


# INTRODUCTION TO ECONOMIES OF SCALE

2021 General Session | Funding Study

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# Economies of Scale in the Public Education Budget

2021 GS | Public Education Appropriations Subcommittee



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## What are Economies of Scale?

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### Concept

- As Student Enrollment Grows in an LEA, Per-Student Costs Decrease
  - A Small LEA Must Provide Core Educational Opportunities to Student
  - Fixed Costs May Take a Larger Share of Budget
    - Teacher Costs | Class Sizes | Special Populations
    - LEA Operations
- Urban | Suburban | Rural
  - Interventions for Small LEAs May Differ
    - School District & Charter Schools
    - Small | Small & Rural | Isolated
  - State Interest in Provision of Education
    - Contributing Geographic & Economic Conditions of Remoteness, Distance, Opportunity/Poverty

### State Principles

- Public Education Purpose (53F-2-103)
  - Children Entitled to Reasonably Equal Educational Opportunities Regardless of Residence or Economic Situation of District
  - Equity
- Foundational Element of the Minimum School Program – 1972 Study
  - Difficult to Define & Provide Interventions
  - School not LEA Based – Similar Factors Apply
    - Determine if a Small and More Expensive School Should be Allowed to Operate
    - Did not Advocate for Small Schools, but Once Permitted the School Should Be Financed in Fair/Equitable Manner



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## Targeted State Programs

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### Basic School Program

- Necessarily Existent Small Schools
  - Original “Economy of Scale” Program
  - Does not Include All Small or All Rural
    - Only Small & Remote District Schools
  - Now Has 3 Parts:
    - NESS | Isolated Schools | Small District Base
- Components in WPU Programs
  - Professional Staff Factors NESS WPUs
  - CTE Components:
    - Administration Base | High School Base

### Related to Basic & Other

- Related to Basic School Program
  - Pupil Transportation
    - Rural School Reimbursement | Rural School Grants
    - Rural School Activities Reimbursement [Repealed]
  - Small Charter School Base
  - Multiple Base + Formulas
    - Provide an Equal Amount to All LEAs to Operate a Program
    - At-Risk Students | School LAND Trust | Early Literacy | Library Books | Adjust Education
- Regional Education Service Agencies
  - State Foundational Support
  - Small LEA Collaboration



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## Economies of Scale

Major State Funding Programs

5-Year Budget History

### Education Programs Targeted to Address "Economies of Scale"

FY 2018 to FY 2022 Base | State Funds Only

Program	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 Base
<b>Basic School Program</b>					
Necessarily Existent Small Schools (NESS)	\$31,501,000	\$32,551,300	\$34,366,300	\$35,488,900	\$37,591,000
NESS - Isolated Schools	\$0	\$0	\$0	\$748,000	\$792,300
NESS - Small District Base	\$0	\$0	\$0	\$1,798,000	\$1,904,500
Administrative Costs	\$5,181,700	\$5,109,500	\$5,262,700	\$0	\$0
<b>Related to Basic School Program</b>					
Pupil Transportation - To & From School	\$83,730,200	\$91,336,200	\$97,944,700	\$101,421,000	\$108,606,500
Pupil Transportation - Guarantee Program	\$500,000	\$500,000	\$0	\$0	\$0
Pupil Transportation - Rural School Reimbursement	\$0	\$500,000	\$500,000	\$500,000	\$500,000
Pupil Transportation - Rural School Grants	\$0	\$0	\$1,000,000	\$1,000,000	\$1,000,000
Charter School Administration	\$7,557,400	\$7,839,400	\$8,112,200	\$0	\$0
Charter School Funding Base	\$0	\$0	\$0	\$3,100,000	\$3,100,000
<b>State Board of Education</b>					
Regional Education Service Agencies (RESAs)	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
<b>Total</b>	<b>\$130,470,300</b>	<b>\$139,836,400</b>	<b>\$149,185,900</b>	<b>\$146,055,900</b>	<b>\$155,494,300</b>



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## Summary of Recent Changes & Issues

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## Issue: Administrative Cost Programs

### 2021 GS | Minimum School Program

#### 5<sup>th</sup> Special Session

- Eliminated Funding & Repealed Statute
  - \$13.4 Million Ongoing in Two Programs:
    - \$5.3 M Small School Districts
    - \$8.1 M Charter Schools
  - District Program Components:
    - Enrollment of Fewer than 5,000 Students
    - WPU's Increased on Scale as Enrollment Decreased
  - Charter Program Components:
    - \$100 per Student
    - Recent \$40,000 Minimum Base
- Originally a District Program
  - Reduced to Small Districts in Great Recession
  - Tied Business Administrator Requirement

#### Program Challenges

- Question on Ability of Program to Address Economy of Scale Issues
- Equity Perceptions – District vs. Charter
  - District: Greater Benefit @ Low-Enrollment
  - Charter: Greater Benefit @ High-Enrollment
    - Recent Efforts to Align Closer to District Formula
    - Affordability
  - Different Roles & Cost Structures
- Effort to Link Funding to “Reporting Requirements”
  - While a Function of “Administration” Not the Main Reason for Programs
- Opportunity of Budget Reductions



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## Mitigation: Small District & Small Charter Base

### 2021 GS | Minimum School Program

- Separate & Address Unique Challenges or Cost Factors
  - Small Districts: Rural/Remote | Multiple Small Schools | Provision of Education
  - Charters: Differentiate Small, Large & Multi-School | Fewer Geographic Issues

#### Small District Base

- Fewer than 2,000 Students
- Reduce Reduction Impact to Less than 2.5% of Basic School Program Allocation (FY21)
- Must Have a “NESS” School
- Assigns WPU's Based on Enrollment Size
  - 500 or Less – 83 WPU's
  - 501 to 1,000 – 28 WPU's
  - 1,001 to 2,000 – 14 WPU's

#### Small Charter Base

- Fewer than 2,000 Students
- Reduce Reduction Impact to Less than 2.5% of Basic School Program Allocation (FY21)
- Funding Amount Based on Enrollment Size
  - 300 or Less - \$40,000
  - 301-400 - \$35,000
  - 401-500 - \$30,000
  - 501-600 - \$25,000
  - 601-1,000 - \$20,000
  - 1,001-2,000 - \$15,000



See the “Minimum School Program – Administrative Cost Program Reduction Scenarios” Tables for More Information

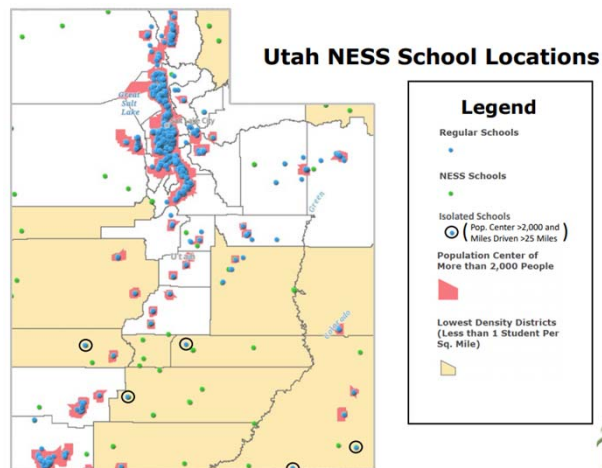
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## Change: Isolated Schools Funding

### 2021 GS | Minimum School Program

#### Program Basics

- Statute:
  - Conditions: Small & Geographic Isolation
  - Isolating Conditions Defined by State Board
    - Districts with the Lowest Population Density
    - 25+ Miles from Nearest Population Center of 2,000+ People
  - Do Not Qualify for NESS Funding Due to Formula Limitations
    - Enrollment Higher than NESS Scale
- Funding:
  - \$748,000 Ongoing – 208 WPUs
    - 5 Qualifying Schools in 4 School Districts
    - All Elementary Schools
    - Allocations Range from \$123,000 to \$163,000



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## Next Steps & Budget Requests

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## Where Do We Go From Here?

### 2021 GS | Economies of Scale in the Public Education Budget

#### *Pending Budget Requests*

- Multiple Requests for Funding
  - \$5.0 M Ongoing – Pupil Transportation
  - \$0.5 M Ongoing – Necessarily Existent Schools
  - \$3.6 M Ongoing – Small District Base
  - \$7.1 M Ongoing – Small Charter Base
  - \$0.35 M Ongoing & \$5.0 M One-time – Expanded Access to Broadband
  - \$4.0 M Ongoing – LEA Financial Information Systems

#### *Interim Study*

- Further Develop Aspects of the Education Funding Study
- SB 142 – Public Education Funding Amendments
  - 2021 & 2022 Interim Study
  - Address Distribution of Revenues Based on Different Size & Property Values
  - Develop Recommendation for Executive Appropriations
- Evaluate Requests Considering Upcoming Work
  - Which Items Make Sense to do Now & Which After Economies of Scale Study
  - Weigh Ongoing & One-time Options



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QUESTIONS?



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