

Cost Efficiency in Delaware Education: A Summary

Governor Ruth Ann Minner, with the General Assembly's unanimous endorsement, created the Leadership for Education Achievement in Delaware (LEAD) Committee in June 2007.

Its first task was to conduct a study of the current State education spending system and make recommendations for improving fiscal efficiency and for reallocating funds among education priorities, particularly those that most directly impact student achievement.

With research provided by The Boston Consulting Group, LEAD published its 169-page cost efficiency study in January 2008. The principal finding, supported by 17 specific recommendations, is the potential for annual savings of \$86 million - \$158 million.

The accompanying table summarizes the LEAD Committee recommendations.

May 2008

Transportation

Delaware spent \$80 million in 2005. We could save \$9–\$12 million or more annually.

ISSUE	RECOMMENDATION	ANNUAL SAVINGS
Bus contracting	The state pays 100 percent of costs of transporting students to and from schools, with no incentives for districts or charters to save money and no competitive bidding. The state gives contractors 11 percent more to purchase buses than it pays for buses itself. About two-thirds of routes statewide are contracted out to nearly 200 different contractors, many with only one or two routes.	\$1.64–\$4.6 million
Bus replacement	Delaware pays to replace buses after seven years and 100,000 miles at the earliest ... or after 10 years at the latest. That is far more often than the U.S. average of 14 years.	\$4.1 million
Non-public school subsidies	Delaware gives \$3 million a year to families with students attending private or parochial schools with no correlation to the actual cost of transporting these children and no requirement that the funds actually be used for transportation. For example, families can and do use these subsidies to help pay tuition or contribute to their private school's annual fund.	\$3 million
Budget bill exceptions	More than 2,400 otherwise ineligible students receive free transportation through explicit mentions in the annual budget bill.	\$0.6–\$1.4 million

Purchasing

Delaware spent \$178 million in 2005. We could save \$15–\$25 million.

ISSUE	RECOMMENDATION	ANNUAL SAVINGS
<p>Districts' and charters' purchase independently; many have limited expertise</p>	<p>Even though they spend millions of dollars a year on goods and services, districts and charters share little information, resources or best practices; rarely “piggyback” on other districts’ contracts; and rarely bundle or pool their purchases, which would allow volume discounts. Large districts may have dedicated purchasing professionals, but smaller districts and charters often assign this responsibility to administrators or clerical staff members who handle many other tasks.</p>	<p>\$15–\$25 million</p>
<p>Use of statewide contracts varies widely and they do not always provide the best terms</p>	<p>Some business managers say they use statewide contracts up to 90 percent of the time, while others use them rarely. Unfortunately, state contracts are not specific to education and do not typically have volume guarantees that reduce prices. Worse, there is no data to help districts and charters determine if they can get a better deal on their own or through the state.</p>	
	<p>Formalize statewide coordination of education purchases, balancing local decision making with increased efficiency, and professionalize the purchasing function. Specifically:</p> <ul style="list-style-type: none"> ▪ Establish state-level central category managers with expertise in specific areas — from office supplies to textbooks — to handle most purchases (with input from districts and charters), which will maximize bulk discounts. ▪ Where specific local input is needed, such as for curricular materials, create local lead buyer networks to share information and more closely coordinate their purchases to maximize pooled savings. ▪ Create an education purchasing council of district, charter and state officials to oversee this more efficient system. 	

Energy

Delaware spent \$28 million in 2005. We could save \$4–\$7 million.

ISSUE		RECOMMENDATION	ANNUAL SAVINGS
Inconsistent use of best practices	Many districts do not completely implement best practices to manage energy demand and to invest in efficiencies, such as installing motion detectors to turn off lights when not in use or using more efficient boilers. Energy costs vary widely; the highest-spending district spends 98 percent more on energy per square foot than the lowest-spending district.	Implement best practices in managing energy demand by setting common, state-level energy-management standards and by better supporting districts and charters in adopting these standards.	\$3–\$5 million
Natural gas costs	Although most districts purchase electricity through a partnership — with contracts negotiated by the state — districts and charters continue to purchase natural gas independently, which is less efficient.	Continue to explore statewide pooling of natural gas purchases.	\$1–\$2 million

Benefits

Delaware spent \$311 million in 2005. We could save up to \$29 million.

ISSUE	RECOMMENDATION	ANNUAL SAVINGS	
Generous statewide package	<p>Delaware's benefits (health insurance, pension, social security, workers' comp, and Medicare) amount to about 40 percent of an educator's salary, significantly higher than the national average of 31 percent. Regionally, Delaware's average total compensation is more than 5 percent higher than Pennsylvania's and Maryland's. If Delaware's benefits as a percentage of salaries were the same as Maryland's, the state would save \$41 million a year alone.</p>	<p>The Public Education Compensation Committee should address several options for enhancing the recruitment and retention of outstanding educators, while securing the long-term viability of the compensation system. Priorities include:</p>	<p>Up to \$29 million, plus the chance to make the retiree health care system solvent for the long term</p>
Many local districts provide additional benefits	<p>Many local districts independently purchase the additional benefits they offer (\$18 million total a year) for dental, life, disability, unemployment, prescriptions and other coverage.</p>	<ul style="list-style-type: none"> ▪ Exploring more flexible options that would give employees more choices — for instance, a higher salary in return for reduced benefits. ▪ Exploring a defined <i>contribution</i> plan, such as a 401(k), as an option to the current defined <i>benefit</i> plan. ▪ Conducting an in-depth analysis of local districts' benefits packages to see if pooling would allow them to negotiate lower rates. 	
Unfunded retiree health care benefits	<p>Delaware's defined benefit <i>pension</i> plan has enough assets to cover its liabilities, but has limited assets to cover the estimated \$3 billion in retiree <i>health care</i> liabilities.</p>		

School Construction

Delaware spent \$195 million in 2006. We could save \$31–\$48 million a year.

ISSUE		RECOMMENDATION	ANNUAL SAVINGS
Minimal standardization or pooled purchasing	<p>Districts rarely use common design and equipment specifications. Nor do they coordinate the purchase of goods (steel, boilers, etc.) and services (architects, contractors), which could produce volume discounts.</p> <p>One Delaware district completed a six-year capital project at about 37 percent below budgeted costs by adopting some standardizations and leveraging its buying power to buy equipment for multiple schools at the same time.</p>	<p>Create a state-level construction board to leverage the state's purchasing power for design services and materials. The board would:</p> <ul style="list-style-type: none"> ▪ Help districts identify major construction and renovation needs over five years. ▪ Negotiate long-term contracts with architects and contractors. ▪ Work with districts to set statewide standards on design and materials. ▪ Create and maintain modular designs that districts can use as a starting point. ▪ Contract bulk purchases of commodities (steel, etc.) and other materials (boilers, etc.) for districts. 	\$10–\$14 million
Mandated prevailing wage rates	<p>Requiring districts to pay “prevailing wage rates” increases costs by 20–40 percent for certain projects.</p> <p>Ohio saved an average of 20 percent on additions, 11 percent on renovations and 1 percent on new construction by exempting schools from this mandate.</p>	<p>Pilot a program to exempt public schools from prevailing wage rate requirements for construction, renovation and maintenance. After a trial, evaluate the cost savings, building quality and overall impact on constructions wages in the state — and adjust the program accordingly.</p>	\$21–\$34 million

Administration and Central Support

Delaware spent \$85 million in 2005. We could save \$25–\$36 million.

ISSUE	RECOMMENDATION	ANNUAL SAVINGS	
<p>No incentives for larger districts to achieve scale</p>	<p>Delaware’s formula for funding education administration is based mainly on a flat per-student rate, which does not take into account the efficiencies possible, especially in larger districts with many more students.</p>	<p>Provide more incentives, such as a different allocation formula, for larger districts to become more efficient. Rather than providing unit-based funds that must be used for specific purposes, the formula could provide funds to districts to be used more flexibly and efficiently to meet their needs.</p>	<p>\$0.4–\$2 million</p>
<p>Few shared services among 19 independent districts and charters</p>	<p>Delaware’s 19 districts act largely independently, resulting in missed opportunities to share costs in areas such as human resources, finance, transportation and purchasing. Analysis suggests that about 70 percent of administrative staff in district offices could be shared without sacrificing quality or customer service.</p> <p>Delaware could achieve significant savings even without consolidating districts.</p>	<p>Districts should begin sharing services, starting in areas such as purchasing, human resources, finance and transportation, and then expanding more broadly to facilities/operations and instructional support. Delaware could create one service center per county or one statewide center, or house the shared functions within the DOE or other options. Cooperation and coordination of these back-office functions would not impact the districts’ academic programs and, in fact, would free up additional resources for classroom instruction.</p> <p>After five years, measure the impact of sharing services on costs, district operations and service quality — and consider district consolidation at that time.</p>	<p>\$25–\$34 million</p>

Department of Education

Delaware spent \$50 million in 2005. We could save \$2–\$3 million or more.

ISSUE	RECOMMENDATION	ANNUAL SAVINGS	
<p>Enhance purchasing efficiency, eliminate burdensome rules</p>	<p>The department's major expenditures are for federal food programs (31 percent); salaries/benefits (21 percent); and grants, tuition and scholarships (16.5 percent), many of which are pass-throughs to districts and schools.</p> <p>Similar to recommendations for the districts, there is potential for greater efficiency in DOE operations, purchasing, and service contracts. Although DOE's spending has tripled in the past 15 years, it remains--at 6%--the same percentage of the total education budget.</p>	<p>The DOE should apply the same procurement strategies recommended for districts when purchasing its own goods and services. Plus, it should explore efficiencies in travel spending, including greater use of teleconferencing.</p> <p>In addition, the legislature and DOE should strive to eliminate state and federal laws and rules where the costs of compliance outweigh the educational benefits.</p>	<p>\$1.6–\$2.8 million or more</p>
<p>Align with local service centers</p>	<p>In considering where to house shared services, care must be taken to avoid duplication with DOE offerings.</p>	<p>Any effort to coordinate or share services must be aligned with DOE's offerings to avoid duplication and ensure that the DOE also benefits from any efficiencies in areas from purchasing to human resources.</p>	<p>TBD</p>

About LEAD

This cost reallocation study is the LEAD Committee's first project. The Committee also is: 1) examining how to better generate and distribute state and local education funding, and 2) developing an easy-to-understand "performance dashboard" with information on how well individual schools, districts and the state are performing. LEAD Committee members include public, private and civic leaders from throughout the state:

Marvin N. "Skip" Schoenhals, *Chairman*, WSFS Bank (*Chair*)

Valerie A. Woodruff, *Secretary*, Delaware Department of Education (*Vice Chair*)

Jean W. Allen, *President*, Delaware State Board of Education

H. Raye Jones Avery, *Executive Director*, Christina Cultural Arts Center

Kevin E. Carson, *Superintendent*, Woodbridge School District; *Past President*, Delaware Chief School Officers Association

Sally C. Coonin, *Education and Policy Advisor*, Office of Governor Ruth Ann Minner

Jennifer W. Davis, *Director*, Delaware Office of Management and Budget

Carol A. DeSantis, *Secretary*, Delaware Department of Services for Children, Youth and Their Families

Barbara Grogg, *President*, Delaware State Education Association

Paul A. Herdman, *President and CEO*, Rodel Foundation of Delaware

Frank R. Ingram, Jr., *Board Member*, PolyTech School District

The Honorable Vincent A. Lofink, *Education Chair*, House Education Committee, Delaware General Assembly

Gregory Meece, *Director*, Delaware Charter School Network; *School Director*, Newark Charter School

G. Scott Reihm, *Executive Director*, Delaware Association of School Administrators

Daniel Rich, *Provost*, University of Delaware

The Honorable David P. Sokola, *Education Chair*, Senate Education Committee, Delaware General Assembly

Connie Bond Stuart, *Chairman*, President and CEO, PNC Bank, Delaware

William H. Willis, *President*, Willis Chevrolet, Inc.

Please note: Not all Committee members agreed with every recommendation, but the Committee felt that it was important to have them published for statewide discussion and debate. Check the DOE Web site for members' individual statements: www.doe.k12.de.us/info/reports/lead.shtml