

The Role of Consolidation of School-Based Services in Michigan's Fiscal Crisis

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EXECUTIVE SUMMARY

In late 2009, representatives from the Ingham Intermediate School District (ISD) and Public Sector Consultants met to discuss the economic, financial, and political factors in Michigan that are escalating the debate on the consolidation of local school district services. The issues discussed include the history of consolidation efforts among school districts within the Ingham ISD and potential ways to ascertain the opinions of local school leaders, services that are best candidates for consolidation and joint efforts, the forms that consolidation could take, and the best method for proceeding with consolidation.

The issue of consolidation is paramount for Michigan's school districts. Reductions in the state School Aid Fund, shrinking enrollments, and spending pressures (such as increasing retirement costs) have converged to dramatically reduce revenue for most districts. These factors have already caused service consolidation efforts to accelerate at the local and ISD levels around the state, but statewide calls from action groups, legislators, and the governor suggest that a state mandate requiring consolidation of services is far more imminent than at any time in the past.

Consolidation of services is not a new concept for Ingham ISD or its locals. The ISD has provided special education transportation and professional development services to all its constituent districts for several decades and, in recent years, districts have partnered to share food service directors and bus maintenance. Based on available research and interviews with area superintendents, it appears that these efforts have resulted in cost-savings while maintaining quality and accounting for uniqueness within local districts. As financial and political pressures mount, however, local school leaders have the opportunity to see further service consolidation as a way of avoiding additional cuts to the core mission of educating students.

Consolidation of services is not a panacea for solving the school finance challenges that Michigan faces. Nevertheless, it does offer potential for real savings. For example, a 10 percent savings in the total cost of all non-instructional services provided by the 12 school districts within the Ingham ISD would amount to a savings of \$217 per pupil. However, local superintendents identified three critical issues that must be addressed if more service consolidation is to be achieved: maintaining the quality of service; regular communication between the district and the service provider to ensure that local priorities are recognized; and documenting that the consolidation has been cost-effective. Any specific consolidation initiatives must consider these issues over the long term.

Leaders of local schools within the Ingham ISD have a number of options as they contemplate how to proceed on service consolidation. They can continue the current incremental approach, wait for a state mandate, or decide to accelerate service consolidation efforts locally. We recommend the third option: accelerating local efforts. Although they will continue to achieve some success, current efforts at consolidation will be insufficient to realize the savings that are possible and necessary if severe cuts are to be avoided elsewhere in schools. A state mandate—such as that outlined in the governor's proposed 2010–2011 budget—would have little regard for the quality of services, local control, or specific local concerns and issues.

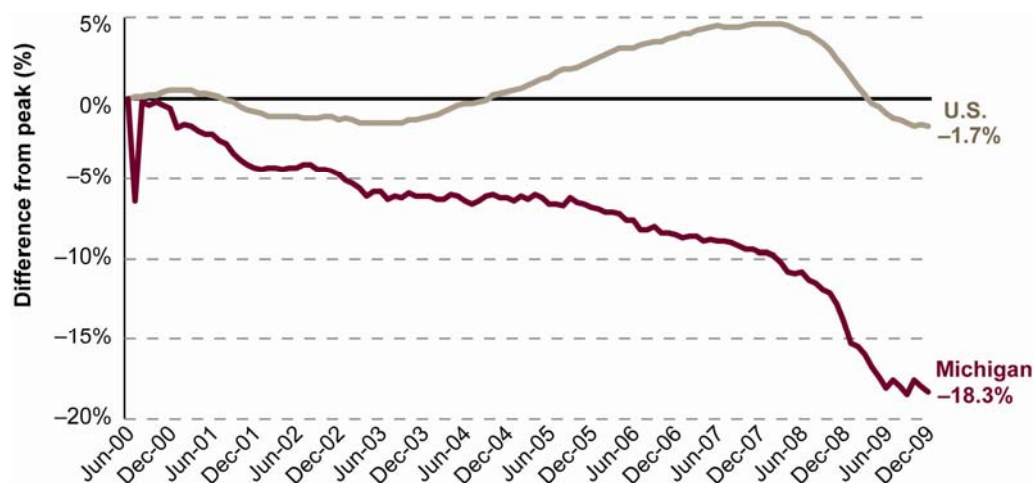
The decision to accelerate service consolidation efforts cannot be accomplished, however, without the active involvement and leadership of local school board members working together with their superintendents. Together, they must become very proactive on this issue, not just within their own communities but also working with other school leaders across district lines.

UNDERSTANDING MICHIGAN'S ECONOMY

Michigan's Economic Contraction

Michigan's school finances are directly tied to the state's economy, which has been declining over the last decade (see Exhibit 1). Since the state's employment peak in June 2000, Michigan has lost approximately 850,000 jobs (17.9 percent).

EXHIBIT 1
Michigan and U.S. Employment, 2000–2009



SOURCE: "Education in Michigan: Finance and Reform," Slide 23, presentation to Michigan Association of School Administrators, Region 2. Citizens Research Council of Michigan, December 18, 2009.

NOTE: Peak is calculated from Michigan's June 2000 employment peak. Data through December 2009.

Of the 850,000 jobs lost, nearly 500,000 have been manufacturing jobs—roughly half of the jobs in Michigan's manufacturing sector.¹ The auto industry shed three out of four jobs, dropping from 346,100 jobs in 2000 to an estimated 77,500 in 2010. Even as the Big 3 domestic automakers return to profitability, future job gains in Michigan's manufacturing sector are likely to be modest due to advances in technology and an increasingly competitive global workforce.²

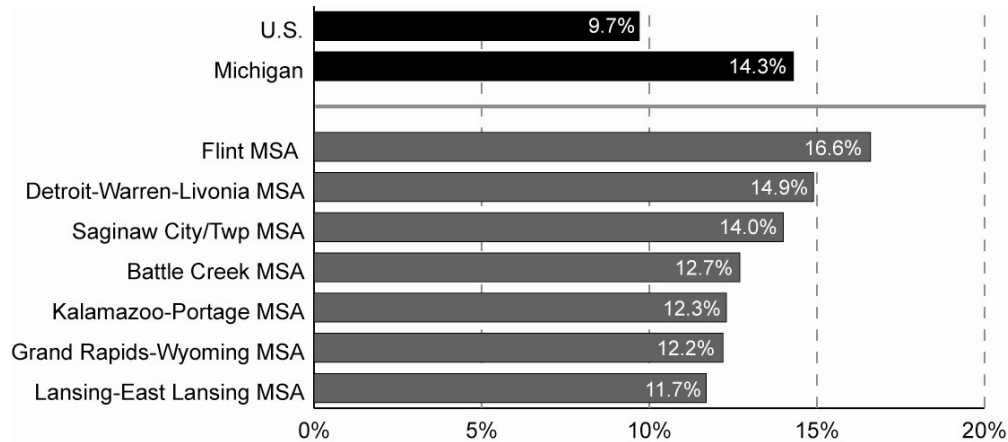
¹ Michigan Department of Treasury, Office of Revenue and Tax Analysis, *Michigan Economic and Revenue Outlook, FY 2009–10 and FY 2010–11* (Lansing, Mich.: Michigan Department of Treasury, January 11, 2010). [Online, accessed 3/15/10.] Available:

http://www.michigan.gov/documents/treasury/AdminTreasHandout_307302_7.pdf.

²Charles L. Ballard, *Michigan's Economic Future* (East Lansing, Mich.: Michigan State University Press, 2006), 8.

Michigan and its major urban cores continue to experience extraordinarily high unemployment levels (see Exhibit 2). Many economists, including those attending the state's revenue estimating conference in January 2010, predict that Michigan's unemployment level will remain around 15 percent through the 2011 calendar year.³ While the employment picture in Ingham County is slightly better, it has remained well above the national unemployment average since mid-2003.

EXHIBIT 2
2009 Unemployment in Michigan and the United States



SOURCE: Bureau of Labor Statistics, Local Area Unemployment Statistics: <http://www.bls.gov/lau/home.htm> (data as of December 2009, information gathered March 10, 2010).

NOTE: MSA = Metropolitan Statistical Area.

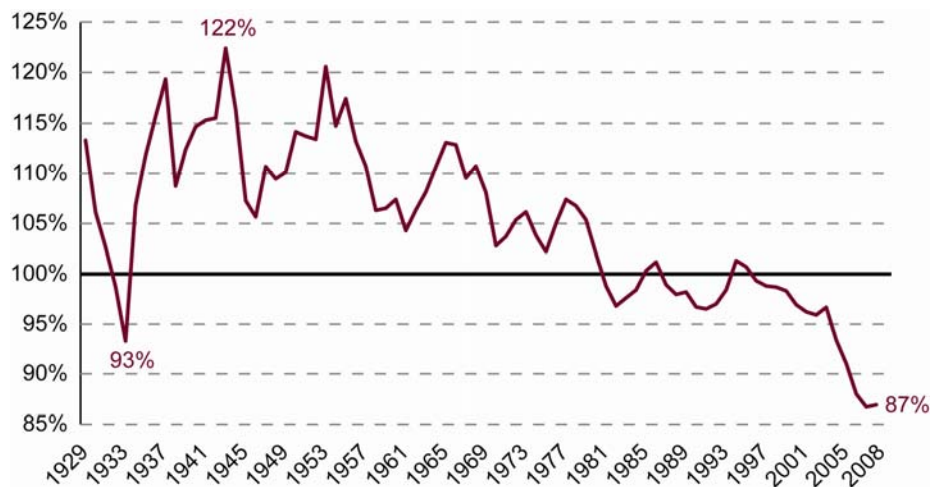
The consistent job losses over time have impacted Michigan's overall wealth. Once above average, Michigan's personal income has fallen to 87 percent of the national average (see Exhibit 3). This drop in wealth levels is often cited as a roadblock to increasing taxes and fees to support or extend the current level of public services.

The decline in income levels has also affected expendable income, which in turn has reduced sales tax revenues. Sales tax is the primary revenue source for Michigan school operations.

³ Michigan House Fiscal Agency, *Michigan Consensus Revenue Agreement*, Executive Summary (Lansing, Mich.: Michigan House Fiscal Agency, January 11, 2010).

EXHIBIT 3

Michigan Per Capita Income as Percentage of U.S. Per Capita Income



SOURCE: "Education in Michigan: Finance and Reform," Slide 23, presentation to Michigan Association of School Administrators, Region 2. Citizens Research Council of Michigan, December 18, 2009. CRC calculations from Bureau of Economic Analysis data. March 24, 2009, personal income release for years prior to 1969; October 16th release for years after 1969.

THE ECONOMIC IMPACT OF MICHIGAN'S RECESSION ON SCHOOL FINANCE

Background of Michigan School Finance: Proposal A

The sustained, statewide economic decline is directly linked to the financial challenges being felt by local school districts across the state.

Proposal A (approved by voters on March 15, 1994) created Michigan's current school finance system. Prior to Proposal A, local property taxes provided the majority of school funding, creating vast disparities in dollars available for schools due to widely varying property values and millage rates across the state. It also created high property taxes. Before the adoption of Proposal A, property taxes in Michigan were 33 percent higher than the national average and only three states relied more heavily on local property taxes as a source of funding for K–12 schools.⁴ As frustration rose, an increasing number of school millage requests were being defeated.

While Proposal A made numerous changes to school funding and administration, two of the key changes were:

1. Creation of the Foundation Allowance: essentially a minimum per student allowance for each local district, designed to lower—but not eliminate—the spending gap between low- and high-spending school districts. The current minimum foundation allowance is effectively \$7,151 when including the \$165 per pupil cut in 2009–10.

⁴ Michigan Department of Treasury, Office of Revenue and Tax Analysis, *School Finance Reform in Michigan Proposal A: Retrospective* (Lansing, Mich.: December 2002).

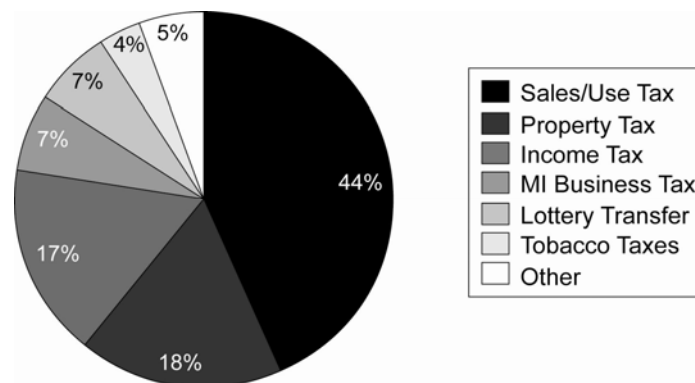
- Creation and funding of the School Aid Fund (SAF): a dedicated pool of money to fund the foundation allowance and other K–12 education programs—from a variety of revenue sources including sales, income, business, and property taxes. The SAF accounts for approximately 65 cents of every dollar spent on education in Michigan.⁵

Essentially, the passage of Proposal A made funding of local schools a state responsibility rather than a local responsibility.

School Aid Fund Remains under Pressure

As the state’s unemployment rate has escalated, personal income has declined, and property values have dropped, it is no surprise that government revenues have suffered. As mentioned above, the SAF in particular is largely dependent on economically driven revenues and, as a result, is inevitably linked to the state’s economic health (see Exhibit 4).

EXHIBIT 4
School Aid Fund Projected Revenues, FY 2010–11



SOURCE: Data compiled by Michigan House Fiscal Agency, *Background Briefing on School Aid*, Lansing, Mich. (January 2010).

NOTE: "Other" revenues include real estate transfer, casino, liquor excise, industrial facilities, and other special taxes.

After a decline of 5.1 percent in SAF revenues in FY 2008–09, followed by a 4.2 percent decline in the current year (FY 2009–10), SAF revenues have been reduced to nearly the same levels as FY 2004–05.⁶ Even with the infusion of over \$1 billion total in federal stimulus funds as part of the American Recovery and Reinvestment Act (ARRA) over the past two years, the decline and stagnation of key revenues in the SAF resulted in a \$165 per pupil cut in state aid to every local district in FY 2009–10. For two of the districts, the per pupil reduction was greater due to a unique classification.⁷

⁵ Michigan House Fiscal Agency, *Background Briefing on School Aid* (Lansing, Mich.: House Fiscal Agency, January 2010).

⁶ Ibid.

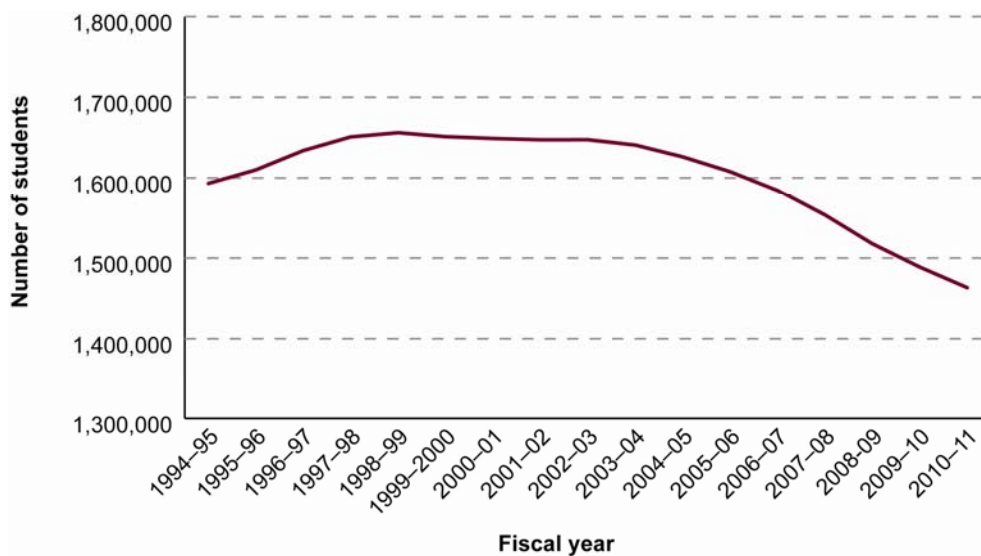
⁷ Michigan House Fiscal Agency, *Proration of School Funding* (Lansing, Mich.: House Fiscal Agency, October 28, 2009).

Current projections indicate that SAF revenues will remain essentially flat in FY 2010–11.⁸ Meanwhile, only \$185.5 million in ARRA funds remains.⁹ Therefore, the overall shortfall between today’s operating needs and available revenue is approximately \$425 million. While budget negotiations are ongoing in the state legislature, it has been estimated that this shortfall will result in a per pupil foundation allowance cut of approximately \$255.

Declining Enrollment

Further impacting local school finance is the continued decline in the number of students across the state (see Exhibit 5). Since the foundation allowance is allocated on a per pupil basis, the districts that experience declining enrollment will, as a consequence, lose revenues. Job losses, coupled with the state’s aging population, contribute to the state’s declining enrollment. Statewide enrollment is projected to continue declining at a pace of 1.5 percent annually.

EXHIBIT 5
Declining Enrollment in Public School Districts



SOURCE: Data collected from “Pupil Membership History, FY 1994-95 to FY 2010-11 (est.),” Michigan Senate Fiscal Agency

Ingham County has experienced declining school enrollment at a pace similar to that in the rest of the state. While two local districts have experienced modest enrollment increases over the past two years, the remaining ten districts have experienced enrollment declines ranging from 0 percent to 4 percent annually. In a few cases, the combination of reduced state aid and dramatic enrollment decline will result in a reduction in revenues equal or greater than \$500 per pupil. Together, the combination of foundation allowance cuts and declining enrollment could result in a reduction of state aid totaling upwards of \$15 million across the constituent districts.

⁸ Michigan House Fiscal Agency, Consensus Revenue Agreement.

⁹ Ibid.

Rising Retiree Benefit Contribution

Over the past several years, the cost of educating the state’s 1.6 million students has grown at an estimated 4.7 percent each school year.¹⁰ Among the drivers of escalating education costs are school employee retirement benefits (see Exhibit 6). During the 2009–10 fiscal year, every district in the state contributed 16.94 percent of school employee payroll to long-term benefits, with 10.13 percent directed to pensions and 6.81 percent toward retiree health care costs. The rapidly rising cost of health care, coupled with pressures on the state’s pension system from the 2008 collapse of financial markets, could drive the total cost to as much as 27 percent of payroll within the next ten years. In the near term, the state is projecting increasing the required school district contribution from 16.94 percent to 19.41 percent of district payroll in 2010–11, amounting to roughly a 15 percent expense increase.¹¹ This increase in retiree benefits is money that will come directly out of local school budgets in the coming year and into the future, adding additional pressure on top of declining revenues and enrollment.

EXHIBIT 6
Michigan Public School Employees Retirement System (MPSERS)
Local District Contribution Rates* by Fiscal Year



SOURCE: Data provided by the Citizen’s Research Council of Michigan, March 15, 2010.
*Actual combined health and pension rate contributed by districts to MPSERS.

According to FY 2007–08 financial data collected by the state, Ingham ISD constituent districts spent a combined \$259.1 million on salaries and wages, and made an additional \$43.9 million in contributions to the employee retirement system. Assuming that the 15 percent increase in retirement contributions occurs, an additional \$6.4 million will be contributed to the Michigan Public School Employees Retirement System (MPSERS) in FY 2010–11 across the constituent districts. This amounts to an increase of \$114–\$167 per student depending on the district.

¹⁰ Citizens Research Council of Michigan, “Education in Michigan: Finance and Reform,” presentation to Michigan Association of School Administrators, Region 2 (December 18, 2009).

¹¹ Michigan Office of the Budget, Fiscal Year 2011 Executive Budget, “School Aid Budget Bill” (February 12, 2010), 218. [Online, accessed, 3/15/10.] Available: <http://www.michigan.gov/budget>.

The Perfect Storm

When all the challenges are added together, constituent districts face a perfect storm of budget pressures. Obviously, many unknowns remain—including the work of the governor and the state legislature to offset declines in the SAF with new revenue. All else being equal, however, it appears that the discussion will start with reductions to the SAF of about \$255 per pupil in FY 2010–11. For districts that continue to experience rapid enrollment declines, the total reduction will be much higher, and added to that will be the increase in the mandated contribution to the employee retirement system. For detailed revenue reports, see Appendix A.

Clearly, no single solution will solve the funding crisis that Ingham ISD and its constituent districts face. Actions at the state level will be necessary to bend the cost curve of future retiree benefit contributions; the revenue structure of the SAF must be reviewed; and inevitably, the realities of declining enrollment in most districts will force tough decisions about school closings and staff reductions. In the short-term, however, consolidation of services gives local school districts the opportunity to seek efficiencies in their service provision that can offset cuts that directly impact the quality of education.

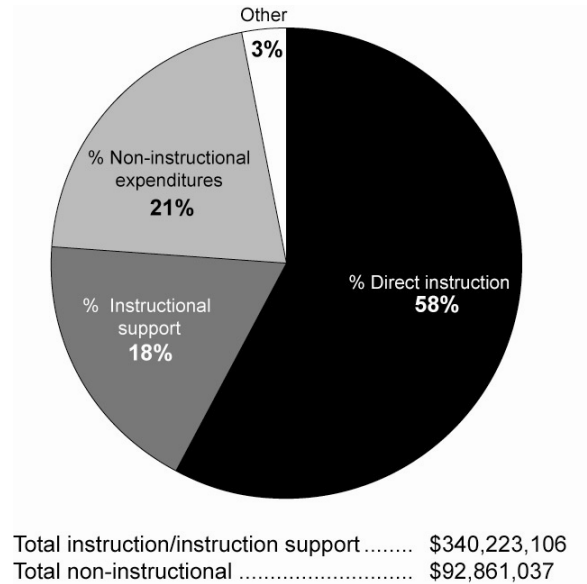
CONSOLIDATION OF SERVICES COULD PROVIDE RELIEF

Searching for Savings: An Overview of School District Spending

School districts report expenses in four categories: instructional costs, instructional support costs, non-instructional costs, and other (see Exhibit 7). These four categories capture all general fund spending by each district, from classroom services to central administration (see Appendix B for a detailed description of the spending categories). Together, the constituent districts of Ingham ISD spent a total of \$340.2 million on instructional and instructional support functions, and \$92.9 million on non-instructional functions during FY 2007–08. The proportion of instruction versus non-instructional spending differs from district to district.

While constituent districts direct a large proportion of funds to classroom and instructional programs, approximately 20.8 percent of funds were spent on non-instructional activities in FY 2007–08. Non-instructional costs include district-level administration, business operations, operations (facilities) maintenance, transportation, and other district-level support. The “outside the classroom” nature of these non-instructional functions that districts perform makes them the best candidates for consolidation with other districts or through the ISD.

EXHIBIT 7
Breakdown of School Expenditures and
Potential Non-instructional Savings, FY 2007–08*



Per pupil cost		Savings in non-instructional expenditures		
Total instruction	Non-instructional	5%	10%	15%
\$7,968	\$2,175	\$109	\$217	\$326

SOURCE: Michigan Department of Education, Center for Educational Performance and Information (CEPI), Pupil Enrollment, Financial Data, 2007–08 financial data. Data collected on March 10, 2010.
 *Most recent data available.

The savings realized by consolidating non-instructional functions varies by service, but even achieving a minimal savings of 5 percent could save \$109 per pupil. Implementing a more aggressive consolidation plan (aiming for savings of 10–15 percent) could yield savings large enough to address the entire FY 2010–11 budget gap.

Ingham ISD’s Current Role in Consolidated Services

Intermediate school districts, sometimes referred to as regional education service agencies, pool resources and provide services regionally that produce cost-effective, high-quality results.¹² Traditionally, special education services and professional development services are provided, or consolidated, through ISDs.

For years, Ingham ISD has provided a variety of services to its constituent districts as well as to districts in other counties. The most familiar of these services is special education transportation services, which Ingham ISD has managed since 1985. The ISD also manages, facilitates, or currently provides business, finance, and various human

¹² Michigan Department of Education, *Michigan Intermediate Schools Districts and the Consolidation of Services, Report on PA 63 of 2007* (Lansing, Mich.: May 19, 2008). [Online, accessed, 3/15/10.] Available: http://www.michigan.gov/documents/mde/PA63LegislativeReport_236231_7.pdf.

resource services; career and technical education services; media and technology services; school development expertise; and special education programs and support services.

Finally, in a continued effort to explore areas of cost savings and efficiency, Ingham ISD (in conjunction with its constituent districts) has identified and studied non-instructional services for further consolidation. Specifically, these services are:

- General education transportation
- Facilities/custodial
- Business and human resource services
- Technology
- Food service
- Instructional support services including professional development

Constituent Views Regarding Consolidation of Services

During February 2010, PSC conducted individual phone interviews with the superintendents of each of the ISD's 12 constituent districts. The conversations focused on general thoughts about consolidating services, what services should be considered the best candidates for consolidation, the challenges and issues related to consolidation of services, and who should participate in and lead discussions to move forward.

All the superintendents believe the fiscal situation has made consolidation of services a necessity. In many cases, superintendents have actively engaged local school board members in conversations about the issue. Although the degree of receptiveness varies (with concerns about local identity, quality, and unique district issues often expressed), local board members are well aware of the fiscal constraints under which they operate. In order to maximize economies of scale, most superintendents expressed a preference to have all 12 districts participate in the consolidation effort; however, superintendents acknowledged the challenge of finding common services for all districts, and did not want full participation to slow individual efforts to consolidate services that are tailored for specific local circumstances.

The superintendents think that the ISD has been an effective facilitator of the conversation regarding consolidation of services. And among the districts that currently participate in consolidated services through the ISD or with one another, there is agreement that cost-savings have been realized and the quality of services has not been sacrificed. Going forward, superintendents identified three critical issues that must be addressed in consolidation of service discussions:

- **Maintain quality of the service:** Will the quality of the service provided be equal to that of the current in-house service? Are there opportunities, through consolidation, to enhance services even beyond what local districts can currently offer?
- **Strong collaboration, including regular communication, between the district and the service provider:** Can local control be maintained at some level? How much input does the local district have on the design and delivery of the service?

- **Cost-effectiveness:** Does consolidation of services allow local districts to redirect money to the classroom?

The superintendents also emphasized that any specific consolidation initiatives must consider these issues over the long term.

Finally, the superintendents believe that the current financial climate and forecast, combined with the last several years of budget cutting, have accelerated discussions locally about consolidation of services. After several years of taking short-term approaches to fiscal challenges, there is recognition among superintendents and board members that consolidation efforts could be part of a more stable financial solution for the long term.

The superintendents also recognize that momentum is building around a mandate for service consolidation at the state level. Although there is a strong preference from local school leaders to avoid a mandate from the state, they recognize that this might be unavoidable.

MOMENTUM GROWING FOR A STATE MANDATE FOR CONSOLIDATION OF SERVICES

Michigan's decade-long economic decline has had significant impacts on all entities that rely on public funding to deliver services. Declining state revenue, long-term structural deficits, and the political stalemate over tax increases and spending cuts have, among other things, focused increasing attention on whether public services at all levels can be delivered more efficiently.

K–12 education has not been exempt from this scrutiny. Consolidation of services offered by local school districts—particularly non-instructional services such as general education transportation, business and legal services, technology support, nutritional services, professional development, and others—is now under active consideration by policymakers at the state and local levels.

State funding cuts alone have caused local school districts to explore consolidation of services during the past few years. It is important to recognize, however, that momentum is also building on several fronts that could result in a state mandate of some sort. Several developments are noteworthy:

1. State-level conversations about consolidating services were formalized with the passage of PA 63 in September of 2007. PA 63, which was part of the final agreement leading to the enactment of the state's 2007–2008 budget, required each intermediate school district to conduct a study on the consolidation of certain non-instructional services and report efforts to the state. The primary purpose of the study was to identify opportunities for their local constituent school districts to share services, with a focus on non-instructional services. By March 2008, all of Michigan's ISDs had reported survey results back to the state, including specific challenges or barriers to consolidating individual services. The amount of consolidation of services and the intensity of efforts, varied across ISDs according to the report.

2. PA 96, also enacted in the fall of 2007 as part of the state budget agreement, created a Legislative Commission on Government Efficiency. The commission, whose statutory charge was to provide an objective analysis of Michigan's government operations and offer recommendations to reduce government expenditures, consisted primarily of individuals from the private sector. The final report, issued on November 18, 2009, recommended greater consolidation of non-instructional services beyond the current level through the use of monetary incentives to ISDs

The commission also suggested that further cost reductions at the school district level could be achieved by granting the state superintendent the authority to consolidate school districts or ISDs if a savings of at least 5 percent could be demonstrated. According to the commission, the report was intended to provide the state a "roadmap" toward long-term fiscal stability, with an emphasis on efficiency and effectiveness of state services.¹³

3. Business Leaders for Michigan (BLM), a private organization comprised of over 70 influential Michigan business leaders, has recently called for greater consolidation of services among local school districts in the *Michigan Turnaround Plan*, which is its blueprint for transforming Michigan's economy and creating good jobs. This plan not only recommends that the state encourage and enable local school district service sharing, but actually calls upon the state to reduce per pupil state funding for districts that fail to share services. The *Michigan Turnaround Plan* continues to receive widespread publicity around the state.¹⁴
4. Save Our Schools (SOS), a coalition of associations that represent schools and school officials statewide, recently formed to advocate for restructuring state and K–12 revenues to provide budget stability for Michigan's schools. SOS has also called for more consolidation of services, specifically calling upon school leaders to "share services and purchasing" and to "explore new methods of delivering educational programs and services." The Michigan Association of School Boards, the Michigan Association of School Business Officials, and the Michigan Association of School Administrators are all members of the SOS coalition.¹⁵
5. In the most deliberate attempt yet to spur education delivery efficiency, the governor's 2010–11 budget (released in January 2010) requires the implementation of school service consolidation plans in the 2011–12 school year. The budget proposal requires that the following services be examined: purchasing, payroll, financial accounting, facilities maintenance, pupil transportation and bus maintenance, human resources, technology (including

¹³ Legislative Commission on Government Efficiency, *Charting a Way Forward, A Path to Fiscal Stability for the State of Michigan* (Lansing, Mich.: Legislative Commission on Government Efficiency, November 2009). [Online, accessed, 3/15/10.] Available: <http://council.legislature.mi.gov/lcge.html>.

¹⁴ Business Leaders for Michigan, *Michigan Turnaround Plan, A Five-Step Plan to Transform Michigan's Economy & Create Good Jobs* (September 2009). [Online, accessed, 3/15/10.] Available: <http://www.businessleadersformichigan.com>.

¹⁵ Save Our Schools Michigan, "What School Leaders Must Do." [Online, accessed, 3/15/10.] Available: <http://www.sosmichigan.com>.

student information service systems), and food services. ISDs and local school districts will each be required to calculate the per pupil cost of each of the mentioned services, and the most cost-effective delivery method must be implemented by the start of the 2011–12 academic year. Districts that do not enter into service-sharing agreements that are considered the most cost-effective will forfeit state aid, as will ISDs if they do not provide the most cost-effective services.¹⁶

These are just a few examples of the growing advocacy for greater cost reductions and efficiencies in local schools. The Shared Public Services Initiative Plan, a working group of state public service and business leaders overseen by the Governor’s Office, is highlighting the need to consolidate school administrative services; Senate Republicans recently published a 2010 legislative agenda that includes a call to require competitive bids for all K–12 non-instructional services; a recent national study conducted by Deloitte Research claims that \$9 billion could be saved by local school districts if non-instructional operations were shared; and the State Superintendent of Public Instruction himself has repeatedly advocated for more aggressive efforts on this matter.

The developments outlined above point to a growing belief, whether accurate or not, that local school districts are not moving quickly enough on service consolidation.

CONCLUSION: THREE POTENTIAL PATHS TO ACTION

Declining revenue, increasing demands for efficiency in the public sector, and the potential for cost savings require local and intermediate school districts to decide how best to address the many issues related to consolidation of services. Three general options are available:

Continue the Current Approach

Months—if not years—of conversation, facilitation, and analysis by local school districts and the Ingham ISD have resulted in a number of steps related to consolidation of services. Some have been in place for years, others are more recent, but still others have been studied but await action. The question that local school leaders must ask themselves at this point is whether current efforts are sufficient in the context of Michigan’s financial and political environment.

Additional school aid reductions and increasing demands for more service consolidation from entities that span the political spectrum suggest that continuing current efforts at the current pace—while achieving modest results—might be insufficient to realize the savings that are possible and necessary if severe cuts are to be avoided elsewhere in schools.

Wait for a State Mandate

The passage of PA 63 of 2007 (which required ISDs to submit reports on administrative service consolidation), the increasing calls by policymakers for schools to take concrete steps in this area, and the governor’s executive budget proposal that would for the first

¹⁶ Fiscal Year 2011 Executive Budget, “School Aid Budget Bill,” 32.

time mandate schools to implement consolidation of service plans no later than 2011–12, give credence to the possibility of a state mandate in the near future. Local school leaders should, as they ponder the real possibility of such a mandate, be concerned that the state’s focus will be primarily on cost savings, with little regard for quality of service, local control, or unique local concerns and issues.

Accelerate the Process

Given the financial and political environment in which school districts must operate, local leaders must accelerate service consolidation efforts. Many challenges to this option exist, such as the desire for local control and identity, the uniqueness of every district, important questions of quality, employee morale, community support, and many others. These challenges both imply and require the active involvement and leadership of local school board members if service consolidation is to be accelerated. Members of local school boards are directly accountable to their local community, and their direct involvement and leadership on this issue is critical to its ultimate success.

Moving more aggressively on service consolidation is a dynamic process that includes leadership, education of many constituencies and stakeholders, and good communication plans and tools sustained over a period of time. There exists no single “silver bullet” that can accomplish this quickly and painlessly. We make the following recommendations for consideration by local school leaders:

1. Establish a committee composed of representatives of local schools boards to discuss and consider service consolidation efforts. This committee can take many forms, but its primary purpose is to facilitate discussions by school board members across district lines.
2. When key personnel changes occur in local school districts, view these as opportunities to actively explore service consolidation. Personnel and employee issues are factors to be considered when consolidating services and often present significant barriers. Changes that occur voluntarily and in the normal course of business provide unique opportunities to explore service sharing with other districts.
3. Increase education efforts with key stakeholders at the local community level. The depth, severity, and long-term nature of the financial challenges faced by local schools must be shared widely in local communities, as well as the role that service consolidation could play in helping to meet those challenges. Not only must education efforts reach beyond the local school board level, local school board members and superintendents must be part of the leadership in conducting these efforts.
4. Establish and implement an aggressive communication plan on the benefits and issues related to service consolidation. A comprehensive communication plan sustained over time must be part of any effort to accelerate service consolidation efforts.

A decision to accelerate service consolidation is not without challenges and difficulties. Local education leaders should recognize, however, that the alternatives are not pleasant either. Additional cuts will reach deeper into core education services and any state mandate might inadequately address important issues of quality and unique local factors. Accelerating the process at the local level might have the advantage of helping to shape a state mandate that ultimately cannot be stopped.

Finally, local school leaders should decide a course of action soon, since it is unlikely that political impetus and financial reasons for consolidation of services will dissipate in the future.

Appendices

Appendix A: Ingham ISD Constituent District Composite Revenue Projection and Potential Cost Savings

Appendix B: Defining the per Pupil Cost outside the Classroom

Appendix C: Summary of Ingham ISD Superintendent Interviews

Appendix A:

Ingham ISD Constituent District Composite Revenue Projection and Potential Cost Savings

This appendix presents calculations that project total growth/decline in General Fund revenues for the public school districts within the Ingham ISD service area, as well as the increase in Michigan Public School Employees Retirement System (MPERS) contribution and potential non-instructional cost savings. All calculations are presented on a per pupil basis unless otherwise noted.

SOURCES AND GENERAL NOTES

- School Aid Fund current fiscal year revenue information and next fiscal year revenue projections were obtained from the Consensus Revenue Agreement, published on January 11, 2010 by the Department of Treasury at http://www.michigan.gov/documents/treasury/ExecSummary_Jan2010_306997_7.pdf
- Headcounts for FY 2008–2009 and FY 2009–2010 were calculated using audited fall 2008 headcounts from the Center for Educational Performance and Information (CEPI), available online at http://www.michigan.gov/cepi/0,1607,7-113-21423_30451_30460---,00.html (accessed 2/22/2010), and unaudited fall 2009 headcounts provided by the ISD.
- Total General Fund revenue and federal revenue for each school district was obtained from the Michigan Department of Education’s Annual 1014 Bulletins (2005–2008), available online at http://www.michigan.gov/mde/0,1607,7-140-6530_6605-21514--,00.html (accessed 2/22/10).
- All projections consider the usage of \$1,234.1 million dollars in ARRA funds (American Recovery and Reinvestment Act of 2009), with \$600 million distributed in FY 2008–2009, \$450 million distributed in FY 2009–2010, and approximately \$185 million distributed in FY 2010–2011.
- The non-instructional costs for each district were obtained from the Michigan Department of Education’s Center for Educational Performance and Information (CEPI) at <http://www.michigan.gov/cepi> (accessed 2/22/2010).

Explaining Trends and Scenarios

The model factors each district’s fiscal 2009–10 foundation allowance, enrollment trend, and federal aid in calculating the total revenues in each of the three scenarios. Ingham ISD’s 12 constituent districts experienced an overall decline in student enrollment between fall 2008 and fall 2009 of -1.94 percent. However, Ingham ISD’s constituent districts had an overall increase in federal funding over the past fiscal year of 2.10 percent.

The model starts with the reduction of \$165 per pupil in the foundation allowance during the current year (FY 2009–10). The additional per pupil cuts experienced in East Lansing Public Schools and Waverly Community Schools due to their unique status granted under section 20j of the School Aid Act are also included in the model (districts whose

foundation allowance exceeded the maximum allowed at the time Proposal A was enacted, and were originally “held harmless”¹⁷). The model then makes assumptions about future per pupil funding, enrollment, and federal aid in producing a worse case, better case, and compromised case scenario for each district’s revenues in FY 2010–11. These scenarios are summarized in Exhibit A-1.

EXHIBIT A-1
2010–11 Funding Scenarios

Factors Considered	Scenarios		
	Worse	Better	Compromised
School Aid Fund balance after ARRA funds (millions)	(\$422.0)	(\$105.5)	(\$316.5)
Per pupil cut to foundation allowance	(\$294)	(\$74)	(\$216)
Enrollment	The greater decline (–3% or the district's current trend)	The smaller decline (–1.94% or the district's current trend)	Current trend of enrollment decline/increase
Federal aid	10% decline in federal aid	Similar percent increase as previous year	Same total dollar amount as previous year

SOURCES: Model developed by Public Sector Consultants Inc., 2010, using data from: Michigan Department of Treasury, Consensus Revenue Agreement, January 11, 2010, http://www.michigan.gov/documents/treasury/ExecSummary_Jan2010_306997_7.pdf; Michigan Department of Education, Annual 1014 Bulletins (2005–2008), http://www.michigan.gov/mde/0,1607,7-140-6530_6605-21514--,00.html; Michigan Department of Education, Center for Education Performance and Information (CEPI), audited fall 2008 headcounts, <http://www.michigan.gov/cepi>; and unaudited fall 2009 headcounts provided by Ingham ISD.

The most variation in revenue projections is driven by the performance of the School Aid Fund and subsequent foundation allowance. Currently, as estimated by economists during the state’s January revenue estimating conference, the school aid fund (SAF) will have a negative balance of \$422 million, including the exhaustion of the remaining federal stimulus funds (AARA), if no expenditure or revenue changes are made. To close the gap, as constitutionally required, per pupil funding would be cut approximately \$255.

The worse case assumes a per pupil foundation cut of \$294 per student in FY 2010–2011 based on the assumption that the state will not raise any new revenues to fill the \$422 million shortfall, and that actual revenues are 10 percent lower than currently projected.

The better case assumes a per pupil foundation cut of \$74 per student in FY 2010–2011 based on the assumption that the state will raise 75 percent of the projected \$422 million shortfall with new revenues, and the remaining 25 percent budget gap will be mitigated through per pupil cuts.

The compromised case assumes a per pupil cut of \$216 per student in FY 2010–2011 based on the assumption that the state will raise 25 percent of the current \$422 million shortfall with new revenues, and the remaining 75 percent budget gap will be passed down through per pupil cuts.

¹⁷ House Fiscal Agency, History of Section 20j Payments (2/15/2007).

Composite of Ingham Intermediate School Districts

Revenue Report

FY 2010–11 Projections¹

	Change in General Revenue	Per pupil change in General Revenue	% Change in General Revenue	
Worse Case	-\$21,303,981	-\$509	-4.76%	<div style="border: 1px solid black; padding: 10px; margin: 0 auto; width: 80%;"> <p style="text-align: center; background-color: #cccccc; margin: 0;">Estimated FY 2010-11 increase in Retirement Contribution²</p> <p style="text-align: center; margin: 0;">\$150 per pupil</p> </div>
Better Case	-\$8,672,379	-\$207	-1.94%	
Compromised Case	-\$15,205,812	-\$363	-3.40%	

Non-Instructional Expenditures³

Non-instructional Cost	5% Non-instruction Savings	10% Non-instruction Savings	15% Non-instruction Savings
\$2,175	\$109	\$217	\$326

¹ Per pupil projection is based on a baseline of 2009-10, and includes state per pupil funding reduction and anticipated federal aid combined with enrollment projection.

² Michigan's Public School Employees Retirement System (MPERS) projects raising the district contribution from 16.94% of payroll in 2009-10 to 19.41% of payroll in 2010-11.

³ Based on state 2008 financial data provided by Center for Education Performance and Information, Michigan Department of Education.

Appendix B:

Defining the per Pupil Cost outside the Classroom

The State of Michigan collects financial data annually from school districts across the state and published the information on its Center for Educational Performance and Information website (www.michigan.gov/cepi). School district expenditures are classified as being in one of four basic categories: instructional costs, instructional support costs, non-instructional costs, and other.

- **Instructional costs:** includes K–12 instruction, pre-school, summer school, special education, compensatory education, career tech education, and adult education
- **Instructional support costs:** includes student services, instructional staff support, and school administration
- **Non-instructional costs:** includes general administration, business office, operation maintenance, transportation, other support
- **Other:** includes community services, facilities acquisition, and outgoing transfers

Public Act 63 classified the following costs as “non-instructional services:”

- Pupil transportation for all classes of pupils and all types of programs
- Human resource administration
- Procurement of supplies and other purchasing
- Technology support services, including, but not limited to information technology
- Professional development
- Accounting and other financial services
- Legal services
- Food and child nutritional services
- Event management
- Production printing and graphics
- Shipping and receiving services
- Any other service described in section 627
- Any other non-instructional services identified by the superintendent of public instruction

Appendix C:

Summary of Ingham ISD Superintendent Interviews

WHAT SUPERINTENDENTS ARE SAYING ABOUT CONSOLIDATION OF SERVICES

All superintendents expressed support for consolidation of service efforts and believed the fiscal climate has made consolidation of services a necessity. The respective school boards are more receptive to consolidation of service conversations than in the past, and in many cases, superintendents have engaged board members in the conversation. At the end of the day, local control remains a significant issue for local boards as they seek to represent the interests of community stakeholders, and a state incentive would be the most effective way to get all 12 districts to participate aggressively in consolidated services. In order to maximize economies of scale, most superintendents expressed a preference to have all 12 districts participate; however, superintendents acknowledged the challenge of finding common services for all districts, and did not want full participation to slow individual efforts to consolidate services.

Finally, the ISD has been an effective facilitator of the conversation around consolidation of services. Further, of the districts that currently participate in consolidated services through the ISD or with one another, cost-savings have been realized and the level of quality has not been sacrificed or compromised, according to superintendents. Going forward, superintendents said that a continued focus on maintaining quality should be a central component of consolidation of service efforts.

THE CHALLENGE OF CONSOLIDATING SERVICES

School boards and local residents continue to express reservations about consolidation, as would be anticipated. The general perception that superintendents receive from their residents is that consolidating services often equals privatization, which ultimately means that someone is losing their job. Additionally, superintendents shared that there is a perception among residents that losing local control of a specific service would diminish the quality of that service. Ongoing communication with local boards and residents will be the key to successfully consolidating services, and dispelling some of the misperceptions. Ultimately, while no superintendent necessarily wants a state mandate, they all acknowledge that this might be necessary if service consolidation efforts are to be accelerated.

KEY CRITERIA EXPRESSED BY SUPERINTENDENTS

Going forward, superintendents outlined three interlaced critical areas that must be addressed throughout consolidation of service discussions, and emphasized that any specific consolidation initiatives must consider these issues over the long term.

- **Maintain quality of the service:** Will the quality of the service provided be equal to that of the current in-house service? Are there opportunities, through consolidation, to have services enhanced even beyond what local districts can currently offer?
- **Strong collaboration, including regular communication, between the district and the service provider:** Can local control be maintained at some level? How much input does the local district have on the design and delivery of the service?
- **Cost-effectiveness:** Does consolidation of services allow local districts to redirect money to the classroom?

Specific Services Currently Being Considered

Superintendents named several specific services that are candidates for consolidation in the immediate term (summer), including business services, food services, IT services, and custodial services. These choices are aligned with the ISD's thinking.

Very few districts expressed an interest in the ISD being directly involved in any academic service consolidation, but there is clearly room for the ISD to be an enhancer of academic activity. For example, smaller districts were interested in sharing curriculum directors, and in some cases, superintendents. Further, data management is an area that some superintendents felt the ISD could enhance. Finally, the RTI work the ISD has recently been engaged in received positive reviews.

A few superintendents expressed concerns about consolidating general education transportation. The barriers to consolidating transportation shared by superintendents include the direct contact involved in busing students, accountability for the safety of the students, and the perception among some that it would not yield a cost savings. In general, superintendents did not think that the quality of transportation would be enhanced through consolidation; however, when asked, there were very positive reviews of the special education transportation services that have been provided through the ISD for several years.

ISD AS FACILITATOR AND PROVIDER

The ISD is best positioned to serve as a non-threatening broker or facilitator of consolidating service, according to superintendents. For the most part, residents and boards would prefer that their district work with the ISD rather than with larger districts, as there is concern around consolidation of services leading to consolidation of districts. However, while most superintendents acknowledged that all districts opting in would maximize the potential savings from consolidating services, the ISD's ideal strategy, according to superintendents, would be to offer specific service plans that districts can opt into.

In general, the districts that currently receive services from the ISD consider those services to be of high quality. In the rare cases where superintendents expressed concern, the leadership of the ISD has quickly reacted by hiring the necessary personnel or reworking the communication strategy. The smaller district superintendents who have direct experience in recent years of using ISD services or sharing services with another district expressed their confidence that ultimately consolidation has led to higher quality services than would have traditionally been provided.

WHAT'S NEXT FOR CONSOLIDATION?

Superintendents believe that the current financial climate and forecast, combined with the last several years of budget cutting, is accelerating discussions locally about consolidation of services. After several years of taking short-term approaches to fiscal challenges, there is recognition among superintendents and board members that consolidation efforts could be a long-term, and more stable financial solution. Smaller districts are most open to consolidation of services in the immediate term, partly as an alternative to consolidating districts, but also as an opportunity to save money while also upgrading the quality of a service.

Superintendents also recognized the momentum building around a mandate for service consolidation at the state level. Although there is a strong preference from local school leaders to avoid a mandate from the state, they recognize that this might be unavoidable. The ISD is a trusted partner of the local school districts, and superintendents appreciate and encourage the ISD to continue its leadership in consolidation of services.