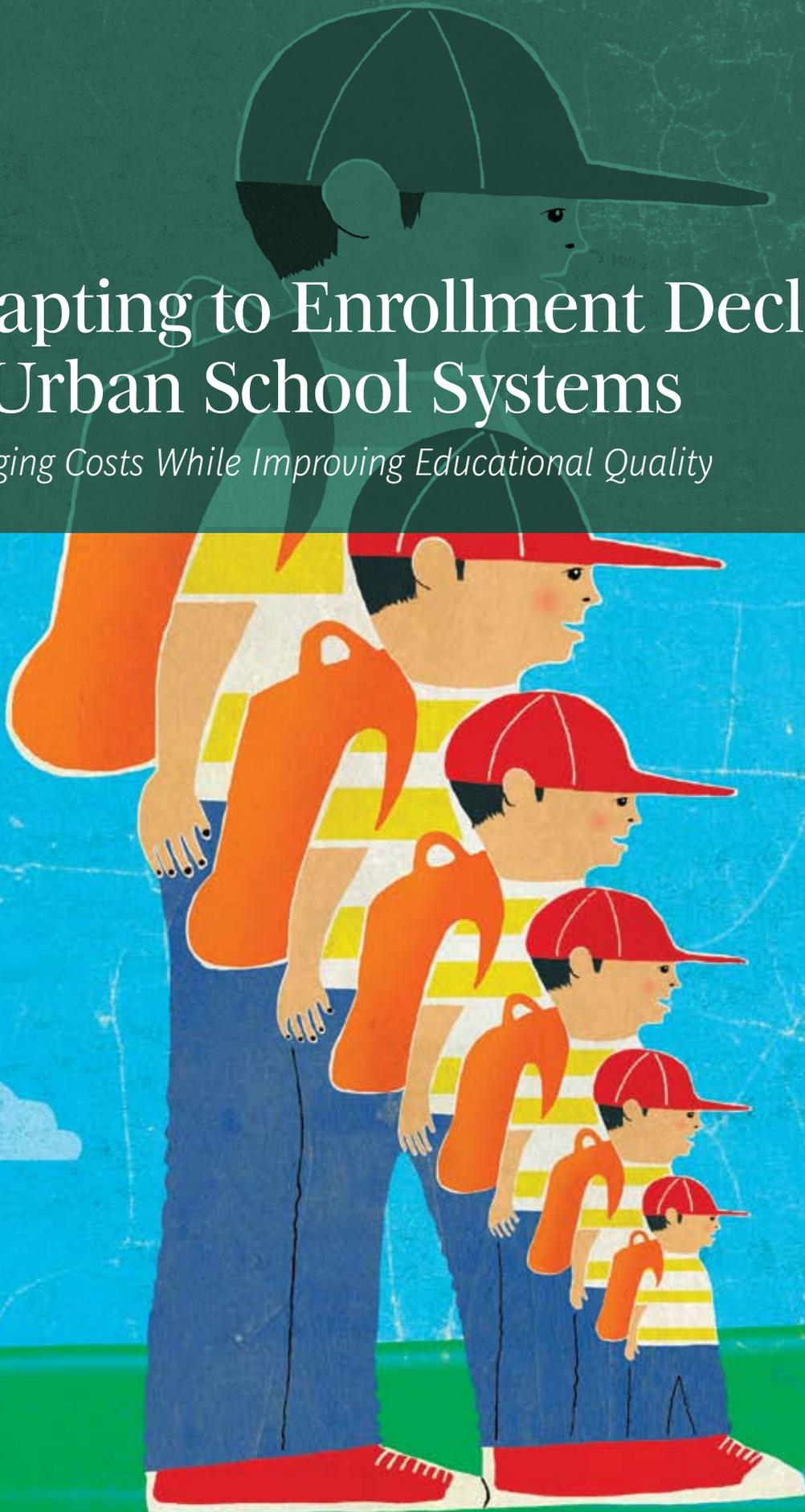


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Adapting to Enrollment Declines in Urban School Systems

Managing Costs While Improving Educational Quality



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Adapting to Enrollment Declines in Urban School Systems

Managing Costs While Improving Educational Quality

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January 2013

AT A GLANCE

Many of the largest urban school districts in the U.S. have experienced substantial enrollment declines and shifts over the past decade; the population of metropolitan areas has decreased and more parents have sent their children to private and charter schools.

A BALANCING ACT

As enrollment continues to decline, districts are struggling to reduce costs in proportion to the amount of lost revenue, often balancing their budgets only by resorting to actions that work against their aspirations for improved student achievement.

STRATEGIC MANAGEMENT IS KEY

Managing a decline in funding as a result of decreasing enrollment is difficult but not impossible. BCG has identified eight levers that districts can apply to manage costs and simultaneously improve the quality of education. By following these measures, districts may be able to both balance budgets more effectively and attract students back to district schools.

OVER THE PAST DECADE, student enrollment has declined in many of the largest urban school districts in the U.S. Many of these districts have responded with more and better learning opportunities, expecting that the students would return. Yet year to year, enrollment is not something that school districts can easily control. And as it continues to decline, districts are struggling to reduce their costs in proportion to the amount of lost revenue, often taking actions that work against their aspirations for improved student achievement. A lack of advance planning and complex cost structures have resulted in districts making last-minute cuts that eliminate the jobs of effective teachers and indiscriminately raise class sizes, negatively impacting student learning.

This cycle of crisis need not continue, however. As we discuss in this report, by taking the right actions and following a disciplined approach, districts can manage their costs in a way that minimizes the impact on the classroom. In a world where declining enrollment is a reality for many districts, this could be the difference between the nation continuing to make strides in education and seeing the current momentum wane.

Declining Enrollment and Decreasing Revenue

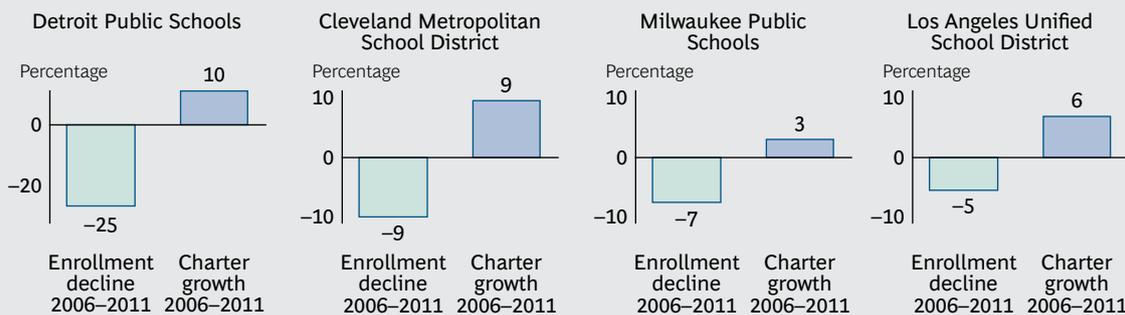
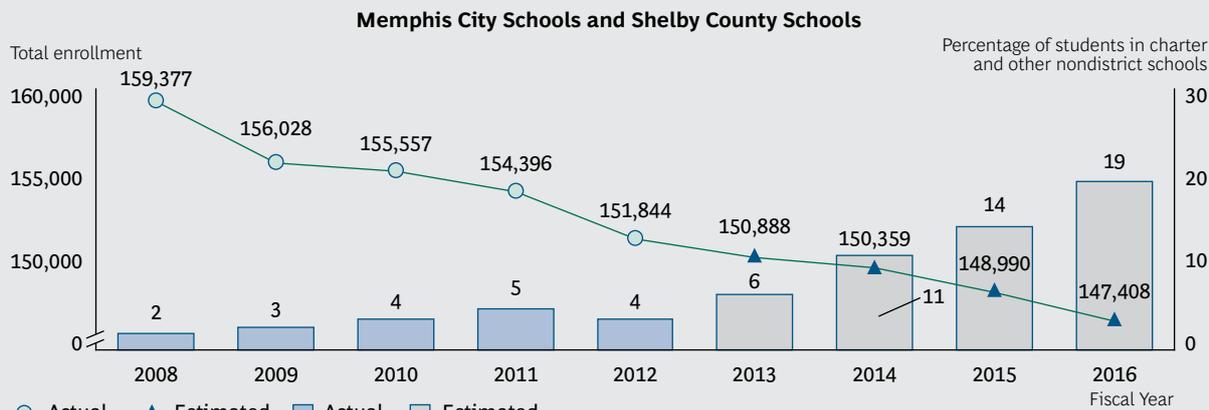
Many of the largest urban school districts in the U.S. have experienced substantial declines in enrollment over the past five to ten years. A recent article by the *New York Times* highlights that half of the 100 largest districts have seen enrollment decrease from 2005 through 2010; the percentage of decline for the ten districts most affected ranged from 8 to 32 percent.¹ Exhibit 1 shows the enrollment declines in several large districts.

Several factors have contributed to this changing landscape, including population declines in large metropolitan areas driven by the prolonged economic recession, decreasing birth rates, and more parents enrolling their children in private or parochial schools because of low achievement levels in public schools.

Student shifts to public charter schools and state-run schools have also been factors. Charter schools have increasingly drawn students away from district-run schools. According to a report from the National Alliance for Public Charter Schools, during the 2010–2011 school year, charter schools in New Orleans enrolled 70 percent of the student population.² This was the highest rate in the U.S., followed by 39 percent in DC and 37 percent in Detroit. Furthermore, several states (for example, Louisiana, Michigan, and Tennessee) have taken direct control of their lowest

Enrollment is not something school districts can easily control. But by taking the right actions, districts can manage costs and minimize the impact on the classroom.

EXHIBIT 1 | Large Urban School Districts Are Experiencing Enrollment Declines and Shifts



Sources: National Alliance for Public Charter Schools; BCG analysis.

performing schools. In many cases, charter and state-run schools hold the promise of providing new and better learning opportunities for children. However, these enrollment shifts have also created cost management pressures, including often leaving a student mix in district-run schools that is more expensive to serve.

Regardless of the cause for declining enrollment, in states where education funding is allocated on a per-pupil basis, districts have felt the impact of having fewer students. For these districts, the revenue loss has been compounded by the economic recession. States have trimmed education spending, and the temporary relief provided by federal stimulus funding has passed. Moreover, as enrollment has shifted to charter and state-run schools, districts have had to pass through more of their revenues to these schools. Many districts have only recently begun to understand the full effect of these converging events.

Traditional Cost Cutting

Faced with a new set of economic realities, districts have the difficult task of reducing costs in proportion to declines in enrollment and revenue while preserving educational offerings. In order to balance their budgets, many districts have resorted to traditional cost cutting: a combination of unsustainable stopgap measures and last-minute cuts that adversely impact students.

Some common stopgap measures employed by districts include drawing down reserves or “rainy day funds,” increasing deferred maintenance, and cutting non-union positions in central administration. For example, the Chicago Public Schools district is taking nearly \$375 million from its reserves to balance its 2012–2013 budget.³ The Council of the Great City Schools surveyed 50 major school systems and reported that there was more than \$14.4 billion in deferred maintenance needs in 2011.⁴ And districts with strong labor contracts have turned to cutting nonunion positions in central administration that typically represent a relatively small number of jobs and are not necessarily the best positions to cut.

Some districts have turned in desperation to a broader set of actions that have unduly impacted the quality of education. These include increasing class sizes without necessarily equipping schools with more effective teachers, laying off teachers on the basis of seniority, and cutting programs.

The American Association of School Administrators finds that the percentage of districts having to increase class sizes to balance their budgets rose almost sixfold, from 6 percent in the 2008–2009 school year to 34 percent in the 2009–2010 school year.⁵ Research suggests that increases in class sizes are not necessarily detrimental if more students are in classes with more effective teachers. However, few districts have been able to accomplish this goal, primarily because most districts have seniority-based layoff and pay policies. Laying off on the basis of seniority rather than performance means teachers of the same average effectiveness are in front of larger groups of students. Furthermore, these policies necessitate dismissing more teachers in order to meet budget targets because those being laid off are paid less.

A 2011 study by Dan Goldhaber and Roddy Theobald of the University of Washington highlights that reductions in force (RIF) in the state of Washington for the 2008–2010 school years disproportionately impacted junior teachers who made approximately \$15,000 less than teachers who were not given RIF notices.⁶ The state could have saved 20 percent of these positions if the districts did not have to reduce staff on the basis of seniority.

Some districts have reduced their academic or extracurricular offerings to manage cost pressures. Among many examples, Prince George’s County in Maryland cut prekindergarten to half days, and several districts in North Carolina decreased the number of course offerings. Mesa Public Schools in Arizona was among many districts that delayed the purchase of new textbooks.

Five Fundamental Challenges

Districts are turning to measures that are unsustainable or that may adversely impact students because of five fundamental challenges that make it hard to navigate the current complex environment.

UNRECOVERED CLASSROOM COSTS

Typically, districts have six types of expenditures. (See Exhibit 2.) The most substantial are per-pupil costs that move with groups of students (such as teacher and aide expenses). We call these step-variable costs. Since these classroom costs comprise

Common stopgap measures employed by districts include drawing down reserves and increasing deferred maintenance.

EXHIBIT 2 | School Districts Have Six Types of Expenditures

			Approximate percentage of per-pupil spending
Per-pupil costs	Variable	Costs that move with individual pupils For example, textbooks, breakfasts, and lunches	1
	Step variable	Costs that move with groups of pupils For example, teachers and educational assistants	71
School-level costs	Shareable	Costs that have the potential to be shared among school operators and locations For example, utilities, maintenance, and custodial services, librarians, nurses, psychologists, therapists, social workers, and technicians	14
	Fixed	Costs that are more challenging to share among multiple school operators in a building For example, principals, assistant principals, office staff, and counselors	9
District-level costs	Assignable overhead	Central-office costs that can be included in opt-in fee-for-service offerings For example, transportation management and custodial management	1
	Stranded overhead	Other central-office costs that cannot be tied to any fee-for-service option For example, HR administrators, budget analysts, and legal counsel	4

Source: BCG analysis of 2012 budgets for Memphis City Schools and Shelby County Schools.

more than 70 percent of per-pupil expenditures, even a small portion that cannot be allocated on a per-student basis can have a significant impact on a district's budget.

Classroom costs become harder to manage when enrollment declines because students rarely leave schools in class-size increments. This means that in order to simultaneously maintain program offerings and meet budget targets, districts must not only reduce the total number of staff but also move a number of teachers into different positions. This balancing act may be manageable for a time, but it becomes unsustainable without increased revenue, particularly as schools become severely underutilized. The challenge is compounded by districts often lacking the metrics and processes to recognize when per-student costs are rising for a particular school, grade, or course.

HIGHER FIXED SCHOOL-LEVEL COSTS

Fixed school-level costs include both personnel expenses (such as the principal's office staff) and facilities expenses (including utilities, custodial services, and maintenance). When enrollment declines, these costs always increase on a per-student basis unless schools are closed or costs are shared across multiple school operators within the same building. This puts pressure on a district's ability to maintain spending on teachers and other classroom staff.

STICKY CENTRAL-OFFICE COSTS

Central-office bloat is often perceived as the greatest cause of school districts' budget challenges. That is rarely the case, though. Data from the Center for American Progress on more than 9,000 districts show that the average central-administration costs, excluding school leadership, are only 4 to 6 percent of a district's operat-

ing budget.⁷ However, it is true that enrollment declines do not automatically trigger reduced central spending, and central-office costs tend to be hard to reduce even when conditions dictate they should be adjusted. Keeping central-office costs constant as a percentage of per-pupil spending year on year requires active management.

A MORE EXPENSIVE STUDENT MIX

Regardless of the reason for a decline in enrollment, when this situation occurs, the percentage of special-education and low-income students in a public school district generally increases.

The Cleveland Metropolitan School District (CMSD) is a case in point. The *New York Times* reported that the percentage of special education students in CMSD increased from 17 percent in 2005 to 23 percent in 2010 even as the overall enrollment declined by 18 percent and charter school enrollment increased by 12 percent.⁸ Special education students typically generate more funding per student than general-education students, but the difference does not cover the incremental cost. In addition, according to the National Center for Education Statistics, the percentage of students eligible for a free or reduced-cost lunch also increased from 83 percent to 90 percent in CMSD during this time period.

The impact of enrollment shifts can be further exaggerated in states where per-pupil funding is allocated to charter schools on the basis of an average mix of students—even if the students whose families have chosen charter schools are less likely to have the most costly special needs.

THE LACK OF AN ADVANCE-PLANNING ETHIC

Many districts live by an annual budget cycle. When they have a sense of the following year's revenue, they decide what changes are necessary in order to balance the budget. This approach significantly narrows a district's available options. Many of the options that have the least negative impact on education cannot be accomplished overnight, while many of the options available at the last minute (such as teacher layoffs and program cuts) affect students the most.

Strategically Managing Declining Enrollment

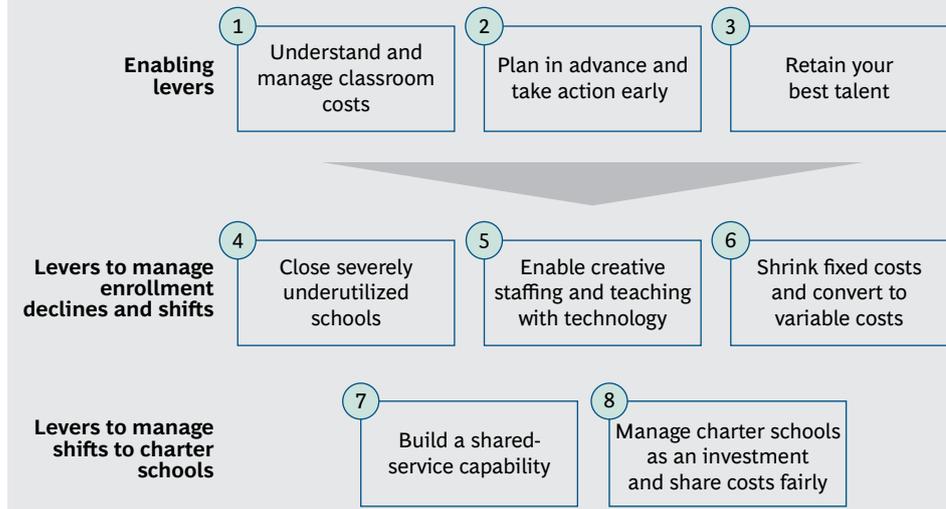
Managing a decline in funding as a result of decreasing enrollment is difficult but not impossible. We have identified eight levers districts can apply to manage costs with minimal impact on students. (See Exhibit 3.) In fact, if adhered to with discipline, these levers can help districts find a fiscally sustainable and educationally sound path that will attract students. Although these actions are particularly important for districts facing declining or shifting enrollment, most of the actions are advisable for any school district.

UNDERSTAND AND MANAGE CLASSROOM COSTS

Districts should know how classroom resources are allocated by school, grade, and course because they account for the majority of educational spending. Having a disaggregated understanding of spending makes tradeoffs explicit and clarifies the impact various district actions may have on students.

Districts should know how classroom resources are allocated; a disaggregated understanding of spending clarifies the impact actions may have on students.

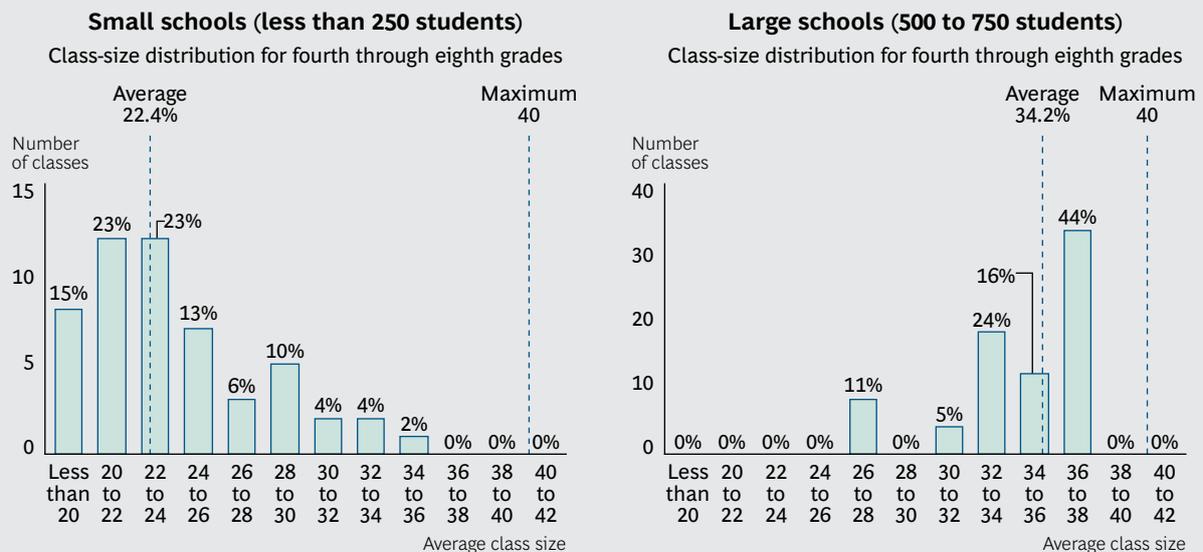
EXHIBIT 3 | Eight Levers to Strategically Manage Enrollment Declines



Source: BCG analysis.

Take the example of a district that was under significant budget pressure as a result of declining enrollment in some schools. (See Exhibit 4.) To trim costs, this district increased the maximum class size for its middle grades to 40 students per class. However, a deeper look revealed that not all schools had enough students to even approach the maximum class size. The higher student-to-teacher ratios at schools with steady enrollment were in effect subsidizing low-enrollment schools.

EXHIBIT 4 | District Inadvertently Subsidizes Underutilized Schools



Source: BCG analysis.

Neither small schools nor varying class sizes are inherently bad. And neither, necessarily, is some level of cross-subsidy among schools or programs. However, many small schools are actually underutilized schools—ones that had been larger and that districts are investing in by default rather than according to a strategic plan. Districts should make deliberate choices, such as opting to invest in specialty offerings that are correlated with student success (for example, Advanced Placement classes).

In order to make strategic investments, districts must have the systems and processes in place to disaggregate spending. For some districts, this will require tracking new metrics, upgrading data systems, and building new capabilities in their organizations. The New York City Department of Education (DOE) has begun examining class sizes in a disaggregated manner to understand which schools have additional capacity and where the department needs to create or reduce staff positions.⁹

Marguerite Roza from the University of Washington has gone a step beyond classroom expenditures and suggested that districts should measure all educational costs on a per-unit basis—per student, per teacher, per course, and so on.¹⁰ This provides a means of comparison for all expenditures. She notes, for example, that per-student costs for electives in a district's high schools were 50 percent higher than per-student costs for math. That information may or may not prompt a change, but it will likely initiate the right conversation. We believe this approach should be extended to understand the distribution of costs across all schools and used to make more informed decisions about how to address disparities.

Districts must avoid putting off actions to improve efficiency until revenue projections are final. They must also take a multiyear view of their finances.

PLAN IN ADVANCE AND TAKE ACTION EARLY

There are at least two steps districts must take to improve their typical approach to annual budget cycles and last-minute cuts. First, they must avoid putting off actions to improve efficiency until revenue projections are final; waiting rules out many options. The process for outsourcing services has to begin in the fall of the previous school year to ensure sufficient time to issue a request for proposal, select a vendor, and transition the service. The process for closing underutilized schools also must begin in the fall to allow time for engaging the community and minimizing the impact on students. Other actions, such as improving technology systems in order to reduce clerical costs, often require more than a year to realize savings.

Second, districts must take a multiyear view of their finances. Too many districts endure painful cuts to balance their current budget only to face the same problem the following year. This cycle of crisis is exhausting to district leaders, employees, and communities alike. Instead, districts should make enrollment and funding projections and estimate their impact on the budget. Planning beyond a single year not only accommodates longer-term strategic investments but also supports more informed and more transparent conversations with funding bodies and local stakeholders.

RETAIN YOUR BEST TALENT

Like many of the recommendations in this report, good human-capital management is important for all school systems. However, enrollment declines and shifts

make implementing policies and practices to retain top teachers, school leaders, and other staff even more critical for the following reasons:

- Since fewer students mean fewer employees, districts want to be in a position to retain their highest-performing staff.
- The right placement policies can help districts avoid the double whammy described earlier, where the combination of seniority-based compensation and seniority-based layoffs increases the number of layoffs required without improving teachers' average effectiveness.
- Top performers tend to have the most alternatives to their current job.
- Periods of change require creative practices in the classroom and new ways of thinking in the central office.

Effective evaluation is a cornerstone of good human-capital management. School and system leaders can make little progress in retaining the best educators and staff without processes to identify them, and educators and staff cannot hone their craft without meaningful feedback and support.

Closing underutilized schools helps districts provide students with programs, courses, and services that were previously cost prohibitive.

In addition, it is critical for school leaders to be able to use the results of rigorous evaluations when deciding who to retain. Policies that take this decision out of the hands of school leaders increase the likelihood that talented educators will be lost. And the cost of losing top educators is great, particularly in the lowest-performing schools. A recent TNTP study found that when a top-performing teacher leaves a low-performing school, there is only a one-in-eleven chance that his or her replacement will be of comparable quality.¹¹

CLOSE SEVERELY UNDERUTILIZED SCHOOLS

Closing severely underutilized schools helps a district as a whole. Better utilized schools are able to provide students with programs, courses, and support services that were previously cost prohibitive. Higher enrollment also means schools can spread fixed costs across a larger student population. And to the extent that underutilized schools have been subsidized by other schools, closing them frees resources for all students.

Closing low-performing underutilized schools also gives a district an opportunity to shift students to higher-performing receiving schools. Any school-closure decision must include academic performance as a significant input. Typically, schools that have higher academic performance and available capacity are identified as receiver schools for students from closed facilities.

Closing schools, no matter how underutilized, is difficult. Schools are community fixtures, and careful planning is needed to manage the transition for the students and the communities. However, decisions must be made for the long-term benefit of children. A report by Marisa de la Torre and Julia Gwynne of the University of Chicago Urban Education Institute illustrates both the short- and long-term effects of school closures on students.¹² School closings had a negative impact on reading

and math achievement the year the announcement was made; but students who enrolled in higher-performing receiving schools had higher achievement levels over the medium and longer term.

ENABLE CREATIVE STAFFING AND TEACHING WITH TECHNOLOGY

Districts should use creative-staffing models to provide programming in a more fiscally sustainable way. Sharing staff between schools, for example, can allow districts to offer classes that have low enrollment in individual schools. Computer-based scheduling tools can help districts match staff time with student need in real time. And districts can seek teachers and staff who are certified in multiple areas to give schools more scheduling flexibility.

In the book titled *Smarter Budgets, Smarter Schools*, Nathan Levenson introduces the concept of “trading down” or using noncertified staff in certain roles to enhance the level of programming and save districts money.¹³ He gives the example of Arlington, Massachusetts, which shifted to using librarian paraprofessionals instead of librarians. The district used the change not only to reduce costs but also to redefine the role. Librarian paraprofessionals’ responsibilities include developing a library curriculum, expanding in-class libraries, and providing extra support to the principal.

There is also an opportunity to increase the effectiveness and productivity of high-quality teachers through the use of technology. Online and blended instruction can help provide incremental options for students in a more cost-efficient and personalized manner. (See *Achieving More for Less in U.S. Education with a Value-Based Approach*, BCG report, July 2012.) According to The Hechinger Report, at the Knowledge Is Power Program (KIPP) Empower School in South Los Angeles, blended instruction contributed to 95 percent of its kindergarteners exceeding the national average in math after the first year—this was despite having to implement larger class sizes to make the necessary investments.¹⁴ These results are especially meaningful in an area where only 9 percent of students arrived ready for kindergarten.

SHRINK FIXED COSTS AND CONVERT TO VARIABLE COSTS

Even though traditional fixed costs, including expenses for central administration and operations, are typically a relatively small portion of per-pupil expenditures, it is important for districts to consider ways to shrink this cost base. For example, the central office in a district can be scaled down to focus on factors that contribute most significantly to student achievement, such as recruiting and managing high-quality school leaders. In a full redesign of its central office in 2010, CMSD reduced its central-administration expenditures by 6 percent and created a center that was more responsive and accountable to students and schools.

Outsourcing noncore functions, such as operations support, also often helps reduce costs and enables districts to better manage enrollment declines over time. Vendors of functions such as facilities management and transportation generally are more efficient than school districts. And since most vendors serve multiple clients, they can more easily adjust staffing levels; districts frequently have employee contracts that make it difficult to change staffing levels within a school year.

Online and blended instruction can help provide incremental options for students in a more cost-effective and personalized manner.

Districts often are concerned that the quality of services will decline if they use an outsourced provider. If poorly managed, this is possible. Districts should enter into strong up-front service-level agreements with vendors and hold them accountable for delivering high-quality services. Metropolitan Nashville Public Schools has successfully transitioned to outsourcing its custodial services. An audit completed by the Internal Audit Office of the Nashville government in August 2012 showed that 75 percent of principals gave the outsourced custodial vendor an A grade on the basis of several performance metrics, including cafeteria and restroom cleanliness and management responsiveness.¹⁵

BUILD A SHARED-SERVICE CAPABILITY

Historically, many school districts have had as little to do with charter schools and other school operators as possible. However, this is changing. With the support of the Bill & Melinda Gates Foundation, district–charter collaboration compacts have been signed in 16 U.S. cities.¹⁶ These compacts among leaders of district schools, charter schools, and local communities support the sharing of best practices, resources, and innovations. Creating a shared-service capability is an example of collaboration between districts and other school operators that serves both educational and fiscal objectives. There are a number of academic and operational services that districts could provide to charter and state-run schools for a fee that covers the cost of the services and the districts’ overhead. Yet in many cases, this match is not being made. Many districts don’t know where to begin when it comes to developing a service-level agreement and determining a price for services they have always provided to only district-run schools. For their part, charter schools often have a reluctance to buy district services owing to perceptions—and in some cases, the reality—of poor quality or high prices or both.

Districts could increase their chances of forging agreements with charter schools by building customer service capabilities into their functions—a move that, if successful, would benefit all schools. These capabilities are more than providing service with a smile; they include expertise in developing contracts, contract timelines, and service-level agreements. Offering customized services can be expensive for districts, but tailoring pricing to offer a few service levels may also increase opt-in rates. For example, the start and end times, which affect the bus schedule, often differ for charter schools and district schools. Districts that offer a flexible busing option may find charter schools willing to pay more.

Because the shared-service capability cannot be built into all functions overnight, districts should begin with functions that have high-quality products and the potential for high demand. In recent years, Memphis City Schools has strengthened its nutrition division to offer healthier meals to its students. Recently, the district entered into a partnership with the Catholic Diocese of Memphis to prepare and deliver meals to more than a dozen Catholic schools.¹⁷

Some school systems are innovating even further on this dimension by establishing an independent entity through which to provide shared services. Since charter schools often have the most to gain from increased purchasing scale and are less constrained by contracts and regulations, a consortium of charter schools might have more success in setting up a shared-service capability that offers high-quality,

There are a number of academic and operational services that districts could provide to charter and state-run schools for a fee that covers the cost of the services and overhead.

cost-efficient services to both charter and district-run schools. Supported by the district–charter compact in Philadelphia, the School District of Philadelphia and 69 charter schools, along with the Mayor’s Office of Education and the Pennsylvania Department of Education, are piloting a series of collaborative initiatives, including a universal enrollment system across district and charter schools, a universal performance-management framework, and an urban leadership academy.¹⁸

MANAGE CHARTER SCHOOLS AS AN INVESTMENT AND SHARE COSTS FAIRLY

Charter school expansion is intended to enhance educational opportunities within a district, but it can also increase financial pressure. Rather than fighting or ignoring these schools, districts should seek to actively manage them as an investment.

First, districts that are the primary authorizer of charter schools in their city should develop and follow rigorous authorization procedures and performance-management practices. Using multiple measures of performance, authorizers should hold charter schools accountable for student performance and for serving a representative mix of students. Authorizers should bring in and retain higher-performing charter schools and shut down poor-performing ones.

Second, districts should understand the fiscal impact of various charter-school models on the district and create financial incentives to manage the effects. For example, many districts prefer charter schools to find their own locations. Yet, a district that provides space for a charter school in an underutilized building could benefit by being able to share school-level fixed costs. A district might even proactively seek such win-win situations by providing an incentive, such as reduced rent.

Third, districts, charter schools, and other education stakeholders should strive to ensure there is a fair allocation of funding across all schools. Funding models should account for the widely varying costs to serve students, taking care to minimize perverse incentives that lead to the “overidentification” of special needs. Since districts are serving a public good by being a provider of last resort, there may be a case for charter and other school operators to provide a fair contribution for this service. At the same time, there are situations in which charter schools receive less funding than district-operated schools. A discussion of fair funding is beyond the scope of this report; however, the system is ultimately not well served by inequity on either side.

A Shared Responsibility

School districts and charter schools are not the only entities with a role to play in managing enrollment declines and shifts. (See the sidebar “Planning for the Merger of Memphis City Schools and Shelby County Schools.”) State legislatures and education departments, employee unions, and local funding bodies also have important roles. These entities often are responsible for, or exert a strong influence over, funding amounts and formulas, class-size regulations and staffing rules, charter school authorization, and pension liabilities. Following are some specific actions these stakeholders can take to share the responsibility:

- States can ensure their funding formulas fairly compensate districts that have a student mix that is more expensive to serve as a result of enrollment declines

Districts, charter schools, and other education stakeholders should strive to ensure there is a fair allocation of funding across all schools.

and shifts. A June 2012 study by the Rutgers Graduate School of Education and the Education Law Center indicates that only 17 states have progressive funding systems that provide more funding to high-poverty districts than to low-poverty districts.¹⁹

- States can pass laws that promote rigorous oversight of charter school authorization and performance. The National Conference of State Legislatures emphasizes that state legislation is important to ensuring high-quality authorizers that hold charter schools to a high level of accountability.²⁰ If a state itself is an authorizer, it should put in place a rigorous approach to performance management and ensure the authorizing organization is appropriately resourced for this role.
- Employee unions can play a significant role in crafting stronger human-capital practices that allow schools and school systems to attract and retain the best leaders, teachers, and other staff. The Hillsborough Classroom Teachers Association in Hillsborough County, Florida, is among a number of unions to partner with the district on using student achievement as a measure in teacher evaluations.²¹ The teachers union in Cleveland has worked with the district on Cleveland's Plan for Transforming Schools to allow teacher effectiveness to be considered in assignment and layoff decisions.²²
- States, along with districts, can take policy actions to enable flexible staffing models, including those that employ technology in new ways. In their *Digital Learning Now!* report, former Governors Jeb Bush and Bob Wise highlight a series of actions that policymakers and lawmakers can take to support a high-quality digital-learning environment for students.²³ These actions can include reducing restrictions on class-size ratios and school-zoning requirements and building proper accountability measures for digital learning to ensure changes are in the best interest of students.
- States can work with districts on plans to mitigate financial pressures stemming from pensions and other liabilities. These liabilities can become a particular challenge as enrollment declines, because the relatively fixed costs are spread across a smaller base of students. States must develop fair solutions that equitably allocate this liability across multiple school operators when the vast majority of retirees are former employees of the legacy district.

States, along with districts, can take policy actions to enable flexible staffing models, including those that employ technology in new ways.

THE CHALLENGES OF managing in an era of declining and shifting enrollment are significant. In some situations, additional revenue may be needed over the long term to compensate for costs that cannot be held entirely constant on a per-pupil basis. In the most dire cases, supplemental state support or other stopgap measures may be needed to balance budgets in the short term. But there are a number of actions that districts can take. Instead of turning to unsustainable measures or those that adversely impact students, districts can focus on planning early for these changes and looking for ways to both manage costs and preserve a higher-quality learning experience for students. This report has highlighted a series of actions that can help districts. By adopting some of these suggested practices, districts may be able both to stem the tide and attract students back to district schools.

PLANNING FOR THE MERGER OF MEMPHIS CITY SCHOOLS AND SHELBY COUNTY SCHOOLS

In 2010, the Memphis City Schools Board of Education voted to surrender its charter for providing public education to more than 100,000 students in the city of Memphis. In 2011, Tennessee state law and a federal mandate created the Transition Planning Commission to develop a plan to guide the merger of Memphis City Schools and Shelby County Schools in a manner that would preserve the level of educational services for nearly 150,000 students in the combined system. In August of 2012, the commission presented a proposal for the merger of the two districts that includes strategies and actions for building a fiscally sustainable world-class school district.

The *Transition Plan for the Merger of Memphis City Schools and Shelby County Schools* utilizes many of the approaches described in this report to adapt to the changing landscape of public education. Memphis and Shelby County are experiencing enrollment declines and shifts similar to other large urban districts.¹ The plan projects that the merged district will have overall enrollment declines of 3 percent during the next three years and that the proportion of students in charter or state-run schools will quadruple from 4 percent in the 2011–2012 school year to 19 percent in the 2015–2016 school year. The transition plan has outlined the following actions to adapt to these changes and other fiscal challenges:

- Closing approximately 20 severely underutilized schools in northwest and southwest Memphis
- Reducing personnel in proportion to enrollment to maintain staff-to-student ratios
- Allowing principals to decide who should teach rather than guaranteeing jobs to those who have been laid off
- Investing more than \$14 million annually in educational priorities, including an expanded prekindergarten, more school counselors, and special education clerical support
- Merging the central offices to eliminate redundant roles and create a lean central structure for the new district
- Outsourcing custodial and transportation services to convert fixed costs to variable costs and to provide services in a more cost-effective manner
- Building a shared-service capability that is service-oriented and attuned to the needs of other operators

NOTE

1. Transition Planning Commission, *Transition Plan for the Merger of Memphis City Schools and Shelby County Schools*, August 3, 2012.

NOTES

1. "Greatest Declines in Enrollment," *New York Times*, July 24, 2012.
2. National Alliance for Public Charter Schools, *A Growing Movement: America's Largest Charter School Communities*, October 2011.
3. "Chicago Public Schools Fiscal Year 2013 Amended Budget," Chicago Public Schools, accessed October 28, 2012, <http://www.cps.edu/FY13Budget/Pages/BudgetOverview.aspx>.
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Acknowledgments

The authors would like to offer their sincere thanks to Matthew Claise, Reginald Gilyard, Gregory Pope, Jaime Rooney, and Jo Wilson for their contributions in helping draft this article. The authors would also like to acknowledge Sarah Dillard, Josh Edelman, Holly Kuzmich, Barbara Prescott, and members of the Cleveland, Memphis, and Shelby County school systems for sharing their insights, as well as Katherine Andrews, Gary Callahan, Kim Friedman, Trudy Neuhaus, and Sara Strassenreiter for their contributions to the editing, design, and production of this report.

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