

2009 Regular Legislative Session
FISCAL ANALYSIS OF PROPOSED LEGISLATION
Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: SB 574

STATUS: B-Engrossed

SUBJECT: Reconfiguring the existing ESDs; modifying the governance structure of existing ESDs

GOVERNMENT UNIT AFFECTED: Department of Education, local education agencies (education service districts, school districts)

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	<u>2009-2011</u>	<u>2011-2013</u>
EXPENDITURES: See analysis		

REVENUES:
See Legislative Revenue Impact Statement

EFFECTIVE DATE: January 1, 2010

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

ANALYSIS: Senate Bill 574 requires the reconfiguration of twenty-one education services districts (ESDs) through merger; this provision becomes operative on July 1, 2011. Only twenty ESDs are currently organized in Oregon as the Yamhill ESD voluntarily merged with the Willamette ESD in 2003.

- The measure directs five current ESDs to remain in tact; these ESDs include: Clatsop, Columbia, Tillamook and Washington Counties; Jackson, Josephine, and Klamath Counties; Lane County; Lincoln, Linn and Benton Counties; and Clackamas County.
- The measure aligns ESDs that currently stand-alone with other counties; including Multnomah County which is merged with Hood River and Wasco Counties; Douglas County which is merged with Coos and Curry Counties; Lake County which is merged with Harney County; Malheur County which is merged with Baker County; Yamhill County which is merged with Marion and Polk Counties; Wallowa County which is merged with Gilliam, Grant, Sherman, and Wheeler Counties (Grant County is also currently a stand-alone ESD merging with other counties); Jefferson County which is merged with Crook and Deschutes Counties; and Morrow County which is merged with Umatilla and Union Counties.
- The measure splits the Union-Baker ESD and merges each county with a different ESD.

The State Board of Education is directed to enter the necessary orders to establish the new education service districts (which take effect on July 1, 2011) prior to or on January 1, 2011. The State Board is directed to give names to the new ESDs and provide for the distribution of any assets and liabilities among the new ESDs. The organizing authority of each new ESD is directed to divide the ESD into five zones for the purpose of electing a board of directors; if the organizing authority is unable to reach a consensus on the five zones the State Board is directed to divide the ESD into five zones. After the zones are divided the organizing authority is directed to call an election by the component school district boards

for the purpose of electing the board of directors of the ESD. The measure provides that employees and real and personal property of an ESD that is reorganized are to be considered as employees and property of the new ESD. The measure allows the Department of Education (ODE) to charge ESDs for any excessive costs for mediation or hearings officers that may occur as a result of the measure.

Education Service Districts

There is an indeterminate fiscal impact to ESDs. ESDs anticipate incurring both expenses and savings, thereby allowing funds to be redirected to other programs/personnel, as a result of the provisions of this measure.

Governance Change:

Currently, ESDs are required to pay the counties for the cost of board member elections. The amount ESDs currently spend on county election costs ranges from \$2,000-\$150,000 per biennium, depending on the size of the ESD. Existing county election costs for a large ESD such as Multnomah ESD are approximately \$145,000; county election costs for a smaller ESD such as Southern Oregon ESD are \$30,000. This measure would align the governance process of the new ESDs with the governance process piloted by the Northwest Regional, Willamette, and High Dessert ESDs beginning in 2005 with the passage of HB 3184. HB 3184 directed the pilot ESDs to implement a new governance structure which allowed the board of directors of the pilot ESDs to divide into zones and call a special election in the ESD for the purpose of electing directors. This measure would allow all of the ESDs to form under the pilot governance structure. The organizing authority of an ESD could call for an election by the board of the component school district for the purpose of electing the board of directors of the ESD. Under the new governance structure ESDs report that they would incur minimal costs associated with printing applications and publicizing an election; the county election cost savings for several ESDs could be significant.

Savings from the combination of administrative staff:

ESDs who merge with other counties anticipate savings in other areas as well. These savings will be incurred as a result of combining the individual administrative functions of the merging ESDs. These functions include services related to management, financial accounting, and human resources which could be left to a single entity instead of several. Any savings incurred by ESDs due to the consolidation of administrative functions could be redirected to services provided for school districts.

ESDs that merge under the mandate of this bill may incur savings proportionally similar to the administrative savings incurred by the mergers experienced by the Northwest Regional Education Service District (NWRESD) when it merged to include Clackamas, Tillamook, Columbia and Washington Counties and the Willamette Education Service District (WESD) when it merged with Marion and Polk Counties. NWRESD implemented staff reductions including one Superintendent, one Business Manager, one Special Director and three other central office administrative staff. Adjusted for inflation these staff reductions resulted in an administrative savings of approximately \$986,549 annually. NWRESD was able to redirect this money to other programs and personnel. Similarly, Willamette ESD implemented staff reductions including one Superintendent (1993-94 merger), and, one Superintendent and one Business Manager (2002-03 merger). Adjusted for inflation these staff reductions resulted in an administrative savings of approximately \$414,743 annually. Like NWRESD, WESD was able to redirect this money to other programs and personnel.

Under this measure, there are several ESDs that upon merger may make similar staff reductions. The following ESDs employ one Superintendent and will merge with at least one other ESD that also employs one Superintendent: Multnomah, Columbia Gorge, Douglas, South Coast, Lake, Harney, Malheur, Union-Baker, Region 18, Grant, North Central, Jefferson, and High Dessert. These ESDs currently employ a total of thirteen Superintendents which vary in FTE from .07 FTE to 1.00 FTE (the

majority of these ESDs employ full-time or nearly full-time Superintendents). These thirteen ESDs will merge together to form only six ESDs, which will likely result in the need for fewer Superintendents. The salaries of these ESD Superintendents range from \$12,000 to \$132,000 annually which is an average of approximately \$93,725 per Superintendent. Many of these merging ESDs also employ other central office staff such as Business Managers, Deputy Superintendents or Superintendent/Board Secretaries, and Human Resource staff that would likely be reduced as the ESDs merge into single central office entities.

It is not anticipated that there will be savings in service staff in areas such as special education, technology, curriculum and instruction, and other service areas as these service staff will continue to serve the same number of students. It is not known how the money that may result from the consolidation of administrative staff will be redistributed. This will vary by ESD depending on how each ESD Board chooses to direct the funds to best carry out individual ESD missions. How any ESD decides to manage its workload will be a local decision. It is likely that each individual ESD Board will handle the balance of staffing and services/programs differently depending on the individual needs of each region.

Incidental costs:

ESDs anticipate incurring some costs as a result of the need to prepare new maps reflecting the reconfiguration of existing ESDs, as well as, maps reflecting the five electoral zones. ESDs that have merged in the past have incurred these costs to varying degrees. NWRES D incurred the cost of \$4,000 for map preparation to account for its merger of ESDs and new zones. WES D incurred the cost of \$12,000 which was paid to the Council of Governments to prepare maps that accurately reflected its merger. In 2003 when Yamhill County merged into WES D, it hired an independent cartographer to prepare the new maps at a smaller cost of \$2,500.

ESDs anticipate incurring minimal costs for legal fees for issues relating to zoning and developing the election notices along with other incidental costs. NWRES D and WES D paid costs ranging from \$1,000-\$4,000 for legal fees and policy preparation and costs ranging from \$5,000-\$7,500 for updated signage, letterhead, and business cards. These costs were minimal as these ESDs already employed staff that resolved the legal and policy issues and much of the printing associated with the name changes was done within these ESDs.

Department of Education

There is an indeterminate fiscal impact to ODE. ODE assumes the State Board will adopt an administrative rule that will outline the process for entering the 13 orders to establish the new ESDs. This rule would likely direct each of the ESD organizing authorities to prepare and submit a plan to the State Board. ODE reports that the staff resources required to adopt the appropriate administrative rules can be accomplished within existing budgeted resources. The measure requires each ESD to prepare and submit a plan including the distribution of its assets and liabilities to the State Board and to specify the division of the ESD into five electoral zones for the purpose of electing a board of directors; if an ESD did not include this distribution or the division of the electoral zones these tasks would fall on the State Board. ODE reports that it would be required to contract with the appropriate professionals regarding the division of assets and liabilities and division of electoral zones in order to make recommendations. The costs for these contracted services are indeterminate as it is not known whether ESDs will require the intervention of the State Board in these areas. The measure also provides that a district plan can be appealed to the State Board by a majority of an ESDs board members or component school districts members. ODE anticipates that the State Board would establish the criteria and procedures regarding the appeal process by rule and it would delegate the hearings to a hearings officer for a recommendation to the State Board. It is not known how many appeals would be made. The measure allows ODE to recoup an indeterminate amount of potential costs from the ESDs, which will result in an additional amount of Other Funds revenue/expenditures.