AUGENBLICK,
PALAICH AND
ASSOCIATES

Regional Cost Adjustments

Justin Silverstein and Amanda Brown, APA

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Presentation Overview

- Review types of Regional Cost Adjustments (RCAs)
- Provide an update on states with RCAs
- Highlight underlying RCA philosophies
- Examine implementation decisions in states with RCAs
- Revisit NCEI

Regional Cost Adjustment Approaches

There are three primary types of indices that can be used to make a regional, or geographic, cost adjustment:

- **Cost-of-Living Index (COL)**. Usually created by determining the cost for a given set of goods — often termed a "market basket" — in different locations.
- **Hedonic Wage Index (HWI)**. Uses regression analysis to predict wages by dividing the variation in *actual* wages across districts into spending that is and is not within control of the districts.
- **Comparable Wage Index (CWI)**. Uses regional differences in non-educator wages based on the recognition that if wages in comparable professions are higher in a given region, then teacher wages will also have to be higher.

Regional Cost Adjustments in Other States

	Index Name	Index Type
Alaska	District Cost Factor	Hedonic Wage Index
Colorado	Cost of Living Factor	Cost of Living Index
Florida	District Cost Differential	Comparative Wage Index
Maine	Regional Labor Market Area Adjustment	Hedonic Wage Index
Maryland	**Comparable Wage Index**	**Comparable Wage Index**
Massachusetts	Wage Adjustment Factor	Comparative Wage Index
Missouri	Dollar Value Modifier	Comparative Wage Index
New Jersey	Geographic Cost Adjustment	Comparative Wage Index
New York	Regional Cost Index	Comparative Wage Index
Texas	Cost of Education Index	Hedonic Wage Index
Virginia	Cost of Competing Adjustment	Comparative Wage Index (Adjustment)
Wyoming	Regional Cost Adjustment	Cost of Living Index, Hedonic Wage Index

Possible Philosophies

- Underlying each type of RCA is a philosophy or issue that a state is trying to resolve:
  - Cost of labor to districts
  - Cost of living for staff working in districts
  - Cost of doing business for districts

Cost of Labor

- The underlying philosophy of cost of labor adjustments is that states should only be responsible for the costs of labor differences incurred by districts, not the full cost of living differences.
- Cost of labor adjustments assume that the cost of living in a community is not the only factor that impacts wages and needs to be taken into account.
  - While a community may have a high cost of living, wages may remain lower due factors (locale, amenities, etc.) that enable a community to attract staff *in spite of* a high cost of living.
  - Conversely, communities with a lower cost of living may have more difficulty attracting staff due to a lack of amenities or other such factors.
- Modern comparable wage indices (CWIs) and hedonic indices are both cost of labor adjustments
  - Virginia is unique in that it specifically addresses competitiveness with neighboring states for a subset of districts.

Cost of Living for Staff

- The underlying philosophy of cost of living for staff adjustments is that the system should ensure employees can afford to live in, or near, the communities where they work.
  - This means that adjustments are made for districts with higher overall costs of living.
- States often use a basket of goods/services to create this type of adjustment.
- Currently, only Colorado and Wyoming utilize this type of adjustment.
  - Wyoming uses both a cost of labor (hedonic) and a cost of living adjustment; districts receive the highest value from either calculation (or 1.0 as a floor).

Cost of Doing Business

- The philosophy underling cost of doing business adjustments is that districts experience different cost pressures due to their location that are not only limited to labor costs.
- Cost of doing business adjustments look to account for the full differences in costs faced by districts including personnel and goods/services.
  - The adjustments must determine the weighting between adjustments for different components and which approaches to use to measure personnel and goods/services cost differences.
- Alaska's District Cost Factor is an example of another state using a comprehensive cost of doing business adjustment.

Implementation of RCAs

- APA closely examined implementation of RCAs across the country
  - This including examining the most recent updates and how each adjustment is implemented including:
    - Frequency of updates
    - Data sources
    - Full or truncated use of factors
    - Range of adjustments
    - How applied in formulas
    - Specificity of adjustments (district, county or other level)
  - Where possible, staff reviewed language on original intent and any recent political issues with the adjustments

Frequency of Updating

- States are divided in how often their adjustments are updated:
  - In about half of states RCAs are updating on a cycle that was built into the development of the approach, typically on a one- or two- year cycle for updating.
  - In the remaining states, original values are being used that may be 20+ years old.
- Data availability does not appear to be the only reason factors are not updated, it appears the fiscal or political impact of changes is a common reason for factors to not be updated.
  - Hedonic adjustments appear to be the least likely to be updated at all.

Data Sources

- Most states use federally available data sources, though some use state data (Missouri and Wyoming, for example) or even do their own data collections.
  - Colorado collects its own data on the "basket of goods"
- States who frequently update their systems tend to use publicly available data that is also updated frequently.
- Maryland's old hedonic adjustment was never updated due the data collection burden required.

Full or Truncated Use of Factors

- Many of the RCAs generate district factors that would both increase and decrease funding if all factors were applied but often states decide to not apply values that would decrease funding
  - This means that states truncate the factors generate for districts that would lose funding
  - Massachusetts used to use all factors but truncated due to large losses for districts with value below 1.0
- A few states, like Alaska, have indices with a base value of 1.0

Range of Adjustments

- The range of factors applied varies greatly across states.
- The largest range is in Alaska, where Anchorage is set as the minimum adjustment of 1.0 and the factor ranges up to 2.116.
- Some states minimize differences by modifying the factors during calculation.
  - Missouri uses only 15% of the difference found from statewide average
- Some states have outlier districts, such as Wyoming which has one district that at 1.64, is .57 above any other district in the state.

How Applied to Formulas

- The RCAs are applied to different portions of the funding in states:
  - Most states (particularly those that use a wage-based adjustment) apply the adjustment only to the portion of funding associated with personnel costs
    - Virginia and New Jersey apply only to a subset of salaries
  - Some states apply the adjustment to full funding including Alaska which applies the factor early in the formula, impacting all aspects of funding.
  - New York and Maryland apply the factor to foundation or base funding, not funding for student characteristic adjustments.

Specificity of Adjustments

- The specificity of data used impacts the ability to generate district specific adjustments.
- Many databases are not district specific, requiring data to be used for multiple districts. This is especially true for districts with small populations.
  - Missouri and New Jersey utilize data at the county level, which means every district in a county has the same adjustment
  - Maine and New York uses a more limited number of labor market regions

Nevada NCEI

- **Philosophy –** the philosophy evolved over the course of the Commission’s work, expanding from just a wage-based adjustment to recognize the other cost pressures faced by school districts.
    - Uses a cost of labor adjustment (CWI) applied to personnel costs
    - Uses a cost of doing business adjustment for the remaining non-wage costs
    - Does **not** use/include a cost of living adjustment
- **Frequency of updating –** can be updated every two years
- **Data source –** uses federal databases that are updated frequently, the US Census Data for CWI, Bureau of Economic Analysis (BEA) regional price parities (RPPs) “goods” Index for non-wage costs
- **Full or truncated use of factors –** currently all districts set to 1.0 but previous decision was to apply factors fully, both above and below 1.0

Nevada NCEI Continued

- **Range of Adjustments** – most recent raw calculations have a range of 0.964 – 1.003
  - When initially developed, this range was 0.98 to 1.03, so while values have changed
- **How applied in formula** – CWI applied to 87%, and RPP Goods Index applied to 13% of base funding
  - Currently, all set to 1.0 regardless of value calculated
- **Specificity of adjustments** – not individually available for districts or counties, so four unique NCEI groups/values
  - CWI figures calculated for: (1) Storey, Carson City, Lyon, and Douglas collectively; (2) Washoe, (3) Clark and (4) the rest of the state.
  - BEA produces its RPP index for: (1) Carson City, (2) Reno, (3) Las Vegas-Henderson-Paradise, and then (4) non-metropolitan Nevada
    - For consistency, these factors were applied based upon the PUMA-based district groupings, so Storey, Lyon, and Douglas received the RPP Goods figure assigned to Carson City, and the districts in the “rest of state” group for CWI received the non-metropolitan RPP Goods figure.

Next Steps

- Any remaining questions?
- What other information on this topic would be helpful for us to bring forward to the Commission for its next meeting?