

EXECUTIVE SUMMARY

Proposed Solution to the Funding Crisis in Four School Districts: Intervention Based on Logistics Process Modeling

Allegany-Limestone (ALCS), Hinsdale (HCS), Olean (OCS), and Portville (PCS) are public PK-12 school districts located in New York State's remote, rural Southern Tier. All have critically high unemployment rates and all but one are several miles from basic shopping and the bulk of employment opportunities. This report focuses on the impact of the New York State (NYS) Gap Elimination Adjustment (GAP) and other budget restrictions on local property tax rates and describes local budget impact for school years 2009-12.

For decades, consolidation is the solution offered reflexively to school districts across the country with small enrollments and big budget pressures on the horizon. There are other alternatives, such as centralization of basic services (e.g., transportation, cooperative purchasing and employee benefits initiatives) to eliminate specific redundancies and streamline costs. Three of the four districts already share centralized bus service and are working toward a common schedule, resulting in recent years in substantial savings. One district recently went through a merger. The extreme financial crises these districts face call for radical, innovative measures.

The unemployment rate across these four districts is much higher than either the NYS or national average. Family incomes are lower than NYS and national averages. These families and households form the local tax base for the four districts. All ten counties in western NYS are among the *25 most highly taxed counties (2908) in the entire United States*, comparing the taxable amounts to home values. Cattaraugus County, where all four districts are located, ranks 21st on that list. A primary indicator for financial projections for state education is the *combined wealth ratio (CWR)*: a ratio of combined income and property values for a district compared with the NYS average. All four districts are distinguished by having some of the lowest CWRs in the state. Districts with low CWRs must turn to their reserves as a stop-gap measure.

As of this writing, Allegany-Limestone and Portville have suffered per-student funding cuts more than double the state average, followed closely by Hinsdale and Olean. The average per-pupil cut for the four was \$1,483.75. Cumulative funding losses per district (school years 2010-2013) range from \$1.88 million to nearly *eight million dollars*. The total combined lost aid for this period is \$22,149,310. When districts cannot absorb cuts such as these, their only alternative is to increase the local tax levy. These four districts would need to increase their levies between 15%-35% to offset the loss in aid. Given the local economy and the tax cap, this choice is impracticable.

All four districts received the Good Standing rating from NYSED for the last three years. Despite recent budget cuts and layoffs, they still maintain or improve performance. They are committed to graduating youth with the academic skills and motivation to continue on in postsecondary education. They also prepare students who opt for employment after graduation in skilled trades by targeting occupation-specific skills. Locally there are available jobs in advanced manufacturing and health services careers, to name two examples, for which well prepared graduates are in demand.

The impact of school consolidation – positive and negative – has been a vibrant area for research since 1980. The mixed results are often due to the confounding influence of some state financial incentives as well as the interdependence of fiscal, educational, and social factors. Most recent research has found benefits in larger enrollments from consolidation *for operational but not for capital spending*. Yet, there is clearly a U-shaped relationship between larger enrollments and cost efficiency. Two districts with 300 students each might save as much as 20% by consolidating, whereas two with enrollments of 900 or

more should expect little or no savings. Instruction and administration costs after consolidation initially may decrease, yet these savings generally diminish after several years. Transportation spending may skyrocket and may remain at high levels. Local taxpayers and school staff should demand a deliberate pace and thorough study before seriously eying consolidation as an option. Other methods should be explored that allow schools to maintain identity and autonomy and still expand program offerings and streamline costs.

Over thirty years of accumulated research shows that small schools are generally more productive and effective than large ones according to a wide slate of criteria. The one exception is that larger schools seem to provide advantages for youth from higher socioeconomic neighborhoods. Significant per-pupil cost reductions are touted as proof that larger is better. However, some costs (e.g., administrative) may decline in the short run to be replaced by other increasing expenditures, especially for transportation and more specialized staff. Some rural communities and their economies have been undermined by school consolidation. The loss of a school negatively affects the tax base and fiscal capacity of the district. Low-income and minority communities often bear these costs disproportionately. Collaboratives and partnerships offer new resources and perspectives.

Something must change quickly, if these districts are to continue to turn out successful graduates with twenty-first century skills, prepared for higher education and gainful employment. For over 60 years, the science of quality control, continuous improvement, and process reengineering has revolutionized business and industry globally. These research-based strategies and methodologies have even become instilled in the leadership and management of educational organizations and institutions. Those who would commit to the continuous improvement of their organization must welcome change as a full partner along with all the joys and pains it promises.

These districts propose the creation of a *centralized logistical unit* headed by a business professional with a proven track record whose role is to reengineer targeted, common, operational processes. The goal is to identify redundant, unnecessary, tangential, and inefficient bits of processes required for common business operations. These processes are critical but could be performed much more quickly with as much or more impact by redesigning *how* they occur, from start to finish. The districts will reallocate the reclaimed funding to mission-critical ones composed of efficient, value-adding tasks. The central logistical unit would also facilitate each district accessing the others' strengths (e.g., enrichment options, electives, intramural sports) without additional investment or staffing. There are three strategies: empower the central logistics unit to maximize sharing between districts by coordinating shared resources; improve instructional implementation and intervention; and, create specialized academies in each district to maximize career and college readiness. The districts are considering the creation of an online remedial assistance center and a real-time homework help "hotline" (chat, IM, Skype®), as well as common secondary curriculum maps, unit tests, and quarterly assessments. They are also discussing scheduling common instructional planning time across the four districts within specific content areas. District administrators are also looking into setting up a shuttle system between the districts and BOCES to facilitate transporting students enrolled in vocational and other specialized programs. As new courses are offered, teachers could be reimbursed for tuition to earn specific certifications. Traditional instruction opportunities will be offered via DL (videoconferencing) tailored to interests and credit requirements. The districts have begun discussing the expansion of middle level extracurricular offerings through shared intramural programs.