

EXTERNAL COST ADJUSTMENTS FOR THE WYOMING SCHOOL FUNDING MODEL

A PRESENTATION TO
THE JOINT APPROPRIATIONS COMMITTEE AND
THE JOINT EDUCATION COMMITTEE

SEPTEMBER 16, 2011

Lori L. Taylor, PhD

The Need for Cost Adjustments

- Picus and Associates have advised the Legislature about the real resources needed to provide “the basket” of educational goods and services every child in Wyoming should receive
- The price of those real resources changes over time
- Without cost adjustments, inflation could leave school districts unable to provide the necessary educational resources

Possible Cost Adjustments

- There are a number of existing price indices that could be used to measure year-to-year changes in the cost of education
 - ▣ The Consumer Price Index (CPI)
 - ▣ The Wyoming Cost of Living Index (WCLI)
 - ▣ The Employment Cost Index (ECI)
 - ▣ The Comparable Wage Index (CWI)
 - ▣ The U.S. Bureau of Economic Analysis (BEA) indices of educational costs (labor, energy and materials)
- None of them reflect all of the inflationary pressures facing Wyoming school districts in a timely manner

Designing External Cost Adjustments for Wyoming

4

- Intuitively, the most appropriate ECA for Wyoming should reflect not only changes over time in the price of labor but also changes over time in the price of other important educational inputs
- Rather than applying one of the existing price indices to the cost basis of the funding model as a whole, Wyoming should consider adjusting each major resource component separately using the most appropriate cost index for each type of resource

The Four Major Cost Components

5

- Professional labor (66.7%)
- Nonprofessional labor (14.6%)
- Energy (3.4%)
- Materials (15.3%)

Possible Labor Cost Indices

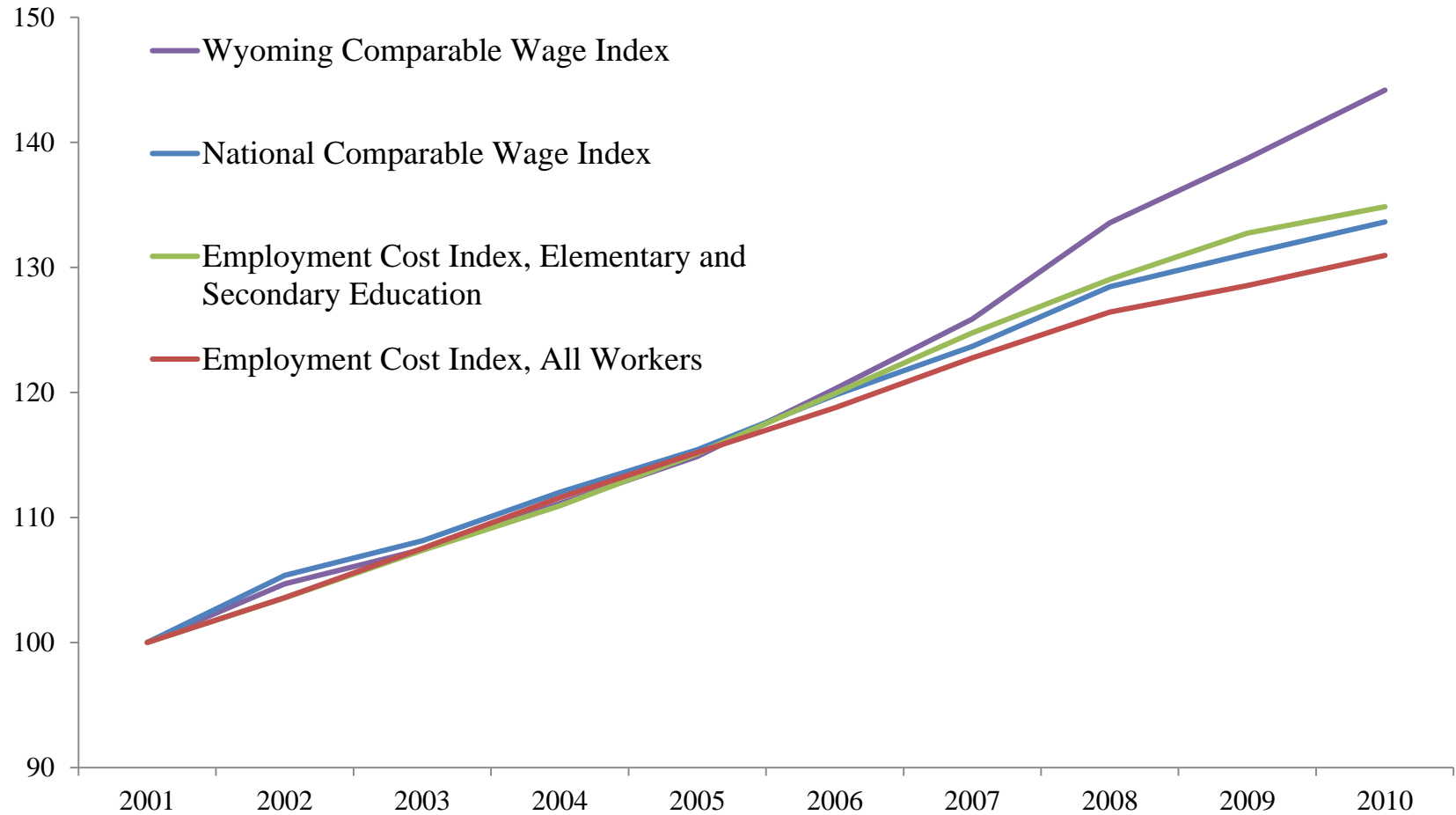
6

- The ECI
 - ▣ National level indices for salaries and/or benefits
 - ▣ An ECI is available specifically for the elementary and secondary education industry
 - ▣ ECIs for the education services industries may be unduly influenced by the policy choices of other states
- The CWI
 - ▣ Wyoming-specific index available
 - ▣ The CWI reflects only growth in the wages of non-educators
 - ▣ Salary index only

The Cost Indices for Professional Labor

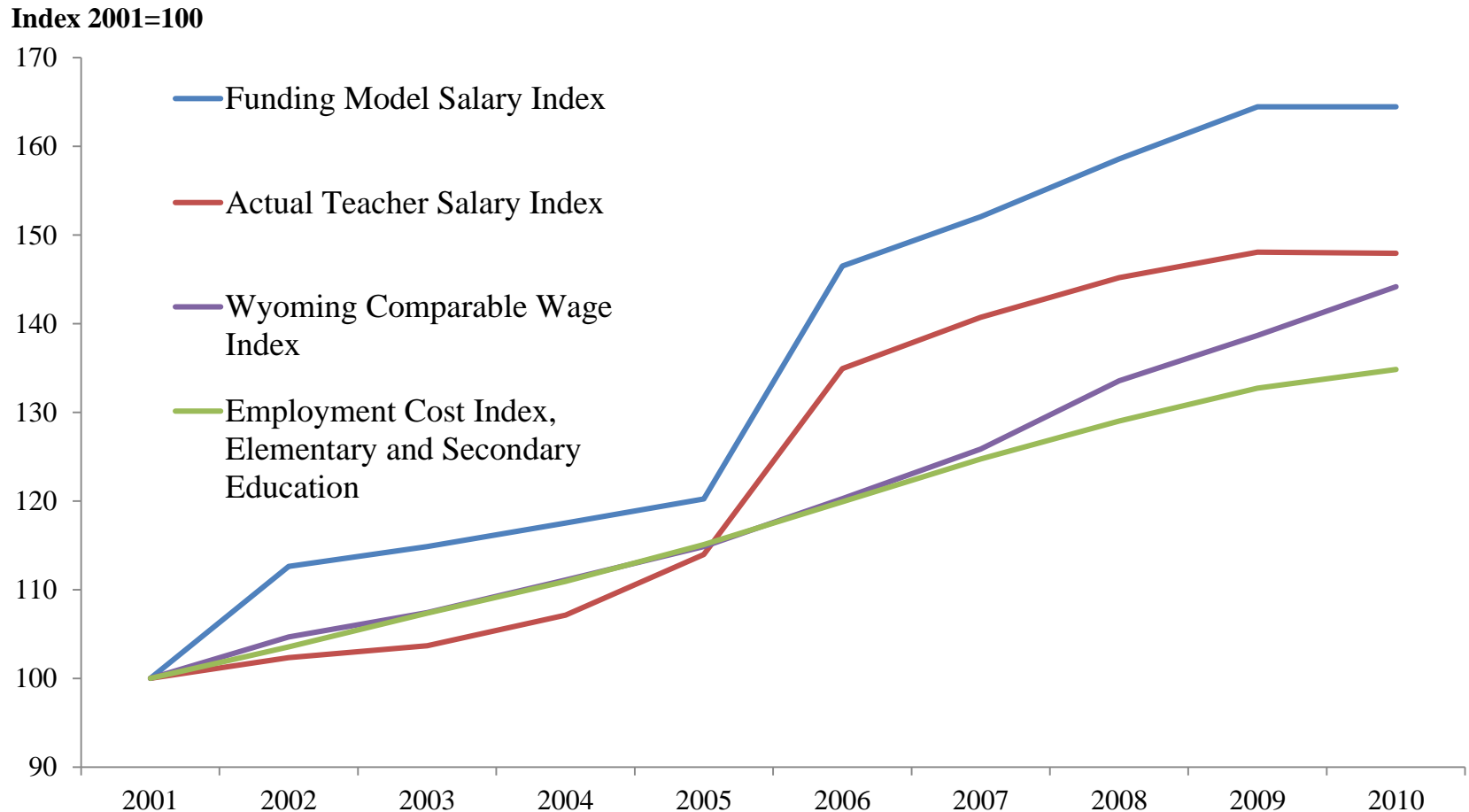
7

Index 2001=100



The Labor Cost Indices and Wyoming Teacher Salaries

8



Cost Indices for Non-Professional Labor

- Nonprofessional labor cost index based on new Comparable Wage Index for high school graduates (HS-CWI)
 - HS-CWI estimated using same method as CWI, but different Census data
 - Census data covers individuals with a high school diploma but not a bachelor's degree
 - Reflects growth in Wyoming wages for high school graduates

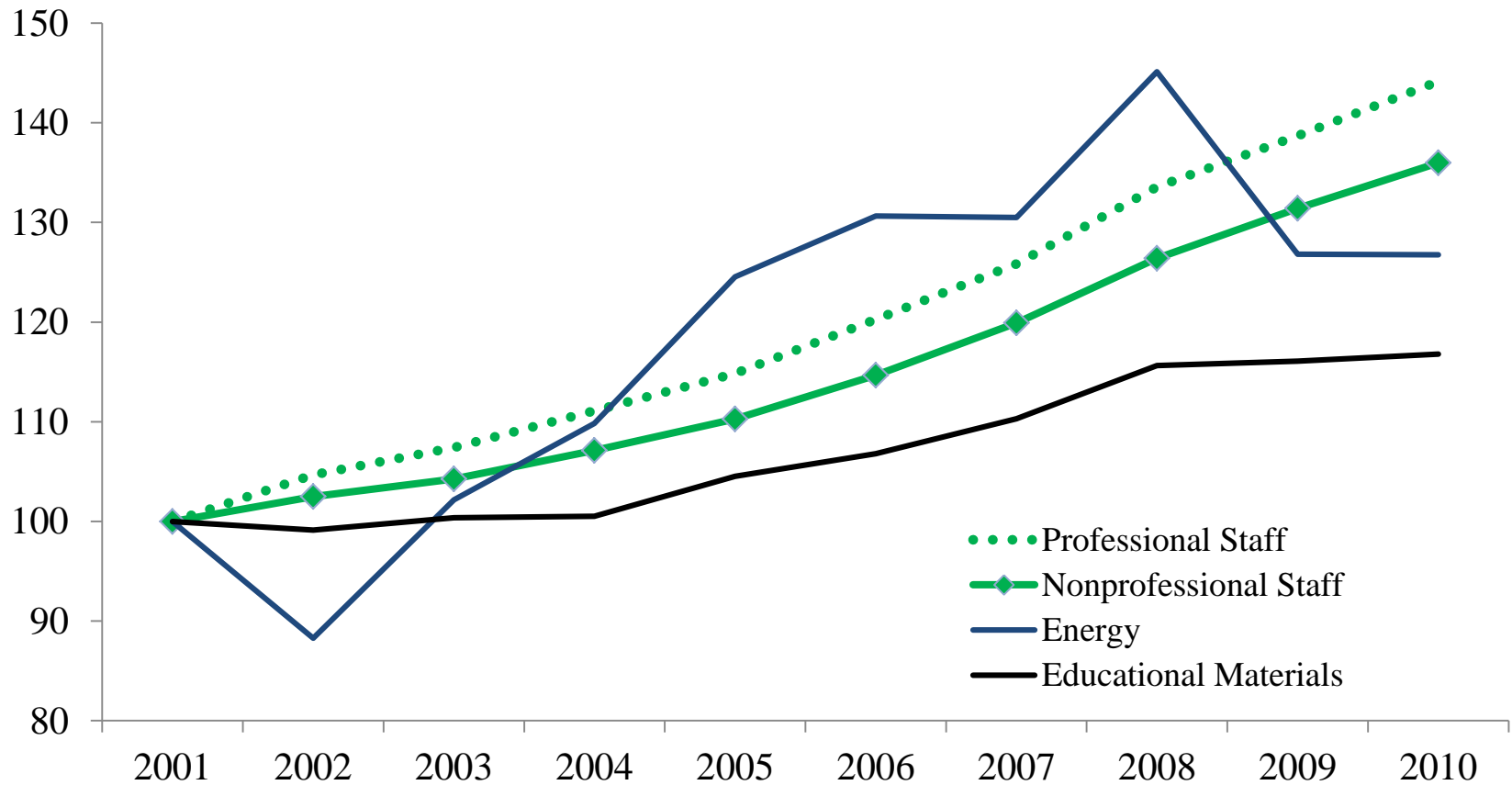
Cost Indices for Energy and Supplies

10

- BEA indices only available through 2008
- Bureau of Labor Statistics' Producer Price Indices (PPI) much more timely
- BEA index for Education Sector Materials tracks PPI for Office Supplies and Accessories
- BEA index for Education Sector Energy tracks a weighted average of PPIs for commercial electricity and natural gas

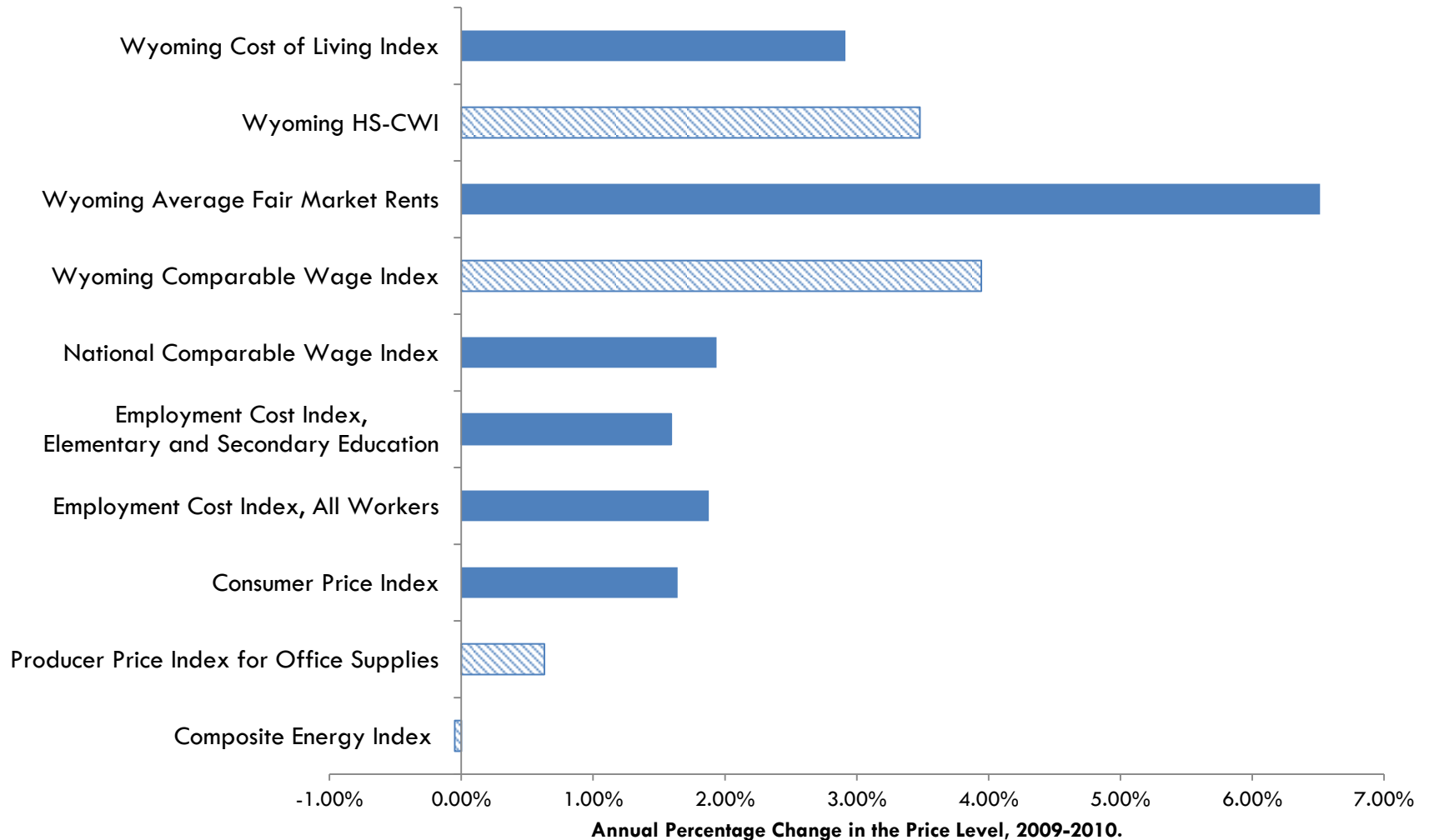
Recommended Cost Indices for the Four Major Funding-Model Components

Index 2001=100



Inflationary Pressures May be Higher in Wyoming than in the Nation as a Whole

12



Looking Forward

13

- All of the recommended indices indicate that the inflationary pressure on school districts has eased recently
- They also indicate that inflationary pressures may be greater in Wyoming than in most other states
- It is reasonable to anticipate that inflation will continue to impact the necessary funding allocations and plan accordingly

Important Caveats

14

- Cost indices serve only to maintain the status quo. Their use presumes accurate baseline measures of resource costs
- If the baseline estimates overstate actual costs then applying a cost index would simply perpetuate the overfunding
 - ▣ The most appropriate policy response could be to forgo applying a cost adjustment until costs and funding converge
- If a baseline estimate understates actual costs then applying a cost index would only perpetuate the underfunding
 - ▣ Further action would be needed to ensure that districts are able to provide the necessary resources

Conclusions

- External cost adjustments are an important part of school finance in Wyoming
- Labor cost indices give an incomplete picture of changes in educational cost
- Once funding levels become aligned with costs, Wyoming should consider adjusting each major resource component separately using the most appropriate cost index for that component



Thank you