

# The Maine View

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## Education Service Districts

Achieving school administrative cost savings while protecting local control and parental involvement.

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Buried in Governor John E. Baldacci's fiscal year 2008-2009 General Fund budget is a policy change that could dramatically alter the face of Maine's school system and eliminate local control over education. If passed, the administration's proposed legislation will reduce the number of Maine's school administrative districts (MSAD) to 26 from the current 286.

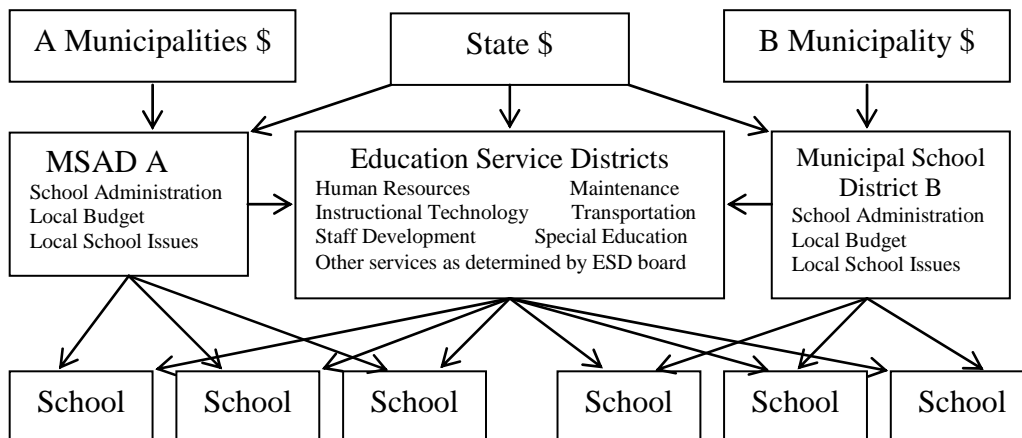
With such a proposal the administration is hoping to achieve \$66 million in budget savings by limiting administration cost and through greater economies of scale. The governor should be commended for advancing the ideas of regional cooperation and cost savings. However, the administration's proposal falls short of sound education policy because it sacrifices local control and parental involvement in favor of a bureaucratized model.

This report examines ways in which schools can consolidate administrative functions in order to achieve savings while still maintaining local control over education functions. Through the formation of Education Service Districts—regional cooperative associations—localities can maintain control over education functions, while achieving the administration's required savings.

Key findings include:

- District consolidation, in and of itself, does not guarantee lower administrative costs as seen in West Virginia and California.
- Consolidation has the potential to negatively impact student achievement and parental involvement.
- Consolidation usually results in larger, less responsive bureaucracies and school boards.
- Education Service Districts are used in Massachusetts, Pennsylvania, and Minnesota as a consolidation compromise. They have achieved administrative cost savings while maintaining local control.
- Education Service Districts prevent the creation of additional levels of bureaucracy.
- With the Education Service District model, cost savings are achieved from non-educational functions such as human resources, maintenance, technology, special education, and transportation.

### Education Service District Model



### The state of education consolidation

Governor John Baldacci recently presented his administration's plan to replace Maine's 286 school administrative units with 26 "Regional Centers" each with "one superintendent and one regional school board supporting schools in several cities and towns." Local school boards would be phased out under the plan, replaced with called "advisory councils" that would support school principals on the local level, but without any legal or budgetary power. The Regional Centers would take over administrative services for all schools in each region, including taking possession of the educational assets of all existing school systems, and this, it is claimed, would generate substantial savings with no impact on school quality.[1]

The governor's proposal comes on the heels of a series of recent reports on the state of public education in Maine that all recommended a reduction in the number of independent school administrative units as a means of cutting administrative costs.

*Charting Maine's Future*, the highly publicized 2006 report by the Brookings Institution, concluded that the state "should move to begin dramatically reducing the number of school districts in Maine from the current 286 to a much smaller number – such as 64, the number that would result if Maine approached the national average district size of around 3100 students." [2]

The report of the State Board of Education's Select Panel on Revisioning Education in Maine quoted research done by Philip Trostel and Catherine Reilly, which found that "public education in Maine costs roughly \$270 million more than it would if all school districts were operated at the cost-minimizing enrollment size." The panel initially suggested 35 school districts statewide, aligned with the state's Senate districts, but ultimately identified the optimum district size to be "3000-4000" students.[3]

The Maine Children's Alliance issued a report calling for administrative savings, urging the creation of ad-hoc "regional cooperatives," based on the same 26 existing vocational education districts on which the governor bases his plan, and which are to design regional collaboration structures to take on many of the roles performed by Maine's school districts today.[4]

The governor himself has been down this road before. In 2004, a task force he commissioned claimed that there were "too many school districts in Maine" and suggested the voluntary creation of "Regional School Districts" complete with state incentives that rose on a sliding scale with the size of the proposed new district.[5] That proposal never made it out of the legislature.

Maine is not alone in contemplating larger school districts as a means of arresting rising costs. When the Louisiana State Board of Education first undertook a study of consolidation in

2003, for instance, it found policymakers in Iowa, Utah, and Arkansas all debating school consolidation plans.[6] A 2005 Deloitte research study done for the Reason Foundation in California found similar efforts underway in Michigan, Arizona, and California.[7]

But is a top-down district consolidation effort, one that would simply merge existing districts, the right approach for Maine? Will it save money? Can such a move be undertaken and have no impact on student achievement? Is there a better way to generate administrative savings?

As a consequence of the nationwide interest in this issue, numerous studies have been conducted on the effects, both positive and negative, of the consolidation of school districts. A review of the research provides policymakers with some simple principles that should inform any proposal to implement a school district consolidation plan here in Maine.

#### **Principle 1: District consolidation, in and of itself, does not guarantee lower costs.**

Recent interest in district consolidation both here in Maine and across the nation has focused primarily on the issue of cutting administrative spending. It is generally presumed that simply replacing existing, smaller school districts with larger ones will result in cost savings. But is that safe assumption?

If investigators have reached any consensus on the question of cost saving through consolidation, it is, as reported in 2004 by former Margaret Chase Smith Center researcher and current Maine State Economist Catherine Reilly, that "most of the potential cost savings are at the low end of the size spectrum... some very small school districts could save considerably by moving to at least the 300 to 500-student level, but additional cost savings past that point would be much smaller." [8] This conclusion is consistent with findings from the Louisiana Board of Education study, which found that there are few savings to be had "except for consolidations of very small districts." [9]

Indeed, the merger of medium to large-sized districts would appear to produce cost increases. The 2005 Deloitte study quoted research by UCLA's William Ouchi, which found that "the centralized management of schools brought about by consolidation actually led to higher spending on administrative staff." Deloitte was left to conclude that "rather than large cost savings, the end result of consolidation often has been higher administrative costs." [10]

The governor's plan would consolidate districts regardless of their current level of administrative efficiency. The survey of administrative spending in Table 1, which appears in the 2004 report of the governor's Efficiency and Equity Task Force, shows a wide variation in the percent of education dollars spent on school and system administration from one district to the

next, regardless of size. One is left to wonder how consolidating administratively costly districts, no matter the size of the resulting new district, would save money.[11]

Of additional concern is the governor's claim that dramatic administrative savings can be realized without closing schools. A 2004 Goldwater Institute report found that better than half of administrative costs, 52%, occur at the individual school level, meaning that efforts to consolidate districts but not schools, as the governor proposes, "would address less than half of all administrative costs"[12]

Clearly, district consolidation may not reduce administrative costs and can lead to increased spending. Maine policymakers, therefore, should ensure that consolidation proposals can actually demonstrate attainable cost savings and should be cautious if simply assuming that fewer districts means lower costs. The research simply does not support that conclusion.

**Principle 2: Consolidation has the potential to negatively impact student achievement.**

Consolidation advocates argue that creating larger school districts has no effect on student learning, but there is substantial research that indicates otherwise. According to the Goldwater Foundation, an extensive review of research by Kathleen Cotton of the Northwest Regional Education Laboratory found that "the states with the largest schools and largest school districts have the worst achievement, affective and social outcomes."[13]

Cotton's findings are confirmed by researchers Craig Howley and Robert Bicknel, whose 2002 research, conducted in four states, led them to conclude that, in poorer communities especially, "small schools in small districts boost performance" and "smaller districts and smaller schools demonstrated greater

achievement equity."[14]

In one of the most extensive national samplings of district size and student achievement, the American Legislative Exchange Council compared the average number of schools per district in each state with that state's average scores on the standardized SAT, ACT, and NAEP tests. They found that states that averaged fewer schools per district, that is, those with smaller districts, tended to score higher on all three tests.[15]

Perhaps more troubling, evidence also indicates that parents become less involved in schools as a consequence of consolidation. A Hoover Institute survey of data on consolidation efforts in Connecticut found that parents were less likely to "respond to questionnaires from school," to "participate in parent-teacher organizations," and to "attend a school open house" as a result of district consolidation.[16]

Research on the influence that those involved parents have on schools, conducted by Harvard's Caroline Hoxby, found that "parents are a force that tends to keep schools oriented toward student outcomes" with the result that districts with higher parent involvement, which tend to be the smaller ones, have a more rigorous curriculum and greater accountability.[17]

The risk that consolidation may negatively impact student achievement and that it could result in less parent involvement in schools should be of real concern. Consolidation efforts should therefore focus primarily on facilitating the sharing of non-teaching-related educational services, such as transportation, food service, information technology, and human resources.

Table 1  
Survey of School Administrative Spending

District	Size	Percent Expenditures for	
		System Administration	School Administration
A1	155	8.17%	6.75%
A2	155	2.14%	4.26%
B1	392	5.04%	6.16%
B2	395	2.41%	5.71%
C1	715	5.77%	4.26%
C2	750	2.87%	3.57%
D1	1053	5.02%	6.49%
D2	1035	3.22%	6.06%
E1	2127	5.39%	5.43%
E2	2155	2.36%	5.01%
F1	3232	4.49%	3.63%
F2	3283	1.72%	4.39%

Source: Maine Department of Education

### **Principle 3: Consolidation usually results in larger, less responsive bureaucracies.**

Supporters of consolidation argue that creating larger school districts eliminates administrative waste, but does it? West Virginia, faced with declining school enrollment much like Maine's, undertook a dramatic consolidation effort in the 1990's, closing one out of every five schools in the state. Despite promises of lower costs, research done in 2004 revealed that "between 1990 and 2000, total enrollment in West Virginia decreased 11% and 202 schools were closed, yet education spending increased by 16%." Furthermore, "the number of state-level administrators increased and their salaries nearly doubled" over the same time frame.[18] West Virginia also now finds itself spending "more of its education dollar on transportation than any other state." [19]

William Ouchi's study of schools in California found that consolidation there led to "an increased number of administrators per student." [20] Nationwide, according to a 1996 Cato Institute study, "the number of school districts dropped 39%" from 1960 to 1984, yet "school administration grew by a staggering 500%." [21]

Larger bureaucracies can result in less accountability, rather than more. Quoting a 2002 report by the Sutherland Institute's David Cox, the Louisiana School Board study found that "smaller districts are more efficient than larger ones." This conclusion was reached after they reviewed a 2000 legislative study in Utah, which found that "smaller districts were better able to account for specific funding than large districts because the larger districts' budgets were so complicated." [22]

In a similar finding, the Deloitte study, analyzing William Ouchi's research on decentralized school districts, found that "Schools perform better on fiscal and academic outcomes when there is local control of budgets." [23]

With regard to the effect of consolidation on elected school boards, the governor's proposal would create new regional school boards representing thousands of parents and students. The Mackinac Center's Matthew Brouillette observed, however, that "whereas smaller districts allow for greater parental involvement because school board members and school officials are more accessible and have fewer constituents, larger districts have diminished the role of parents and increased the influence of special interests. This effect is unavoidable when districts consolidate and become more bureaucratic." [24]

Given these findings, it is critical that consolidation-related reforms do not result in either more government or larger, less responsive, less accountable government.

### **The Challenge for Policymakers**

Deloitte's 2005 study on education spending accurately describes what it calls the "size paradox."

*"While being very small often improves educational outcomes, it can also result in higher per-pupil costs. Consolidating into very large districts, on the other hand, may create economies of scale for purchasing, but may also drive up administrative costs, increase bureaucracy and adversely impact student learning."* [25]

Maine's decision makers thus face a challenge. How does the state maintain the high level of student achievement, parental involvement, and administrative accountability more commonly found in small districts, yet still squeeze some administrative savings out of the system? How do we create the kind of collaboration and sharing of resources between districts that would generate those savings, without creating yet another layer of government?

### **Education Service Districts – A Consolidation Compromise**

According to the three principals established above, Maine's policymakers need to fashion a model of cooperation that generates demonstrable savings while preserving local control over teaching and learning, and does so without creating more bureaucracy and layers of government. Luckily, such a model is already in place in countless states across the nation, the so-called "Education Service District."

**What are Education Service Districts?** Education Service Districts (ESD) are regional cooperative associations that allow local schools and school districts to share various educational services in order to cut costs and improve quality. Using ESDs, small districts are able to gain economies of scale on the products and services they need, despite their size, and can gain the services of full-time professional staff, which might otherwise be unaffordable. ESDs can also make particularly costly services, such as treatment for severe learning disabilities, more affordable for individual districts. Better still, because so many non-instructional services such as transportation are managed by ESDs, local schools and school boards can focus their time and efforts on the fundamental mission of schools, which is teaching and learning.

According to the Association of Educational Service Agencies, there were 630 ESDs across 42 states as of 2004. [26] Table 2 identifies dozens of services that are offered by ESDs across the nation, as catalogued in a 2003 report for the Pioneer Institute by Craig Stanley. [27]

### **How are Education Service Districts organized?**

ESDs take various forms in various states, but for the most part, they are formed by simple agreement between local school districts. ESDs are governed by boards or committees consisting of school board members from the districts they serve. In some states, such as Colorado, ESDs are more formally established by state statute, giving them a defined structure and role, and many states use ESDs to provide services for

the state itself, such as data collection and teacher training.

### How are Education Service Districts funded?

In most states, ESDs are funded by member school districts on a fee-for-service basis. The ESD board decides which services it is to offer, and member school districts contract with the ESD to provide that service. ESDs are also often given authority to accept grants from various sources, and are thus able to provide needed services for the state or federal government or other parties.

Maine's unique Essential Programs and Services (EP&S) funding model could be adapted to allow the state to pay its share of spending on education services directly to the ESDs, cutting administrative time and expense both at the state level and locally.

### How do Education Service Districts support teachers and students?

Aside from potentially cutting administrative spending that can then be redirected into the classroom, ESDs can provide services that might otherwise be unavailable or cost-prohibitive, particularly for a small school or district.

An article in the March 2006 issue of *The School Administrator* quotes the superintendent of a small Pennsylvania school district as saying:

*"I don't have an assistant superintendent or curriculum and professional development specialists who can assist principals, faculty and community members in implementing new initiatives or raising the quality of existing programs. I greatly de-*

*pend on [the regional ESD] to assist schools with important initiatives."*[28]

Similarly, the Deloitte study reports, "In Southeast Texas, 14 small school districts pool their money for school violence and substance abuse programs, allowing them to get more and higher quality programs." [29]

In these ways, Maine's traditional small districts can remain small, but have access to the resources of larger districts, allowing them to offer a better product to parents and students, and better support, materials, and training to teachers.

### How do Education Service Districts support administrators and school boards?

In the business world, companies often contract out such services as payroll, accounting, advertising, shipping, and information technology, so they can focus on the core missions of the business, such as product development. In this way, they get quality support from trained professionals outside the business, and often for less than it would cost the business to provide those services internally.

ESDs allow school principals and local school boards to do much the same, farming out support services to the ESD so they can focus their efforts on the core mission of the school, which is teaching and learning. Far too often, administrators and school boards get bogged down in issues such as buildings or bussing, instead of focusing on the math curriculum, for instance, or improving special education services. ESD's have the potential to free school boards and building principals from having to deal with issues outside the classroom, so they can

Table 2  
Education Service District Target Areas

#### Administrative and Management Services

- Cooperative purchasing of large volume goods and services
- Data collection and data processing
- Shared Employee Assistance Program (EAP) services
- Shared fiscal services such as payroll and budget preparation
- Management planning
- Insurance coverage
- Student transportation services
- Audio visual/computer repair
- Shared staff, such as legal and medical personnel
- Personnel recruitment and screening
- Energy management
- Facility maintenance
- Safety/risk/crisis management planning

#### Curricular and Instructional Support

- General staff development
- Leadership training

- Teachers' centers
- Learning resources library (videotapes, DVDs and instructional software)
- Curriculum development
- Technology and telecommunications services
- Printing services
- Student testing and evaluation
- Program evaluation
- College and career fairs
- Shared network of skilled substitute teachers

#### Education Programs

- Low-incidence special education services
- Itinerant therapy/instruction
- Occupational education
- Enrichment for gifted and talented students
- Hospital and homebound instruction

dedicate more of their time and energy to the important work that goes on inside the classroom.

**Three Education Service District Principles**

**1. Do ESDs save money?** According to the Pioneer Institute study, savings from collaboration facilitated by ESDs “ranges from 15 percent to 50 percent.”[30] Deloitte’s study for the Reason Foundation calls 20% savings on shared services “conservative.”[31] Countless examples of savings can be found across the nation.

- Districts in Pennsylvania used an ESD to provide joint food service operations, turning an annual budget loss into a profit.[32]
- A multi-state collaborative agreement in the Midwest allowed creation of a shared enrollment and scheduling software program, saving three-quarters of a million dollars.[33]
- In northern Massachusetts, a cooperation agreement established 20 years ago to share special education services among ten separate districts has saved more than \$13 million.[34]
- In a 1995 study, a single ESD in Minnesota was credited by its member districts, 98 of them, with saving a combined \$16 million a year.[35]

Maine’s potential savings through ESDs could be substantial. Applying a formula used by Deloitte, a savings of 20% on only one-quarter of the approximately \$627 million that Maine spends annually on non-instructional services statewide (a third of all K-12 spending) would net savings of over \$30 million. That figure does not include potential additional savings on costly instructional services such as speech and language therapy, gifted and talented programs, and special education.

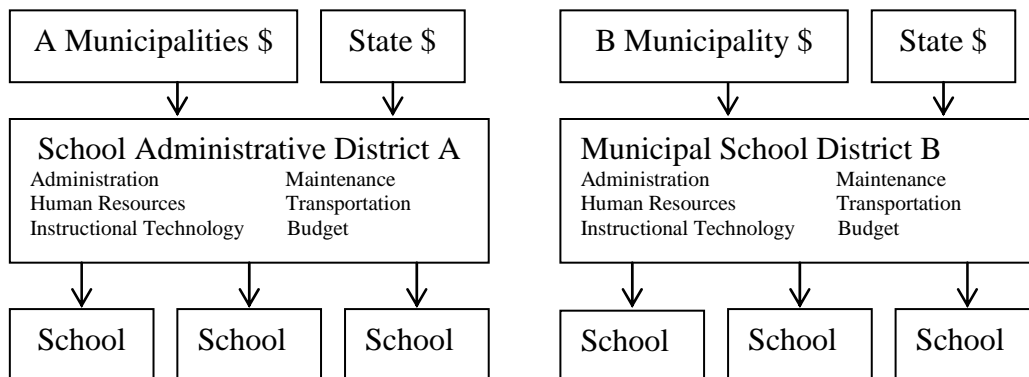
**2. Do ESDs preserve local control?** As ESDs would almost certainly be established in Maine, they would be governed by a board comprised of school board officials from member dis-

tricts, which would also provide the ESDs with their primary source of funding. By retaining the power of the purse, and by manning boards of oversight, local districts would be able to effectively manage the ESD, establishing which services it would provide and at what cost.

**3. Do ESDs create more government?** Were ESDs to be established on some kind of independent basis, with their own elected board and dedicated source of funding (in the way counties are today, for instance), one could plausibly call that another level of government. Care must therefore be taken in the design of the ESDs to ensure that the state is subtracting, not adding government.

- ESDs should be formed from the bottom up, not top down, by agreement between the member districts, as established in some type of charter document that clearly identifies lines of authority. They should not be designed as an arm of the state, but rather the product of cooperation between existing districts, deriving their powers and funding from them.
- ESDs should be given no revenue powers of their own, nor any dedicated independent source of funding designated by statute. Funding should come from either the member districts on a fee-for-service basis, or from the state through the EP&S funding system for the provision of a specified service.
- No provision of services or addition of staff should take place at the ESD level unless equivalent or greater services and staff are cut by local districts. The state’s use of the EP&S system may be a way to direct funding to whichever body, local district or ESD, is providing a given service, ensuring that either one or the other is funded, but not both.

**Current School Administrative District Model**



## The Roadmap – Creating Education Service Districts in Maine

There are several aspects of Governor Baldacci's consolidation proposal that have caused concern among education officials and others, but perhaps none so much as the rapid speed by which the generations-old local school board model is to be cast aside in favor of super-sized regional school districts with which the state has no tradition or experience.

An ESD model, by contrast, preserves local control, and could be implemented in stages, with local school officials identifying areas where regional cooperation makes sense, growing the responsibilities of the ESD as needed.

### Establishing Education Service Districts

It is critical for the success of this reform effort that a sense of local ownership of the ESD is maintained. If the legislature adopts too rigid a set of parameters for the development of ESDs, or simply establishes them in law and imposes them on local school officials, they will be seen as yet another top-down state mandate. The goal should be to generate discussion locally and create regional consensus about why the ESD is being formed and how it can play a meaningful role in improving services to the schools of a given region and cutting costs.

#### On the local level:

- Create regional ad-hoc "charter commission"-type bodies, one in each of the 26 vocational education districts. These bodies, whose powers will be enumerated by statute drafted this legislative session, will meet to analyze the prospects for cooperation in each region. The state should provide data and analysis of local spending on educational services, and should provide technical support to these committees as they draft the governing charter of the new ESD. The ad-hoc committee should work with regional education leaders to develop timelines and set goals for the implementation of shared regional services. The legislature may wish to consider setting minimum shared service benchmarks, based on potential cost savings, but should allow the local committees to decide which services most readily lend themselves to regional consolidation.
- The ad-hoc committees should each draft a charter-type document that outlines the goals, membership, terms, and powers of the ESD and its governing board. These elements may differ from region to region given population and geographic variables, but should follow a generally standard format as outlined in statute, in the way county and municipal charters are today. This document will create the mission and governing structure of the ESD, and should include a timeline for appointment of the ESD board and implementation of shared service delivery by the ESD.
- The legislature will have to decide by what means an ESD charter is put into place, though approval by the boards of the member districts probably makes the most sense, and is the most common means found in other states. Local boards are already permitted to establish cooperative agreements with other districts, and the ESD is simply a more formal version of the regional cooperatives already in place across the state. Once the ESD charter is approved and the ESD board is established, work can begin on implementing the shared services plan developed by the ad-hoc committee, and any additional collaborative efforts agreed upon by the ESD board.

#### On the state level:

- Statutory changes will be needed to allow for the creation of ESDs. They will need to be empowered to accept state and local funding and be allowed to borrow money and purchase property such as school busses. The legislature will also need to establish the extent to which it wants to mandate a certain level of service consolidation or set savings targets for the new ESD system over the coming years.
- Modifications to the state's EP&S system will be needed to recognize the ESDs. The legislature should review the EP&S funding system to ensure that it can be used to pay the state's share for services provided by ESDs. As part of their annual budget, local school districts should identify which services are to be provided by the ESD, with the state paying its share, under EP&S, directly to the ESD.

According to Craig Stanley's report on ESD structures, just such a "pass-through" funding system is utilized in Iowa and Pennsylvania, in which the state funding for shared services "is deducted from [the local] district's state appropriation and passes through the ESA."<sup>[36]</sup>

- The state will need to develop a technical support network to assist ESDs in designing and developing shared service programs. The governor proposes such a support system in his plan.

The state should also investigate what other incentives it might provide to encourage the full utilization of ESDs by local districts. The "Fund for the Efficient Delivery of Educational Services," approved by voters in 2004, should be adequately financed and properly used to encourage regional cooperation like ESDs, as recommended in the 2006 Brookings Institution report.

- To ensure accountability, the legislature may also wish to establish a type of ESD "accreditation system," as proposed by Craig Stanley in his review of ESDs in Massachusetts. Stanley suggests the creation of "a set of standards and performance indicators" which would measure the quality of services provided by the ESDs as well as taxpayer money saved. ESDs would author annual reports measuring pro-

gress and reporting achievements.

- It should not be overlooked that the state itself is responsible for a good deal of local administrative workload. Across Maine, student enrollment dropped 14% from 1979 to 2003, but the number of school administrators rose 47%. Almost certainly, some percentage of that increase came as a result of the growing administrative responsibilities placed on local school districts by the state and federal government. Research should be undertaken to identify and deal with those burdens and any other outside factors driving local administrative spending. At least some of the savings being sought by these efforts have to come from changes at the state level, and perhaps ESDs can be a part of reforms at that level as well.

### Conclusion

There can be no doubt that Maine has a K-12 school system that is inefficient. Consolidation supporters have advanced the notion that simply combining existing school districts, and having one enormous district do the same work that many small districts are now doing, will somehow eliminate that inefficiency and save money. In defense of these consolidation advocates, there may indeed be limited “economies of scale” to be gained by merging very small districts, and there are no doubt some places in Maine where consolidation of districts makes perfect sense.

The governor’s one-size-fits-all solution, however, is not just too dramatic a structural change for Maine to embrace, especially within the dizzyingly short timeframe the governor has established, but it suffers also from the fundamental flaw that it simply presumes that fewer, larger districts can produce better results at lower cost than the system we currently have, an assumption with little support in national research.

A far better approach is for the state to embrace collaboration through the implementation of Education Service Districts. Proven effective in countless other states, ESDs allow the sharing of educational services between existing school districts, providing better and more cost effective services while retaining the local control of schools that is not simply a timeless Maine tradition, but a proven means of assuring accountability to parents, students and taxpayers.

Indeed, a fourth principle should guide policymakers in their deliberation on this issue, and it is that the people in the best position to make decisions about the most appropriate and cost-effective means of providing educational services to our kids are not bureaucrats in Augusta or two dozen superintendents scattered across the state, but those closest to the classroom; parents, the school community, and locally-elected school boards.

The Brookings Institution report observes that here in Maine,

“for its part, local government appears rather frugal.”[40] It would be a shame if that frugality, that sense of community responsibility so central to Maine’s small school districts, were to be cast aside in the hope that more and bigger government would serve our children, our schools, and our state better. There is a better approach for Maine to take.

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