



# Observations on School District and Service Consolidation in Michigan

Education Policy Center at Michigan State University  
Working Paper #17

David Arsen, Ph.D.  
Michigan State University

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**David Arsen, Professor  
Department of Educational Administration  
College of Education at Michigan State University**

It's no secret that funding for Michigan's public schools has been extremely tight in recent years. Per pupil operational revenues for the state's K-12 schools, adjusted for inflation, have declined over 15 percent since 2002. The funding pinch is due both to Michigan's decade-long economic slump and to the fact that Michigan residents devote a smaller share of their income to state and local taxes than in the past. Consequently, every school district in the state has been forced to search for ways to cut spending. These cuts are rarely popular with educators, school board members, parents or students; they in turn often express their displeasure to elected officials in Lansing who control the funding purse strings. Caught between local demands for more revenue and a political culture that eschews any tax increases, state officials have naturally focused their attention on measures that might reduce public school costs. Among the most widely discussed ideas in recent years is the potential for school district consolidation to significantly lower the cost of Michigan's K-12 schools.

School district consolidation enjoys a unique status among strategies to reduce education costs. It promises to cut spending, without lowering service quality, by improving the efficiency of service delivery. In contrast to strategies aimed at lowering employee salaries or benefits--which are hard to avoid when cutting spending in any labor intensive service--consolidation's savings are often presented as essentially free, with no obvious losers. School district consolidation enjoys great cachet as a type of modern organizational

restructuring that boasts an established record of success in both private and public sectors. Think Wal-Mart or Amazon.

Consolidation, the argument goes, lowers costs because the provision of educational services is characterized by economies of scale, which exist whenever the per pupil cost of education declines as the number of pupils increases.

In the view of consolidation advocates, the main obstacle to realizing this progress lies in the entrenched opposition of local residents who have strong (but costly) emotional attachments to their existing schools because they figure prominently in the identities and traditions of local communities. But hard times demand hard-headed choices, and many of Michigan's economic and political leaders have now stepped forward to call for school consolidation even if it dooms the cherished school mascot.

School district consolidation is not new. Indeed Michigan (and the United States) experienced a great wave of school consolidation after World War II. In fact, the number of school districts fell by about 85 percent between 1940 and 1970; the pace of consolidation has since slowed considerably.

In contrast to the earlier wave of consolidations, the current policy debate is distinguished by three features. First, while consolidation has traditionally been conditional on the support of local voters in each consolidating district, current proposals would authorize the

Thomas DeLuca provided valuable research assistance for this paper

state to mandate consolidation, regardless of the preferences of local residents. Second, much attention has shifted to a new form of consolidation in which districts remain intact while the provision of specific services (e.g., central administration, student transportation, custodial services) is consolidated across multiple local districts or an entire intermediate school district (ISD). Many believe this new form of consolidation (I'll call it "service consolidation") can blunt political resistance to district consolidation. The third distinguishing feature of the policy debate is that Michigan's current consolidation movement is occurring alongside state policies that have created hundreds of small charter schools.

Measures to advance school consolidation are gaining momentum. In 2007, the Legislature created the Legislative Commission on Government Efficiency which recommended giving the State Superintendent authority to consolidate districts when doing so generated cost savings of at least 5 percent. Last year, Governor Granholm proposed legislation which stipulated circumstances under which local and intermediate districts would suffer substantial reductions in state funding if they failed to shift the provision of specified non-instructional services from local districts to ISDs. While the Legislature did not pass that measure, proposals for more ambitious consolidation legislation are currently being discussed. Both the Democratic and Republican candidates for governor in 2010 supported the idea of school district consolidation.

In this essay I offer some observations intended to inform the discussion of school consolidation in Michigan. I'll start by reviewing the very limited evidence on the magnitude of potential consolidation savings in Michigan. Next,

I'll suggest factors that policymakers ought to consider when assessing whether consolidation is appropriate. I will argue that, while there are untapped consolidation savings, the magnitude of those savings is surely smaller than commonly imagined and some are concentrated in unexpected places. Finally, I will turn from economic to political considerations and ask who should decide where consolidation takes place.

### **Do We Have Reliable Estimates of Consolidation Savings in Michigan?**

While consolidation may indeed lower educational costs, one of the most remarkable aspects of the consolidation discussion in Michigan is that it has advanced in the absence of any solid empirical evidence about the magnitude of the potential cost savings. One study which attempted to fill this void was prepared by Dr. Sharif Shakrani and published by Michigan State University's Education Policy Center in August 2010.<sup>1</sup> Dr. Shakrani's study was commissioned by Booth Newspapers of Michigan.<sup>2</sup> The study set out to estimate

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<sup>1</sup> Sharif Shakrani, School District Consolidation Study in 10 Michigan Counties: Is District Consolidation Cost-Effective? What Is the Alternative to Consolidation? Education Policy Center at Michigan State University, August 10, 2010. Retrieved at <http://www.epc.msu.edu>.

<sup>2</sup> Booth Newspapers is acquainted with organizational consolidation. It owns *AnnArbor.com* (formerly the *Ann Arbor News*), the *Bay City Times*, *Flint Journal*, *Grand Rapids Press*, *Jackson Citizen Patriot*, *Kalamazoo Gazette*, *Muskegon Chronicle*, *Saginaw News*, MLive.com and several weekly community newspapers in Michigan. Booth Newspapers, in turn, is owned by the privately held Advanced Publications, which owns many other newspapers nationwide, as well as Conde Nast Magazines (*The New Yorker*, *Vanity Fair*, *Vogue*, *Glamour*, *Gourmet*, among others), Fairchild Publications, Parade

the cost savings associated with two types of consolidation: the consolidation of all Michigan school districts to the county level (district consolidation) and the consolidation of specific services to the county level while leaving districts intact (service consolidation). The study estimated the savings associated with both types of consolidation for the state as a whole and then separately for ten Michigan counties where the circulation of Booth Newspapers is concentrated.

Dr. Shakrani's conclusions were consistent with what many people hoped would be the case: school district consolidation would save *lots* of money. Consolidating all Michigan districts to the county level would save \$612 million annually, according to the report, while the more modest service consolidation option would save \$328 million. Given Michigan's ongoing, dreary and acrimonious budgetary struggles, this qualified as big news. The findings were featured in newspapers across the state, many quoting local and intermediate school district administrators and state officials. The *Grand Rapids Press* used the study to launch a series of feature articles on district consolidation. The story was picked up by a number of local television stations and out-of-state publications including the *Chicago Tribune*, *New York Daily News*, *USA Today* and *Education Week*. A week after the report's release, Governor Granholm called for incentives to encourage school districts to consolidate service provision.

Policymakers would be well advised, however, to take a closer look at the methodology used to generate these

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Publications (nationwide Sunday newspaper magazine), American City Business Journals (weekly publications in 41 U.S. cities), plus a variety cable television and Internet assets.

predicted savings. When one does so, it is apparent that the predictions are wholly invalid.

Dr. Shakrani's predictions relied heavily on a study by William Duncombe and John Yinger that analyzed the consolidation of twelve small rural school districts in New York between 1985 and 1997.<sup>3</sup> Duncombe and Yinger, both of Syracuse University, are probably the foremost experts on scale economies in K-12 education. Students in my doctoral education finance course are required to read their research papers on cost analysis in education. Their New York study is unique and arguably the best of its kind. Previous studies had estimated potential savings from consolidation by applying statistical techniques to large samples of school districts to determine whether per-pupil spending declined as district enrollment increased, holding constant other factors that influence spending. Duncombe and Yinger's approach, by contrast, generates more reliable estimates of the impact of consolidation, because it compares "before" and "after" spending in districts that actually underwent consolidation. The Shakrani study drew on a preliminary, unpublished working paper version of Duncombe and Yinger's study, rather than the published version that went through peer review. Many of the empirical estimates in the working paper, including those utilized by Dr. Shakrani, differ substantially from those in the paper's published version.<sup>4</sup>

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<sup>3</sup> William Duncombe and John Yinger, "Does School District Consolidation Cut Costs," Center for Policy Research, Working Paper No. 33, Syracuse University, 2001.

<sup>4</sup>William Duncombe and John Yinger, "Does School District consolidation Cut Costs," *Education Finance and Policy* 2(4), (Fall 2007): 341-375.

Duncombe and Yinger's study is nuanced and uses sophisticated statistical methods, but they have summarized the study's main findings in an accessible article for non-economists.<sup>5</sup> While they found scale economies associated with the consolidation of very small school districts, they (like others) found no cost savings from consolidating districts with over 1500 students. Duncombe and Yinger did not estimate cost savings associated with the consolidation of specific services while districts remain intact. Indeed to date there have been no high-quality research studies of the financial consequences of this form of education service consolidation in Michigan or elsewhere.

Dr. Shakrani's procedure for predicting savings from district consolidation in Michigan was simple. He claimed that Duncombe and Yinger found that consolidation in the New York districts produced savings of the following amounts across various service functions:

- 8% of (operation & maintenance spending) +
- 4% of (instructional support spending) +
- 15% of (general administration spending) +
- 18% of (transportation spending)

To arrive at his predicted savings of \$612 million from consolidation in Michigan, Dr. Shakrani applied these savings rates to Michigan's 2008 statewide school spending in each of these four service areas. That's right: the method simply entails multiplying four sets of numbers and adding them

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<sup>5</sup> William Duncombe and John Yinger, "School Districts Consolidation: The Benefits and Costs," *The School Administrator* 5(67), (May 2010): 10-17.

up. Without any explanation, he asserts that the cost savings from consolidating services while leaving districts intact (service consolidation) can be predicted by focusing on just two of these service areas: operation & maintenance spending and transportation spending.<sup>6</sup>

While simplicity is a desirable feature, this procedure will not lead to accurate savings predictions, and it profoundly misrepresents Duncombe and Yinger's research. The original authors did not, in fact, estimate three of the four percentages noted above. Duncombe and Yinger found that consolidation produced an 8 percent reduction in "operating" cost, which by definition includes all education spending except capital outlays. But the Shakrani study applied this rate to a much narrower category "operations and maintenance" which represents only about 11 percent of operating expenditures in Michigan districts. The Duncombe and Yinger study did not estimate cost savings specifically for operations and maintenance at all.

Similarly, Duncombe and Yinger estimated that consolidation reduces "instructional" costs (which represent about 60 percent of spending) by 4 percent. However, the Shakrani study applies this savings rate to an entirely separate (non-overlapping) service category, "instructional support." Duncombe and Yinger did not provide any estimate of consolidation savings

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<sup>6</sup> It is difficult to precisely isolate services that are good candidates for service consolidation in the available administrative data. Many of services that have been mentioned as promising possibilities, including by Dr. Shakrani—for example central administration, instructional support services and specialized instructional services—are not captured in the service categories that Dr. Shakrani uses to represent the savings from service consolidation.

for instructional support. Meanwhile the origins of Dr. Shakrani's saving rate of 15 percent for general administration is a mystery, since it does not appear anywhere in the original study. The savings rates for administration reported by Duncombe and Yinger are more than double this figure.

The only savings rate used in the Shakrani study that actually appears in the Duncombe and Yinger study is the 18 percent rate for student transportation. Unfortunately, even this predicted savings rate is misleading, because it neglects further analysis of the New York data by Duncombe and Yinger which led them to conclude that "the study finds no economies—or diseconomies—of size for student transportation."<sup>7</sup>

The errors just noted establish a complete break between Dr. Shakrani's findings and Duncombe and Yinger's original study. It means that the more recent study draws no scientific credibility whatsoever from the earlier New York research.

Even overlooking the incorrect savings rates, the Shakrani study ignores half of Duncombe and Yinger's story or, more to the point, half of what Michigan policymakers need to consider. The original study not only estimates savings from consolidation, but also measures the transition costs generated by consolidation; these are simply ignored in Shakrani's predictions for Michigan. Duncombe and Yinger find that these transitional costs increase operating spending at the time of consolidation and decline gradually over 10 years. Consolidation also creates large adjustment costs in capital spending.

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<sup>7</sup> William Duncombe and John Yinger, "School Districts Consolidation: The Benefits and Costs," *The School Administrator* 5(67), (May 2010): 10-17, p. 12.

Duncombe and Yinger stress these additional costs and report them in the same table that displays the cost savings figures that Dr. Shakrani used in his predictions. By ignoring the added costs and focusing only on potential cost savings, Dr. Shakrani systematically overstates the net expenditure reduction that consolidation would bring to Michigan.

One of the most striking features of the Shakrani study is its assumption that the rate of savings from consolidation would be the same for every district in the state. A key reason his predicted savings are so large is that Dr. Shakrani applies the same savings rates to the spending of every Michigan district, large and small. This procedure, however, is at odds with the findings of previous research on economies of scale in education. That research consistently indicates that untapped scale economies exist only in districts enrolling less than a few thousand students.<sup>8</sup> Duncombe and Yinger's position on the matter is clear: "strong evidence for positive net benefits from consolidation, and hence for state intervention, only exists for districts with enrollments below about 1,000 students."<sup>9</sup> Nearly half of Michigan's 551 school districts enroll less than 1,500 students. But those 258 small districts account for less than 11 percent of total operating spending by Michigan schools. So right off the bat, apart from any other issues, by including the current spending of all Michigan districts

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<sup>8</sup> Perhaps the most authoritative survey of scale economy research in education is by Matthew Andrews, William Duncombe, and John Yinger, "Revisiting Economics of Size in American Education: Are We Any Closer to a Consensus?" *Economics of Education Review* 21 (2002): 245-62.

<sup>9</sup> William Duncombe and John Yinger, "School Districts Consolidation: The Benefits and Costs," *The School Administrator* 5(67), (May 2010): 10-1, p. 17.

in his predictions, the Shakrani study substantially overstates the savings from consolidation.

There are, however, other issues. The Shakrani study also ignores well-established research showing that diseconomies of scale set in (that is, per pupil costs increase) once districts get too large. One recent estimate found that diseconomies emerge in districts with enrollment over 2,000 students.<sup>10</sup> Andrews and colleagues conclude from their survey of the research that “sizeable diseconomies” may emerge for districts above 15,000 students.<sup>11</sup> Yet if Michigan districts were consolidated to the ISD level, as the Shakrani study assumes, most would have enrollment well into the range where diseconomies occur. Consequently, if previous research is any indication, the proposed ISD-level consolidation would not lower costs at all. Rather, costs would likely *increase* from where they are now.

If all school districts were consolidated to the ISD level, then about 95 percent of Michigan’s students (and current spending) would be in ISDs with enrollment greater than 8,000. Meanwhile, over 80 percent of the state’s students and spending would be in ISDs with more than 15,000 students, an enrollment size where large cost increases are likely.

Dr. Shakrani, like other commentators, seems unaware that many Michigan districts no longer deliver services the old fashioned way. Many districts have

already consolidated the provision of various services with other districts or with their intermediate school districts. The state collected information on these wide-ranging collaborative arrangements in response to PA 63 a few years ago. Meanwhile, a growing proportion of services traditionally supplied by local districts have been contracted out to private providers who serve a large number of districts, and therefore presumably have already obtained any efficiencies associated with economies of scale. Think about those school buses you see on the road with names like Dean and Laidlaw on the side or the school lunches provided by companies like Chartwells and Aramark. Yet Dr. Shakrani’s method assumes away all these new service delivery arrangements and thereby further inflates the predicted savings from consolidation.

Dr. Shakrani’s savings predictions from district and service consolidation in ten Michigan counties suffer from all the flaws noted to this point for the statewide estimates. The county-level findings also include an additional curious error. The report claims that “consolidation at the county level is likely to cut [the] cost of general fund expenditures exclusive of capital outlay by about 8-11 percent.” (p. 11). Yet the report’s own tables show expenditure reductions in these ten counties ranging from 3.3 to 3.9 percent.

In summary, the most widely cited study of potential savings from education consolidation in Michigan is not credible. This would be less troubling if there were other more compelling estimates, but there are not.

The Center for Michigan, founded by Phil Power, has performed a public service by helping to promote broad public discussions of Michigan’s budgetary problems. Mr. Powers wrote

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<sup>10</sup> Timothy Zimmer, Larry DeBoer, and Marilyn Hirth, “Examining Economies of Scale in School Consolidation: Assessment of Indiana School Districts,” *Journal of Education Finance* 35(2), (Fall 2009): 103-127.

<sup>11</sup> Andrews, et al., “Revisiting Economies of Size in American Education,” p. 246.

in his syndicated column last fall that the Center for Michigan estimated that the savings from Michigan district consolidation could be around \$300 million.<sup>12</sup> The estimate appeared in an issue guide prepared by the Center. A check of the Center for Michigan document, however, indicates that the \$300 million estimate was not derived from any Michigan data. Rather it was based on a study by Deloitte Consulting which “suggested schools could save \$9 billion nationwide through service sharing.”<sup>13</sup> The Center obtained the \$300 million figure by assuming that Michigan’s savings would be equivalent to its share of the nation’s population.<sup>14</sup>

We really need better data to inform the consolidation policy debate in Michigan.

### **Let’s Focus on the Right Indicators of District Finances**

I am often startled to see descriptions of consolidation in the media and even in state government documents that use the terms “cost” and “expenditure” interchangeably. It is important to recognize that as economists use these terms, the cost of education is not the same as state expenditures (or spending) on education. Understanding the distinction between these concepts is essential if we want to make good decisions about where consolidation is and is not desirable.

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<sup>12</sup> Phil Power, “Why School District Consolidation Isn’t So Easy,” *Holland Sentinel*, September 8, 2010.

<sup>13</sup> The Center for Michigan, Issue Guide: Michigan Defining Moment, Action Group, May 13, 2009, p. 3.  
[www.thecenterformichigan.net](http://www.thecenterformichigan.net)

<sup>14</sup> I was unable to check the Deloitte study’s methodology. The Internet link to the study, cited in the Center for Michigan issue guide is dead. My efforts to obtain the study directly from Deloitte were unsuccessful.

Expenditures are familiar to us all. We can observe expenditures for education services from the audited financial reports of school districts or from state data on district finances. But decisions about consolidation should be based on whether it lowers the cost of education, which differs from budget expenditures in three basic ways.

First, the cost of education is the amount a district would have to spend to obtain a given set of desired school outcomes (e.g., academic achievement or non-cognitive skills). A decrease in expenditures translates into a cost reduction only if service quality is maintained. Replacing nutritious school lunches with junk food might reduce expenditures but not necessarily costs. The same might be said of replacing classroom teachers with video monitors, if student learning declined as a result.

Second, costs have not fallen if they are simply shifted to another party. If a school district decides to lower its expenditures by having students purchase textbooks instead of the district, this would be an instance of cost shifting, not cost reduction. Likewise consolidation might result in higher transportation costs for parents and students.

Third, economists utilize a broad conception of relevant costs that includes non-monetary costs. For example, a district’s expenditure reduction from contracting out the provision of a service will overstate its true cost reduction, if the shift requires added administrative time to solicit contractor bids as well as negotiate, monitor and enforce the contract. Economists call these transaction costs. Alternatively, consolidation may break valued connections parents have with school personnel and diminish their influence over district practices and policies. The fact that such costs are not

ordinarily expressed in monetary terms in school budgets does not mean they are irrelevant.

So whenever possible, efforts to assess whether consolidation lowers per pupil costs should pay attention to whether service quality is maintained, whether costs are shifted from districts to other parties, and whether there are significant non-monetary costs borne by schools, families or local communities.

Of course these factors can be difficult to measure. It is possible, however, to get a sense of the value that local citizens place on these considerations by examining the impact of consolidation on housing prices, because all these considerations are reflected in the price people are willing to pay to live in a community. Available research suggests that the net benefits of consolidation to local citizens are far below the expenditure savings to the districts themselves. One careful study, of school district consolidation in Ohio that controlled for a wide range of factors that affect housing prices including student test scores and property tax rates, found that consolidation lowers the value of single-family homes by about 3.5 percent or roughly \$3,000 for the average home.<sup>15</sup> In that case, the scale economy benefits of consolidation would have to increase the average home's value by at least \$3,000 to offset the losses residents experienced associated with less local control or other costs. In short, policy makers should not fool themselves by thinking that the only relevant costs and benefits of consolidation are those registered in school district budgets.

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<sup>15</sup> David Brasington, "Housing Prices and the Structure of Local Government: An Application of Spatial Statistics," *Journal of Real Estate Finance and Economics*, (September 2004): 211-231.

Once we recognize the distinction between education expenditures and costs, we may view instances where local citizens oppose consolidation in a different light. Rather than reflecting parochial or irrational thinking, such resistance may be an entirely rational response to a full accounting of consolidation's costs and benefits – including its effects on already hard-hit property values.

### **Scale Economies from Consolidation Are Likely to Be Small**

Advocates of school consolidation in Michigan seem convinced that it will save lots of money. I do not doubt that there are untapped economies of scale in Michigan schools. I have stressed that we currently lack reliable estimates of these potential savings. In all likelihood, however, the potential cost savings from consolidation are relatively small. It is a mistake to think that consolidation will provide a magic bullet for the financial pressures confronting Michigan schools.

Michigan has a couple hundred small districts, including dozens that consist of a single school building. But all of these small districts combined account for only a small share of Michigan's education spending. Recall that districts with less than 1500 students account for barely 10 percent of Michigan's school spending. For other districts, most scale economies have already been realized by past consolidations. Even if consolidating all those small districts reduced their per pupil expenditures by, say, 10 percent, this would represent an aggregate savings of about 1 percent of current operating spending by Michigan's public schools. While that is not an insignificant amount, it is in my view an optimistic upper bound. And it is unlikely to fully reflect transition costs and a range of possible losses to local residents.

I suspect people sometimes exaggerate the savings consolidation will generate because they have misconceptions about how administrative and support functions are carried out in small districts. Some folks reason that if two districts consolidate, then one superintendent could easily perform the work formerly done by two. Likewise, the number of curriculum directors, business managers, transportation coordinators, athletic directors, and so on could be cut in half, thereby significantly cutting per pupil expenditures.

The trouble with this reasoning is that in a typical small school district a single person may be performing all of these functions, while simultaneously serving as school principal. Small school districts tend to be pretty lean operations, even if their per-pupil administrative spending is somewhat above that of larger districts. There's usually not a lot of fat to cut. Consequently much of consolidation's benefits for small districts take the form, not of cutting spending, but rather of being able to offer a fuller range of higher-quality specialized instructional and support services that would be too costly for these small districts to provide on their own.

If we focus specifically on service consolidation, leaving local districts intact, we encounter a host of issues that are not well understood. There are many stories about service consolidation in Michigan, but we do not yet have careful research on the associated cost savings. Take the case of ISDs providing certain central office administrative services for local districts. Are expenditure reductions accompanied by changes in service quality, cost shifting, or transitional or transaction costs? If, for example, an ISD assumes responsibility for providing local districts with business services, will

an ISD business official attend local school board meetings or will the ISD respond as promptly to the requests of local districts for financial analyses?

The answers to such questions are not pre-determined. Results will likely vary by type of service and will certainly depend on the terms of the consolidation arrangements between local and intermediate districts. Are the arrangements governed by a contract? What are the provisions? Are there good working relations and communication between the local district and the ISD?

In addition, it is essential to recognize that service consolidation, paradoxically, has the potential to undermine economies of scale. Unlike district consolidation, service consolidation is now being advocated in Michigan for districts that are not small. Indeed there are many instances of quite large districts shifting provision for specific services to their ISDs. This may make sense. On the other hand, it may undercut efficiency. Educators in larger districts can draw on more colleagues across departments with specialized knowledge for advice about how to address problems and improve performance. Central administrators, meanwhile, gain additional flexibility in the use of personnel, so that staff in one service area can be reassigned temporarily to address pressing demands in another. The ability to realize these traditional sources of economies of scale may be diminished once the provision of certain services and the staff that perform them is shifted from the local district to the ISD or another external entity.

In short, I think there is a strong tendency among policy makers and advocates to imagine cost savings from consolidation that are unrealistically large.

On the other hand, one source of potential cost savings from scale economies has received surprisingly little attention. One irony of Michigan's current push for consolidation is that it has emerged side-by-side with the state's effort to create hundreds of small charter schools. Consolidation advocates typically exclude charter schools from consolidation plans. Yet the small enrollment size of most charter schools means that they operate well below efficient scale.

One indication of this is that fact that Michigan's charter schools devote about 23 percent of their spending to administration, while the average for all school districts is less than 10 percent. Michigan's charter schools spend an average of about \$980 more on administration per pupil per year than traditional school districts.<sup>16</sup> This high administrative spending helps to explain why Michigan's charter schools devote less than half of their spending to instruction.

Of course, Michigan's charter schools have been promoted on a variety of grounds that are unrelated to scale economies. Nevertheless, charter schools now account for about 6 percent of spending by Michigan's public

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<sup>16</sup> The high administrative spending in charter schools is only partially due to their small enrollment size. In regression models that control for enrollment size, funding levels, geographical location, and a number of student characteristics, charter schools still spend about \$770 more per pupil per year on administration than Michigan's traditional public school districts. David Arsen & Yongmei Ni, "Resource Allocation in Charter and Traditional Public Schools: Is Administrative Spending Lower in Charter Schools?" Paper presented at the annual conference of the University Council for Educational Administration, New Orleans, October, 2010.

schools and about one-third of the statewide enrollment in "districts" with enrollment less than 1500.

Consequently, a substantial portion of the unrealized economies of scale in Michigan schools are likely to be found in charter schools.

### **What Happens To Any Savings from Consolidation?**

Perhaps the most puzzling aspect of Michigan's current school consolidation discussion is that people seem to presume that cost savings will be beneficial to taxpayers or to students or both. In either case the prediction rests on unexamined assumptions.

For simplicity, let's set aside the distinction between expenditure and costs for the moment and assume that consolidation lowers per-pupil expenditures. How would that be beneficial to taxpayers? Under Michigan's centralized system of school finance, if the savings are to be passed on to the state's taxpayers (i.e., lower tax rates), then the consolidating districts' state funding would have to be reduced. That would clearly weaken local districts' incentive to consolidate. And it would require that the formula governing the distribution of state funding to local districts change so that the newly consolidated districts were the ones to receive less funding. So far, I haven't heard anyone make this argument. But without it, how is consolidation supposed to benefit taxpayers?

How about the benefits to students? Let's assume that consolidation reduces spending on certain non-instructional functions (administration, operations and maintenance, transportation) and that the state does not lower per-pupil funding after consolidation. In that case the consolidating districts would have additional funds to use as they pleased.

The resources need not go to classroom instruction, however. Given the precarious financial position of many Michigan districts, they might sensibly save the funds to bolster their fund balances. Alternatively, districts might purchase new band and athletic team uniforms (not unlikely after consolidation) or increase salaries of central administrators.

Here's the paradox: Consolidation advocates in Michigan today generally have little faith in local districts to make sound budgetary choices. That is why many endorse the idea of forcing districts to consolidate whether they want to or not. But if one has so little confidence in local decision-making, how can one be confident that the saving from consolidation will be used wisely, i.e., in the usual account, devoted to instruction?

### **Who Should Decide When Consolidation is Needed?**

I have no doubt that there are many instances in Michigan where district or service consolidation would make sense on financial and educational grounds. But how should those instances be identified? Who decides? Traditionally decisions about district and service consolidation have been made by citizens and elected school boards in local communities. Many local communities have already chosen to undertake district or service consolidation. The most striking feature of Michigan's current consolidation debate, however, is the growing willingness of public figures to call for the suppression of local discretion over consolidation decisions.

Consider, for example, a bill introduced by the chair of the House Education Committee, Representative Tim Melton, in Fall 2010 (HB 6488). The legislation would create a School District Services

Consolidation Commission composed of 13 members appointed by the governor, the Senate majority leader and the Speaker of the House. The commission would be charged with reviewing the methods by which school districts, ISDs and charter schools provide the entire range of educational services and "to identify instances where consolidation of those services on the local, regional or state level would likely result in significant cost savings without negative educational impact." The commission would prepare a report identifying the settings and services where consolidation should take place and identify the entities that would provide the services. The state superintendent would be charged with implementing the commission's recommendations and schools would be barred from entering into any contract or collective bargaining agreement that would impede the implementation of these orders.

The proposed legislation, like other recent proposals, is quite sanguine about the ability of appointed officials to make good decisions and the effectiveness of such potentially sweeping reform of Michigan's education system. It contains no provisions that would allow changes in service providers or consolidation arrangements in the event that the commission's mandates did not have the intended results.

How would such a commission carry out its assigned duties? How could it estimate the relevant costs and benefits of consolidation while giving due consideration to local circumstances? (Suppose it decided that it would be cost-effective for the state to contract with a single fast-food company to provide food services for all public schools in Michigan.) How could the commission account for changes in service quality, cost shifting, and transitional and non-monetary costs

experienced by local stakeholders for the range of education services provided by schools across the state? The simple answer: only very crudely.

A state-level panel would have difficulty even assembling the information necessary to accurately assess the net benefits of consolidation. Good decisions must draw on the detailed knowledge, experience, and initiative of parents, educators and community members in local settings across the state. Removing those informed stakeholders from the decision-making process will not lead to better decisions.

For nearly two decades, Michigan's education system has been transformed by increased centralization. There are good reasons to support much of this. Proposal A dramatically centralized control over the funding of Michigan's schools, addressing some but not all of the inequalities inherent in a decentralized system. A similar equity argument can be made for the implementation of state curricular standards and assessments. More than ever before, government officials in Lansing control the operation of Michigan's schools.

At the same time, it is important to maintain balance in public school decision-making between state and local influence. We cannot hope to determine the right balance between the two by focusing solely on economic criteria such as efficiency. We want to allocate our resources efficiently, but Michigan citizens also care about other normative criteria, such as freedom, democracy and community. Consolidation decisions could easily entail trade-offs among these valued outcomes. People will also surely differ in the relative importance that they assign to such goals.

While the state has largely assumed control of funding, curriculum and assessment in Michigan's schools, there are many other aspects of school operations (e.g., administrative and instructional support functions, transportation, food, custodial and maintenance services) that are probably better left to local decision-making. It is not uncommon nowadays for state leaders to question the fitness of local school officials to make decisions regarding service delivery arrangements. My experience, however, is that district administrators are generally quite knowledgeable and open to change, exploring options and making competent decisions that are sensitive to citizen preferences. That is exactly what they should be doing.

The impulse to shift responsibilities from local school boards to state officials is often defended on the grounds that by doing so it is possible to insulate important school decisions, like consolidation, from politics. In truth, however, it does no such thing. Consider the case of the proposed school consolidation commission. Who might be likely appointees to such a commission? ISD superintendents and business officials? Representatives of private contractors that provide school services? Lawyers specializing in school employment law? Lobbyists? Even if such folks are well-intentioned, and I sincerely expect that they would be, they are not disinterested. Their appointment and deliberations could never be free of political considerations. What distinguishes consolidation decision-making by state-level appointees is not that it would be apolitical. Rather, in contrast to traditional decision-making procedures, it would be done by people who are not accountable to voters and taxpayers for their actions.

Everyone expects funding to be tight for Michigan's schools for the foreseeable future. We are certain to hear many proposals for changes in school operations that promise to save money. Strategies to improve our schools while saving money will only be successful if they recognize the broad role that our schools play in local community life and help to strengthening those communities. In my view, state policy makers should not compromise the efforts of local citizens to figure out how best to provide educational services for their children, subject to the budget constraints the state gives them. Many of the most promising prospects for turning around Michigan's communities rest squarely on engaging citizens in local civic life. Families and neighbors need to be encouraged to work together to figure out how best to provide school transportation, food, custodial and other education support services in their communities. Efforts by the state and ISDs to provide local districts and charter schools with information about and support for alternative service delivery options, including consolidation, are critically important to local decision-making. But such initiatives should not supplant innovative local initiatives in school operations that build community capacity. Consolidation decisions should remain with local communities.

decisions regarding how we educate our children.

Traditionally, American public schools have been governed by a distinctive system in which local citizens elect school boards that oversee school operations. Indeed, local school districts are arguably the most accessible forums for democratic participation in American life. Concerned citizens can and do walk up to the microphone at the school board meeting and express their views. Viewed from above, this civic deliberation can often seem messy and inefficient. But it is also the best available process for assuring that we consider all the costs and benefits of