Efficiency Study

Prepared for the Chalkboard Project and the High Desert Education Service District

May 25, 2010
Chapter 1

PROJECT OVERVIEW

The Chalkboard Project (“Chalkboard”) and the High Desert Education Service District engaged ECONorthwest to conduct an efficiency study as part of district’s annual audit process. This work builds on a series of reviews of school business practices conducted in six school districts in the state between 2008-2010 by Chalkboard, the Oregon Association of School Business Officials, and the Oregon School Boards Association.

Specifically for this analysis, ECONorthwest was asked to consider the following four functions of local school districts in the High Desert Education Service District (“ESD”):

1. Fiscal services
2. Human resources
3. Information technology, including student and financial information systems
4. Curriculum, staff development, and textbook adoption

The goal of the analysis is to ascertain whether there are significant efficiencies to be gained in any of the four functions either through school districts joining together in some ways or by other practical means.

The first step was to assess the general level and recent trends of efficiency — both within the ESD’s four districts and for districts throughout the state. ECONorthwest statistically analyzed historical data from all the districts in Oregon to see how the four school districts of the ESD ranked in terms of spending per student. The functions with the greatest savings potential were then identified. A description and the findings are discussed in a chapter beginning on Page 3 of this report.

Our analyses provided insights into areas of potential savings, but for a complete picture on-site visits were necessary. ECONorthwest traveled to the ESD and each school district to interview key staff and collect information about budgets, staff, and regionalization constraints. The results of this effort are described starting on Page 25.

This report then provides a series of recommendations for the cost reduction measures, beginning on Page 28. We propose efficiency measures that would both yield significant ongoing cost reduction and be realistically achievable transitions for the school districts and ESD to make. The report concludes on page 33, with a brief consideration of the broader implications of our findings for other districts in Oregon.
TRENDS AND COMPARISONS

The Oregon Department of Education (“ODE”) maintains a database containing the financial accounts of all school districts. This database allows for both historical trend and comparative analyses.

The database follows the code system, as described in the Program Budgeting and Accounting Manual used by all districts in Oregon. For the purposes of this report, data on the following four expenditure functions were analyzed:

1. **2210** – Instruction services (i.e., improvement of instruction and curriculum development).²

2. **2520** – Fiscal services.

3. **2640** – Staff services.

4. **2660** – Technology services.

The ODE provided ECONorthwest with a database containing accounting figures for fiscal years 2000 through 2008, as well as the annualized average daily membership (“ADM”) of the districts. The database is compilation of expenditures submitted by each Oregon public school district. The analysis extracted operational spending data from general funds, special revenue funds, and enterprise funds, as defined in the Program Budgeting and Accounting Manual.

A necessary assumption of the analysis is that each school district accurately accounted for all expenditures by complying with the Oregon Local Budget Law (ORS 294). Excluded from the analysis are debt service funds, capital projects funds, internal service funds, and trust and agency funds.

In the analysis and the ODE data, time is expressed in fiscal years ending June 30. The four subject districts of this analysis are Crook County, Sisters, Bend/LaPine, and Redmond.

---


² This is distinct from classroom instruction costs, which is spending directly on students in the classroom.
ECONorthwest adjusted the expenditures for inflation converting them into “real” dollars using the U.S. consumer price index.\textsuperscript{3} These real values were then divided by the numbers of students, which yielded a series of inflation-adjusted expenditures per ADM. All dollar values in this section are reported in inflation-adjusted fiscal year 2009 dollars.

Expenditure per ADM is a measure of efficiency. When expressed in real terms, so to remove the influences of inflation, this measure can be compared over time so that changes in efficiency may be detected.

However, efficiency is also related to the size of a district. Big districts should be able to spread certain costs over a larger pool of students, thus yielding lower expenses per ADM than would smaller districts. Therefore, comparisons in this section were also made taking district size into consideration.

The data from ODE were used in this analysis to help answer these questions:

- What are the trends in real per ADM expenditures for the typical district in Oregon?
- How did the historical efficiencies of the four subject districts compare with that of other districts in Oregon of similar size?
- How have the relative efficiencies of the four districts changed over time?
- How did the four districts compare with others in the most recent year and would there have been savings had the districts shared the same efficiency levels as their peers?

The analysis used only valid data. Any observations that were either unavailable due to a lack of data or a failure of a district to report an expenditure down to the detail of the four functions studied were eliminated from the analysis.

About 1.6 percent of the statewide observations were incalculable because a district was not operating in a given year. This happened because a few districts formed or discontinued during the study period. For example the North Wasco District had been formed out of The Dalles and Chenowith districts in 2004, so data for the entire 2000 – 2008 period were unavailable for them.

\textsuperscript{3} The CPI-U was calculated for fiscal years by averaging unadjusted monthly consumer price indexes from July through June. The data are available at \url{http://www.bls.gov/cpi/}. 
More common, especially among small districts, were situations where no expenditures were reported for a function. This may have been because of an inability or unwillingness to segregate data into finer detail, or simply being no expense incurred during the school year for the given function. About 52 percent of the potential observations for staff services, 15 percent of instruction services, nine percent of technology services, and two percent of fiscal service expenditures were reported as zeroes. These observations were excluded from the analysis.

**STATEWIDE TRENDS**

Noticeable across all four functions was a rising trend in real costs per student over time. Statewide, the median instruction services expenditure per ADM fluctuated between $48 and $65 between 2000 and 2007, but jumped to nearly $75 in 2008 — approximately a 50 percent increase in four years.

**Figure 1: Instruction service expenditures per student trend, median 2009$ per ADM for all Oregon districts, 2000-2008**
Fiscal services too have been rising since 2000. The typical district spent nearly $187 per ADM in 2008 on fiscal services. Eight years earlier $173 per student had been spent. This is indicative of diminishing productivity.

Figure 2: Fiscal service costs per student trend, median 2009$ per ADM for all Oregon districts, 2000-2008
Staff services had held within a narrow band of $36 to $42 per ADM, but have increased to over $48 in 2008. One needs to view this with some caution as fewer than half the districts report expenditures for staff services.

**Figure 3: Staff service costs per student trend, median 2009$ per ADM for all Oregon districts, 2000-2008**
Nearly every district reports technology services costs. They too exhibited an increase over time. The data from the ODE show that the median expenditure per ADM on technology services increased from $120 in 2000 to $187 in 2008. That is a gain 56 percent greater than inflation.

**Figure 4: Technology service costs per student trend, median 2009$ per ADM for all Oregon districts, 2000-2008**

![Graph showing technology service costs per student trend](image)

**HISTORICAL COMPARISON**

The historical efficiencies of the four subject districts were compared to all districts in Oregon of similar size. This served the purposes of determining if costs plateau with a certain student body size (i.e., reach economies of scale) and whether the subject districts were within the range of similarly sized districts elsewhere in Oregon.

Since the data were not normally distributed, the analysis used median values for comparisons rather than averages. This was accomplished by first ranking, in order of the number of students, the efficiency data. There is one data point for every year and district (about 1,500 observations for each of the four expenditure functions). Then the median (mid-point) efficiency value of groups of 25 districts, starting with the 25 smallest, was calculated.

---

4 The data were leptokurtic, which means inordinate numbers of observations were either clustered near the mean or beyond two standard deviations of the mean.
This process progressed, going up in district size, and concluding with the largest districts. At that top end, the median was calculated for sets less than 25 because Bend/LaPine is the seventh largest district measured by ADM. Thus the median of the top 13 districts had to be used.

As an example of how medians were calculated, we consider a district of 500. The median would be the midpoint cost per student of the 25 observations closest in size to one with about 500 students (twelve districts immediately above 500 and twelve below 500). The resulting value would be the typical cost per student for a district of 500. A dozen districts would have higher and dozen would have lower costs per student than the median.

Median values were calculated for all but the smallest and largest districts. The results were then plotted, as shown on Figure 5, as a running median, which illustrates what the typical efficiency level was of districts of various sizes. Superimposed on this were the costs per ADM of the four subject districts for each of the years 2000 to 2008.

Figure 5: Instruction service costs per ADM by district size, all Oregon districts with 50 or more ADM and the four subject districts, 2000 - 2008

Figure 5 shows the typical instruction service costs per ADM by district size. Excluded are districts with less than 50 students.\(^5\) Note that initially instruction service costs trend down until reaching about $25 for those with an ADM approaching 200. This suggests that economies of scale are reached quickly for this function.

\[^5\] Such small districts have very high costs per ADM (in excess of $7,000), which if plotted on a graph, would make interpreting the results for the size range of interest to the four subject districts visually challenging.
Instruction service costs per student decline as a district grows in size from a handful of students to about 200. However, as district size rises above about 1,100 there is a noticeable increase in costs — indicating that, for this expenditure function in Oregon, larger districts are less efficient.

Sisters and Crook County reported instruction service costs per ADM in 2000 through 2008 that were scattered on either side of the state median. Redmond had lower costs than Oregon districts of similar size in all but two of the nine years observed whereas Bend/LaPine had higher costs in six of the nine years.

Fiscal Services follow a more common pattern of economies of scale. Unit costs decline with district size and reach a plateau. Figure 6 illustrates the efficiency rates of districts delivering fiscal services and how the four subject districts compared to statewide medians.

Figure 6: Fiscal services costs per ADM by district size, all Oregon districts with 100 or more ADM and the four subject districts, 2000 - 2008

* In one year the Crook County School District exceeded $1,280/ADM. For purposes of clear presentation, this observation appears in this figure as $650.

Fiscal services costs per ADM fall as a district’s size increases and then plateau at about 4,000 students. This would appear to be the level at which economies of scale is achieved. Redmond has operated fiscal services at costs below that of similarly sized districts in all nine years. Bend/LaPine operated above the median in every year, albeit by small amounts. Crook was above the median in seven of the nine years while Sisters below the median in five years.
Staff services costs fall as districts become larger, but only until they reach 350 ADM. After that, per student costs rise until a district reaches about 5,000. Thus, the analysis finds no significant potential for economies of scale for all but the smallest districts. Except for Crook County, the districts in the High Desert ESD exceeded the statewide median of districts their size in most, but not all, years.

Figure 7: Staff service costs per ADM by district size, all Oregon districts with 35 or more ADM and the four subject districts, 2000 - 2008

* In two years the Sisters School District exceeded $1,000/ADM. For purposes of clear presentation, these observations appear in this figure as $250.
District technology service unit costs decline with size until reaching economies of scale, about $80 a student, at 7,500 ADM. However, this level of efficiency is only evident for districts up to 12,500. For those that are larger, the data show diseconomies (higher costs per student). As shown on Figure 8, large districts have technology service costs about $180 an ADM.

**Figure 8: Technology services costs per ADM by district size, all Oregon districts with 100 or more ADM and the four subject districts, 2000 - 2008**

Overall, in technology services, Bend/LaPine’s costs were above the median district of its size in all nine years observed. This, however, may partly be attributable to Bend/LaPine providing certain technology services to Redmond during the period. The Sisters district has been above the median in seven of nine years while Crook County and Redmond operated usually below the median of similarly sized school districts. The picture is somewhat different, though, when examining data for the broader category of administrative service costs.

---

6 In an email received May 25, 2010 it was revealed that Bend/LaPine believes its technology numbers were higher from 2000 to 2008 because they provided eSis and Bitech services to Redmond.
ANALYSIS OF ALL ADMINISTRATIVE COSTS

As an additional measure, the analysis tallied all support services costs other than those directly aiding students, like guidance counselors and speech pathologists. This broad category is about seven times greater than the typical per student expenditure on the four specific functions covered in this report. But the concern is that some districts, particularly small ones, may report expenditures that rightfully belong in one of the four functions into the broader category, thereby distorting the findings.

An analysis of all non-student support services spending per ADM, which is a proxy for administration costs, shows favorable results for the four districts. Illustrated in Figure 9, Redmond consistently operated more efficiently than the state medians of similarly sized districts. Sisters and Crook County were below their comparable state medians in four out of nine years. Bend/LaPine had costs below the median in six years.

Figure 9: All non-student support services costs per ADM by district size, all Oregon districts with 175 or more ADM and the four subject districts, 2000 - 2008

The effect of economies of scale for administrative costs is evident. For small districts of about 175 students, these non-student support service costs are typically about $5,000 per ADM. They fall as a district’s size grows and level out at about $2,500 for districts with 4,500 or more students. This economy of scale more or less holds until districts exceed 12,000 and per student administration costs rise slightly. And also similar to the other functions studied in this report, non-student support service costs rose between 2000 and 2008.
Figure 10 shows the trend. Non-student support costs per ADM, adjusted for inflation, fell only once in the previous nine years. Had such costs in 2008 equaled the historical median, the total cost statewide would have been $187 million less.\(^7\)

**Figure 10: All non-student support services costs per student trend, median 2009$ per ADM for all Oregon districts, 2000-2008**

\(^7\) In 2008, the median district achieved per student costs of $3,468.35. However, over the entire nine-year period the median cost was $3,116.76 or about $351.59 less. There were 532,526 students, as measured by the ADM, in 2007-08. Thus, the savings, had in 2007-08 districts matched the historical costs, would have been $187,230,000.
TRENDS IN DISTRICT RANKINGS

Using the ODE data, the analysis can reveal whether a school district’s cost efficiency had improved compared to all districts in Oregon that reported spending money on a given function.

For example, instruction services costs per ADM were used to create Figure 11 below. It shows the percentile rank of the four districts over time. A 100 percent rank, at the top of the figure, indicates that the district was the most efficient in Oregon — that is having the lowest cost per student of any district in the state.

**Figure 11: Instruction service costs per student trends in efficiency rankings of four districts versus all Oregon districts, percentile rank of 2009$ per ADM, 2000 to 2008**

Since the data in Figure 11 are for districts of different sizes, how high one is on the figure can be due simply to how close a district is to the optimal economies of scale. Thus, it is the trend, not level, of the data that are of most interest here. A rising line shows that a district is improving its cost efficiency compared to all districts in Oregon. A declining line means that a district is falling behind in efficiency.

The data in Figure 11 show that instruction service costs per ADM have been improving at the Bend/LaPine and Crook County Districts. Sisters and Redmond have shown the opposite.
In fiscal services, on Figure 12, Bend/LaPine and Redmond consistently rank as highly efficient, but this partly because they are large enough to achieve economies of scale. The trend is what matters and both of these districts in 2008 were two percentage points below where they were nine years earlier — a small decline in relative cost efficiency. The Sisters and Crook County school districts showed meaningful gains in relative cost efficiency.

**Figure 12: Fiscal service costs per student trends in efficiency rankings of four districts versus all Oregon districts, percentile rank of 2009$ per ADM, 2000 to 2008**
Staff service costs generally have been improving. Three districts exhibited inefficiencies in staff service costs from 2003 and 2006, but have improved since. Crook County, meanwhile, has trended slightly downward in this measure between 2005 and 2008.

Figure 13: Staff service costs per student trends in efficiency rankings of four districts versus all Oregon districts, percentile rank of 2009$ per ADM, 2000 to 2008
Cost effectiveness in technology services has deteriorated in three smaller districts since 2000. Bend/LaPine is notable in showing a steady and strong improvement in the efficiency of technology service expenditures, yet it is still ranking below the statewide median. The data suggest that technology is a function where improvements may be possible and yield significant savings.

**Figure 14: Technology services costs per student trends in efficiency rankings of four districts versus all Oregon districts, percentile rank of 2009$ per ADM, 2000 to 2008**

![Figure 14](image_url)

**2008 DISTRICT-STATE COMPARISONS**

The most recent data available from the ODE is for the fiscal year ending June 30, 2008. It was used to first determine the difference in efficiency between the running median of all districts in Oregon and the subject districts. Second, whether the running median suggests that a district the size of combining three or four of the subject districts would improve productivity.

As was done in the work shown starting on page 8, but limiting the analysis to just 2008 data, the running median costs per ADM in intervals of 25 districts were calculated and plotted on the following figures. Then the actual values for each of the four subject districts were posted.
Figure 15 shows the results for the 2008 instruction services spending per student. It shows that costs per student in all four districts were either close to the median or below that of other districts their size.

**Figure 15: Instruction service costs per student, four subject districts versus statewide running median, 2009$ per ADM 2008**
When examining data on fiscal services, the analysis finds that the Sisters, Crook County, and Redmond districts all achieved expenditures per ADM that were below comparably sized districts in Oregon. Bend was higher than the statewide median in 2008.

**Figure 16: Fiscal service costs per student, four subject districts versus statewide running median, 2009$ per ADM 2008**
For staff development, 2008 expenditures were high in Redmond, Sisters, and Bend/LaPine, as illustrated in Figure 17.

**Figure 17: Staff service costs per student, four subject districts versus statewide running median, 2009$ per ADM 2008**

![Graph showing staff service costs per student](image)

Shown in Figure 18, in 2008 all four districts reported to the ODE above normal technology service costs per ADM for their districts’ sizes.

**Figure 18: Technology service costs per student, four subject districts versus statewide running median, 2009$ per ADM 2008**

![Graph showing technology service costs per student](image)
HYPOTHETICAL SAVINGS ANALYSIS

Spending can fluctuate dramatically from one year to the next. This is especially so for fiscal and technology services where changes in systems, new software and hardware, and episodic training efforts can cause short-lived bursts in spending. Therefore, unusually high spending per student in a single year may not be indicative of systemic inefficiencies. To lessen the influence of outlier observations our analysis continues with estimates of cost savings using both the most recent single year (2008) and the average of the last three fiscal years (2006 – 2008).

Cost per student is an indicator of efficiency, but it arguably may reflect circumstances unique to each district rather than relative efficiencies. Indeed, some differences observed could be ascribed simply to how carefully or carelessly districts classified their spending. Even so, a pattern has emerged suggesting less cost efficiency in the ESD’s districts.

This analysis compared four districts, four expenditure types, in each of nine years for a total of 144 observations. In only 53 of those cases had the cost per ADM been less than the statewide median of comparably sized districts. Although in aggregate the districts keep their administrative costs low better than most other districts in Oregon, within the four functions focused on by this analysis, areas for improvement exist.

To determine the magnitude of potential savings the next step in our analysis compares the subject districts, and various combinations of them, to similarly sized peers and calculates a dollar difference. This is by no means a precise method, but it does identify possible targets for efficiency efforts.

SINGLE YEAR COMPARISON

Table 1 summarizes the hypothetical savings using data for 2008. Here a series of scenarios were considered where districts independently attempt to achieve state median spending. This may or may not be possible given regional labor costs, local services costs, and other characteristics of the districts. To adjust for these possible “regional efficiency” constraints the scenarios also include a look at the smaller districts regionalizing services by achieving efficiency levels of local larger peers Bend/LaPine and Redmond.
Table 1: Hypothetical efficiency savings scenarios using 2008 spending as basis of comparison

<table>
<thead>
<tr>
<th>Efficiency Scenarios - On 2008 actual</th>
<th>Instructional Services</th>
<th>Fiscal Services</th>
<th>Staff Services</th>
<th>Technology Services</th>
<th>Total</th>
<th>ADM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sisters -&gt; ADM state median</td>
<td>No savings</td>
<td>No savings</td>
<td>Low savings</td>
<td>185,000</td>
<td>243,000</td>
<td>1,367</td>
</tr>
<tr>
<td>Crook County -&gt; ADM state median</td>
<td>No savings</td>
<td>No savings</td>
<td>No savings</td>
<td>582,000</td>
<td>582,000</td>
<td>3,052</td>
</tr>
<tr>
<td>Redmond -&gt; ADM state median</td>
<td>Low savings</td>
<td>No savings</td>
<td>Low savings</td>
<td>288,000</td>
<td>317,000</td>
<td>6,731</td>
</tr>
<tr>
<td>Bend/LaPine -&gt; ADM state median</td>
<td>No savings</td>
<td>109,000</td>
<td>Low savings</td>
<td>591,000</td>
<td>716,000</td>
<td>15,027</td>
</tr>
<tr>
<td>All 4 districts -&gt; state median</td>
<td>No savings</td>
<td>445,000</td>
<td>Low savings</td>
<td>1,485,000</td>
<td>1,968,000</td>
<td>26,177</td>
</tr>
<tr>
<td>Smaller 3 combined -&gt; state median</td>
<td>No savings</td>
<td>Low savings</td>
<td>No savings</td>
<td>1,183,000</td>
<td>1,264,000</td>
<td>11,151</td>
</tr>
</tbody>
</table>

Data rounded to nearest thousand 2009$, savings less than $100K per year = “low savings”. The totals, however, include the values of any “low savings” estimates.

Table 1 shows the hypothetical regionalization of functions to achieve efficiencies. In 2008, the three smallest districts had a combined ADM of 11,151 and if their cost per student had equaled the statewide median for a district that size the cost savings across all functions would have been $1,264,000. The bulk of that savings would come about from technology services.

While these are significant hypothetical savings, state medians may be unattainable given regional market conditions, educational needs, and simple geography. The highlighted (yellow) portion of Table 1 depicts three scenarios that would attempt to achieve efficiency levels already seen in the region at Bend/LaPine and Redmond. The possible annual savings here are less, but still non-trivial.

If the smaller three districts regionalized only fiscal and technology services and reached a goal of Redmond-like efficiency savings of $1,096,000 in 2008 would be achieved.

---

8 Note that certain IT costs for Redmond may have been reported to the ODE in the expenses of the Bend/LaPine district.
THREE-YEAR COMPARISON

Any future potential savings suggested by this approach depends heavily on the assumption that 2008 was a typical year for the services listed. It is useful to use this year since it is the most recent with actual data available, however, a more reasonable finding may come from taking multiple years of expenditures under consideration. Table 2 does this, looking at the average of the most recent three years as a basis for comparing costs.

Table 2: Hypothetical efficiency savings scenarios using three years of spending data as basis of comparison (FY 06-08)

<table>
<thead>
<tr>
<th>Efficiency Scenarios - On 3 Yr Avg (05-08)</th>
<th>Instructional Services</th>
<th>Fiscal Services</th>
<th>Staff Services</th>
<th>Technology Services</th>
<th>Total</th>
<th>ADM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sisters -&gt; ADM state median</td>
<td>No savings</td>
<td>No savings</td>
<td>113,000</td>
<td>151,000</td>
<td>264,000</td>
<td>67</td>
</tr>
<tr>
<td>Crook County-&gt; ADM state median</td>
<td>No savings</td>
<td>161,000</td>
<td>No savings</td>
<td>206,000</td>
<td>368,000</td>
<td>72</td>
</tr>
<tr>
<td>Redmond -&gt; ADM state median</td>
<td>No savings</td>
<td>No savings</td>
<td>Low savings</td>
<td>218,000</td>
<td>292,000</td>
<td>106</td>
</tr>
<tr>
<td>Bend/LaPine -&gt; ADM state median</td>
<td>Low savings</td>
<td>186,000</td>
<td>203,000</td>
<td>752,000</td>
<td>1,154,000</td>
<td>88</td>
</tr>
<tr>
<td>All 4 districts -&gt; state median</td>
<td>No savings</td>
<td>728,000</td>
<td>300,000</td>
<td>1,180,000</td>
<td>2,208,000</td>
<td>26,177</td>
</tr>
<tr>
<td>Smaller 3 combined -&gt; state median</td>
<td>No savings</td>
<td>289,000</td>
<td>Low savings</td>
<td>691,000</td>
<td>993,000</td>
<td>11,151</td>
</tr>
<tr>
<td>Smaller 3 combined -&gt; Bend efficiency level</td>
<td>No savings</td>
<td>145,000</td>
<td>No savings</td>
<td>No savings</td>
<td>145,000</td>
<td>26,177</td>
</tr>
<tr>
<td>Smaller 3 combined -&gt; Redmond efficiency level</td>
<td>No savings</td>
<td>145,000</td>
<td>No savings</td>
<td>No savings</td>
<td>145,000</td>
<td>11,151</td>
</tr>
</tbody>
</table>

Data rounded to nearest thousand 2009$, savings less than $100K per year = “low savings”. The totals, however, include the values of any “low savings” estimates.

This three-year average approach also shows significant savings. If the three smaller districts had matched the state median, expenditures would have been $993,000 a year less from 2006 to 2008. There would have been $911,000 in possible annual savings if the three smaller districts regionalize just fiscal and technology services, and meet the operational efficiency of Redmond.

Note that Table 2 also shows that regionalizing services across all four districts to create a very large 26,117 ADM district and then targeting Bend efficiency levels would result in annual savings of only $145,000. That same combination, if it were to yield costs per ADM of the statewide median, would be substantially greater — $2,208,000 a year.
ON-SITE AND DOCUMENT REVIEW FINDINGS

The first on-site visit, conducted on February 25th and 26th 2010 included meetings with administrative staff from the High Desert ESD and each of the four districts. The information gathered included:

- District basics, trends, and recent history
- General economic and budgetary conditions
- A review of organization charts and collection of budget materials
- History of regionalization efforts
- Staff reactions to “six-figure” savings through regionalization
- Staff ideas about regionalization and other savings approaches

Following the initial visit, we conducted the data analysis, previously described in this report. We then gathered additional budget and actual information on function costs via phone and e-mail requests.

A second on-site visit was conducted on May 14th, this visit focused on the two functional areas shown to have greatest regionalization promise, technology (“IT”) and fiscal services. The information gathered included:

- More detail on actual IT and fiscal services spending in the current year — looking at service and supplies costs.
- A detailed review of the staffing in those functions
- An exercise with staff to identify where savings might exist within two and three years of consolidation of the functions.
- Executive reactions to initial findings on apparent regionalization savings for the smaller districts. Meetings included the Redmond and Crook County superintendents, and the Redmond contract CFO (Note: incoming superintendent for Sister’s district was not yet available).

To a person, the staff at each district was sincere, open, and helpful. The managers had a clear understanding of the budgetary conditions facing their respective districts and all were deeply engaged in finding creative ways to reduce costs.
All managers regarded regionalization of functions as a potential strategy for cost reductions, though many had concerns and doubts including:

- Fear that regionalized services might result in poor work-product quality or poor customer service
- Concern that savings would not really materialize
- Concern about losing a “single person” for a given function
- Doubt that regionalization could offer significant help given the magnitude of budget cuts needed
- Concerns about losing local control, Crook and Sisters districts emphasized the independent character of their communities and their desire to remain separate.

Despite these concerns, managers of the two smallest districts are facing declining enrollments and major budget reductions. Both are actively reviewing all ideas about savings. Crook County’s magnitude of cuts is particularly challenging. The budget documents provided by Crook County demonstrate that even highly effective regionalization can address only a portion the district’s budgetary rebalancing need.

During the onsite visits, each of the districts also shared past experiences with regionalization and efficiency studies. All four districts highlighted the regional legal services function as an excellent service. This service is actually regionalized across 12 districts and all four districts in this study felt it was meeting their needs. Similarly the centralized management of substitute employees was deemed to be working, though one district felt it might do equally well managing that service in-house.

IT services regionalization is also already happening in various ways, including software hosting across ESD/Districts, bandwidth contracts, and training.

IT regionalization has not always worked for Bend/LaPine. Persons from that district described their history of regionalization in IT and feel they are better off without shared services. For example, Bend/LaPine considered the iVisions financial systems used by other three districts but feels Sungard’s Bi-Tech is a better fit to their size. They also said that the seven-figure transition costs would far outweigh any potential benefits.

Managers at Bend/LaPine expressed a general feeling that, for other services, regionalization would not result in savings for them because they already had the scale to create efficient systems and services. Our data analysis supports their intuitive sense.
Several districts discussed past studies of transportation and nutrition services, which concluded that there was minimal value to regionalize those services. Some suggested that transportation administration might be looked at again. Managers from all four districts also suggested that union contract negotiations could be looked at as a regional effort, possibly as a part of the legal services. The goal would be to reduce the number of different contracts. This would simplify work for many managers and might also be a catalyst for other regionalization efforts.
RECOMMENDATIONS FOR THE ESD AND DISTRICTS

The interviews, data analysis, and budget reduction exercises all suggest that focusing initial regionalization efforts on the ESD and three smaller districts — Sisters, Crook County, and Redmond — would likely be the most fruitful in the next two to three budget years. These districts are in a size range that appears well suited for realizing economies through functional regionalization. Furthermore, the ESD's current regionalization offerings make it a logical organization through which to achieve cost efficiencies in select functions.

Bend/LaPine should also pursue, on its own, a drive toward greater functional efficiency. The ODE data suggest potential savings in IT operations. It is unclear whether certain services provided to Redmond may have affected the findings that Bend/LaPine’s IT spending per ADM were more than similar sized peers (see footnote on Page 12).

Managers at the district should repeat the analysis done here to compare their IT costs per ADM against statewide peers of large districts. The goal must be to drive efficiency while preserving quality. Longer term, as regionalization is realized across the smaller districts, Bend/LaPine should examine where specific collaborations make economic sense.

Our data suggest that Bend/LaPine is large enough that in many cases further consolidation may not yield any further scale savings, but nonetheless there may be other factors that could yield positive results as evidenced by districts of similar size.

**Potential cost reduction:** Our data analysis, shown earlier on Table 2, and repeated here in Table 3, suggests that the eventual regionalization savings that should exist for the three smaller districts, assuming they match Redmond’s efficiency measures, would be $581,000 for fiscal services and $331,000 for technology services.

### Table 3: Hypothetical efficiency savings scenarios using three years of spending data as basis of comparison (FY 06-08)

<table>
<thead>
<tr>
<th>Efficiency Scenarios - On 3 Yr Avg (05-08)</th>
<th>Instructional Services</th>
<th>Fiscal Services</th>
<th>Staff Services</th>
<th>Technology Services</th>
<th>Total</th>
<th>ADM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sisters -&gt; ADM state median</td>
<td>No savings</td>
<td>No savings</td>
<td>113,000</td>
<td>151,000</td>
<td>264,000</td>
<td>67</td>
</tr>
<tr>
<td>Crook County -&gt; ADM state median</td>
<td>No savings</td>
<td>161,000</td>
<td>No savings</td>
<td>206,000</td>
<td>368,000</td>
<td>72</td>
</tr>
<tr>
<td>Redmond -&gt; ADM state median</td>
<td>No savings</td>
<td>No savings</td>
<td>Low savings</td>
<td>218,000</td>
<td>292,000</td>
<td>106</td>
</tr>
<tr>
<td>Bend/LaPine -&gt; ADM state median</td>
<td>Low savings</td>
<td>186,000</td>
<td>203,000</td>
<td>752,000</td>
<td>1,154,000</td>
<td>88</td>
</tr>
<tr>
<td>All 4 districts -&gt; state median</td>
<td>No savings</td>
<td>728,000</td>
<td>300,000</td>
<td>1,180,000</td>
<td>2,208,000</td>
<td>26,177</td>
</tr>
<tr>
<td>Smaller 3 combined -&gt; state median</td>
<td>No savings</td>
<td>289,000</td>
<td>Low savings</td>
<td>691,000</td>
<td>993,000</td>
<td>11,151</td>
</tr>
<tr>
<td>All 4 districts -&gt; Bend efficiency level</td>
<td>No savings</td>
<td>145,000</td>
<td>No savings</td>
<td>No savings</td>
<td>145,000</td>
<td>26,177</td>
</tr>
<tr>
<td>Smaller 3 combined -&gt; Bend efficiency level</td>
<td>No savings</td>
<td>145,000</td>
<td>No savings</td>
<td>No savings</td>
<td>145,000</td>
<td>11,151</td>
</tr>
<tr>
<td>Smaller 3 combined -&gt; Redmond efficiency</td>
<td>No savings</td>
<td>581,000</td>
<td>No savings</td>
<td>331,000</td>
<td>911,000</td>
<td>11,151</td>
</tr>
</tbody>
</table>

Data rounded to nearest thousand 2009$, savings less than $100K per year = “low savings”. The totals, however, include the values of any “low savings” estimates.
There is an important caveat to these findings. The savings come from a comparison to districts that have been running larger operations for many years. The initial regionalization effort will not yield this level of savings in the short term without negatively impacting operations.

During the second on-site visit ECONorthwest conducted line item cost reduction exercises that looked at immediate combination of IT and fiscal services, followed by 24 to 30 months transition to fully consolidate the functions. Based on this work, the level of ongoing reduction that appears possible over the next 24 to 30 months would be about $275,000 in fiscal services and $225,000 in IT services. That is a total of a $500,000 ongoing, annual cost savings for the combined group.

Fiscal services should be able to make the $275,000 reduction target within 18 to 24 months of regionalizing. IT will likely need 24 to 30 months to make its full target because of equipment and service contract life cycles that will slow actual systems and services consolidation.

Both regionalized functional areas should then be able to continue to drive down $/ADM as the combined organizations mature in their 3rd though 5th years. The new regionalized functions should have a combined ADM of around 11,100 initially and managers should compare to peer districts in a similar student range to set ongoing cost targets (five similar sized districts exist today).

However, it should be noted that in IT the detailed budget information does show that bandwidth and related cost are significant due to the expansive area covered by the districts — these cost can not be reduced to the levels of more urbanized districts with smaller service areas.

**Recommendation on Instructional Services:** The analysis suggests that instructional services are efficient even at a smaller scale and there is little savings to be had by regionalization. This study looks only as deep as the general function code 2210, within that accounting code there may be select activities that are cost effectively delivered via collaborative work.

**Recommendation on Staff Services:** Depending on the year looked at this functional area showed either “low savings” or “no savings” to be had by regionalizing. The smaller districts spend a small amount on this now, so regionalizing should be done only selectively where desired.

**Recommendation on Fiscal Services:** The data and the current budget and staffing reviews strongly suggest that there are savings to be had in this function by regionalization of the Redmond, Sisters, and Crook County districts into a single entity. The ESD is the logical place to contain this entity and it too should collapse its fiscal service functions into the group. While savings will take time, creating the single organization to serve all four entities can be done as soon as executive leadership can agree on the new model and shift employee reporting though a reorganization.
This new organization should have a strong single leader tasked with achieving a $275,000 budget reduction within 18 to 24 months. The reductions will come primarily from having less staff, but also from combining systems and expenses.

The leader of the new service organization would need to consider how to meet the needs of the multiple organizations and exactly what position types are required. For example, fewer manager level employees may be needed while more analyst level employees could be required. The working locations of employees will vary and a plan to deliver good on-site service must be developed.

The leader of this newly formed group will also have to have clear and ongoing support of all four superintendents of the districts served. The superintendents must agree on a ways to fairly apportion regionalization savings among the districts.

Finally, the combined fiscal services group should also be tasked with creating a common format for annual budgeting documents and reporting for all four districts. This would include some ongoing ratio analysis (cost per ADM) for every function. Such efforts would yield better understandings of costs for future savings and collaboration.

**Recommendation on Technology Services:** The data and staff discussions suggest that there are substantial savings to be had in this function through further regionalization. IT is currently on the way to this model, with some services already being done in a single service provider model (combined Redmond/ESD IT and the Network Operations Center are examples).

We found that combined the four school districts in this study had higher costs per ADM than their statewide peers. The reasons behind the higher cost may be as fundamental as local labor rates or local bandwidth costs required to serve large geographic service areas. It may not be possible to reduce those structural costs to state medians without undesirable impacts. However, the costs of a consolidated service organization for Crook County and Sisters should be able to approach the lower cost levels presently seen at Redmond district/ESD.

To achieve cost reductions the Sisters and Crook County, IT operations should be combined with Redmond/ESD to create a new organization that serves all four entities — ultimately over 11,100 students.

The first year should target a reduction of at least $100,000 through reduction of staff. By the second and third years the annual savings should reach $225,000. These savings would materialize as the new IT unit combines and centralizes servers, platforms, software, and service contracts.
Staff roles and positions required will need further work in the second and third years, as the demands of the districts served are better understood. Specifically, a new model will be needed for desktop support and on-site support that meets the needs of the local sites. The new unit should look carefully at other districts in the 10,000 to 12,000-student range for support models and staff job descriptions. The new unit should ultimately have fewer staff, but those will be more highly trained IT professionals.

Similar to the fiscal services reorganization, IT will need a strong leader and that individual needs executive support through the transition. This transition is expected to take at least 30 months and it will include changes in systems, software, practices and policies across all districts to create a common IT environment.

Over the longer term there will be many benefits to this regionalization. The increased buying power and the ability to maintain a higher level and more specialized IT staff should result in greater automation for all functions across the districts and ESD.

**Other Recommendations:** Observations and staff comments lead to the following additional areas that the subject districts and the ESD may wish to consider:

- Working with the ESD legal unit to develop a common labor contract across all four districts could save costs and improve negotiations.
- Transportation (administration only) regionalization might be looked at again across the four school districts.
- Facilities maintenance, and energy retrofit collaboration should be considered, at least for districts in close proximity.
- Grants management regionalization (Title 1 and other) was recommend by two districts.
- Review of “dual benefit” families (spouse working in a district also) to reduce insurance costs should be completed.

**Recognizing the limitations of this study for the districts:** This study has depended on high-level function codes and cost data reported by district staff. Like any look at accounting information it is subject to the accuracy of reporting and quantity of good data available. The study also measured district costs against statewide and regional district peers. It considered, but does not make a deep analysis of, the unique cost drivers faced by individual districts.
The results and recommendations included here are intended to point thoughtful administrators toward the locus of possible savings. How to best implement regionalization is a significant challenge that must consider more than costs analysis presented here.
IMPLICATONS FOR OTHER OREGON DISTRICTS

This study found economies of scale patterns for individual educational functions (using ODE function codes). For some functions, like instructional services and staff services, the patterns suggest that small districts can be cost effective. Other functional areas, like fiscal services (Figure 6) and technology services (Figure 8), as well as overall administration (Figure 9), are more cost effective at larger scales. However, efficiency levels out and, in some cases even deteriorates, as districts become even larger, such as beyond 12,000 ADM.

While this study focuses on only four districts, and four administrative functions, the results should encourage many Oregon districts to investigate function based regionalization or collaboration. Figure 19 shows the locations of districts by size and it illustrates that there are clusters of small districts where economies of scale opportunities exist across the state.

Figure 19: Oregon Districts smaller than 5,000 ADM (2008-09)

In the last 10 years the states of Maine, Arkansas, Vermont, New Jersey, and Indiana have all done statewide reviews of district sizes. These efforts have concluded that the smaller districts should combine or regionalize to at least make a minimum threshold, like 1,500 or 2,500 students.

For Oregon, our analysis suggests that consolidating certain functions across districts, while still preserving local control, could yield savings that would free budget up for instruction. Regionalizing certain functions into clusters of smaller districts that serve about 4,500 or more students, would achieve these administrative efficiencies.
Note that districts in this study had the advantage of an ESD that was physically central and already very engaged in serving as a service center in varied functions. Further study of the ESDs and their fit to the regionalization approach is recommended.