



Size Matters: A Look at School-District Consolidation

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Introduction and summary

When it comes to education, not all spending is equal. Some education dollars are spent more productively than others.¹ In other words, some school districts use their resources well and show higher levels of student achievement for the same amount of spending compared to other districts. In a time of lagging revenues and flat achievement in many districts, policymakers have increasingly started to pay greater attention to the question of whether we are getting the most out of every education dollar.

At the same time, policymakers have begun to rethink the fundamental design of our education system. Our education-governance structures were built in a different era, and in many states, little attention has been given to improving the organization and design of states' education systems. Indeed, over time many states have allowed some exceedingly odd systems to evolve. In Nebraska, for example, there are a number of very small districts that are noncontiguous.² In other words, some Nebraska districts are nested like little islands within the confines of other districts. Likewise, school spending is a haphazard affair in a number of states. In New Jersey, due to size and other historical governance issues, the Lower Cape May Regional High School District spends \$50,000 a year per student to send its students to a regional high school. The average spending per district on students in New Jersey, however, is around \$17,000.³

These two strains of work—productivity and governance—have led us to ask: Could we reform the structure of our education system in ways that might increase student achievement?

With this question in mind, this report looks at the widespread existence of small school districts—defined here as districts with fewer than 1,000 students, that are not classified by the U.S. Census Bureau as “rural remote”⁴ or “town remote”⁵—and specifically at the extra education costs associated with these districts. Over the years many have argued that small school districts have unnecessary costs because they lack economies of scale. “If we have fewer school districts, as many states do, we can find ways to economize,” Illinois Gov. Pat Quinn (D) said recently.⁶

Researchers have long known that school-district size matters. What our report does, however, is put national and state-by-state estimates on the scope of the problem. To be clear, we calculated these estimates not because they are firm, take-to-the-bank data. They are not. There are clear shortcomings with the methodology, as we note below. Rather, these data are educated guesses, and we calculated these figures to give a sense of the scope and range of the problem. Based on these calculations and our other research, we uncovered the following:

Many states have large percentages of small, nonremote districts that may represent hundreds of millions of dollars in lost potential capacity. Across the nation, we found that small, nonremote districts might represent as much as \$1 billion in lost annual capacity, by which we mean money that may not have had to be spent if the district was larger. (Research suggests that the optimal school-district size is around 2,000 students to 4,000 students; for our analysis, we considered a district small if it had 1,000 or fewer students.) In California alone, more than \$64 million may be lost on small school districts. In some states, these estimates might be relatively small, but in other states, they are large. In New Jersey, for example, the estimated lost potential cost is about \$100 million, or about \$1,000 per classroom teacher.

There are, however, some crucial caveats. First, by lost potential capacity, we mean money that may not have been spent if the district was larger, and these data are estimates of potential lost dollars based on established methods of determining the cost of providing a sufficient education.⁷ (By sufficient, we mean reaching state and federal standards.) Second, our data rely on cost-estimate studies done by the school-finance firm of Augenblick, Palaich and Associates, Inc., or APA. Many school-finance experts have expressed concerns about the costing-out approach—also known as professional-judgment studies—arguing that they are subjective because they rely on panels of educators.⁸ But many states also continue to rely on the approach. We should note that we used APA's data to calculate relative changes in costs from a small district to a large district, and in this way, we believe that we have avoided one of the downsides of the professional-judgment approach, which is that it may overinflate actual costs.

Ten states account for more than \$650 million in lost potential cost, or about 68 percent of the total. According to our analysis, 10 states have a combined total of 3,625 small school districts. In Illinois, we found that the state's 380 small, nonrural districts potentially cost upward of an additional \$90 million each year. In Texas, that estimate of lost potential cost is more than \$80 million. Again, this is after excluding the state's most remote districts.

There is no easy policy answer to the problem of small districts. When it comes to small districts, policymakers have long been focused on system consolidation. In the past states across the country have employed this approach, and since the early 20th century, more than 100,000 school districts have been either consolidated or simply eliminated.⁹ And while efforts to consolidate have slowed in recent years due to concerns about the approach, consolidation efforts are very much part of the policy conversation in many states.

To address the problem of small districts, we present a number of viable recommendations, fully aware that there is no one optimal solution.

- **States should generally avoid one-size-fits-all approaches to maximizing district size.** While our report finds that many districts suffer from lost capacity due to their small size, there is no easy solution to this problem, and the best solution for one district may not be the best solution for another. The evidence suggests that policymakers should take an approach that does more to take into account the context of local districts and their needs and do more to improve overall systems of education management.
- **States and districts must reform school-management systems.** Policymakers must create performance-focused management systems that are flexible on inputs and strict on outcomes. States and districts should also take this opportunity to rethink the role that school districts play in our education system.
- **States and districts should consider regionalization and the sharing of services and resources where possible.** States can help ease the cost burden of small districts through the creation of state-supported education-service agencies serving a group of two or more small districts to increase overall productivity.

In researching this report, we analyzed the school-district data gathered by the U.S. Department of Education's National Center for Education Statistics. In addition, we used independent studies that had previously been conducted in several states to evaluate the additional costs associated with small districts.

Let's turn now and take a deeper dive into the issue of school-district size.

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