

**THREE TOWN CONSOLIDATION FINANCIAL REVIEW**

**Durham, Freeport, Pownal**

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**Final Report**

Prepared by

Scott Poulin  
55 Baker Rd  
Freeport, Maine 04032

The Freeport, Pownal and Durham Regional Planning Committee asked me to provide an independent review of the cost sharing and financial plan for the proposed consolidated school unit. As such, I have confined the parameters of my comments to cost sharing and related financial assumptions, and not to the entire consolidation plan. My qualifications include a Bachelor of Science degree in Business Administration and 18 years of municipal and school finance experience in Maine.

With consolidation of schools there are numerous areas of financial consideration. The most important considered in this summary are; cost sharing, distribution of debt, enrollment trends, administrative savings, salaries, penalties, and financial incentives.

In reviewing cost sharing between communities, it must first be recognized that there is only a very small additional local share that is subject to any local cost sharing arrangement between member municipalities. The State of Maine Legislature has dictated under the Essential Programs and Services funding model that a required local amount based on a uniform state mil rate, must be applied to each municipality's State Equalized Property Valuation before any further cost sharing can occur. At this stage the majority of funds raised for education are assessed to individual communities in a cost-sharing model with the State of Maine. This is an important fact to recognize when we discuss cost sharing, since whether there is consolidation or not, municipalities will raise these Required Local Funds. In the case of a consolidated Freeport, Durham, and Pownal Regional School Unit, the Required Local Share that is subject to state cost sharing and not subject to a local cost sharing option is \$13,267,008 in order to obtain \$ 4,340,004 in State Subsidy. Thus, the amount of \$17,607,070 is recognized as a State Share and Required Local Contribution Share, prior to any local formula. These Required Local and State amounts are taken from the State of Maine ED 279 State Subsidy reports. ***To reiterate; The Required Local Funds assessment is applied to the communities before any further cost sharing is subject to a local option. Thus, it makes sense that the Required Local Funds be considered static since they will be raised whether the communities consolidate or not.***

Once recognized that valuation is used to calculate the Required Local share, and assess the majority of funds, the remaining amount of Additional Local

Funds may then be subject to a local cost sharing option. It should be recognized that this Additional Local amount for the municipalities of \$4,813,261, is reduced by allocated debt and tuition to \$ 3,055,679, representing a relatively small 14.79%, of the total subject amount. The division of additional local funds has historically been assessed to member communities in School Administrative Districts by valuation, pupil count or a combination of both.

The assessment of funds by these methods has always raised the philosophical discussion of whether the measure of a community's ability to pay is its property valuation or whether it should pay on a cost for service model based on the number of students.

The proposed model in this consolidation looks at the amount that each municipality pays now as its share of Additional Local Funds (less debt service and tuition) compared to the sum total, and applies that same percentage in the future. I caution the use of this method as it is not attached to any factors that would sustain a long term cost sharing model that recognizes changes in either student counts or valuation. It is rational that the proposed formula be applied in the short term. However, I would recommend that the plan should transition to a permanent cost sharing model tied to some measurable factors for stability in the new RSU. The plan does call for the cost sharing to be revisited by the Regional School Unit in five years. By then, the new Board will have had the opportunity to review the status of the cost sharing and operations. This review is a common practice in reorganization plans. It should be noted that Freeport carries the majority vote on the new RSU Board needed to send any cost sharing arrangement to referendum. Freeport also carries the super majority of registered voters in the proposed RSU needed to pass a revised cost-sharing plan in a referendum. While it envisioned that there would be one unified RSU Board acting for the benefit of all, my experience has led me to exercise caution when it comes to municipal cost sharing pressures and perceived inequities. Pownal and Durham should be cautioned that leaving the cost sharing up to a new RSU Board might provide an inequitable result in the future. There are currently no remedies that allow communities to separate once part of an RSU. The political reality is that until each community is part of the new RSU, they will think of themselves as separate. Over time that perception should diminish. ***The proposed Formula by the RPC should provide some level of confidence in the short term and recognize that each municipality's exposure is relatively minor.***

The consolidation plan assumes that debt for the high school and administrative office will be shared between the municipalities of the new RSU in the same manner and percentage as Additional Local Funds. Since neither Durham nor Pownal has a high school and the administrative office will be shared by the RSU, this sharing of cost is reasonable and advantageous to Freeport. Three communities will now share those debt costs. It is also understandable that debt voted on by constituent communities would remain there, as there was no referendum involving other communities in approval of the local share of that debt. ***The assets are also located in that community responsible for the debt. Future debt issued by the RSU would be subject to voter approval by combined majority at referendum. The handling of Debt Service appears sound.***

Enrollments are one of the most significant driving factors in school consolidation. While Durham and Pownal have long histories in tuitioning students to various schools, that choice is diminished in the plan so that Freeport benefits by increasing its student population. Durham and Pownal benefits from a permanent high school. This is a natural reorganization that is not complicated by several high schools. The entire new RSU benefits from the savings that Durham and Pownal will not have to expend funds on tuition students. Freeport has had significant enrollment decreases and further declining projections over the next 10 years. Freeport High School with a capacity of 600 students never meets its capacity when consolidated and hence, has room for additional students without adding fixed plant cost. As enrollments decrease, so will state subsidy and a significant spike in cost per pupil for Freeport High School. I would also suggest there is a point at which it could become impractical to operate a competitive high school. With 300 or fewer students that becomes reality. Durham is the only town contiguous to Freeport's border with increasing enrollments. Brunswick and Yarmouth have decreasing enrollments. In the proposed consolidation Freeport would benefit from this increasing Durham student enrollment. The cost of adding students to the high school is incremental. While Pownal is already attending the Freeport High School, Durham students would sprinkle incrementally across a schedule with little effect on cost. Fixed plant and operating costs would be divided over a larger number of students and municipalities. ***The result, even if there were some modest staffing added for core classes, would be a decrease in per pupil spending. Since there is the same amount of operating cost and plant cost, the incremental cost of \$4000 per student is therefore reasonable.*** There are economies of scale by

adding to those classes that have space available. Much as costs are not reduced on a per pupil basis, they should not be increased on a per pupil basis. It is simply a numerator and denominator calculation of cost.

Administrative savings are necessary in order to meet the requirements of the consolidation plan. There simply is not an excess of administrative overhead in Durham, Pownal, and Freeport. Especially in light of the fact that some town payroll and accounting functions provided to the schools in Freeport will need to become part of the RSU, and a system of this size may very well benefit from a Curriculum Coordinator. ***Administrative savings are modest and projected at a reasonable \$100,000 per year. Over a five-year period \$500,000 could be reallocated to direct instruction.***

Different school systems have separate collective bargaining agreements for staff salaries and benefits. The largest of these, just by the nature of schools, is teacher salaries and benefits. In school systems that have consolidated, this is a real cost, as staff will seek the higher pay scale when they become one bargaining unit in a new RSU. ***\$250,000 appears to be an accounted for "leveling up" cost. While it is suggested that these cost could be mitigated over several years and master contract negotiations, all staff in the new RSU will eventually want to be on the same pay scale.***

While many of us have not particularly liked the forced hand of the consolidation process, it is a statutory requirement and the penalties are real. In order to avoid these penalties the communities of Freeport, Pownal and Durham will need a positive vote at referendum. The penalty for not consolidating is \$468,635. This is cumulative year after year. Over five years these penalties will total a minimum of \$2,343,175. Penalties are calculated by removing  $\frac{1}{2}$  of the Administrative Allocation from the State Subsidy and are further exacerbated by each municipality being required to raise 2% more in its mil rate on the Required Local Share with the State. Rather than 6.55 mils of State equalized property value the penalty will be 6.68 mils. ***These penalties appear very significant when aligned to each comprising municipal mil rate. The penalties compound and increase over time as each municipality's property valuation rises.***

What is often missed is the financial incentive for those who comply with consolidation. There is a tendency to focus simply on the penalty. What is overlooked is that the legislature required that the penalty money be

redirected from those who did not consolidate and be put back into General Purpose Aid. The State does will not get those funds. Conservatively, the Department of Education estimates that \$20 million would be redistributed in GPA. In the case of Pownal, Freeport and Durham as a consolidated unit, the financial advantage is lower .2 mils at 6.35 instead of 6.55 mils of state equalized property value on the Required Local Cost sharing. The lower the mil rate a community has to raise as its Required Local Share with the state, the more subsidy provided as the state share. With a combined state equalized property valuation of \$1,783,200,000, and Freeport remaining above a minimum receiver of state subsidy, ***I would estimate that the additional state subsidy to this RSU would be more than \$356,640 a year. Over a five-year period, this RSU would gain more than \$1,783,200 in State subsidy through this redistribution of GPA.***

I will summarize by indicating that I have reviewed the above major cost implications of consolidation for Freeport, Durham and Pownal. It is my professional opinion that the plan developed by the Regional Planning Committee for the proposed consolidated unit captures the relevant points, has reasonable cost assumptions, and makes sound financial sense to lead these three communities forward towards long term sustainability.