

Co-Chair Proposal: Scale of Local Operations

Economies of Scale and Educational Opportunities in Small Districts

October 19, 2021 | Public Education Appropriations Subcommittee

Proposed Subcommittee Action

Recommend to the Executive Appropriations Committee the following:

- Receive a final recommendation from Public Education Appropriations in December 2022.
- Direct staff to continue developing formula alternatives that will allow the Legislature to determine which of the following approaches will best address the issue of scale of local operations for small districts:
 - Add a district-level adjustment to the current hybrid approach; or
 - Combine current funding programs into a comprehensive add-on program that accounts for district scale of operations and school sizes and remoteness.
 - Consider the interaction between statewide equalization and economies of scale and identify possible opportunities for further coordination between the efforts.

Background

During the 2021 General Session, the Legislature [directed](#) the Public Education Appropriations Subcommittee (PEA) to consider the impacts of economies of scale on districts, as outlined in the [Utah Education Funding Study](#). The following brief highlights additional detail on the study findings and outlines several issues and policy questions for the Legislature to consider.

1. **Study Findings and Recommendations**

Findings

- a. As district size declines predicted spending increases (holding outcomes and cost factors constant).
- b. No evidence of diseconomies of scale.
- c. Prior literature supports the need for an adjustment to account for what is commonly referred to as “economies of scale.”

Policy Recommendations and Alternatives

- a. Replace the current NESS program with a district-based economies of scale program:
 - Apply a weighting to each district to compensate for differences in the cost to educate each additional student
- b. Adjust current NESS program by changing distributions and/or appropriating additional funding.

2. **Current State Efforts to Address Differences in Scale of Local Operations**

Utah uses a hybrid approach to address economies of scale for small, rural school districts. Each of the three tiers has strengths and challenges; a few of these are outlined for each option. The current system does not have a student tier, but one could be developed.

- Region: Regional Education Service Agencies (RESAs)
 - Strengths: larger buying power through LEA collaboration; already in place
 - Challenges: requires regional agreements; uncertainty regarding State budgetary direction
 - Opportunities: potential for additional collaboration; additional state funding
- District: Small District Base Funding; Transportation Programs

- Strengths: maintains current service providing and budgetary structure; facilitates local board decision making
- Challenges: access to resources, potential of higher cost to the state
- Opportunities: no economies of scale program exists at the district level, study recommendations focused on the district
- School: NESS & Isolated Schools (focus of current system)
 - Strengths: compelling state interest to ensure provision of education to all students, NESS is established in statute
 - Challenges: isolation, school population size, distribution of NESS funds can change annually
 - Opportunities: shift focus back to the original purpose of NESS, deal with school level issues not general to small/rural issues

Further Fiscal Policy Considerations

Scale of Small District Operations

The basic concept of economies of scale means that educating students in the most remote and small school settings likely costs more per student than their peers in more urbanized areas. The funding study's cost function analysis confirms this cost differential. However, it is unclear whether an adjustment for district/school size and school remoteness is best applied at the district, school, or student level in Utah's funding context.

Alternatively, efforts could be focused on maintaining and modifying the current hybrid system. Further research and modeling is needed to determine possible scenarios and outcomes, including criteria for qualifying districts. While the student weightings included in the funding study could be used in a statutory distribution formula, the ability to replicate and adjust for changes in local conditions into the future is limited. Staff are looking into ways to turn the study weightings into a scale or index for implementation.

Fiscal Policy Questions

1. *How do the recommendations from the Education Funding Study relate to the current system?*
2. *Is it best to reconfigure the current system or to add an additional layer to the hybrid approach?*
3. *How can the Economies of Scale efforts be used to fix some of the perceived problems with the current system, including addressing district and school size and school remoteness?*

Economies of Scale & State Equalization

The results from the Education Funding Study raise the question of the relationship between the scale of local operations and the state's efforts to address funding equity, particularly through the state guarantee. Additional study and research will be needed to further explore the interactions between an economies of scale adjustment and the state equity efforts.

Fiscal Policy Questions

1. *How do economies of scale and state equity efforts relate?*
2. *How should the system account for these interactions?*