



State of Washington
Legislative Budget Committee

EDUCATIONAL SERVICE DISTRICTS

Report 95-8

February 15, 1995

*Upon request, this document is available in alternative formats
for persons with disabilities.*

**Members of
The Legislative Budget Committee**

SENATORS

Al Bauer, Vice Chair
Marcus Gaspard
Bob Oke
Eugene Prince
Nita Rinehart
James West, Asst. Secretary
R. Lorraine Wojahn

REPRESENTATIVES

Gary Chandler
Steve Fuhrman
Val Ogden, Secretary
Jean Silver, Chair
Helen Sommers
Val Stevens
Georgette Valle

Cheryle A. Broom, Legislative Auditor



**Facts About
The Legislative Budget Committee**

Established by Chapter 44.28 RCW, the Legislative Budget Committee (LBC) provides oversight of state funded programs and activities. As a joint, bipartisan legislative committee, membership consists of eight senators and eight representatives equally divided between the two major political parties.

Under the direction of the Legislative Auditor, committee staff conduct performance audits, program evaluations, sunset reviews, and other types of policy studies. Study reports typically focus on the efficiency and effectiveness of agency operations, impact of state programs, and compliance with legislative intent. As appropriate, recommendations to correct identified problem areas are included.

Reporting directly to the legislature, the LBC generally meets on a monthly basis during the interim between legislative sessions.



State of Washington
Legislative Budget Committee

506 16th Ave. S.E., PO Box 40910, Olympia, WA 98501-2323
Phone: (360) 786-5171

**EDUCATIONAL
SERVICE
DISTRICTS**

Report 95-8

February 15, 1995

*Upon request, this document is available in alternative formats
for persons with disabilities.*

TABLE OF CONTENTS

Chapter		Page
	SUMMARY	i
1	BACKGROUND	1
	Focus of LBC Study	4
	Study Approach	5
2	QUALITY AND ACCESS	7
	Customers are Satisfied with ESD Services	7
	ESD Structure Provides Access	8
3	COST EFFECTIVENESS	11
	Program Level Savings	11
	Economies of Scale	12
	System Level Saving Still Possible	14
	Conclusion	16
	Recommendation	16
Appendices		
1	Scope and Objectives	17
2	Agency Responses	19
3	Timeline Outlining Selected Events in the History of Educational Service Districts (ESDs)	25
4	Examples of Services Offered by ESDs	27

EDUCATIONAL SERVICE DISTRICTS

Summary

As a result of reviewing the state system of Educational Service Districts (ESDs), we conclude that ESDs provide a structure through which certain educational services are available which otherwise would not be affordable or accessible to local districts. We also found that customers are generally pleased with the quality of ESD services.

While we found that ESDs provide economies of scale by pooling resources at the regional level, we also found within the sample of services reviewed, that there are no large financial gains likely to occur by providing them on a larger scale.

We also found examples where ESDs were acting in cooperation at the program level to achieve savings. We conclude that ESDs should continue to find ways to work in cooperation as a statewide system to maximize any further potential savings.

BACKGROUND/STUDY FOCUS

Educational Service Districts were created by statute in 1975, and are the successors to the Intermediate School Districts. The current nine ESDs are regional entities governed independently by a board elected by school board members of the local districts within each of the ESDs' boundaries. Their combined revenue sources for FY1993 totaled over \$89 million. Chapter 1 includes a map of the boundaries and locations of the various ESD headquarters and a chart on revenue sources.

The nine ESDs act as regional service providers for a variety of services and customers including: fiscal services and insurance

Overview

Nine ESDs
separately
governed

cooperatives for district offices; training programs and video libraries for teachers; program managers for federal and state early childhood development programs; and academic contests for students. Few ESD services are mandatory, instead districts can choose to participate. More information about ESD services, participation, and funding is provided in Chapter 1.

This study was approved by the Legislative Budget Committee (LBC) and follows work recently done on ESDs by the Washington State Institute for Public Policy and the Institute for Urban Studies. The two major objectives of this LBC study were to determine if ESD services are cost-effective for local districts and to assess the quality of ESD services. Another study objective was to identify whether there are compelling reasons related to cost or quality issues that suggest a need for a change in ESD boundaries.

QUALITY AND ACCESS

Customers
satisfied

We found that the recipients of ESD services were generally, if not highly, satisfied with the service they received. Customers also identified that the primary benefit of ESDs was the access to services they provide which might otherwise not be available. Moreover, many of the ESD customers indicated that the personal face-to-face contact that is provided through the ESD regional structure was an important aspect of both access and quality.

We further found that there are few other providers that can offer many of the services delivered by ESDs. This was due to the specialized role played by the ESDs and the need for some programs to have consistent statewide coverage. Chapter 2 provides detailed information regarding our findings on the ESDs' quality and access.

COST-EFFECTIVENESS

Districts
find
services
affordable

Through our survey, we found that the local districts view the ESDs' prices as affordable. The only alternative to many ESD services is for a district to provide the service on their own. This is not financially feasible for many small and medium size districts. ESDs, on the other hand, gain economies of scale by pooling the resources of many districts.

We conducted a limited analysis on whether three ESD services might achieve further savings if provided on a larger scale, i.e., at the level of two or more ESDs. The results of this analysis suggest that there are no large financial gains likely to occur by providing these services on a larger scale. This is due, in part, because of the need to provide personal contact with customers. Many of the costs associated with direct personnel may not change if a service is centralized.

We therefore conclude that within the limited scope of this analysis, there were no compelling cost-saving reasons to consolidate ESDs. Moreover, if consolidation occurred, the impact on services (that customers are currently satisfied with) is unknown.

However, we found that cooperation is another means by which potential savings can be achieved without large investment. There are instances where ESDs have acted in cooperation to achieve cost savings. Chapter 3 provides an example of this cooperation.

We observed that ESDs do not always view themselves as part of a whole, or as we are referring to it in this report, a "system." We found that the examples of cooperation between ESDs were initiated from discussions between program-level managers and were not part of a formal effort at the superintendent level. To date, there is no statewide strategic plan or formalized mechanism for ESDs to capitalize on existing opportunities or to recognize and make the most of future opportunities. According to the superintendents, such a plan is something that will be developed in the near future.

CONCLUSION

We found that the current system has met the criteria of providing quality and affordable services to its customers. We also identified that a major benefit of ESDs is that they provide access to services that would otherwise not be available to school districts.

Our analysis showed that the consolidation of ESD services is unlikely to generate significant savings. On the other hand, we found that some savings may be possible by continuing and expanding the existing cooperative efforts between ESDs.

Consolidation
savings not
large

Cooperation
offers
savings

Having found that ESDs have successfully cooperated in the past, we also found that there is no formal mechanism or joint planning efforts that would assist in identifying such opportunities on a regular basis. Thus, we conclude that the ESDs should pursue a more formal means to expand their existing cooperative efforts.

RECOMMENDATION

Formalize cooperation

Educational Service Districts should collectively develop mechanisms to regularly identify opportunities for cooperation and cost savings. The Educational Service Districts should consider doing this as part of their system-wide strategic planning process.

AGENCY RESPONSE

The Educational Service Districts concurred with the conclusions in this report and pledged to implement the recommendation. The Office of the Superintendent of Public Instruction also concurred. The text of the two responses are included in Appendix 2.

ACKNOWLEDGMENTS

This report was prepared by Beth Keating and Debbie Evick of the LBC staff. Cheryle Broom served as project supervisor. We appreciate the assistance provided by staff from the ESDs, Office of Superintendent of Public Instruction, local districts, and state and federal program managers.

Cheryle A. Broom
Legislative Auditor

On February 15, 1995, this report was approved by the Legislative Budget Committee and its distribution authorized.

Representative Jean Silver
Chair

BACKGROUND

Chapter One

Educational Service Districts (ESDs) were created by statute in 1975 and are the successors to the Intermediate School Districts (ISDs). Prior to ISDs, services were provided by superintendent offices and school boards.¹ The current nine ESDs are regional entities governed independently by a board elected by school board members of the local districts within each of the ESDs' boundaries (see Exhibit 1). The legislative purpose and intent for ESDs are outlined in statute (RCW 28A.310) and can be summarized as the following:

1. To provide cooperative and informational service to local districts when such functions are more effectively or economically administered from the regional level.
2. To assist the state educational agencies, the Office of the Superintendent of Public Instruction (OSPI), and the State Board of Education in performance of their duties.
3. To assist in providing pupils with equal educational opportunities including the school for the deaf and school for the blind.

The role and responsibilities of ESDs have evolved since 1975. Today they act as: regional service providers to district offices, schools, and teachers; brokers between districts and the federal and state government; and, to a limited extent, providers of services directly to students. ESDs vary in what they offer to school districts but all provide at least the following services: fiscal services, insurance cooperatives, staff training programs, video libraries, grants management, and curriculum development.²

¹For a timeline of selected events in the history of the ESDs, see Appendix 3.

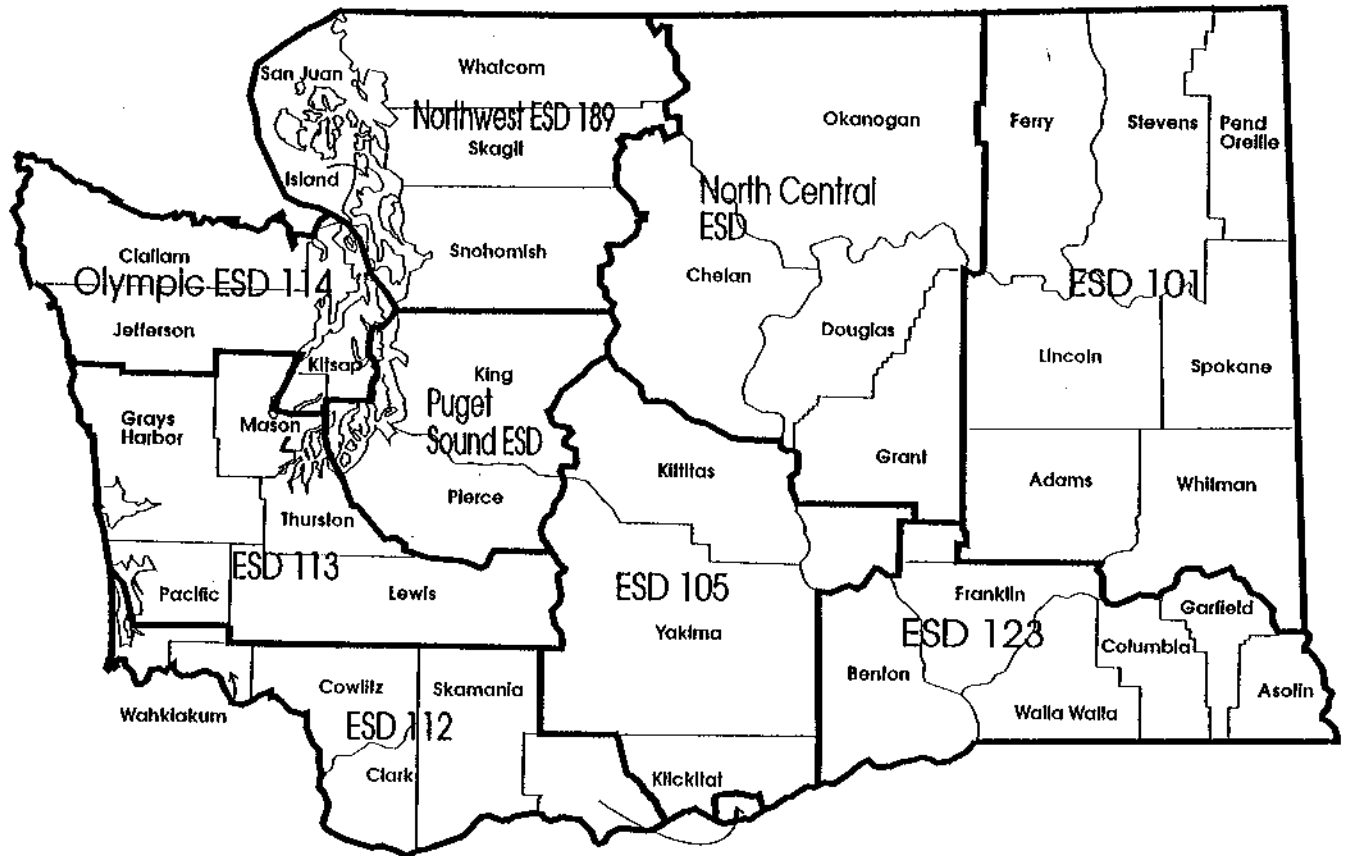
²For more examples of services offered by ESDs, see Appendix 4.

Overview

ESDs are
regional
providers

Exhibit 1

EDUCATIONAL SERVICE DISTRICTS - BOUNDARIES



Source: Washington Association of Educational Service Districts

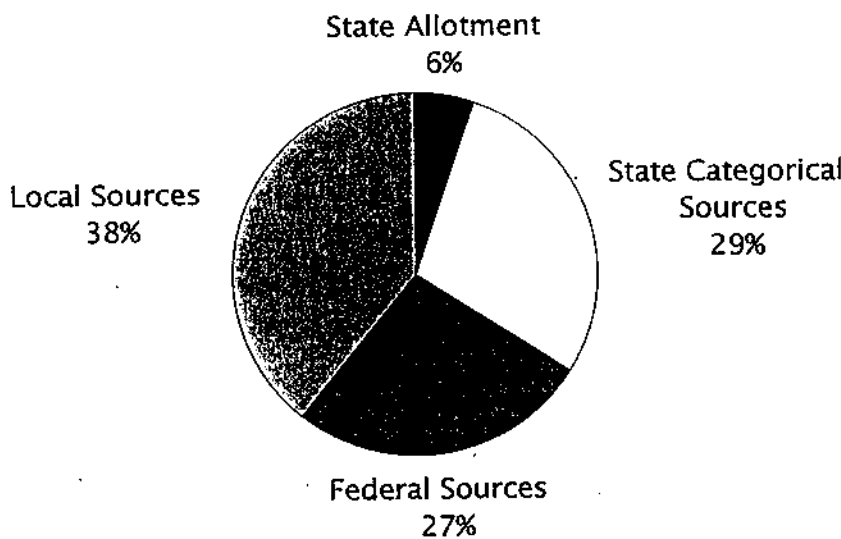
EDUCATIONAL SERVICE DISTRICTS BY NUMBER	DISTRICT OFFICE	SCHOOL DISTRICTS SERVED
101 Educational Service District	Spokane	59
105 Educational Service District	Yakima	25
112 Educational Service District	Vancouver	30
113 Educational Service District	Olympia	45
114 Olympic Educational Service District	Bremerton	15
121 Puget Sound Educational Service District	Seattle	35
123 Educational Service District	Walla Walla	23
171 North Central Educational Service District	Wenatchee	29
189 Northwest Educational Service District	Mount Vernon	35

Few ESD services are mandatory, instead districts can choose to participate. (Those that are mandated relate to state reporting requirements.) The degree to which a district participates will often vary from service to service. For example, Issaquah school district is a member of the Puget Sound ESD multimedia cooperative but not the unemployment insurance cooperative. While cooperative programs charge annual rates, some ESD services are offered on a fee for service basis. Such services include staff development and special youth-at-risk programs. In addition, there are ESD services funded by the state or federal government that are offered free to locals.

**Districts
can choose
to purchase
services**

The combined budget for all ESDs was \$89 million in fiscal year 1993. A small percentage came from the state as a direct appropriation while the remainder of the revenue was from local sources (namely school districts), federal grants, or state categorical funds.

Exhibit 2
ESD Revenue Sources, FY 1993



- **State Allotment** is the amount intended to provide funding for "core" services that includes: ESD administration, fiscal services, special education, and teacher certification.

- **State Categorical Funds** can include special allotment or grants, e.g., transportation coordinators. The largest program in this category is special education.
- **Federal Funds** are for a variety of purposes. Some of the largest ones include special education, Head Start, youth training, and migrant education.
- **Local Sources** can include items such as payments from districts for cooperative programs, fees for training, and investment earnings.

FOCUS OF LBC STUDY

Focus: cost-effectiveness and quality

The two major objectives of the LBC study were to determine if ESD services are cost-effective for local districts and to assess the quality of ESD services.³ The conclusions from our research on these objectives are discussed in the first half of this report.

As a result of recent discussion over ESD boundaries,⁴ another compelling objective of this study was to identify whether there are issues related to cost and service quality that suggest a need for altering ESD boundaries. Our conclusions on this matter are discussed in the report section on economies of scale.

One final objective was to determine if there is unnecessary duplication between ESDs and other educational entities, e.g., OSPI, local districts. We found no concerns in this area that warrant legislative attention. For the most part, the roles and responsibilities are distinct.

³The 1993 Legislature directed the Washington State Institute for Public Policy (WSIPP) to design a study of the role and performance of ESDs. To date, the evaluation has not been funded nor has anyone been directed to conduct the study. The LBC study of ESDs is a separate, less comprehensive effort than was called for in the WSIPP design.

⁴The 1993 Legislature directed the Office of the Superintendent of Public Instruction and the State Board of Education to conduct a study of ESDs boundaries. The purpose of the study was to “develop a more cost-effective and efficient service delivery system for educational service district programs.” The study made several recommendations and presented some options for redrawing ESD boundaries.

STUDY APPROACH

There is a wide range in services provided, geographical size, number of school districts, number of students, and annual budgets among the nine ESDs. Therefore, studying two or three ESDs would provide an inaccurate picture of all ESDs. Since auditing all nine was impractical, we reviewed a variety of services across all ESDs.

Seven
services
analyzed

The following seven services were chosen for this analysis:

1. **Data Processing Cooperatives** provide software and technical assistance for fiscal services and personnel and student records. They are the computerized link between the local districts and OSPI for financial reporting.
2. **Unemployment Insurance Cooperatives** provide administration, investment services, and claims management for unemployment claims.
3. **Special Education Cooperatives** provide itinerant services for professionals such as physical therapists, vision specials, occupational therapists, and psychiatrists. The services available through an ESD in the area of special education differ greatly throughout the state. In some cases, ESD cooperatives provide much more than what was included in the narrow description above but those additional services were not part of this study.
4. **Educational Technology Centers** were established in 1993 under the state's education reform act for the purpose of providing technology support, including ongoing educator training, network planning, and distance learning access support.
5. **Workers Compensation Cooperatives** provide insurance coverage for employee on-the-job injuries through regional financial pools (also called trusts). In addition, these cooperatives assist the school districts in their attempts to reduce both the number of claims and the amount of money that is paid out for claims.

6. **Head Start** funds early childhood education services for low income preschool children and their families. A federal program, Head Start services include preschool education, nutrition services, health screening, and parent involvement and skills training.
7. **Early Childhood Education and Assistance Program (ECEAP)** funds early childhood education services for low income preschool children and their families. A state program, ECEAP was created to help fill in where Head Start does not meet community needs.

These services represent various funding sources (state, local, federal), and several distinct service areas. We also selected this sample of programs and services to include a representation of services provided directly to the students as well as a selection of administrative services.

QUALITY AND ACCESS

Chapter Two

To address our objective of assessing the quality of ESD services, we surveyed a sample of ESD service customers.¹ We found that the recipients of ESD services were generally, if not highly, satisfied with the service they received. Customers also identified that the primary benefit of ESDs was the access to services they provide which might otherwise not be available. Moreover, many of the ESD customers that we surveyed said that the personal face-to-face service provided through the ESD regional structure was an important aspect of access and quality services.

Our assessment of whether ESD services are cost-effective for local school districts is discussed in the next section.

CUSTOMERS ARE SATISFIED WITH ESD SERVICES

As discussed in the background section, the ESDs provide a wide array of services (see Appendix 4). Depending on the type of service provided, customers of ESDs include local school districts, the federal government, OSPI, the school board, and the community, as well as the students themselves.

Our surveys of a sample of ESD customers showed general, if not high satisfaction with the services they received. The survey was designed to measure the satisfaction level of ESD customers across the state and not the level of satisfaction of customers in one ESD

¹Our survey consisted of phone interviews with school districts and organizations throughout the state that use or potentially could use the seven ESD services we studied. The interviews were specifically conducted with the personnel that had direct contact with the ESD.

Overview

High satisfaction

Most districts used services

as opposed to another. Our positive findings on customer satisfaction are consistent with previous customer surveys and studies of ESDs which examined the perceptions of ESD customers.²

Data provided by the ESDs indicated that most school districts participated in four of our sample services: unemployment cooperatives, workers compensation cooperatives, data processing centers, technology centers. (The other three services: special education cooperatives, Head Start, and ECEAP, are not available in all ESDs, or in some cases to all districts located in those ESDs that do offer the services.) The local districts we surveyed that chose *not* to participate in the ESD services, did so for reasons unrelated to quality or cost. Some of the reasons school districts gave for *not* participating in various services were:

- One school district had a computer system that was incompatible with the ESD, so they did not use the ESD data processing services.
- One school district passed a local technology levy, and thus was able to provide technology services on their own, so they did not use the ESD education technology center.
- One school district wanted to better manage their workers compensation claims before joining the ESD workers compensation cooperative.

ESD STRUCTURE PROVIDES ACCESS

The school districts that we surveyed stated that in addition to being satisfied with the quality of services, the ESDs provide them with access to needed services. Without such access, the alternatives would be either no service or a poorer quality of service. Further, the state and federal grantors stated that ESDs fulfill a specialized role by providing a means for the statewide delivery of specific program services.

²"A Study of the Effectiveness of Educational Service Districts in the state of Washington," Gary Reul, Ph.D. Thesis (Seattle University), 1986, "Cost Reduction and Boundary Analysis of ESDs," Institute for Urban and Local Studies, February 1994, and "The Effectiveness of an Educational Service District's Program and Services as Perceived by Various Educator Groups," Thomas J. Rockefeller, Ph.D. Thesis (Portland State University), 1990.

Access Important

For most of our sample services, access to quality services was considered to be one of the major benefits of ESDs. The workers compensation pools offered by the ESDs provide an example of where access to personal face-to-face service was deemed an important factor when evaluating a provider.

Local school districts have three options for providing workers compensation coverage for their employees: 1) they can go through the State Fund which is under the Department of Labor and Industries, 2) they can self-insure on their own, or 3) they can self-insure as a group, which includes the option to insure through their ESD workers compensation cooperative. Most of the school districts use the latter option. (It is interesting to note that while districts have the authority, none have self-insured as a group without their ESD.)

The school districts we surveyed consistently said that the primary benefit of the workers compensation pools was the access to professionals trained in claims management and loss control. They further stated that the state fund services are provided on too large of a scale to allow for active claims management and close working relationships.

Specialized Role and Statewide Coverage

We found that there are few “actual” alternatives to the services that ESDs provide because many of the services are needed on a statewide basis, e.g., early childhood education. These services may also require a provider to fulfill a specialized role. The reason we use the term “actual” alternatives is because although there may be other entities that provide similar services, we found that they can not be considered true alternatives due to the specialized service needs of the customer.

For example, many of the school districts stated that they could purchase technology center services outside the ESD, but the services are not specialized enough to meet their needs. Furthermore, many stated that since ESDs were part of the educational system, they can act in a consultative manner on state educational technology goals as opposed to private technology

Personal
contact is
key

Alternatives
to ESD
services few

companies who may have other interests.

We also found that the ESDs serve as a regional structure through which statewide programs and services can be offered to all districts. The technology centers, Early Childhood Education and Assistance Program (ECEAP), and the Head Start program are examples of services for which the state and federal governments contract with ESDs.

Facilitates regional service delivery

For example, the ESD technology centers, which are an OSPI facilitated grant program, assist the state in the implementation of a statewide technology program and plan. According to one OSPI program manager, the state needs the assistance of the regional, technical support network provided by the ESDs to make the program available to all school districts. They claim, “We could not do it without them.”

The ESDs’ early education services (Head Start and ECEAP)³ are examples of programs where state and federal grantors use the existing ESD structure to deliver their programs, thus providing both access and statewide coverage.

The service delivery models differed among the ESDs and other contractors for both Head Start and ECEAP. Puget Sound ESD serves as an umbrella organization for the various agencies and schools that provide early childhood education services. In other regions, the ESD might be the agency who is providing the services directly to children. The grantors stressed that the flexibility of the ESD structure is valuable and provides one means for them to achieve their program goal of access for all eligible children and families. According to these grantors, the ESDs provide a pre-existing structure for service provision as well as a means for teachers to obtain training on early childhood education.

³Head Start is a federal contract, and ECEAP services are contracted for by the state’s Department of Community, Trade, and Economic Development (DCTED).

COST-EFFECTIVENESS

Chapter Three

There are a number of levels and ways at which one could measure the cost-effectiveness of ESDs. We looked at two of these, specifically, whether ESDs are an avenue for local districts to obtain services at a good price, and whether the nine individual ESDs could use economies of scale to maximize savings. The following discussion provides our findings and conclusions in this area, and to the extent possible, information on whether there are additional savings to be gained.

PROGRAM LEVEL SAVINGS

As discussed in the section on “access to services,” we found that of the services we studied, few “actual” alternatives to ESD-provided services are available through the private sector. Therefore, local districts have three choices: 1) to purchase services from the ESD, 2) provide them in-house, or 3) go without service. Through our survey of local districts and our analysis of factors influencing participation, we found that districts rarely chose to go without service, and that ESD prices are viewed as affordable.

The only comments we received about ESD prices being too high were limited to situations where there were extreme cases of district size. For example, a few very small districts do not participate in the computerized data processing centers since it is cheaper to do the work by hand rather than make the technology investment. On the other extreme, very large districts can afford to write their own software and hire their own technical personnel. (Even so, it is noteworthy that many large district still participate in ESD data processing centers.)

Overview

ESDs an
affordable
option...

ESDs pool resources

ESD prices are also viewed as affordable when the only other option is to provide services in-house. For many medium and small districts, in-house provision is not financially feasible. For example, a district with a small number of children requiring special education services needs to provide a variety of professional services such as physical therapy, but only for a few hours each week or month. We found that by sharing the cost of a professional through an ESD pool, the district not only has access to services, but they may also get a higher quality of service than they could otherwise afford. An example of this in the area of special education is that, according to some local directors and ESD personnel, students in remote areas were inconsistently receiving special services prior to the existence of professional pools.

The additional purchasing power gained by pooling resources through ESDs was also apparent in a number of other areas, such as staff development. ESDs are one of the largest providers of inservice training for teachers throughout the state. As a result, they are able to offer workshops and speakers that have national reputations. Without the capability of providing services on a regional scale, it is doubtful that these programs would be available due to cost restraints.

ECONOMIES OF SCALE

While our analysis showed that ESDs achieve economies by pooling resources at the regional level, the results raised the question of whether additional savings could be achieved by offering services on an even larger scale. Therefore, we conducted a limited analysis into the question of whether service provided on a larger scale (either by multiple ESDs or all ESDs) would generate even greater economies. This analysis was limited to a few services, i.e., unemployment insurance, data processing, and workers compensation. These services were selected due to the likelihood that they would be good candidates to show potential savings from greater economies of scale.

Consolidation analysis limited

We found, however, that there are no large financial gains likely to occur by providing these three services on a larger scale. Our reasons for this finding are twofold: 1) in some cases, the savings are likely to be minimal even before transition costs are taken into account; and 2) some services offered require regular personal contact with customers which is a factor usually not conducive to centralized service provision.

As far as the nine unemployment insurance cooperatives, centralizing the operation is not likely to harm the service quality. The major benefits of the cooperatives are to encourage districts to set aside funds and to ease the sudden impact of a bad year by spreading the costs over a period of time. This accounting function can be done out of any location. However, less than \$500,000 is spent annually for unemployment insurance administration, and most of the work is contracted out. Consolidation of ESD cooperatives might produce some administrative savings. But given the size of the administration budget and the fact that there are not staff within most ESDs dedicated to unemployment insurance, the impact would be expected to be minimal.

Furthermore, with data processing and workers compensation, we found that focusing solely on additional savings through economies of scale is complex. Services might be cheaper with a larger customer base, but the larger base might also impact quality. The difficulty in determining the optimum scale for service provision is that cost must be balanced by quality and responsiveness, and we had no basis to compare quality at different scales of delivery. Savings alone is not sufficient to recommend provision of services on a larger scale if the impact on quality would be negative or unacceptable.

Both the data processing centers and the workers compensation pools require direct contact with district personnel. As discussed earlier, our surveys confirmed that access to personal service is very valuable to school districts. In the area of workers compensation, good claims management and loss control should ultimately lower costs. So if the service were centralized, consultant staff to work with local districts personnel would still be desirable. Long travel times from a central office might eventually necessitate additional consultant staff or even a branch office to maintain the same amount of personal contact. As with workers compensation, one of the major purposes of ESD data processing centers is to provide technical consultation and training on site. Travel times would also be an issue for the consultant staff of these centers.

Recognizing that our analysis was limited to three service areas, we can not say for certain that full consolidation of ESDs would not add up to a significant amount of savings. However, the findings from our three services suggest that it is unlikely and the impact

Impact on
quality
unknown

Large
savings
unlikely

of such a change on service quality is unknown. Our conclusion, based on this limited analysis, is that the need for significant cost savings alone is not a compelling reason to consolidate ESDs or enlarge their service boundaries.

SYSTEM LEVEL SAVINGS STILL POSSIBLE

Fortunately, consolidation of ESDs is not the only way to achieve savings that might accrue from economies of scale. We found that cooperation is another means by which potential savings can be found without large investments or disruption. We did find instances where ESDs have acted in concert. We believe these case-by-case models could be applied to other service areas to provide greater benefits.

We found that the ESD workers compensation cooperatives were working together as a system to achieve economies of scale where it made sense to do so while also working together to improve their regional services. For example, the ESDs banded together to receive a group rate on their actuarial studies. This resulted in a savings of about \$18,000.

The ESDs also use the same broker for excess liability coverage¹ which results in savings for both brokers fees and insurance rates. The broker estimates that if the ESDs did not purchase excess liability coverage as a group they would pay approximately \$60,000 to \$100,000 more a year. In addition, the ESDs would pay higher broker service rates if they were purchasing services individually.

While the workers compensation example shows positive, cooperative actions on the part of ESDs, we are also aware that not all opportunities are being seized. In the area of unemployment insurance, we found that almost all districts contract independently with the same outside firm to handle claims management and processing. Joint purchasing or negotiating with the firm has not been explored nor have ESDs benefited from each other's experience in contracting for this service. A couple of districts have negotiated or opened their unemployment insurance contract for bidding and

¹Excess liability coverage is the additional insurance purchased to cover claims that may exceed the amount of coverage provided by the ESD pools.

Savings can occur through cooperation...

...workers compensation is an example

have seen significant reductions (20 to 25 percent) in cost. However, neighboring ESDs have no knowledge of this savings or that they might be able to do the same.

Cooperation and Planning

In the course of this study we observed that ESDs do not always view themselves as part of a whole, or as we are referring to it in this report, a “system.” Instead there has been the assertion that the ESDs are in competition with one another. Competition in an open market might produce lower prices. However, ESDs usually operate as monopolies within their boundaries. Local districts, generally speaking, do not purchase services outside their ESD or even shop among ESDs for the best price and quality.

We also found that increased competition is advocated by some as the way to encourage more efficiencies within ESDs. Arguments for this approach usually focus on the cost-savings that might accrue to certain service areas that are sensitive to economies of scale. However, our analysis discussed under the previous section on economies of scale suggests that the cost savings may be minor and the risks to quality are still unmeasured. In addition, while these arguments focus on ESD services that operate as public sector businesses, ESDs have a specialized role as facilitators of state and federal services. Moreover, they are charged with assisting the state and districts in providing equal education for all students. In these areas, competition may be in conflict with the other purposes of ESDs.

We found that the examples of cooperation between ESDs in the area of workers compensation were initiated from discussions between program-level managers and were not part of a formal effort at the superintendent level. To date, there is no statewide strategic plan or formalized mechanism for ESDs to capitalize on current opportunities or to recognize and make the most of future opportunities. According to the superintendents, such a plan is something that will be developed in the near future. This plan will also take into account the future role of ESDs given the new environment of education reform. An initial step was taken last spring to bring the various ESD board members together to discuss the mission and role of ESDs.

Competition
between
ESDs...

...not always
beneficial

More
cooperation
planned

CONCLUSION

We found that the current system has met the criteria of providing quality and affordable services to its local clientele. We also identified that a major benefit of ESDs is they provide access to services that would otherwise not be available to school districts.

Expand and formalize cooperation

In addition, our analysis showed that the consolidation of ESD services is unlikely to generate significant savings. On the other hand, we found that some savings are possible through a simpler avenue, namely cooperative efforts between ESDs.

Having found that ESDs have successfully cooperated in the past, we also found that there is no formal mechanism or joint planning efforts that would assist in identifying such opportunities on a regular basis. Thus, we conclude that a more formal means to expand existing cooperative efforts between ESDs should be pursued.

RECOMMENDATION

Educational Service Districts should collectively develop mechanisms to regularly identify opportunities for cooperation and cost savings. The Educational Service Districts should consider doing this as part of their system-wide strategic planning process.

SCOPE AND OBJECTIVES

Appendix 1

SCOPE

This study will examine available performance measures and related information for selected Educational Service Districts (ESDs) services in order to determine whether ESDs provide needed and useful services in the state education system.

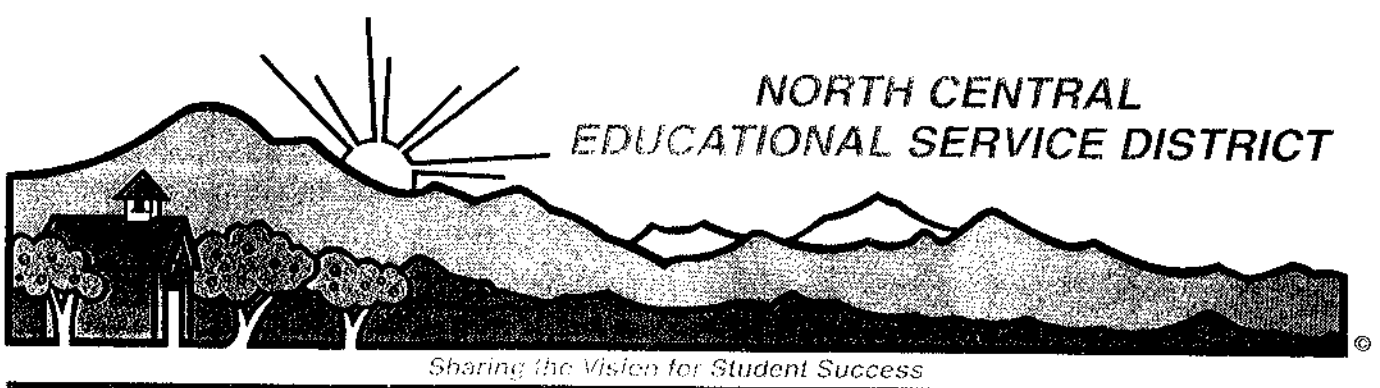
OBJECTIVES

1. Determine if ESD services are cost-effective for local school districts.
2. Assess the quality and responsiveness of selected ESD services.
3. Assess the need for altering ESD boundaries based on information from the first two objectives and, if appropriate, provide criteria for consideration when making boundary changes.
4. Determine if there is unnecessary duplication between ESDs, OSPI, local school districts, or other parties.

AGENCY RESPONSE

Appendix 2

- **North Central Educational Service District**
- **Office of the Superintendent of Public Instruction**



December 22, 1994

RECEIVED

DEC 27 1994

LEGISLATIVE
BUDGET COMM

Cheryle Broom, Legislative Auditor
Legislative Budget Committee
P.O. Box 40910
506 16th Avenue S.E.
Olympia, WA 98501-2323

Dear Cheryle:

On December 13, 1994, the Legislative Budget Committee staff presented the preliminary report regarding Educational Service Districts to the LBC Senators and Representatives. This report indicated that the nine Educational Service Districts provide "quality and affordable services" to their customers, and that many of the services coordinated through ESDs would not otherwise be available without ESD collaboration. The study also found that consolidation of ESDs "is unlikely to generate significant savings."

The nine ESD superintendents would like to commend the work of LBC Chair, Representative Val Ogden, and LBC staff research associates, Beth Keating and Debra Evick, for their thorough review of ESD services. The ESD superintendents were unanimous in expressing strong support for the study conclusions and for the quality of the research design.

We have pledged our support in implementing the recommended collaboration among the nine Educational Service Districts. In fact, we are meeting on January 11 to specifically address this issue and begin work immediately on identifying, developing, and implementing cost-effective programs.

Again, thank you for the opportunity to participate in this study. We concur with the conclusions and look forward to implementing the recommendations.

Sincerely,

Gene Sharratt
ESD Superintendents' Component Group

GS:ew



AGENCY MEMORANDUM

JUDITH A. BILLINGS

SUPERINTENDENT OF PUBLIC INSTRUCTION

RECEIVED

January 9, 1995

JAN 11 1995

**LEGISLATIVE
BUDGET COMM**

Judith A. Billings

TO: The Honorable Val Odgen, Chair
Legislative Budget Committee

FROM: Judith Billings
State Superintendent of Public Instruction

RE: Preliminary Report on Educational Service Districts

After reviewing your preliminary report dated December 13, 1994, on the Educational Service Districts (ESD) of the state of Washington, I would offer the following comments.

We support the report's conclusions that: 1) the ESDs are providing quality and affordable services to local school districts; 2) consolidation of ESD services is unlikely to generate significant savings; and 3) successful cooperation between ESDs hopefully should be expanded in the future.

Regarding your recommendation to collectively develop mechanisms to develop opportunities and cooperative cost savings, we will commit ourselves in working with the ESDs to facilitate these activities.

In closing, we appreciate the fine and professional efforts exhibited by your staff during the conduct of the study and development of this report. If you have any questions, please contact Mike Roberts, Policy Director for Governmental Relations, at (206) 586-9056. The agency TDD number is (206) 664-3631.

jh

TIMELINE OUTLINING SELECTED EVENTS IN THE HISTORY OF EDUCATIONAL SERVICE DISTRICTS

Appendix 3

Date	Event
1854	Washington's counties are responsible for meeting the needs of local school districts through county education units.
1889	Washington becomes a state, and the Superintendent of Public Instruction supervises all matters related to public schools. The county school superintendent remains Chief Officer for the 39 county offices.
1969	The state legislature passes the Intermediate School District Act creating a statewide system of 14 Intermediate School Districts (ISDs) to replace the 39 county offices.
1972	The State Board of Education reduces the number of ISDs from 14 to 12. Greater emphasis is given to the ISD's service aspect; i.e., "coordinating and conducting cooperative programs and providing districts with instruction and administrative services."
1975	Legislation passes changing the name of the Intermediate School Districts (ISDs) to Educational Service Districts (ESDs).
1977	The State Board of Education reduces the number of ESDs from 12 to 9. The state legislature directs ESDs to provide cooperative and informational services, assist the Office of the Superintendent of Public Instruction (OSPI) and the State Board of Education (SBE), and "to provide services to school districts to assure equal educational opportunities."
1982	Legislative Budget Committee's performance audit on Educational Service Districts is released. The LBC study's major findings are that there is overall compliance with the laws.
1993	The state legislature reduces future appropriations for ESDs by \$400,000 and also mandates a boundary study to "develop a more cost-effective and efficient service delivery system for educational service district programs." In a separate action, the legislature also directed the Washington State Institute for Public Policy to design a study of the role and performance of ESDs. (To date, the study has not been conducted nor has it been funded.)
1994	The results of the boundary study, conducted by the Institute for Urban and Local Studies, are released. The study makes several recommendations and presents some options for redrawing ESD boundaries.

Source: Based on excerpts from "Washington's Educational Service Districts: Design for Evaluation," Washington State Institute for Public Policy, January 1994, and "Cost Reduction and Boundary Analysis of ESDs," Institute for Urban and Local Studies, February 1994, and "Intermediate Units in the State of Washington," Barbara Dunlap, August 1975.

EXAMPLES OF SERVICES OFFERED BY ESDS

Appendix Four

Administrative Type Services

- Fiscal Services
- Grants Management
- Personnel Certification
- Records and Reports
- Statistical Data Certification
- Retain Boundary Maps of Local School Districts

Membership Cooperatives

- Workers Compensation*
- Unemployment Insurance*
- Data Processing*
- Special Education*
- Risk Management
- Equipment Financing Pools
- Purchasing Cooperatives (e.g., gasoline, computers)
- Transportation Cooperatives
- Media and Library

Other Services

- Educational Technology Centers*
- Early Childhood Education and Assistance Program (ECEAP)*
- Head Start*
- Child Care Centers
- Inservice/Clock Hours Training
- Emergency Communications
- Academic Contests
- Curriculum Development
- Health Education

*Selected as a sample service for the LBC study.

Source: "Washington's Educational Service Districts: Design for an Evaluation," Washington State Institute for Public Policy, January 1994, and examples from each of the nine ESDs guide to services.