

Standard & Poor's Presentation to the Legislative Budget and Finance Committee on the Study of the Cost-Effectiveness of Consolidating School Districts

Presented by Michael Stewart – June 13, 2007

Good morning. On behalf of Standard & Poor's, I'd like to thank the Committee for the opportunity we were given to perform this study. To help school districts save money and meet more of their students' needs, the Legislature commissioned this study of the cost-effectiveness of consolidating school districts and sharing services. The potential benefits of consolidation rest on the premise that per-pupil costs vary among school districts, in part, because of economies of scale. The presumption is that smaller districts spend more per pupil because they pro-rate fixed costs over fewer students, and because they are not able to leverage their purchasing power to obtain volume discounts to the same extent that larger districts can. To address these and related issues, this study focuses on five research objectives identified in Resolution S208.

The first objective was to determine whether consolidation could help smaller districts save money through increased purchasing power. To estimate the impact of consolidation on spending levels, our study began with an analysis of Pennsylvania school districts' spending and enrollment data, as you see in the graph on the screen. Each circle inside the graph represents a district. Its location indicates its per-pupil spending (measured by the vertical axis) and its enrollment (measured by the horizontal axis). The overall pattern of the data is shown by the curved line. As the graph shows, average spending tends to decrease as districts grow in size from about 250 students to about 2,500 students. But spending tends to go back up again as district enrollments exceed 3,000 students. A detailed version of the graph shows more precise information. Specifically, we see that spending averages \$9,674 per student in districts with enrollments between 250 and 500 students. Average spending tends to decrease until it reaches \$8,057 per pupil among districts with enrollments between 2,500 and 2,999 students. When district enrollments exceed 3,000 students, spending tends to go back up again.

Based on this observation, we estimate that consolidations of relatively high-spending districts that result in combined enrollments *below* 3,000 students may be more likely to save money than consolidations that produce districts with *more* than 3,000 students. The underlying principle is that per-pupil spending may decrease the closer consolidated districts come to an enrollment of 2,500 to 2,999 students. Although there are 312 districts in the state with enrollments below 3,000 students, not all of them border another district with which they could consolidate without creating a combined enrollment above 3,000 students. Nor are all of them relatively high-spending when compared to similarly-sized districts. As a result, our study focuses on a subset of 88 small districts that have the following characteristics:

- Their per-pupil spending is above the average amount spent by similarly-sized districts (and, by extension, the average amount spent by districts with 2,500 to 2,999 students).
- They border a district whose spending is also above the average for their size, with whom they could consolidate, without exceeding an enrollment of 3,000 students.

These 88 districts are used to create 97 hypothetical "pairings" of school systems that are profiled in our study. **However, Standard & Poor's identification of these districts does not constitute a recommendation that they be consolidated.** Their data are analyzed for modeling

purposes only. Some of these 88 districts are included in more than one pairing; when the pairings that would produce the greatest hypothetical savings are modeled, we found that 34 mutually exclusive pairs of districts could save approximately \$81 million, if – after consolidating – they could lower their per-pupil costs to the average amount spent by similarly-sized districts. However, the potential for any of these hypothetical consolidations to save money would depend on local factors, such as whether or not the districts could close any schools upon consolidating. The superintendents in these 88 districts were sent a survey that asked for their opinions on consolidation and shared services, and a total of 49 surveys were completed and returned. When asked if their district were to consolidate with another district *and close one or more schools*, 57% of respondents thought that costs would decrease. When asked if their district were to merge with another district at the administrative level only, *but not close any of their schools*, the percentage of superintendents who thought costs would decrease went down to 42%.

Among the respondents who thought costs would decrease, 61% expressed a willingness to consider consolidating. However, in several cases they indicated that their responses reflected their own personal willingness, not necessarily that of the communities they serve. A number of superintendents made it clear that consolidation would be an extremely controversial issue that would face considerable opposition in their communities. Reasons cited include socio-economic and demographic differences between school districts, different traditions, less local control, a loss of local identity due to the school district's role as the center of the community, alumni ties, affiliations with sports teams, and the potential for longer bus routes for schoolchildren.

This last issue raises a concern addressed by one of the study's other research objectives, which was to examine the impact of consolidation on student transportation.

Twenty districts that responded to a follow-up survey indicated that the average amount of time spent on one-way bus routes for the children in their districts was between 10 minutes and 73 minutes, with a group average of 30 minutes. However, the single longest one-way bus trip for any one child was between 15 minutes and 97 minutes, with a group average of 45 minutes. A number of districts reported that one hour is the maximum, reasonable amount of time for any student to spend on a one-way bus trip between home and school, so that is already being exceeded in some cases. On top of that, when asked what they think would happen if their district were to consolidate with another district *but not close any schools*, 42% of the survey respondents thought that the length of bus routes would increase, 2% thought they would decrease, and 56% thought they would remain about the same. When asked what they thought would happen if they were to consolidate *and close one or more schools*, 75% thought the length of bus routes would increase, 4% thought they would decrease, and 21% thought they would remain about the same. When transportation issues are combined with the other community concerns that were mentioned, it is clear that they can pose formidable obstacles to consolidation. A number of superintendents interviewed indicated that they do not think consolidation would happen in their community unless it was mandated by the state.

However, the reaction to consolidation was not uniformly negative. Several superintendents thought that the state might be able to encourage mergers by providing funds for local feasibility studies and technical assistance. Also, it is worth noting that although the potential to save costs may help garner support for consolidation, it does not appear to be an absolute prerequisite in all cases. One school board member told us that even if the district only “broke even,” consolidation could still be worth it if it resulted in better educational programs.

This is related to one of the study’s other objectives, which was to determine if the consolidation of all the districts in a county or intermediate unit or at some other level could enable the larger district to provide services that the individual smaller districts could not afford on their own. A total of 63% of the 49 superintendents who responded to the survey agreed that consolidation with another district could help them provide additional academic enrichment opportunities, and 51% agreed that they could offer more extra-curricular opportunities by consolidating with another district. However, if these consolidations resulted in the creation of districts with combined enrollments over 3,000 students (which would happen if all the districts in an intermediate unit were consolidated), then the additional services could require an increase in overall spending, rather than a decrease, so the “affordability” of these services would still be problematic. None of the superintendents or intermediate unit executive directors expressed a favorable opinion toward an IU-wide consolidation of school districts.

The topic of intermediate units is related to another of the study’s objectives, which was to determine whether services could be shared among two or more districts without necessarily consolidating the districts. In fact, many districts are already sharing services. Approximately half of the 49 superintendents who responded to the survey indicated that they currently share one or more services with another district (sometimes directly, and in some cases through the local Intermediate Unit, Area Vocational Technical Center, or Career Technology Center). Shared services include such areas as special education, athletics, occupational programs, alternative education, distance learning, purchased services, shared personnel, technology, coaching, transportation, health care, food services, and student support. To encourage an increase in shared services, it is our understanding that the governor has proposed allocating \$1 million to help school districts learn ways they can share services and programs.

The resolution that authorized this study asked us to look at a related objective – to investigate whether the pooling of state moneys could provide better services and enable the Commonwealth to run a more efficient system of public education. This can be done by leveraging the collective purchasing power of state and local government entities, through streamlined purchasing programs, state-negotiated contracts, procurement networks, and purchasing cooperatives. We found that 39% of the 49 districts that responded to the survey participate in COSTARS, the state’s Cooperative Sourcing to Achieve Reductions in Spending program. Also, 78% participate in the PEPPM Technology Bidding and Purchasing Program. Additionally, 24% participate in Investment Trusts, and 12% participate in other procurement networks to acquire competitively priced goods and services, some of which are operated by their intermediate unit. However, interviews with IU executive directors reveal that participation in IU programs is not always at an optimal level, and some claim that a few districts are opting to pay more to fund a service in-house than they would pay if it were purchased through the IU.

While the data suggest that certain consolidation scenarios could produce financial benefits, it is also important to consider the potential impact, if any, that consolidations might have on student achievement. We found that there was no meaningful correlation between a school district’s size and its overall proficiency rate on the reading and math tests administered through the Pennsylvania System of School Assessment (the PSSA). However, this does not mean that average district-wide proficiency rates might not change as a result of consolidation. If a relatively higher-performing district were to consolidate with a lower-performing district, their combined proficiency rates could end up being lower than the higher-performing district’s rates were prior to consolidation, simply because of averaging. This can present a significant deterrent to consolidation because of

the federal No Child Left Behind Act (known as NCLB). One of the goals of NCLB is for all students to demonstrate proficiency in reading, math, and science at various grade levels by 2014. All schools and districts are held accountable for making Adequate Yearly Progress (known as AYP) toward this goal. Those that do not may be designated as “needing improvement,” and can be subjected to adverse regulatory actions. Therefore, a higher-performing district may be reluctant to consolidate with a lower-performing district, because it would be harder to make AYP after consolidating. This is a very real concern raised by some of the district leaders who were interviewed for this study. When combined with the other potential objections to consolidation previously cited, it is clear that communities will have to address many complex issues and trade-offs if they wish to consider a merger.

That concludes our overview; we would be happy to answer any questions you may have.