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## Structure of School Districts in Georgia: Economies of Scale and Determinants of Consolidation

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# POLICY *brief*



## FISCAL RESEARCH PROGRAM SCHOOL OF POLICY STUDIES

### THE STRUCTURE OF SCHOOL DISTRICTS IN GEORGIA: ECONOMICS OF SCALE AND DETERMINANTS OF CONSOLIDATION

The structure of school districts in Georgia and the efficient delivery of public schooling are important concerns for policy makers in the state of Georgia. In particular, a major concern with regard to the structure of school districts in Georgia is the small size of some school districts. Many previous studies have found that it costs more for small school districts to provide the same quality schooling than for larger school districts. This concept is referred to by economists as "economies of scale." If economies of scale are present in the provision of public elementary and secondary education in Georgia, public funds could possibly be saved by eliminating small school districts and merging them with large neighboring school districts.

Georgia has a school district structure consisting of 159 county-based school districts and 22 municipal or "independent" school districts. This structure of school districts was established by the state Constitution of 1945 which formed a system of county-wide school districts while prohibiting the formation of new independent school districts. However, the Constitution did allow certain existing independent school districts to continue to operate. Over the past three decades the number of independent school district in Georgia has declined slowly through consolidation, from 35 independent school districts in 1967, to 29 district in 1977, to 27 independent school districts in 1987, to 22 in 1998.

Longstanding legislative concerns about small school district size were incorporated in the *Quality Basic Education Act* (QBE) of 1986. The Act gives financial

incentives for school districts to consolidate by offering 100 percent state funding for capital outlays accompanying the voluntary consolidation of two or more school districts. In the decade since QBE was implemented five independent school districts have consolidated with the surrounding county-wide school districts.

However, a relevant policy question is whether giving fiscal incentives for school district consolidation is warranted on economic grounds. A consideration that should be taken into account is that residents of small independent school districts often prefer this arrangement, despite potential savings due to economies of scale that might result from consolidation. Therefore, the fundamental basis for directing state policy on school district consolidation is an enhanced understanding of why certain school districts choose to consolidate with the surrounding county district while others choose not to do so.

School district consolidation involves other issues besides the cost-effective delivery of educational services. In fact, the school district consolidation decision involves a variety of complex political and fiscal factors. Besides the potential gains from economies of scale, other factors that could explain whether or not school districts consolidate include income and tax base differences across districts, racial factors, and the size of the school districts with which operations will be merged. All these elements should be considered in the analysis of school district consolidation in Georgia.

Consequently, the major policy issues with regard to the structure of school districts in Georgia are, first, whether economies of scale are present in the provision of public education in the state of Georgia and, second, what determines why certain city school districts choose to consolidate with the surrounding county-wide school districts, while other municipal districts opt to remain independent.

### POLICY ISSUES

The first policy issue that is addressed is whether or not economies of scale are present in the provision of public education in Georgia. An examination of the cost structure of school districts in Georgia over the period from 1977-1995 generated the following finding:

- Economies of scale at the district level do exist in the provision of high school education in Georgia. That is, as high school enrollment increases, costs per student decrease. This suggests that potential savings could indeed result from school district consolidation.
- Economies of scale at the district level do not exist in the provision of elementary education. This means that costs per student remain unchanged as the level of elementary enrollment increases.
- Our results suggest that potential savings from economies of scale are small for most school districts. On average, a ten percent increase in high school enrollment would result in savings of 7 dollars per student. However, substantial savings could be realized if a small independent school district consolidated with a neighboring county school district that is several times larger than the independent district. For several independent school districts the potential savings from such a consolidation exceed \$ 300 per student per year.

The second policy issue that is addressed is the determination of why certain school districts consolidate with a neighboring school district while others do not. The study upon which this *Policy Brief* is based contains an analysis of the characteristics of independent school districts that consolidated in the period from 1977-1995. The study only takes into account consolidation of independent districts because the consolidation of two county school districts is institutionally more complex and has not actually taken place. In this context it is important to understand that a county system does not have a choice but to accept consolidation with an independent school district if the latter chooses to give up its charter. This places the choice of whether or not to consolidate solely with the independent school district. Our analysis resulted in the following findings:

- The greater the potential economies of scale, the greater the probability that an independent school district consolidated with its surrounding county district when all else is held equal.
- The likelihood of consolidation significantly increases if the merging partner is geographically smaller in absolute terms. This finding is consistent with the notion that increased physical distance will result in higher transportation cost after consolidation, thus making consolidation less desirable. Also, the effect of geographical size of a surrounding county district on the consolidation decision could also be due to feared loss of local involvement and control after consolidation by the residents of the independent district.
- Independent school districts that choose to consolidate with the surrounding county-wide district in general have higher tax burdens relative to the county district. As such, consolidation would allow the residents of the independent district to shift some of their tax burden onto county residents. However, this characteristic was not found to influence the consolidation decision in a statistically significant manner.
- Independent school districts with smaller enrollments relative to the surrounding county-wide district were less likely to consolidate. This is to be expected, since the smaller the population of the independent school district vis-a-vis the county district, the smaller the influence of the independent district would be in a potential consolidated county district.
- Finally, independent school districts that have a greater concentration of minorities relative to the surrounding county district were significantly more likely to opt for consolidation. A possible explanation of this result is that if voters believe that a higher concentration of minorities results in lower school quality, residents of an independent school district will favor consolidation if school district consolidation results in a lower concentration of minorities in the consolidated district.

### POLICY IMPLICATIONS

These findings have policy implications. The state government's concerns about sub-optimal size school districts appear to be warranted based on the estimates of economies of scale. However, for most school districts in Georgia potential cost savings from consolidation are quite small.

The drive to consolidate these small districts will need to address properly the potential concerns of small school districts. Loss of community involvement is detrimental to the (actual or perceived) quality of education. This appears to have resulted in resistance to consolidation by small independent school districts resisting consolidation. The state would likely have to provide large financial incentives if it sought to encourage further school district consolidation.

## ABOUT THE AUTHORS

**L.F. Jameson Boex** is a doctoral candidate in economics at Georgia State University, with specializations in the fields of urban and regional economics and public finance. Mr. Boex has research experience in the a variety of areas, including the structure of local governments, intergovernmental fiscal relations and fiscal management. He has contributed to several publications in both academic and professional journals. Mr. Boex also teaches principles of microeconomics at Georgia State University.

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*For a free copy of the study from which this Policy Brief is drawn, or any of the other publications listed, call the Fiscal Research Program at 404/651-4342, or fax us at 404/651-2737.*

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