assets to be divided.

A final issue in dividing assets and liabilities is RUSD’s liability for post-retirement benefits, mainly health insurance for retirees. As of July 2006, RUSD had more than \$105,000,000 in estimated future health insurance liabilities for retirees.

Assumptions regarding the division of assets and liabilities begin on page nine.

The remainder of the study consists of four sections. In the next section, facility needs are examined. Then, the asset/liability split is examined in detail. These are critical pieces of information for studying the tax impact, which follows. Finally, finances for the proposed district are examined, including costs for transportation and special education.

The timeliness of the division of assets and liabilities would be critical. Delays could significantly raise school property taxes in the district’s early years.

■ FACILITIES

Two factors play a large role in determining the tax impact of a new Caledonia school district: new buildings and the asset/liability split. The facility issue is addressed here, assets and liabilities in the next section.

Current Facilities

There are four public school buildings in Caledonia: W. Allen Gifford Elementary, Olympia Brown Elementary and Real School, North Park Elementary, and Caddy Vista, which is not being used by RUSD. The schools have capacity for 2,178 students.

Gifford Elementary. Gifford Elementary is located on approximately 24 acres in Franksville. The school was built in 1967 as a middle school and has had no additions.

Gifford currently houses 925 four-year old kindergartners (K4) through sixth graders. The building has 141,141 square feet and capacity for 1,025 students.

The school has an auditorium with seating for 498, as well as a gymnasium with locker rooms and bleachers that can seat nearly 400. The school has a large cafeteria and prepares food for all RUSD elementary schools.

Olympia Brown. Olympia Brown Elementary is a dual-purpose building located on 33 acres of Lake Michigan shore. The building houses 505 elementary students (K4-6) along with 242 middle and high school students who attend The Real School, a RUSD charter school. The site also includes a small building currently used as a diagnostic center.

The school was built in 1956 by Dominican College of Racine. There were additions in 1960 (diagnostic center building) and 1970 (large

fieldhouse). The main building has 120,720 square feet. The diagnostic center has an additional 18,000 square feet.

The school building is equipped with a large fieldhouse, an auditorium that seats 375, music rooms, an art room, a multimedia library, computer labs, a science center, and a greenhouse.

North Park. North Park Elementary is much smaller than the previous two. The building has 43,815 square feet and houses 500 students. According to RUSD, its capacity is 496.

The building was constructed in 1952 and had additions in 1958, 1962, 1965, and 1977. The school is situated on approximately six acres of land. It has a small gym that doubles as a cafeteria for lunch.

Caddy Vista. Caddy Vista is currently being used for storage by RUSD. The building was constructed in 1956 and has had no additions. Caddy Vista is situated on 10.5 acres and has 35,447 square feet. According to RUSD, the school can house 300 students.

Capacity and School Configuration. If all four schools are used, CSD would initially have buildings for approximately 2,500 students. The district could use either Gifford, which was originally built as a middle school, or Olympia Brown as a middle school. Additionally, the district could use the small building on the Olympia Brown campus for administration, or it could use part of a new high school for that purpose.

Initially, the district would have slightly fewer than 650 students in grades six through eight. Olympia has capacity for 637 students, but currently houses 747. Gifford has capacity for 1,025, and thus would be able to house grades five through eight (just over 800 students).

Current RUSD facilities located in Caledonia could house all of the village's kindergartners through eighth graders.

Building sizes and costs were estimated using expert advice from Bray Associates Architects, Inc. and J.P. Cullen & Sons, Inc.

If Gifford were used as the middle school, the remaining three elementary schools have capacity for more than 1,400 students. Initially, the district would have approximately 1,200 students in fourth grade or below who could be educated in these schools. This configuration is detailed in the table below. If Olympia Brown were used as a middle school, the remaining three schools would have capacity for about 1,700 and an initial student population (fifth grade and below) of about 1,400.

Building Needs

Under either of these scenarios, Caledonia would only have to build a high school. Initially, the district would have approximately 1,200 students of high school age, including those open-enrolling in other districts. By 2020, the district is expected to have approximately 1,500 high school students. Thus, the district would need to build a high school with a capacity of at least 1,500, and more likely 1,600, students.

In addition to educational space, a new high school facility would typically include the following:

- Gymnasium/fieldhouse;
- Auditorium;

- Football field and track;
- Baseball and softball fields;

The facility could also include a pool, although that is not included in the estimates.

High School Costs. RUSD owns a 30-acre parcel of land in the Village of Caledonia that would become part of CSD. The property abuts a 20-acre parcel that is owned by the village. This property is designated as village park land

A new high school could be built on the 30-acre parcel at no cost to the district. However, this would limit the athletic facilities that could be built on-site. There are baseball diamonds at Haban Park that CSD may be able to use. In addition, there are two baseball fields at Gifford that could be converted to softball diamonds.

Alternatively, the village could agree to sell the 20-acre parcel to the school district, and the combined 50-acre piece of property could be used to build a new high school facility. The cost to the district would be the amount the village asks for the 20-acre parcel.

To estimate the size and cost of a new high school, we contacted individuals involved in designing and building schools and examined the costs in districts that have recently considered new high schools.

Size. We contacted Bray Associates Architects, Inc. in Sheboygan to get an estimate of the square footage CSD would need. Bray is a recognized specialist in school design. They suggested 365,000 square feet for a new 1,600-student high school, or 315,400 square feet for a new high school for 1,200 students and core space for 1,600.

Possible Caledonia School Configuration

School	Yr. Built	Capacity	07-08 RUSD		07-08 Caledonia	
			Enroll.	Grades	Enroll.	Grades
Olympia Brown	1956	637	747	K4-12	549	K4-4
North Park	1952	496	500	K-5	427	K4-4
Caddy Vista	1956	300	0	na	258	K4-4
Gifford Elementary	1967	1,025	925	K4-6	871	5-8
New High School		1,600	0	na	1,162	9-12

In 2007, the Franklin school district asked voters to approve construction of a new high school. The district estimated it would need 200 square feet per student. That translates to 320,000 square feet for a 1,600 student building.

Finally, the New London School District recently passed a referendum to build a new 295,000 square foot high school. According to the district, the school will have classroom space for 1,200 students (245 square feet per student), while the remainder of the school will have space for 1,600 students (184 square feet per student).

Cost. The cost of a new high school would include the cost to construct the building and the costs associated with furnishing it. To estimate costs, we initially contacted J.P. Cullen & Sons, Inc., a major school construction company. Offi-

cially there estimated construction costs ranging from \$175 to \$200 per square foot.

The Franklin School District estimated it would cost \$175 per square foot to build and furnish their school. New London officials estimate building costs at \$163 per square foot and furnishing costs at \$40 per square foot. Their total, which includes athletic facilities, was \$203 per square foot.

Combining Bray's space estimates with Cullen's costs yields a total cost ranging from \$55 million to \$73 million. Estimates using Franklin's (\$56 million) and New London's (\$65 million) experiences fall in that range.

Our estimates assume construction of a new high school would cost \$65 million, but we also show the tax impact of lower or higher costs.

Caledonia would need to build a new high school at an estimated cost of \$65 million.

■ ASSET/LIABILITY SPLIT

A second factor in the fiscal impacts is the discussion of the assets and liabilities. State law requires these to be divided based on equalized property values.

Based on estimated 2008 values, Caledonia would have 24.0% of the district total. Thus, it would have claim to 24% of the district's assets and be responsible for the same percentage of liabilities. However, agreement on the value of some of the assets and liabilities might be difficult.

There are two main issues in the asset split: the valuing of buildings and land; and the division of state aid. A third issue—whether or not state aids are included in the split—has not been completely resolved.

Assets

The table on page 10 shows assets and liabilities for RUSD along with Caledonia's share if a split occurred. Current assets are mainly cash, investments, and receivables owed by other entities. Buildings, their contents, and land are the main capital assets. Those are discussed below. Other capital assets are small and include site improvements and work in progress.

Buildings. State law provides that the value of buildings and land be “the value of the use of the buildings and sites” (Wis. Statutes 66.0235 (3)(b)). However, state law does not define the value in use.

The Shawano-Gresham School District split effective July 1, 2007. However, as of May 2008, the parties had not agreed on the values of the buildings.

RUSD values its buildings in two ways. In the statement of net assets in its annual report, it

provides “book values” for land, improvements, and equipment/furniture. According to the report, these assets “are recorded at historical cost or estimated historical cost if purchased or constructed.” Thus, they do not reflect the current fair-market value or use-value of the assets.

RUSD also provided a statement of values for the state's local government property insurance fund. These are values placed on the buildings and their contents for insurance purposes, and approximate replacement costs.

Since RUSD has 17 buildings built in 1935 or earlier, the replacement cost of these buildings is likely much higher than the “value in use.” Since there might be disagreement over use values, we provide two estimates of building values. Rather than use the replacement values, we depreciate the value of buildings based on age.

Based on insurance estimates, the district has \$389.4 million of buildings and about \$74 million of furniture and equipment. Caledonia's share (24.0%) of that figure would be \$111.1 million (see table on page 10). The buildings and their contents located in Caledonia are valued at \$55.9 million.

We also provide two estimates in which values were depreciated based on age. In the first, a straight-line depreciation method was used. Under this method, RUSD's oldest building was valued at 20% of its replacement value. Its newest building, which was built in 1992, was valued at 92% of replacement cost. As the table on page 10 shows, this reduced the value of RUSD's assets by \$142 million.

The second depreciation method assumes property depreciates more rapidly during its first 50 years. A 50-year old building is valued at 30%

Several depreciation methods were used to estimate the value of RUSD's buildings.

Land values were estimated using the values of properties near each parcel.

of replacement cost, compared to 73% using the prior method. Buildings older than 50 years continue to depreciate, but at a slower rate. RUSD's oldest building is valued at 20% of replacement cost, the same as its value using the prior method.

As the table below shows, using this valuation method results in further reduction in the value of RUSD's assets, to \$295.0 million.

Land. Land values also need to be estimated. Using the Racine County website, we obtained estimated land values for properties around each of the schools. The site provides dimensions and assessed values for parcels subject to the property tax.

Using information for neighboring properties, we estimated total land value for parcels owned by RUSD. As the table below shows, estimated land values are just over \$48 million. Approximately \$11.6 million is in Caledonia.

State Aids. A second asset question concerns division of state aids. Aids are paid to school

districts based on prior-year costs. After consulting with DPI during previous studies, it was agreed that, since these dollars were based on prior-year costs, they should be included in division of assets.

However, the Shawano-Gresham experience raises some questions. The Shawano School Board claims that these assets should not be included in the asset division. As of May 2008, agreement had not been reached on the disposition of these aids.

For this study, we assume that aids are included in the asset/liability split. In 2008-09, RUSD would get an estimated \$158.3 million in state aids. Caledonia's share would be \$37.9 million.

Liabilities

RUSD had approximately \$212.3 million in liabilities. Of that total, \$104.3 was long-term bonds, short-term borrowings, and accounts payable. The remainder was unfunded post-retire-

Alternative Estimates of Caledonia's Shares of the Asset/Liability Split

	RUSD			Caledonia Shares		
	Insured Values	St. Line Depr.	Alt. Depr.	Insured Values	St. Line Depr.	Alt. Depr.
Current Assets	\$93,425,798	\$93,425,798	\$93,425,798	\$22,386,114	\$22,386,114	\$22,386,114
Buildings/Content	\$463,576,873	\$321,877,963	\$203,074,668	\$111,079,433	\$77,126,413	\$48,659,500
Land	\$48,277,804	\$48,277,804	\$48,277,804	\$11,568,030	\$11,568,030	\$11,568,030
Other Cap.Assets	\$4,296,475	\$4,296,475	\$4,296,475	\$1,029,495	\$1,029,495	\$1,029,495
RUSD Aids	\$158,251,355	\$158,251,355	\$158,251,355	\$37,919,214	\$37,919,214	\$37,919,214
Total	\$767,828,305	\$626,129,394	\$507,326,100	\$183,982,285	\$150,029,266	\$121,562,353
Liabilities	\$104,307,458	\$104,307,458	\$104,307,458	\$24,993,510	\$24,993,510	\$24,993,510
OPEBs	\$108,004,748	\$108,004,748	\$108,004,748	\$25,879,432	\$25,879,432	\$25,879,432
Build's/Cont. in Cal.	na	na	na	\$55,896,108	\$43,634,691	\$24,344,488
Land in Cal.	na	na	na	\$11,090,074	\$11,090,074	\$11,090,074
Total	\$212,312,206	\$212,312,206	\$212,312,206	\$117,859,124	\$105,597,707	\$86,307,504
Net Assets/Owed to Caledonia	\$555,516,099	\$413,817,188	\$295,013,894	\$66,123,161	\$44,431,558	\$35,254,849

ment benefits (OPEBs). CSD would owe RUSD \$50.9 million for its share of these liabilities. In addition, the buildings in Caledonia are valued at \$43.6 million, and the land at \$11.1 million.

Owed to Caledonia

To estimate the amount Caledonia would receive or owe if it left RUSD, asset values need to be totalled. For this report, we use the middle estimate, or the values calculated using straight line depreciation. These estimates are more conservative than those using replacement costs, but

not as pessimistic as the final estimates. Based on these estimates, Caledonia's share of total assets would be \$150.0 million.

When total liabilities (\$105.6 million), which include the value of property located in Caledonia, are subtracted from Caledonia's \$150.0 million asset share, RUSD would owe CSD \$44.4 million, an amount that could range from \$35.3 million to \$66.1 million, depending on how buildings are valued.

Depending on how buildings are valued, RUSD would owe a new Caledonia district between \$35 million and \$66 million in the asset/liability split.

■ CSD BUDGET AND COMPARABLE DISTRICTS

In addition to dealing with building costs and the asset/liability division, CSD will also need to fund any state aid it would otherwise receive. There are two types of aid districts receive from the state. General aid is paid based on a district's per student spending and its property wealth. General aid is nearly 90% of all state aids.

Categorical aid is state assistance in specific areas. The largest categorical aid is for special education, and is paid based on a district's special education expenditures. Other categorical aid include assistance for transportation, bilingual education, and school lunch.

State aid is paid to school districts based on prior year costs. Thus, CSD would not be aided in its first year of operation.

General Aids

A school district's revenue limit is the amount of money it can raise through property taxes and general state aid. The amount of school property tax a district can levy is calculated by subtracting state aids from the district's total revenue limit.

Since CSD would not be aided in its first year, it would have two options. First, it could fund its entire revenue limit with property taxes. However, this would more than double school taxes in Caledonia in the first year. In subsequent years, the school tax rate would return to its "normal" level as CSD would receive general aids from the state.

Alternatively, CSD could borrow to "replace" general aid. Just under 50% of CSD's revenue limit would typically be funded with state aid. Given the district's estimated \$31 million first-year revenue limit, approximately \$14.9 million would

typically be state aid. The district could use other funds to replace this aid and reduce the first-year school tax rate. We assume the district uses proceeds from the asset/liability split to "replace" first-year aid.

Categorical Aids

A district's categorical aid is more difficult to predict. To estimate CSD's categorical aid, we examine the experience of similar districts.

Six districts statewide were most similar to a new Caledonia district based on the following criteria: district size, revenue limit per student, property values per student, average income, percent of students eligible for free or reduced lunch, and percent of students classified as disabled. The districts (see table on page 14) are generally in the southern part of the state. Ashwaubenon is the furthest north, near Green Bay. Caledonia would be a higher-income district than most, but the percentage of students eligible for free or reduced lunch would be similar to the comparable districts.

The percentage of CSD students identified as disabled would be above average. Based on recent figures, 17.0% of CSD students were disabled compared to a statewide average of 14.7% and a 14.8% median (half lower, half higher) of comparable districts. Elkhorn had the lowest percentage of students classified as disabled, while Stoughton had the highest

The six comparable districts received categorical aid ranging from \$189 per student in Elkhorn to \$480 per student in Stoughton. The median per student categorical aid amount for the comparable districts was \$442. We assume CSD would receive that amount. However, as men-

A new Caledonia district would not be aided in its first year. Thus it would need to find other revenue sources to replace the state aids it would typically receive.

tioned, the district would not receive categorical aid until its second year of operation.

The district would have the option of operating in the first year without these dollars. However, as the table below shows, CSD's per student revenue limit would be about \$300 below the state average. As such, it might be difficult to provide

the same opportunities as other districts without these dollars.

Therefore, we assume that CSD would also use proceeds from the asset/liability split to replace first-year categoricals.

Based on the experience of similar districts, a new Caledonia school district would receive about \$442 per student in state categorical aid.

Characteristics of Similar Districts

District	Enroll.	Free/Red. Lunch	Disabled	Income	Eq. Val. / Student	Rev. Limit Per	Categ. Aids
Ashwaubenon	2,804	16.8	15.3	\$51,189	\$588,991	\$9,084	\$446
Baraboo	2,988	22.0	16.0	\$38,308	\$512,746	\$9,351	\$431
DeForest Area	3,249	16.5	14.3	\$53,731	\$511,658	\$9,257	\$437
Elkhorn Area	2,960	16.5	10.4	\$44,687	\$570,539	\$9,083	\$189
Germantown	3,853	7.8	11.8	\$62,394	\$735,195	\$8,715	\$455
Stoughton Area	3,494	13.8	16.9	\$50,525	\$545,772	\$8,891	\$480
<i>Median</i>	<i>3,119</i>	<i>16.5</i>	<i>14.8</i>	<i>\$50,857</i>	<i>\$558,156</i>	<i>\$9,084</i>	<i>\$442</i>
Caledonia	3,337	15.6	17.0	\$61,723	\$741,788	\$9,144	\$442
K-12 Avg.	2,261	32.9	14.7	\$45,454	\$534,897	\$9,455	\$622

TAXPAYER EFFECTS

If Caledonia were to create its own school district, taxpayers in the village would likely pay higher school property taxes. Village residents would have to weigh the benefits of a new school district against the additional costs.

This section provides estimates of tax rates for RUSD—to which Caledonia residents now pay school taxes—and for a new CSD. In addition, tax bills for two property owners are reported. Individual properties within a community can increase in value at different rates. Therefore, we provide estimates for home values growing at different rates.

We examine two homes valued at \$100,000 in 2007 (for tax year 2007-08). Using this value allows for easy conversion for taxpayers with higher-valued homes. For a \$200,000 home, simply multiply the estimates by two. We assume the first home increases in value 4% for each of the first two years and 5% annually thereafter.

The second appreciates more slowly, 2% for the first two years and 3% annually thereafter.

RUSD Estimates

To understand the financial impact of dividing the current district, estimates of tax changes for RUSD as currently constituted are examined. This provides a baseline from which comparisons with a new Caledonia district can be made. The next section provides similar estimates for CSD. The two estimates are then compared to show the tax implications of a district split.

Based on estimates of future state aid and spending in RUSD, the school tax rate in the district is projected to generally decline over the next eight years. The exception is 2009-10. Voters in RUSD recently approved a referendum allowing the district to exceed its revenue limit by \$3.3 million per year for five years beginning that year.

Since spending is not aided by the state until the following year, property taxpayers pay the

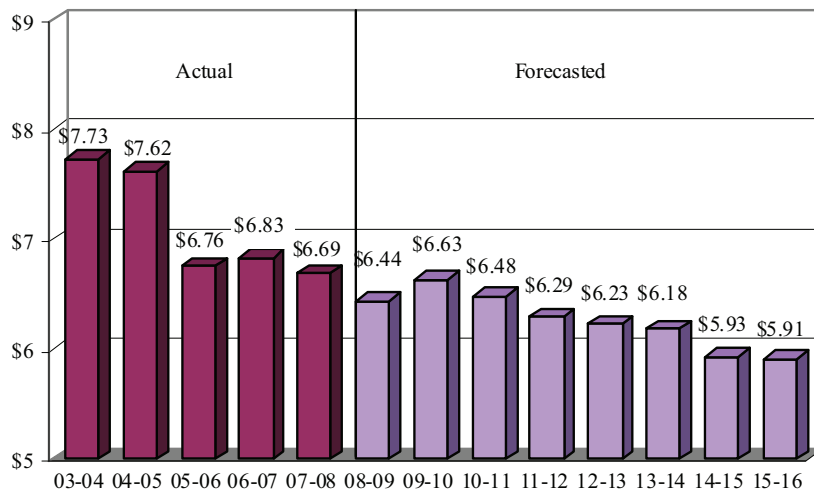
full cost in the first year. That accounts for the rate increase 2009-10. The increase is offset in the year after the referendum expires, when the district is aided on spending from the last year of the referendum. The chart at left shows the above-average decline in the property tax in 2014-15 due to this effect.

The school tax rate is projected to fall from \$6.69 per \$1,000 of

Estimated School Tax
Baseline Model: RUSD

	<u>4%/5%</u> <u>Growth</u>	<u>2%/3%</u> <u>Growth</u>
07-08	\$669	\$669
08-09	\$670	\$657
09-10	\$717	\$690
10-11	\$735	\$694
11-12	\$751	\$695
12-13	\$780	\$708
13-14	\$813	\$724
14-15	\$819	\$715
15-16	\$857	\$734

Estimated Mill Rates
Baseline Model (Current RUSD)



School property tax rates in a new Caledonia district would gradually decline from \$8.07 in its first year to \$6.71 in its eighth year.

equalized property value in 2007-08 to \$5.91 per \$1,000 in 2015-16. The reason for the gradual decline is a combination of increasing property values and state-imposed school revenue limits.

These limits generally allow district revenues to grow 2% to 4% per year, depending on changes in student populations. Although property values are projected to grow slower than in recent years, they are expected to increase faster than revenue caps. This combination, assuming state school aids keep pace, results in declining school tax rates.

However, with rising property values, the amount of school tax a typical homeowner pays would rise. As the table on page 15 shows, the estimated school tax on the faster-growing \$100,000 home is projected to increase from \$669 in 2007-08 to \$857 in 2015-16. The tax on a slower-growing home is projected to increase from \$669 to \$734.

A New Caledonia District

Several important assumptions affect the tax rate in a new Caledonia school district. One is the amount of money needed to build a new school. As previously mentioned, we estimate the cost to be \$65 million. For each \$5 million less (or more) in construction costs, the tax rate would fall (rise) from the estimates provided here by approximately

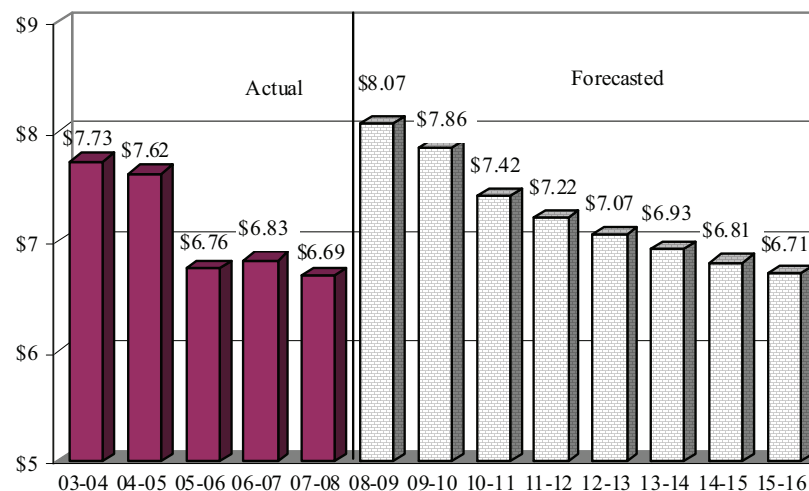
17¢ in the early years and 11¢ to 13¢ in later years.

The second factor is the amount Caledonia would receive in the asset/liability split and the timing of that payment. Our assumption about the size of the payment (\$44.4 million) is conservative. However, given the delay occurring in the Shawano-Gresham district, we cannot be sure about the timing of the payment. The estimates assume immediate payment. Estimates assuming a delay begin on page 18.

If the asset/liability split is resolved immediately, the Caledonia district would have to borrow \$40.8 million for building. The remaining \$24.2 million would be funded from the division of assets and liabilities.

As previously mentioned, a new Caledonia district would not be aided in its first year. CSD would need approximately \$14.9 million to bridge

Estimated Mill Rates
New Caledonia School District



that gap, or residents would face high school taxes in the first year. We assume the district would use \$14.9 million of the asset/liability money for this purpose. The remainder would be used to create a district fund balance, or rainy day/reserve fund (\$3.9 million), and to replace first-year categorical aid (\$1.5 million).

Estimated School Tax
New Caledonia School District,
\$100,000 Home

	<u>4%/5% Growth</u>	<u>2%/3% Growth</u>
07-08	\$669	\$669
08-09	\$840	\$823
09-10	\$850	\$817
10-11	\$843	\$795
11-12	\$861	\$797
12-13	\$885	\$803
13-14	\$911	\$812
14-15	\$941	\$822
15-16	\$972	\$834

Under these assumptions, Caledonia’s school property tax rate in the first year would be approximately \$8.07 per \$1,000 of property value (see chart on page 16). As with RUSD, the rate would gradually decline, reaching \$6.71 in 2015-16.

The table above shows estimated school property taxes for the same homes previously discussed. On the faster-growing \$100,000 home, school taxes would rise from \$669 in 2007-08 to \$972 in 2015-16. On a slower-growing home, school taxes would rise from \$669 to \$834.

Compared to RUSD

When compared to the status quo, creating a new school district in Caledonia would likely lead

to higher school property taxes. As the table below shows, on the faster-growing \$100,000 home, school property taxes would be higher by \$98 to \$170, depending on the year. On average, the increase would be \$120 per year. On a slower-appreciating \$100,000 home, the increases would average \$111, with a range from \$88 to \$167.

Estimated Tax Increases
New Caledonia School District Compared to RUSD,
\$100,000 Home

	<u>4%/5% Growth</u>	<u>2%/3% Growth</u>
07-08	\$0	\$0
08-09	\$170	\$167
09-10	\$132	\$127
10-11	\$107	\$101
11-12	\$111	\$103
12-13	\$105	\$95
13-14	\$98	\$88
14-15	\$122	\$107
15-16	\$116	\$99

For a home valued at \$200,000, the changes would be double those shown in the table.

It should be noted that the largest increase is in the first year. That increase could be “bought down” by using more than \$14.9 million of the asset/liability proceeds to replace state aids not paid in the first year. However, using more of those funds initially would also mean the district would have to borrow more to build a new high school. Thus, the tax increases in later years would be slightly higher than those shown.

The difference in school taxes between the status quo with RUSD and a new Caledonia district is due entirely to the cost of building a new school. The local property-tax cost of borrowing

School property taxes on a property currently valued at \$100,000 would be \$88 to \$170 higher in the new school district compared to the status quo.

the \$40.8 million would average about \$122 per year for a \$100,000 home. The average increase in school property taxes during the years studied would be \$117 annually.

Impact of Asset/Liability Delay

When assets and liabilities would be divided between RUSD and CSD directly impacts the previous tax forecast. It is not clear that the division would occur immediately as assumed. At press time, Shawano and Gresham had been negotiating for more than nine months without resolution.

If there were a similar delay with CSD and RUSD, initial property taxes rates in Caledonia would be higher than those shown on page 16. However, in later years, they would be slightly lower.

To demonstrate the effects of a delay, we assume the asset/liability agreement were not settled until two years after CSD creation. In that case, CSD would have to borrow the entire \$65 million for new school construction and \$14.9 million to replace the state aid it would not receive in the first year of operation. This would also leave the district without a fund balance. To make fair comparisons with the prior estimates, we assume

the district borrows an additional \$3.9 million to create a fund balance/reserve account. It also borrows an additional \$1.5 million to replace the categorical aid it does not receive in the first year.

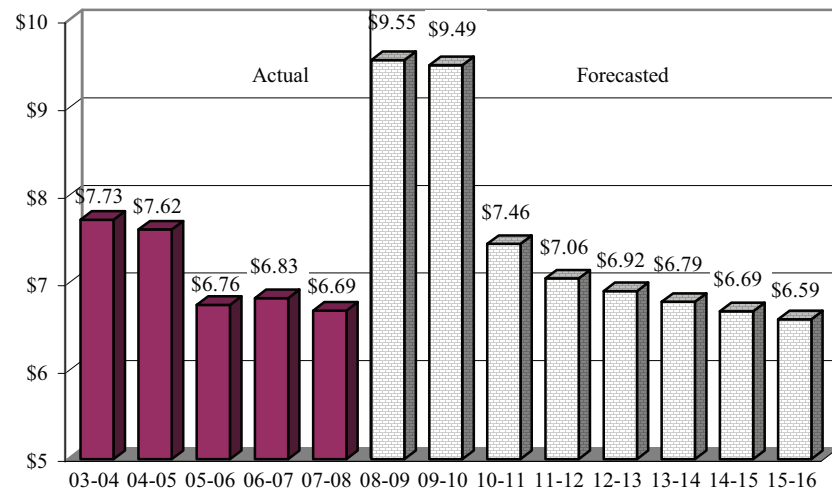
If the district received payment from RUSD at the end of the second year, it would be able to use the entire \$44.4 million it received to pay down a portion of its debt. This would leave CSD with \$35.6 million of long-term debt.

If the asset/liability question were not resolved quickly, the estimated first-year tax rate would be \$9.55 per \$1,000 of property value (see chart below). The rate would fall to \$9.49 in the second year and \$7.46 in the third. In subsequent years, the school tax rate would gradually fall to \$6.59 by 2015-16.

The tax rate in the first two years would be significantly higher than under the assumption of

A delay in resolving the division of assets and liabilities would cause school tax rates to be approximately \$1.50 higher in the first several years, as Caledonia would have to borrow more for construction and for operating expenses.

Estimated Mill Rates
New Caledonia School District, With Two-Year Asset/Liability Delay



immediate payment. The rate would be similar in the third year, and then lower in subsequent years.

If the asset/liability split were delayed, the Caledonia taxpayer with a \$100,000 home would pay about \$310 more each year for the first two years compared the taxes paid to RUSD (see

table below). School taxes would be about \$160 more compared to immediate payment of asset/liability amounts.

In years four and later, the property tax would be about \$17 less under the delay than under immediate payment, but would still be \$70 to \$100 higher than if Caledonia remained in RUSD.

Estimated School Tax
New Caledonia School District With Delayed Asset/Liab. Pmt.,
\$100,000 Home

	Est. Taxes		Change From:			
			RUSD		Immed. Pmt.	
	4%/5% Growth	2%/3% Growth	4%/5% Growth	2%/3% Growth	4%/5% Growth	2%/3% Growth
07-08	\$669	\$669	\$0	\$0	\$0	\$0
08-09	993	974	324	317	\$154	\$151
09-10	1027	988	310	298	\$177	\$171
10-11	847	799	111	105	\$4	\$4
11-12	842	779	91	85	-\$19	-\$18
12-13	866	786	86	78	-\$19	-\$17
13-14	893	795	80	71	-\$18	-\$16
14-15	923	806	104	91	-\$18	-\$15
15-16	956	819	99	85	-\$17	-\$15

■ STEPS TO CREATE A SCHOOL DISTRICT

The process to create a new school district is outlined in state statutes (Wis. Statutes 117.105). We provide a summary here. A flow chart begins on page 23.

Initiation of the Process

The process begins in one of two ways. First, before July 1 of any year, the RUSD board can adopt a resolution to consider creation of a new district. Alternatively, a petition, signed by at least 20% of the total number of electors in the existing district, can be filed with RUSD before July 1.

As of the 2000 census, there were 136,485 residents of the municipalities comprising RUSD. Of those, 99,945 were of voting age. Thus, approximately 20,000 signatures would be needed to begin the process.

School Board Actions

Before determining the boundaries of a new district and the allocation of assets and liabilities, the RUSD board must hold a public hearing on the reorganization. By October 15, the RUSD board may adopt a resolution outlining the boundaries of the new district and the allocation of assets and liabilities. If it adopts such a resolution, the board has until January 15 to adopt a resolution ordering or denying the creation of the new district.

If the board fails to adopt a resolution, the state School District Boundary Appeals Board (SDBAB), by the following February 15, sets boundaries and allocates assets and liabilities. RUSD would be charged for any incurred costs. Under this scenario, the RUSD board has until April 15 to adopt a resolution approving or deny-

ing creation of the new district. If the board fails to act, it is considered a denial.

SDBAB Review

The proposed creation of the new district goes to the SDBAB in two situations:

1. If the RUSD board approves the reorganization and a petition for SDBAB review is signed by at least 10% of the electors in the RUSD area that excludes Caledonia.
2. If the RUSD board denies the reorganization and a petition for SDBAB review is signed by at least 10% of the electors in the RUSD area.

The petition must be filed by February 15 if the RUSD board adopted a resolution outlining boundaries and asset/liability division by October 15. The deadline is May 15 if the SDBAB determined the boundaries and division of assets and liabilities.

If the SDBAB receives a petition for review, it must hold a public hearing on the proposed reorganization. If the RUSD board adopted a resolution establishing boundaries and division of assets and liabilities, the SDBAB can modify that resolution by May 15. If it does so, the RUSD board has until June 15 to grant or deny the proposed organization as modified.

By August 1, the SDBAB must issue an order either granting or denying the proposed reorganization. If it denies it, the process ends. If it approves the reorganization, a referendum is held.

Referendum

Before a reorganization becomes effective, it must be approved by voters in the proposed new district (Caledonia). The referendum would occur on the Tuesday after the first Monday in

Creating a new school district is a two-year process that could involve petitions, appeals, and referenda.

If the process is undertaken and the reorganization denied, Caledonia could not initiate the process for another four years.

November (the November general election), and would take place if:

- the RUSD board approves the reorganization and no petition to the SDBAB is filed; or
- the SDBAB approves the reorganization.

A second simultaneous referendum throughout all of RUSD may be held if:

- the RUSD board denies the petition, but the SDBAB grants it, and
- a petition, signed by at least 20% of the electors in the municipalities that comprise RUSD, is filed before the second Tuesday in September.

The reorganization takes effect if approved at referendum. If there are two referenda, it must be approved by a majority of Caledonia residents and by a majority of RUSD residents. If approved, the new school district becomes effective on July 1 following the referendum.

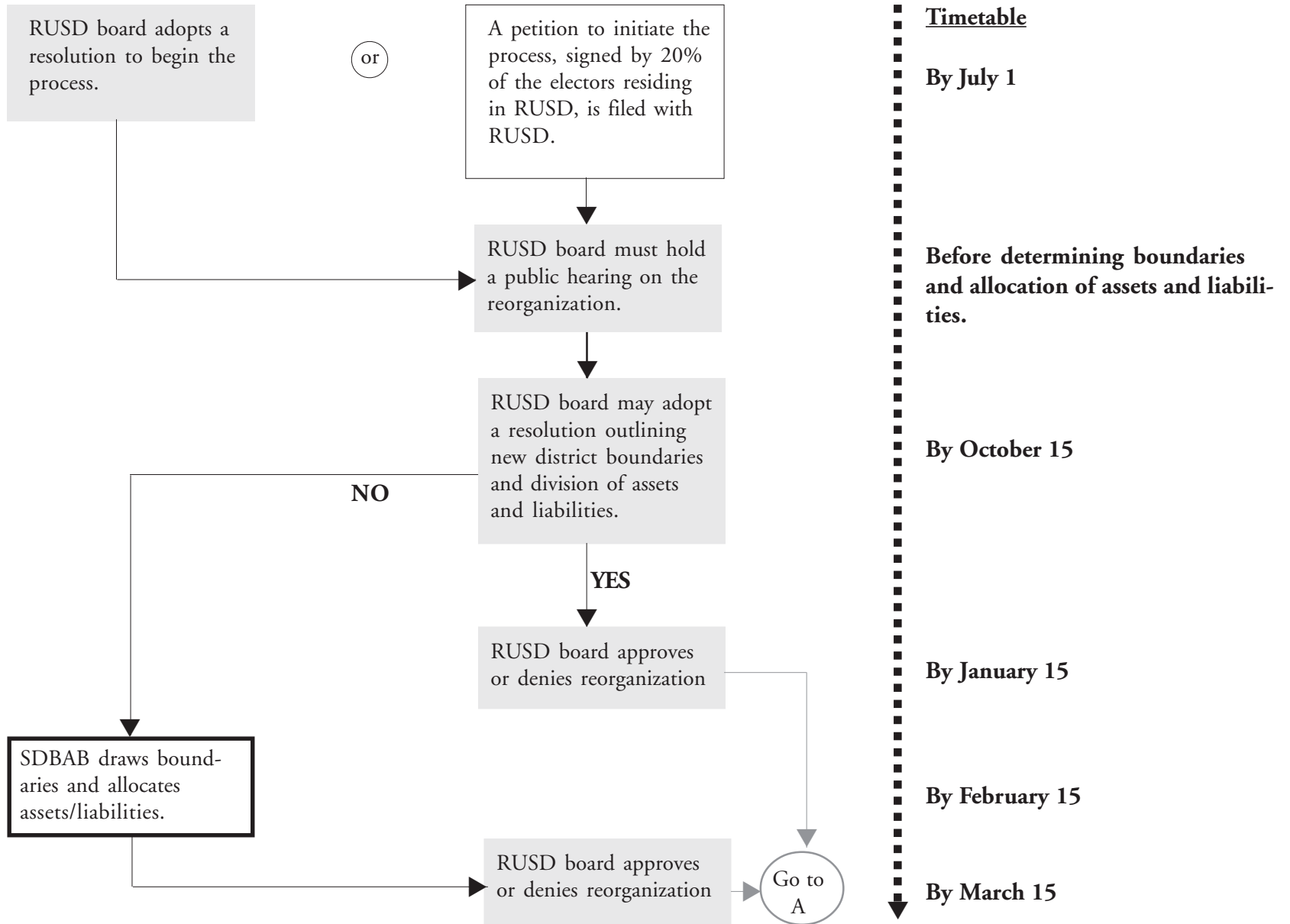
School Board Election

If the reorganization is approved at referendum, a new school board for Caledonia would be elected in the following spring election. The new school board may adopt a resolution stating the reorganization will occur effective on the second July 1 following the reorganization order. This gives the new district an additional year to organize.

Future Limitations

If the process is undertaken and the reorganization is denied, Caledonia could not begin the process for another four years, unless the RUSD board waived the limitation. If reorganization occurs, the new Caledonia district could not consolidate with another school district, or have any of its territory attached to another district, for 10 years. The lone exception is that it could “undo” the reorganization by consolidating with RUSD.

SCHOOL DISTRICT CREATION FLOW CHART



SCHOOL DISTRICT CREATION FLOW CHART, CON'T.

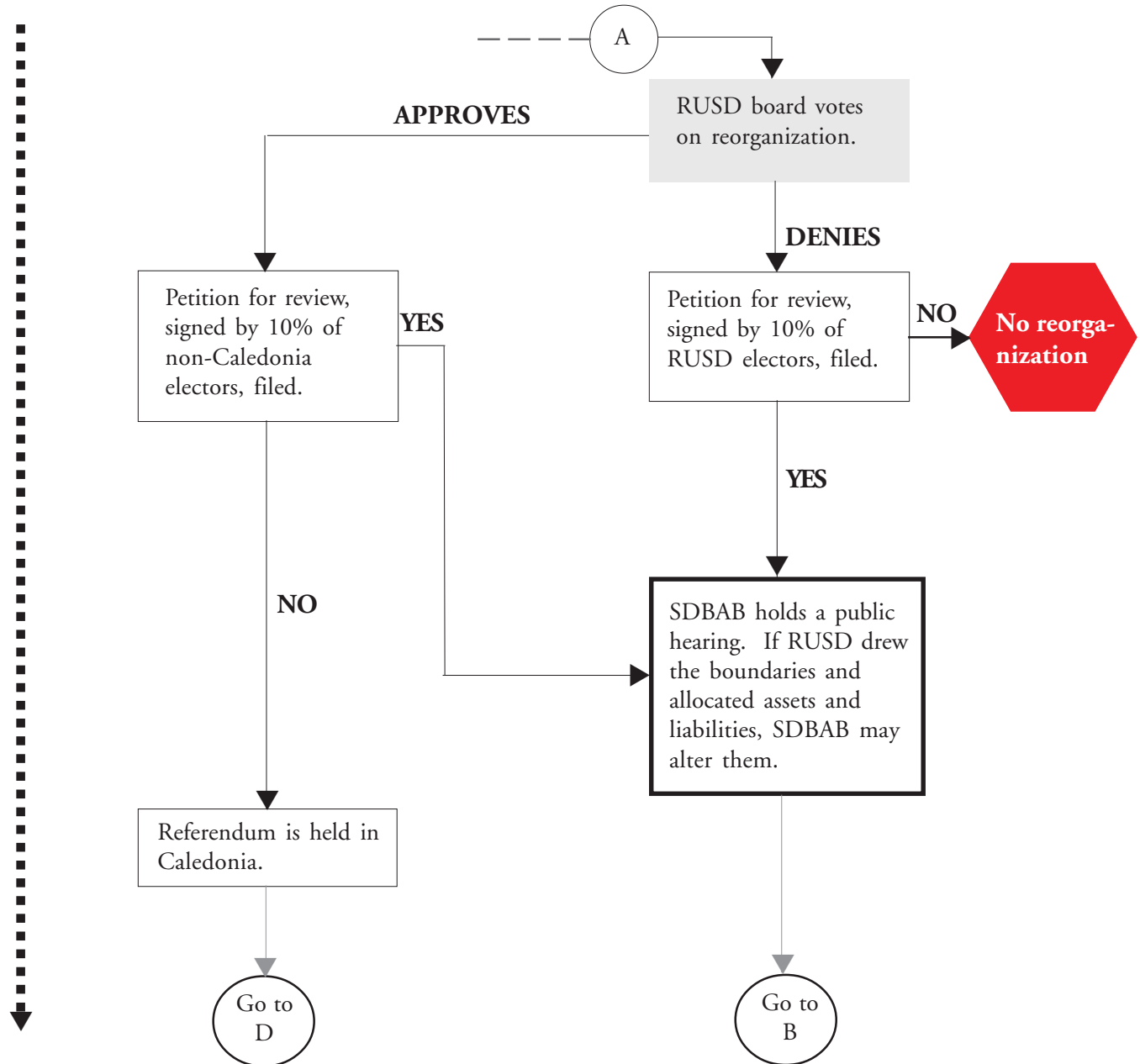
Timetable

By January 15 if RUSD board draws boundaries and allocates assets/liabilities; by April 15 if SDBAB does.

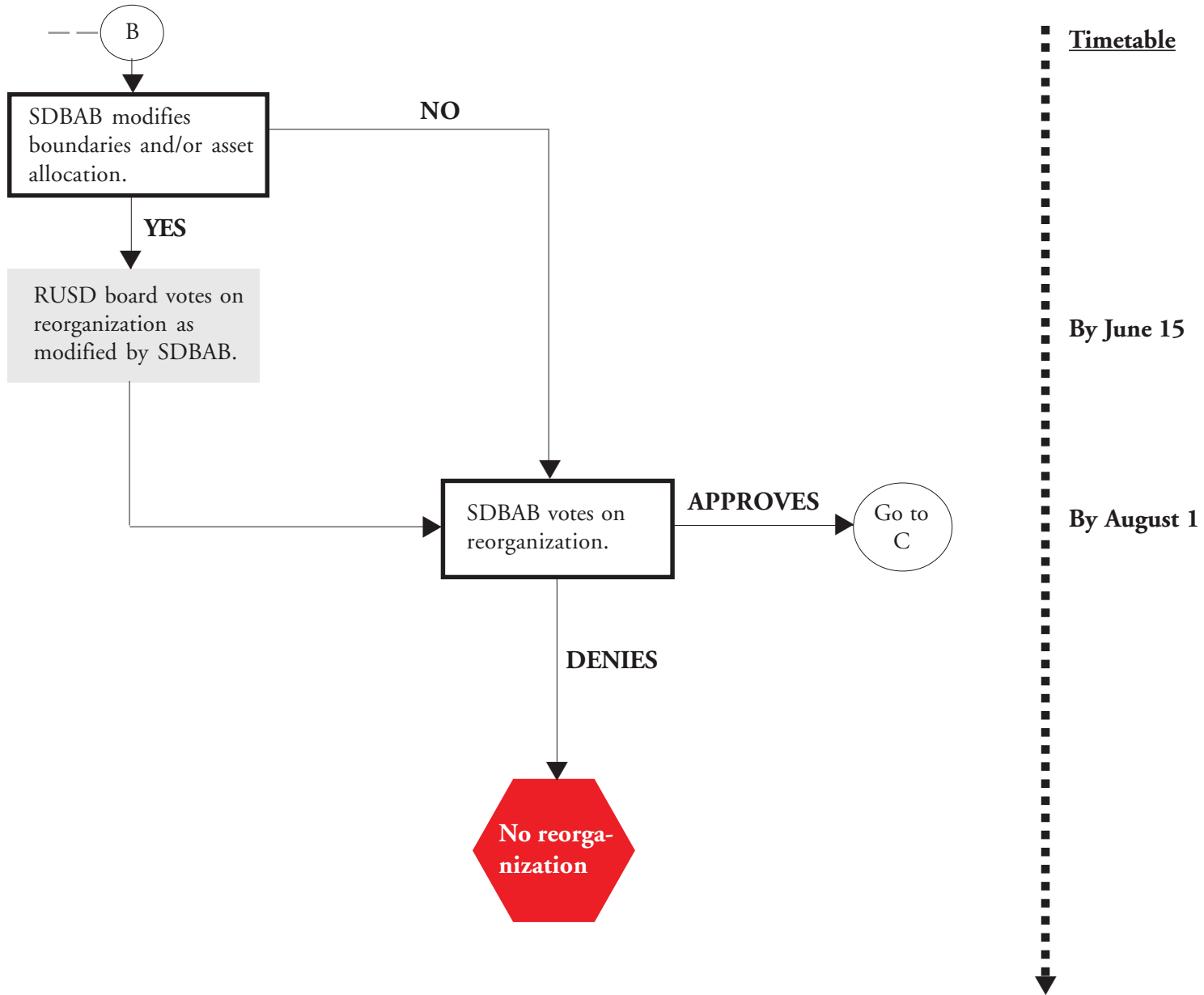
By February 15 if RUSD board draws boundaries and allocates assets/liabilities; by May 15 if SDBAB does.

By May 15.

November general election



SCHOOL DISTRICT CREATION FLOW CHART, CON'T.

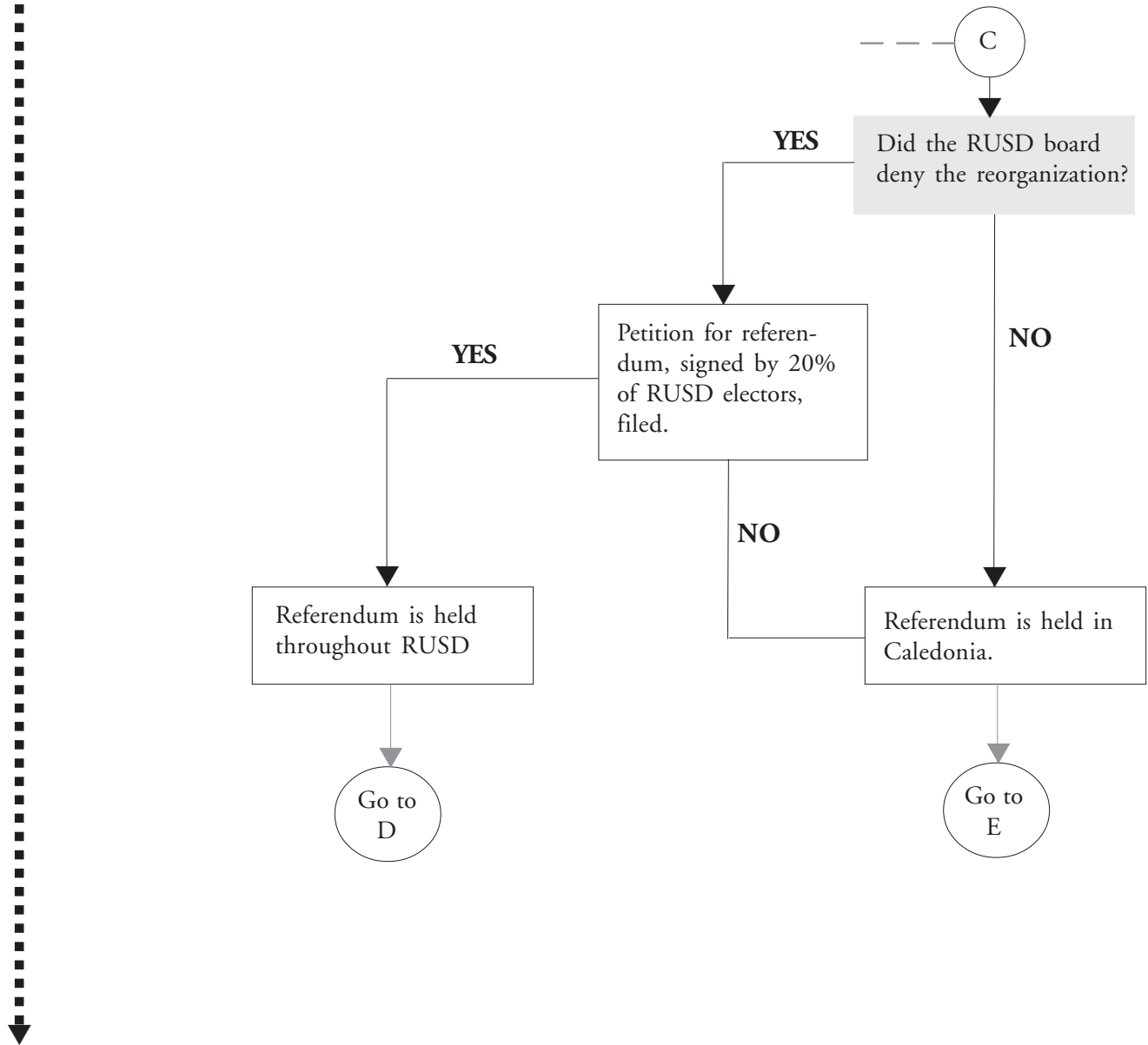


SCHOOL DISTRICT CREATION FLOW CHART, CON'T.

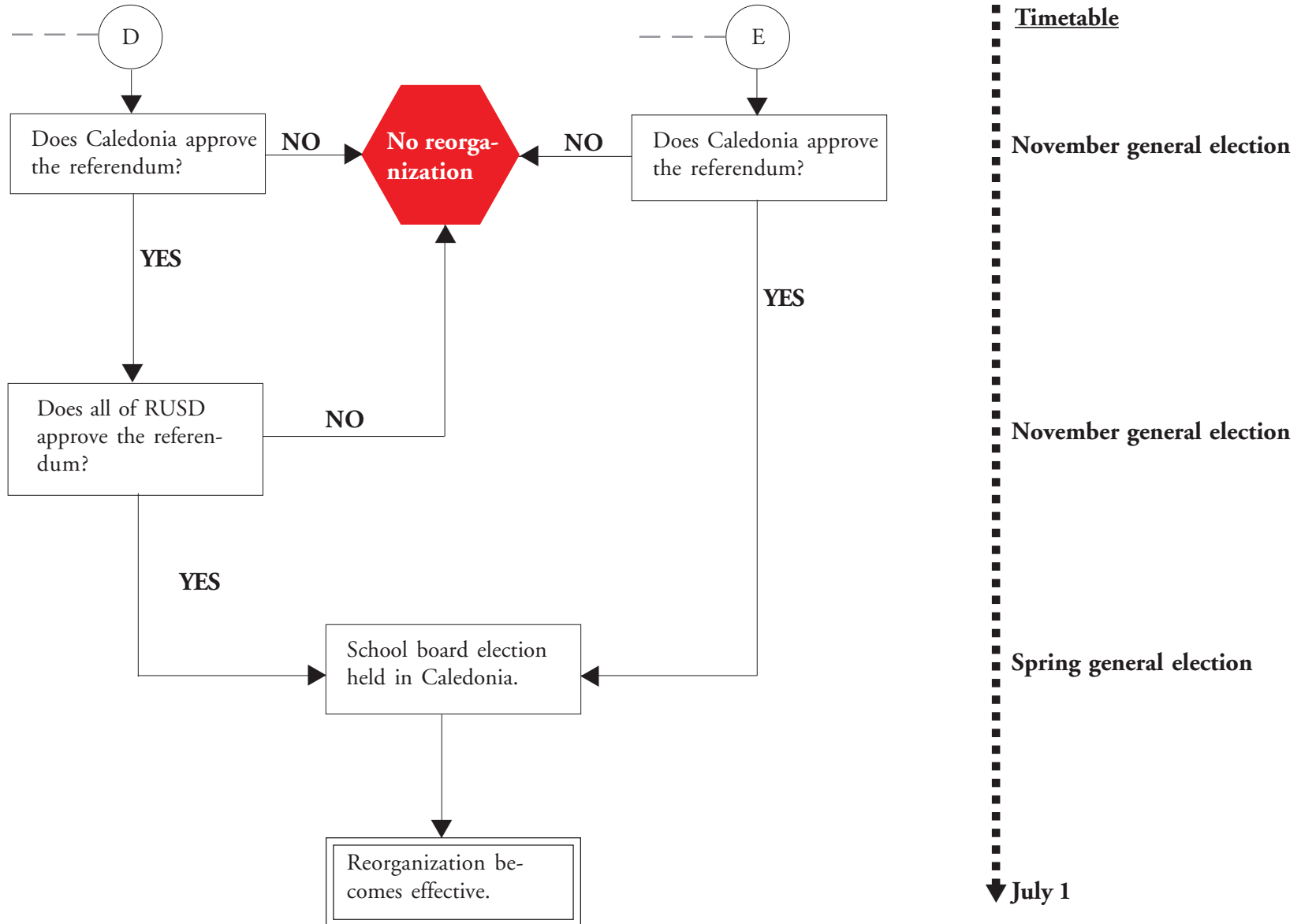
Timetable

By Second Tuesday in September

November General Election



SCHOOL DISTRICT CREATION FLOW CHART, CON'T.



■ **APPENDIX: ASSUMPTIONS AND
DETAILED FINANCIAL DATA**

Table I on page 30 details the assumptions used to model the finances of RUSD and a proposed CSD from 2006-07 through 2015-16. Table II on page 31 details the results of the modeling.

Table I: Assumptions

	Actual					Projected				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
State Aid Formula										
Primary Guarantee	\$1,930,000	\$1,930,000	\$1,930,000	\$1,930,000	\$1,930,000	\$1,930,000	\$1,930,000	\$1,930,000	\$1,930,000	\$1,930,000
Secondary Guarantee	\$1,292,558	\$1,292,558	\$1,292,558	\$1,292,558	\$1,292,558	\$1,292,558	\$1,292,558	\$1,292,558	\$1,292,558	\$1,292,558
Tertiary Guarantee	\$483,015	\$483,015	\$483,015	\$483,015	\$483,015	\$483,015	\$483,015	\$483,015	\$483,015	\$483,015
Primary Cost Ceiling	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Secondary Cost Ceiling	\$8,251	\$8,251	\$8,251	\$8,251	\$8,251	\$8,251	\$8,251	\$8,251	\$8,251	\$8,251
Per Student Revenue-Limit Increase	\$257	\$264	\$275	\$285	\$295	\$305	\$314	\$323	\$333	\$343
Enrollments										
Racine Unified	21,429	21,360	21,263	21,196	21,178	21,165	21,196	21,242	21,306	21,335
Caledonia	-	-	3,337	3,408	3,478	3,549	3,619	3,690	3,760	3,831
Property Values (\$ Millions)										
Racine Unified	\$9,117.5	\$9,541.3	\$9,970.7	\$10,509.1	\$11,171.2	\$11,874.9	\$12,623.1	\$13,418.3	\$14,263.7	\$15,162.3
Caledonia	-	-	\$2,393.2	\$2,540.2	\$2,722.5	\$2,918.2	\$3,128.0	\$3,353.1	\$3,594.5	\$3,853.3
Per Student Costs										
Racine Unified	\$8,205	\$8,943	\$9,349	\$9,625	\$9,899	\$10,191	\$10,486	\$10,792	\$11,111	\$11,458
Caledonia	-	-	\$9,990	\$10,158	\$10,331	\$10,613	\$10,904	\$11,205	\$11,516	\$11,840

Table II: Comparisons of Various Fiscal Variables

	Actual	Projected							
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<u>Racine Unified</u>									
Revenue Limit	\$191,158,878	\$199,290,347	\$208,532,525	\$214,115,699	\$219,106,340	\$225,550,373	\$232,694,007	\$237,036,026	\$244,923,901
Per Student	\$8,949	\$9,373	\$9,838	\$10,110	\$10,352	\$10,641	\$10,954	\$11,125	\$11,480
State Equalization Aid	\$130,859,417	\$138,434,141	\$142,230,562	\$145,240,805	\$147,885,500	\$150,511,170	\$153,322,912	\$156,085,717	\$158,957,269
Per Student	\$6,126	\$6,511	\$6,710	\$6,858	\$6,987	\$7,101	\$7,218	\$7,326	\$7,451
Tax under Levy	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Levy, Incl. Debt Service	\$63,835,955	\$64,201,945	\$69,704,732	\$72,344,416	\$74,746,515	\$78,607,184	\$82,973,731	\$84,587,116	\$89,626,474
Per Student	\$2,989	\$3,019	\$3,289	\$3,416	\$3,532	\$3,709	\$3,906	\$3,970	\$4,201
Tax Rate	\$6.69	\$6.44	\$6.63	\$6.48	\$6.29	\$6.23	\$6.18	\$5.93	\$5.91
<u>Caledonia</u>									
Revenue Limit	-	\$30,986,319	\$32,287,702	\$33,635,101	\$35,399,263	\$37,239,423	\$39,158,551	\$41,159,693	\$43,257,420
Per Student	-	\$9,284	\$9,474	\$9,669	\$9,975	\$10,289	\$10,612	\$10,945	\$11,292
State Equalization Aid	-	\$0	\$15,589,439	\$16,694,797	\$17,576,214	\$18,396,222	\$19,174,548	\$19,925,380	\$20,661,431
Per Student	-	\$0	\$4,574	\$4,799	\$4,952	\$5,083	\$5,196	\$5,299	\$5,393
Tax under Levy	-	\$14,900,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Levy, Incl. Debt Service	-	\$19,285,273	\$19,928,419	\$20,175,932	\$21,062,506	\$22,085,738	\$23,229,046	\$24,481,410	\$25,844,776
Per Student	-	\$5,778	\$5,848	\$5,800	\$5,935	\$6,102	\$6,295	\$6,510	\$6,746
Tax Rate	-	\$8.07	\$7.86	\$7.42	\$7.22	\$7.07	\$6.93	\$6.81	\$6.71
<u>Caledonia with Delayed Asset/Liability Agreement</u>									
Revenue Limit	-	\$30,986,319	\$32,287,702	\$33,635,101	\$35,399,263	\$37,239,423	\$39,158,551	\$41,159,693	\$43,257,420
Per Student	-	\$9,284	\$9,474	\$9,669	\$9,975	\$10,289	\$10,612	\$10,945	\$11,292
State Equalization Aid	-	\$0	\$14,966,133	\$16,173,668	\$17,631,935	\$18,447,315	\$19,221,415	\$19,964,186	\$20,692,491
Per Student	-	\$0	\$4,391	\$4,650	\$4,968	\$5,097	\$5,209	\$5,309	\$5,401
Tax under Levy	-	\$14,900,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Levy, Incl. Debt Service	-	\$22,819,234	\$24,086,078	\$20,278,202	\$20,588,431	\$21,616,204	\$22,763,669	\$24,024,040	\$25,395,110
Per Student	-	\$6,837	\$7,068	\$5,830	\$5,801	\$5,972	\$6,169	\$6,389	\$6,629
Tax Rate	-	\$9.55	\$9.49	\$7.46	\$7.06	\$6.92	\$6.79	\$6.69	\$6.59