



Wetmore Community Action Association

PO Box 17 | Wetmore, KS 66550

School Closure Process Case Study

USD 113

Wetmore Academic Center (K12)

School Closure Process

Nov 2022 – Feb 2023

Introduction and Timeline

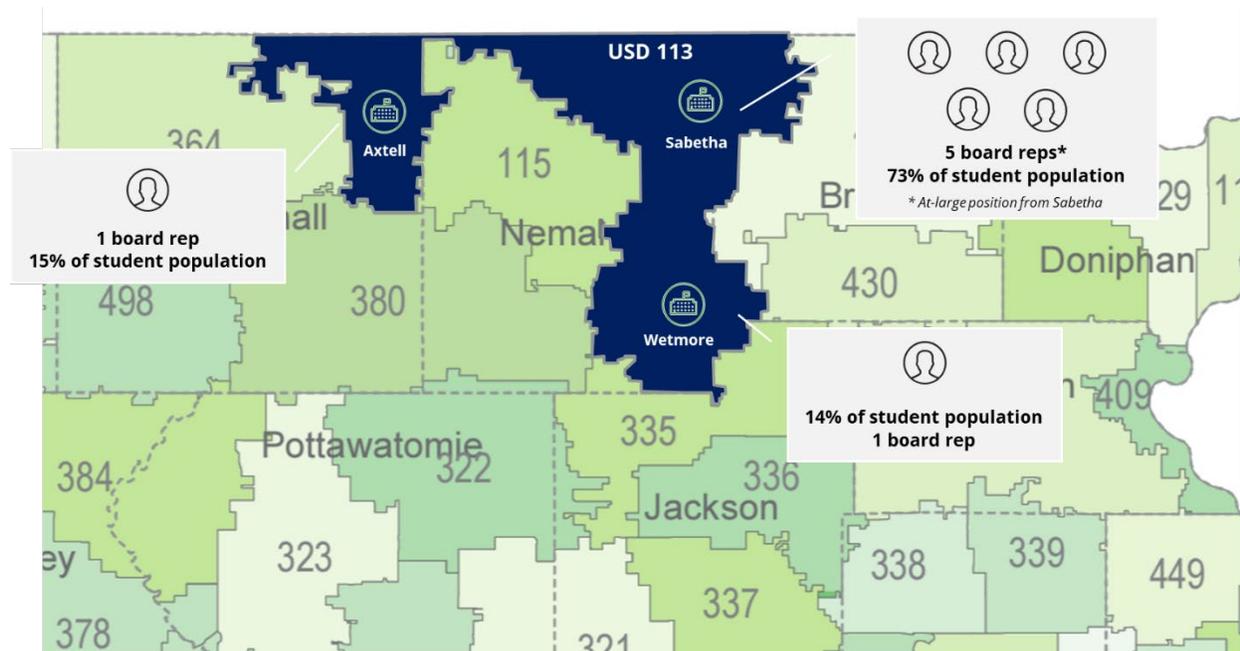
Wetmore Academic Center (K-12), from USD 113, closed in May of 2023.

USD 113 covers 543 square miles of territory in Northeast Kansas. As of September 2022, the district included three K-12 school systems, which serve a total of 1,073 students. At the time of closure, the local school board had 7 members: 4 from Sabetha, 1 from Axtell, 1 from Wetmore, and 1 at-large member who is from the Sabetha community.

On February 13, 2023, the local school board voted to close the Wetmore school by a 5-2 vote (5 yes votes from Sabetha, 2 no votes from neighboring areas). The school board voted to close the facility in May 2023, and the board and district office made this decision without providing a transition plan for the building, future bussing needs, and/or the basic logistical needs and questions from students and families. The neighboring schools were not told how many students to expect, who would need expanded bussing service, how class sizes would be impacted, and/or whether additional teachers would be needed to manage the influx of students.

This case study outlines how the school closure process was managed from Nov. 2022 – Mar. 2023.

Figure 1: USD 113 district territory map (NE Kansas, District 1)



There are 543 square miles in USD 113, making it the 39th largest district in the state in terms of land area (39th out of 286 districts)

November 2023

On November 14, 2022, the local board voted to hold a special meeting to review the financial impacts of closing Wetmore and Axtell school buildings. Concerned by the lack of clearly stated reasons for raising the closure proposal, the Wetmore Community Action Association (WCAA) leveraged the open records request process to complete a 3rd party review of the district's financial statement data and audited building expense reports.

On November 21, 2022, the WCAA presented the following three findings to the local board of education and asked the district office and local board members to clarify why the closure proposal was being pursued so aggressively if the district is healthy financially:

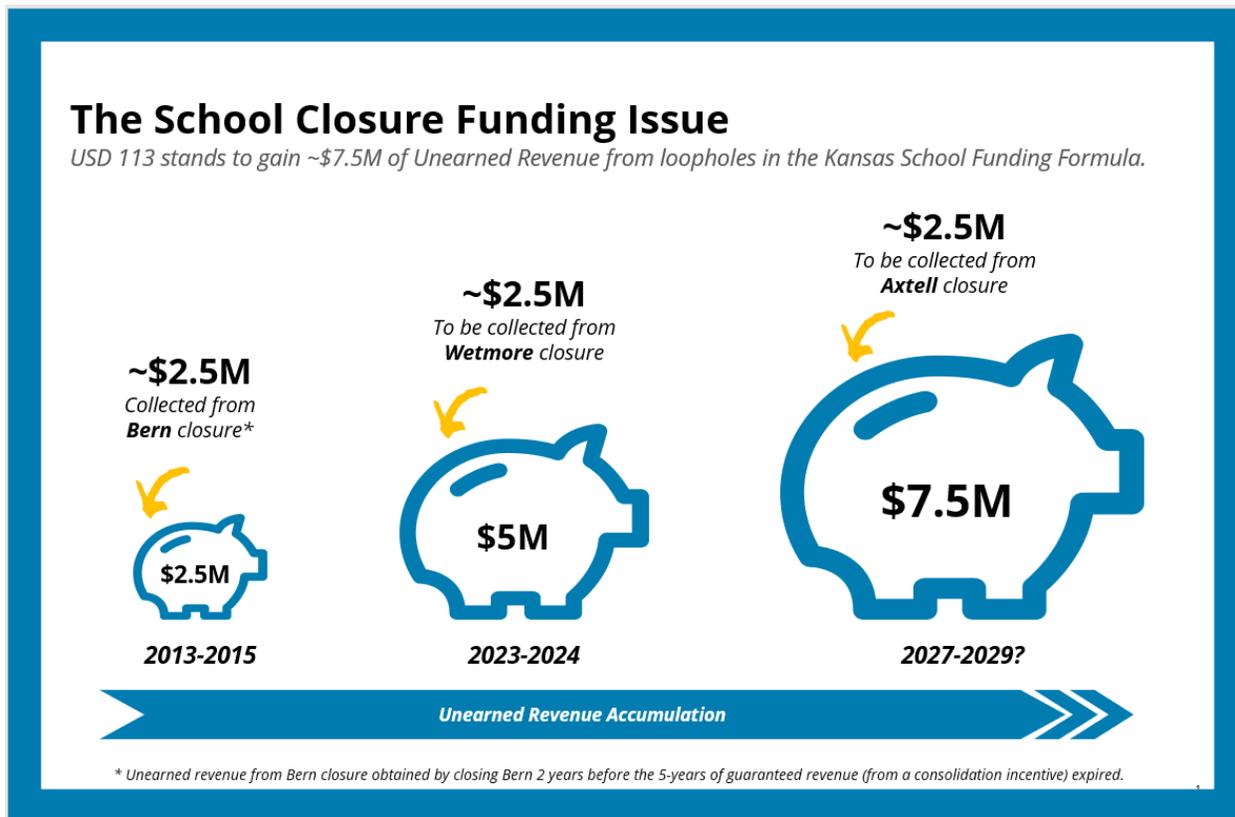
- 1) The district's annual cash balances have grown by 14% in the past five years (FY18-22), cash reserves are fully funded at the recommended 20% level, and the district appears to have a healthy cash position that is sufficient to manage normal operations, capital needs, and any unplanned deficits caused by natural ebbs and flows in enrollment numbers.
- 2) The district is consistently moving over \$200K/year from the annual operating budget into the cash surplus (or cash reserves account) at the end of each year (as evidenced by the fully funded cash reserved), and the district appears to have more than enough funding to manage its current expenses.
- 3) Revenue (+13%) has grown faster than expenses (+10%) since FY18, and with further funding increases expected in FY24, there was no data to suggest that the district's healthy financial position will change in the next 3-5 years.

The 25-minute presentation concluded by stating that the financial data does not substantiate the claims that one of the existing schools needs to be closed for the district to remain financially viable over the long term. However, the board did not discuss the report findings or address any of the financial questions raised by the community at the November 21st meeting. Instead, the board proceeded to present financial scenarios which showed how the district's finances would change if the Wetmore and Axtell school systems were closed. These closure scenarios showed large, unexpected financial gains that would come to the district if Wetmore and/or Axtell were closed (gains of +\$4M in a two-year period).

These large financial gains were not anticipated based on the initial data provided, so the WCAA used the next three weeks to study the Kansas School Funding Formula and take a deeper look into the individual financial performance of each school.

This more detailed analysis led the WCAA to discover the "School Closure Funding" issue in the Kansas School Funding formula, which unintentionally incentivizes consolidated school districts to close schools in exchange for two years of large cash infusions (see explanation in Figure 2). USD 113 collected ~\$2.5M from the closure of Bern's K-12 school in 2013, and it stands to gain an additional ~\$5M from closing the other two small schools in its territory if left unchecked.

Figure 2: Graphic outlining the “Unearned Revenue” loophole in the state funding formula.



The \$7.5M Loophole

USD 113 stands to gain ~\$7.5M of Unearned Revenue from loopholes in the Kansas School Funding Formula.

There is a loophole in the Kansas School Funding Formula that allows unified districts to receive “Unearned Revenue” for large numbers of students it is not responsible for educating after a school closes.

When the Legislature redesigned the school finance formula, it was changed to set funding based on the highest of the past 2 year’s enrollment to help school officials manage natural changes in enrollment.

This is a helpful tool for administrators, but the formula does not provide any guidance or adjustments to the formula when a school building closes (and large numbers of students transfer to a new school).

The loophole creates the following impacts:

Unearned Revenue - The unified district continues to receive 2 years' worth of base aid funding for large numbers of students (USD 113 will receive ~\$2.5-3M in “Unearned Revenue” in FY 24-25).

Taxpayers Pay Double- The neighboring district that takes the students will also receive base aid funding for the students during the second year of the transition (taxpayers pay double, 3x in 2 years).

USD 113 has already collected ~\$2.5M in “Unearned Revenue” due to the Bern school closure, and it stands to gain over \$7.5M in “Unearned Revenue” through school closures if the legislature doesn’t address this loophole and create guidance for awarding revenue when a school closes.

Contact KS State DOE, School Finance Director, Dale Brunghardt, for additional information:
DBrunghardt@ksde.org | (785) 296-3872

December 2023

The "School Closure Funding" issue was presented to the local board at the December 14 meeting, as well as another 25-minute presentation which pointed out the following three facts regarding the financial performance of Wetmore specifically:

- 1) Wetmore's student population and land valuation tax revenue brings in sufficient revenue from existing funding sources to cover 100% of its expenses (no fiscal support required from other schools in the district required to sustain operations).
- 2) Wetmore's average annual cash surplus (Revenue - Expenses = Cash Surplus) averaged \$63K/year over the past four years (FY19-22), and the school returned over \$102K to the district's cash reserves in FY22.
- 3) Wetmore's school is the second most efficient building in the district's portfolio and its average cost/FTE over the past five years (\$11.9K/student) is below the state average of \$12.9K/student.
- 4) Nearly half of Wetmore's students are classified as "at-risk" using the free/reduced lunch indicator, but the school consistently performs in the top 20% of the state in terms of academic performance.

Frustrated by the lack of dialogue and responsiveness in the past two meetings, the community took out a 2-page advertisement in the local paper (see attached Exhibit B), posting the financial analysis and 12 key questions that the community was asking the board to address.

Again, the board did not discuss the data presented or address any of the 12 questions formally submitted to the board by the community. Instead, they formally rejected a motion to have a third party review the district's financials, and they pushed forward with a vote to schedule the only legally required procedural step that must be followed before a school can be closed: hold a public hearing to hear feedback from the community.

After the December board meeting, the WCAA reached out to the board again to suggest offline conversations to help disarm the conversation and provide an opportunity to talk about questions and concerns in detail.

On December 15th, the Board President and Superintendent declined three requests: 1) a request to hold small group meetings with the superintendent and board members to talk through questions and concerns, 2) a request to use the January board meeting to have a detailed discussion of the district's financials, and 3) a request to hold a special meeting with the board anytime between December 14th and February 4th.

All three of these requests were denied. The Superintendent cited KOMA concerns as the reason for denying request #1, unwillingness to set a precedent allowing citizens to request agenda topics to deny request #2, and a suggestion that the WCAA could present their detailed financial analysis at the Public Hearing on February 4th to deny request #3.

January 2023

On January 9th, 2023, the Wetmore Community Action Association presented the board with a 56-page report, which board members were unwilling to acknowledge or schedule a special meeting to review.

The report was compiled to assess whether the closure of Wetmore’s school was financially necessary or situationally urgent:

1. **Overall Financial Health** – Does the district have sufficient funding in place to manage normal operations, capital needs, and any unplanned operating deficits or issues that may arise in the future?
2. **Individual School’s Operating Margin** – Is the school in question bringing in sufficient revenue to cover its expenses and/or operating in an efficient manner?
3. **Five Year Outlook** – Can the school continue to operate with a positive margin over the next five years if the school remains open and/or are their other strategic objectives at play that necessitate the closure?

The study analyzed five-years of USD 113’s Financial Statements and Annual Audited Building Expense Reports (FY18-22) from the district office, and over 30 related financial documents. The financial data was also supplemented by multiple meetings with the Superintendent and subject matter advisors from across the public education industry (locally, regionally, and nationally). The Superintendent of the school validated the report data and information sources prior to publishing.

Figure 3: Snapshot of the 12 questions the community formally submitted to the board for review at the Jan 2023 meeting. None of the questions were directly addressed by the board prior to closure.

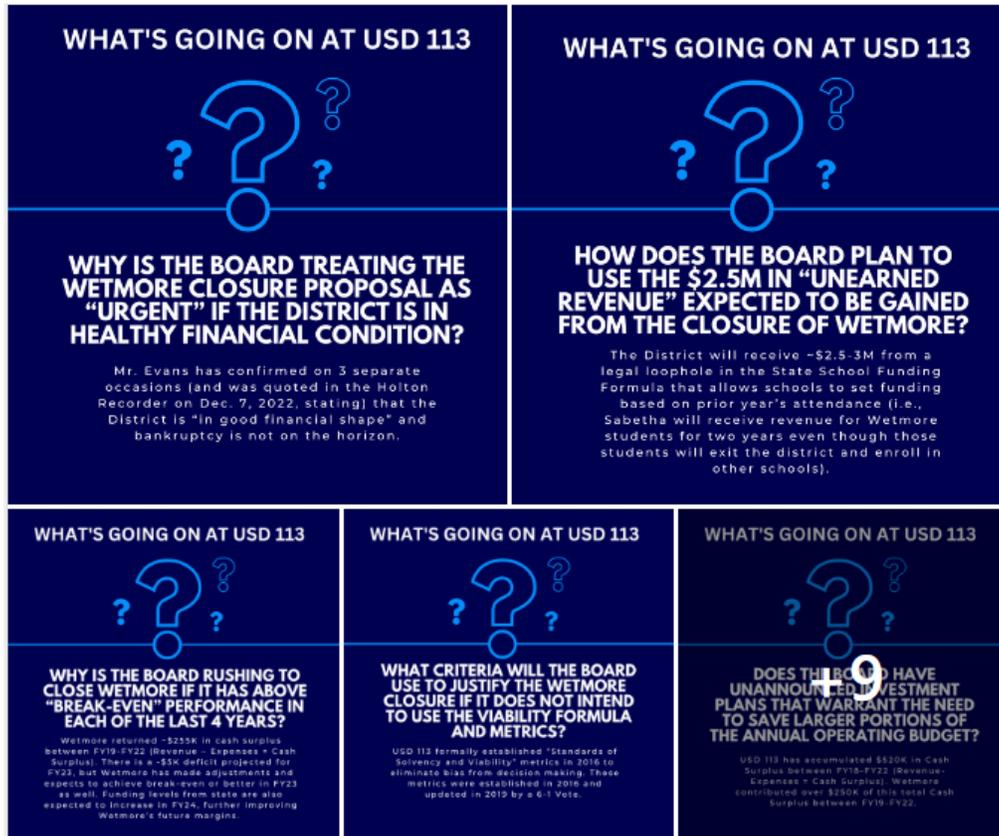


Figure 4: 56-page report compiled to address questions related to the closure of Wetmore's K-12 school.

Executive Summary

USD 113 is in a healthy financial position, and the suggestion that the district needs to close Wetmore to remain sustainable is not substantiated by the financial statement data and related information.

Key Questions

Overall Financial Health
Does the district have sufficient funding in place to manage normal operations, capital needs, and any unplanned operating deficits or issues that may arise in the future? Is closing Wetmore "urgent" to keep the unified district in a strong financial position?

Wetmore's Operating Margin
Is the Wetmore campus operating in an efficient manner and bringing in sufficient revenue to cover its expenses?

5-Year Outlook
Can Wetmore continue to operate with a positive margin over the next five years and would closing the Wetmore campus improve the district's ability to meet its strategic objectives over the long term?

Key Findings

- USD 113 has over \$8M in cash reserves as of the end of FY22 and the district has healthy liquidity levels and cash positions (cash reserves fully funded at the recommended 20% level).
- Revenue (+13%) has grown faster than expenses (+10%) since FY18, and district has sufficient revenue to pay for its current operations.
- The district has accumulated over \$520K in cash surplus since FY18.
- State funding is expected to increase in FY24, and no data has been reported which suggests a significant change in the district's overall financial position is eminent.
- Wetmore's student population brought in an average of \$1.76M in revenue/year over the past 3 years and only spent an average of \$1.7M/year, which is a \$60K/year cash surplus.
- The District Office's 2-year projections (FY23 and 24) show a cumulative deficit of -\$7K, but adjustments have already been made and break-even performance (or better) is expected.
- Wetmore experienced a higher-than-normal decline of 10 students between FY22-23, but 5 of these students have already been replaced by new and incoming families as of January 2023 and the 2-year funding buffer will prevent actual budgetary impact.
- Closing Wetmore will cost the district \$581K (\$461K closing costs + \$120K of forfeited revenue) and does not produce any real cost savings unless the board votes to keep the \$2.5M in unearned revenue from a loophole in the state funding formula.
- There are 8 newly recruited students in Wetmore's pipeline for the FY24 school year, so the expected net change in enrollment between FY23-24 is +4 (i.e., recruiting plan is credible).
- Expected increases in per student funding in FY24, and the 2-year funding buffer in the School Funding Formula provides sufficient coverage to run 2-year growth sprints and reassess long-term plan in 5-years.

The district has sufficient funding in place to manage current operations, but adjustments may be required if USD 113 has significant changes or investment needs on the horizon which have not been reported (additional input required; see campus-specific recommendations for additional details).



Campus KPIs – FY22

The individual campus KPI review indicates 1) that the SMS and SHS campuses have the most significant negative impact on the district's overall health, and 2) the district is being heavily subsidized by the SES campus.

	Operating Margin - Campus	Operating Margin - District	Cost/FTE
FORMULA	= $\frac{\text{Revenue} - \text{Expenses}}{\text{Campus Revenue}}$	= $\frac{\text{Revenue} - \text{Expenses}}{\text{District Revenue}}$	= $\frac{\text{Expenses}}{\text{FTE Count}}$
Axtell	-7.09%	-1.08%	\$13,346.03
Wetmore	5.52%	0.83%	\$13,512.40
SES	25.91%	8.75%	\$8,186.54
SHS	-10.57%	-2.29%	\$12,714.20
SMS	-31.31%	-4.45%	\$14,202.98
District	1.76%	1.76%	\$11,512.09

Source: USD 113 Prairie Hills, Audited Allocation of Expenditures Per Building Per USD Records Actual For Fiscal Years 2018 - 2022
Note: Cost/FTE metric does not include expenses related to Capital Outlay, KPERS retirement fund, and/or any other expenses that are tracked and managed separately from building operating costs.

Campus KPIs – FY18-FY22

A five-year review of the same information indicates mixed performance and impacts from each campus.

Formula	Op. Margin - Campus				Op Margin - District				Cost/FTE					
	SES	SMS	SHS	WAC	SES	SMS	SHS	WAC	SES	SMS	SHS	WAC	AJT	
FY														
FY18	30.57%	-89.85%	-35.30%	-13.40%	-7.01%	9.96%	-2.25%	-5.30%	-1.86%	-1.12%	\$6,902.79	\$11,982.61	\$12,365.59	\$10,534.60
FY19	23.27%	-8.60%	-36.33%	2.87%	-6.77%	7.84%	-2.74%	-5.60%	0.44%	-1.62%	\$7,098.50	\$10,892.23	\$12,242.48	\$11,374.22
FY20	-29.04%	-3.44%	-40.28%	3.54%	-6.23%	6.51%	-1.67%	-5.95%	0.53%	-0.73%	\$7,198.36	\$11,878.77	\$13,370.80	\$11,140.48
FY21	28.18%	-14.76%	-20.64%	3.55%	-4.73%	6.50%	-3.15%	-4.07%	0.38%	-0.75%	\$7,628.48	\$12,369.91	\$13,201.50	\$12,622.51
FY22	25.91%	-81.57%	12.17%	5.52%	-7.05%	8.75%	-2.29%	-4.45%	0.83%	-1.00%	\$8,186.54	\$12,714.20	\$14,202.98	\$13,346.03
\$ Yr. AVG	18.64%	-14.63%	-16.27%	0.20%	-4.02%	10.07%	-2.85%	-3.46%	0.69%	-0.94%	\$7,374.52	\$11,642.26	\$12,742.28	\$11,986.64
Threshold	-7.50% to 0%				-1.25% to 0%				\$13k to \$15k					

Source: USD 113 Prairie Hills, Audited Allocation of Expenditures Per Building Per USD Records Actual For Fiscal Years 2018 - 2022
Note: Cost/FTE metric does not include expenses related to Capital Outlay, KPERS retirement fund, and/or any other expenses that are tracked and managed separately from building operating costs.

District KPIs – FY22

When looking at the District as a whole, the unified system appears to be operating at efficient and healthy levels in FY22.

	Op Margin - District	Cost/FTE
FORMULA	= $\frac{\text{Revenue} - \text{Expenses}}{\text{District Revenue}}$	= $\frac{\text{Expenses}}{\text{FTE Count}}$
USD 113	1.76%	\$11,512.09
FY22	1.76%	\$11,512.09
\$ Yr. AVG	.87%	\$10,616.25
Threshold	-1.25% to 0%	\$13k to \$15k

Source: USD 113 Prairie Hills, Audited Allocation of Expenditures Per Building Per USD Records Actual For Fiscal Years 2018 - 2022
Note: Cost/FTE metric does not include expenses related to Capital Outlay, KPERS retirement fund, and/or any other expenses that are tracked and managed separately from building operating costs.

February 2023

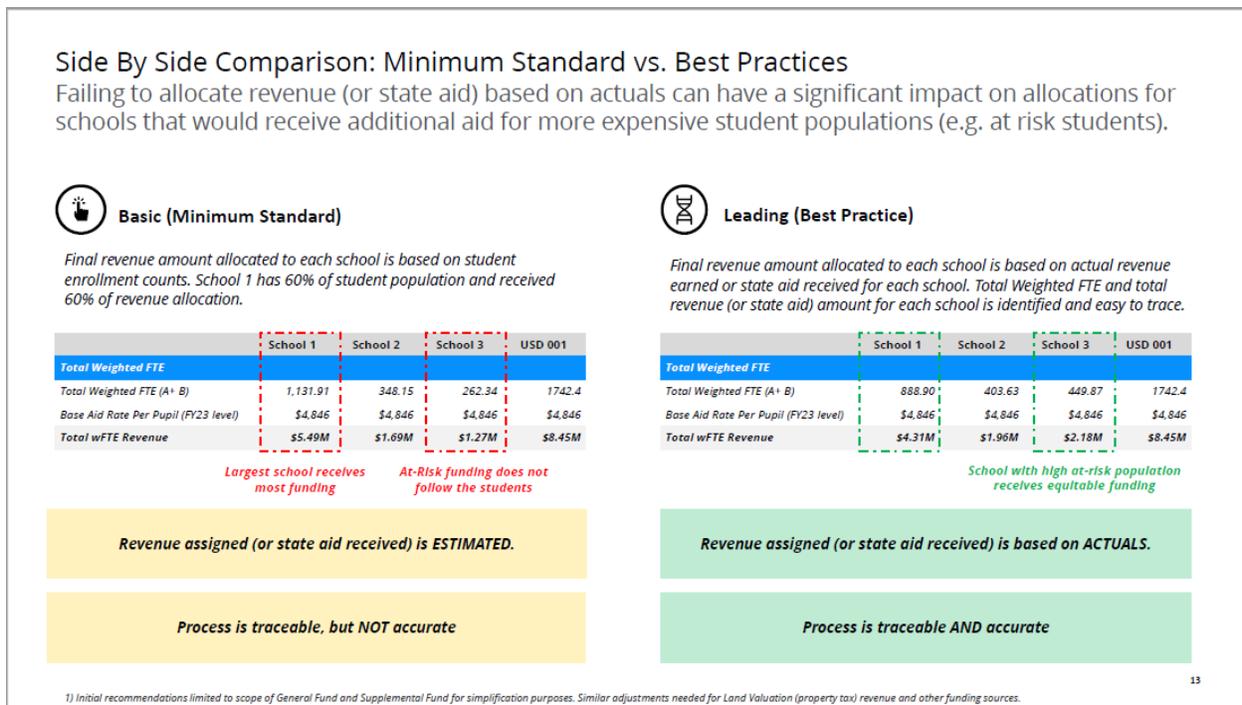
The board did not engage with the study or address any of the relevant questions that were raised about the district's overall finances and/or the financial health of the school in question.

The District Office presented four different sets of numbers regarding the solvency of Wetmore over the course of the closure discussion as the WCAA pointed out that the original reporting structure was inaccurate and incomplete.

The WCAA maintains that the district's financial reporting is still incomplete, and it does not account for two large funding sources which are essential to the evaluation of Wetmore's schooling system: 1) the financial reporting for the district (Revenue – Expenses) does not credit the Wetmore school for the ~\$2,462/per student brought into the district to serve Wetmore's "at-risk" population (nearly half of Wetmore's students are at-risk), and 2) the financial reporting does not track funding brought into the district by Wetmore's land valuation revenue (Wetmore could operate independently with current state funding if USD 113 allowed it to do so).

Concerned about how poor financial management practices were hurting consolidated school districts, the WCAA submitted a 12-page report to the State Board of Education in February 2023 to point out concerns related to the lack of controls and standards for how at-risk funding was being tracked in consolidated school districts.

Figure 4: Excerpt from report reviewed with KSDE in Feb 2023 to highlight concerns with how at-risk funding is being tracked and allocated.



On February 4, 2023, the procedurally required step to hold a public hearing was completed. The hearing lasted approximately three-hours. The superintendent presented a 7-minute presentation to justify the Wetmore closure, but it did not expressly address any of the concerns or questions about financial reporting that were raised by the community. Approximately 20-30 speakers from the community presented testimony requesting the board. Although it was clear that the board would proceed with closure despite serious financial questions, the community pleaded with the board to delay the closure for one year so the community could develop an adequate transition plan for the coming year.

On February 13, 2023, voted to close Wetmore K-12 school building, effective May 2023. The closure was approved with no transition plan and/or meaningful discussion about how families from the Wetmore school should move forward. The board ignored all requests from the community to discuss whether a K-5 school could be maintained in the region to prevent 1+ hour bus rides for children under 10 years old. The Wetmore community believes that the closure was “handled quickly” to prevent further questioning and scrutiny in the face of a controversial decision.

Refer to Exhibit F – Land Transfer Process for additional information about how logistics have been managed by the district post the school closure.