



Select Committee on Public School Accountability

**August 20, 2008
Byron Martin Technology Center
Lubbock, Texas**

**Testimony provided by:
Art Martin
Assistant Superintendent for Financial Services, Lubbock ISD, and
President, Texas Association of School Business Officials**

Good morning! My name is Art Martin. I am the Assistant Superintendent for Financial Services for the Lubbock Independent School District and current President of the Texas Association of School Business Officials. I appreciate the opportunity to provide input regarding the financial accountability rating system for Texas public schools, also known as School FIRST (Financial Integrity Rating System of Texas). Being held accountable is not something foreign to school business and operations officials. We are held responsible for work that is audited on an annual basis by external auditors and the audit reports are posted on the Texas Education Agency website.

We wanted to provide you some history related to TASBO's efforts to improve financial and operational management of Texas public schools; but we realized that would take too much time, so I encourage you to review the attachment for information about our organization and some of the help and resources provided to our membership – which currently numbers almost 5,000.

After the 76th Legislature in 1999 ordered the development of a proposal for a financial rating system in Senate Bill 875, TASBO provided input to the Texas Education Agency and the State Comptroller's Office to assist in the development of the rating system, now known as School FIRST (Financial Integrity Rating System of Texas). One of the requirements that both TEA and the Comptroller's office considered essential to the development of the rating system was that it be based on established standards. These standards were to be developed so that measurement against these standards would determine the financial health of the districts. The system was intended to be easy to understand and there was a desire to enable measurement against these standards using data readily available for all school districts. Although there has never been complete agreement among all groups (those responsible for developing the system and those being measured by the system), it was easy to understand and the data were readily available.

The initial development of School FIRST relied on several sources of information:

- a review of other financial rating systems such as the bond rating firms Moody's, Standard & Poor's, and Fitch,
- a review of information from the Texas School Performance Review audits performed by the State Comptroller's Office,
- a review of information from TASBO related to management reviews performed in districts throughout the State of Texas, and
- a list of problems identified by the Audit Division of the Texas Education Agency as contributing factors to financial difficulties in school districts.

This initial rating system was first used to report the financial rating for school districts based on the 2001-02 fiscal year. The financial rating system underwent a substantial overhaul for the 2008 ratings based upon the 2006-2007 fiscal year. Changes to the system for 2008 included criteria related to the district's rating on the student accountability system and various disclosures that were requested for "transparency" reasons rather than financial accountability.

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There has been criticism from some that the system is not rigorous enough because too many school districts receive a high rating. Fortunately the financial affairs of most school districts are managed properly with few school districts experiencing major problems with financial mismanagement, most often identified with school districts that have a deficit fund balance in the General Fund. That is not to say that they do not struggle to manage within the resources available. It is often difficult to find the funds necessary to cover the cost of high-quality programs for educating students, but that is seldom a result of mismanagement. Some of the criticism may be related to the “tags” assigned to the ratings – Superior Achievement, Above Standard Achievement, Standard Achievement, Substandard Achievement, and Suspended-Data Quality. The public has a right to expect that all districts manage their resources appropriately. Proper financial management does not necessarily rate a “Superior Achievement” rating because meeting certain standards should be expected of all districts. Perhaps different names for these ratings should be considered such as Acceptable, Needs Improvement, or Unacceptable.

Analysis of trends revealed by analyzing the School FIRST criteria over a period of years should be helpful for planning purposes. The criteria used in the current system also seem appropriate with one exception. The requirement that 65% of expenditures be spent in the classroom is not based on any research to support that this allocation of resources assures student success. A report by Standard & Poor’s pointed out that there is statistical evidence indicating that allocating additional resources does make a difference in the classroom, but there is no evidence that devoting 65% of an expenditure amount regardless of the amount makes a difference. This is further complicated by the fact that some of the criteria use the NCES definition of instruction, a purpose for which NCES was not designed. Most people would agree that libraries, professional development for teachers, and counseling services are important to the instructional program, but expenditures for these functions are not recognized in the NCES definition. However, the NCES definition does include expenditures for athletics. .

Can the rating system be improved? There is no doubt that improvements can be made, but these improvements need to be based on research, and not designed to simply assure that some predetermined number or percentage of districts fail on the rating system.

This may sound self-serving, but those of us who represent TASBO feel that we know what a well-managed school district looks like. TASBO representatives have completed management reviews for school districts throughout the State of Texas in an effort to help the districts manage more efficiently and effectively. Our teams have been invited into districts seeking to improve the quality of services in various operation areas and/or to reduce costs. We have identified millions of dollars in savings and educators are frequently motivated to put in place any recommendations that will improve operations and provide additional resources for instruction. We have learned that providing the kind of assurance that school board members and administrators want regarding how well their local district is managed is a process that requires time, effort, and a lot of data.

Thanks to PEIMS and other statewide reporting systems, Texas is data rich. However, since PEIMS is primarily oriented toward student accountability rather than financial accountability, there are some gaps. Future updates to PEIMS that should be considered include identification of all school personnel by role identification, i.e. report auxiliary staff in a way that will separate the secretaries from the bus drivers, the custodians from the clerks, the computer programmers from the food service managers, etc. Other data, if collected, would enable calculation of ratios such as meals per labor hour, costs per mile or per route for bus transportation, energy costs per sq. ft. etc. Future enhancements should enable collection of data at an earlier date and enable school districts to add current information for comparison purposes and determination of trends. Until these useful data elements are added to PEIMS, TASBO will continue to rely upon its processes to collect data that supplements the PEIMS data standards.

The burden on school districts of additional reporting would be minimal in some cases, but in other cases could be substantial. For that reason, it is important that such changes be carefully planned, that training be provided, and feedback provided to school districts quickly along with an analysis that would be helpful in decision-making. The Educational Research Service recently issued a Second Edition of Answering the Critics of School Administration: What Are the Facts?. This study reported, just as the First Edition did, that some of the popular perceptions regarding school administration are not based on facts. School administration is not a bloated bureaucracy. In fact, “The ratio of employees to executive, administrator, and/or manager is higher in elementary and secondary schools (15.2 to 1) than in any other business or industry shown.” This is included here to emphasize that if additional requirements for reporting and monitoring are added to the myriad of current requirements without a willingness to support the addition of staff to handle these duties, we will be doing a great injustice to school districts. It would not be helpful if additions to reporting standards are viewed merely as additional compliance requirements that will ultimately dilute resources available to concentrate on serving the academic needs of students.

In addition to the training and information developed by TASBO, a couple of initiatives should have an impact on improving operations in school districts throughout Texas. One of these initiatives was development of FACTS (Financial Analysis and Comparison of Texas Schools). TASBO has supported and distributed a financial analytical tool titled FACTS (distributed on a CD that provided 5 years of financial and demographic information on all districts and campuses in the State of Texas). This system has been used for several years to assist with analysis of school district operations in TASBO’s management reviews. The next generation of FACTS is now accessible in a web-based program known as eFACTS+. All of this is very helpful, but the collection of additional data, including what TASBO organizes for management reviews, would make this a more robust system that could improve the effectiveness of School FIRST and facilitate research into various financial management areas.

Another major initiative is development of a system to identify high quality school districts. The systems that really seem to make a difference in student success and in

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assuring appropriate management of a district require the commitment of time and resources on the part of the entire district. One of the more successful programs for assuring quality management is the Baldrige system, being used by an increasing number of school districts. This program has been used in the private sector for several years and there is research based on businesses around the world to show that it works. TASBO staff used the Baldrige criteria as the basis for development of a future system to be used to identify school districts with high quality programs. School districts around the state that are already using this process are eager to share their expertise and ideas with us as we continue development. Work remains to be done on this project, but we are excited about the possibilities that this offers.

We encourage consideration of the following criteria if modifications to School FIRST are considered.

- Continue the practice of setting standards and assign ratings based on districts' accomplishments in reaching those standards,
- Continue the practice of relying on information that is readily available,
- Make certain the system is easy to understand and is considered to be fair,
- Make certain that the system is based on research related to recognized efficiency measures,
- Encourage districts to use the system as a checklist to identify financial problems at an early date,
- Consider providing resources at the state level that will allow collection of additional data related to school district operations,
- Avoid penalizing districts based on the financial rating,
- Consider opportunities for using School FIRST as a reporting device to replace some of the current accountability regulations in other areas, such as the requirement to spend 65% on instruction; and, the minimum expenditure requirements in the Foundation School Program for Special Education, Bilingual, Career and Technology and Talented and Gifted expenditures.

It is critical to the acceptance of a revised system that the system be designed with input from those who will be held accountable through the system. TASBO staff and TASBO members have expertise in financial management issues that would benefit the development of enhancements to School FIRST.

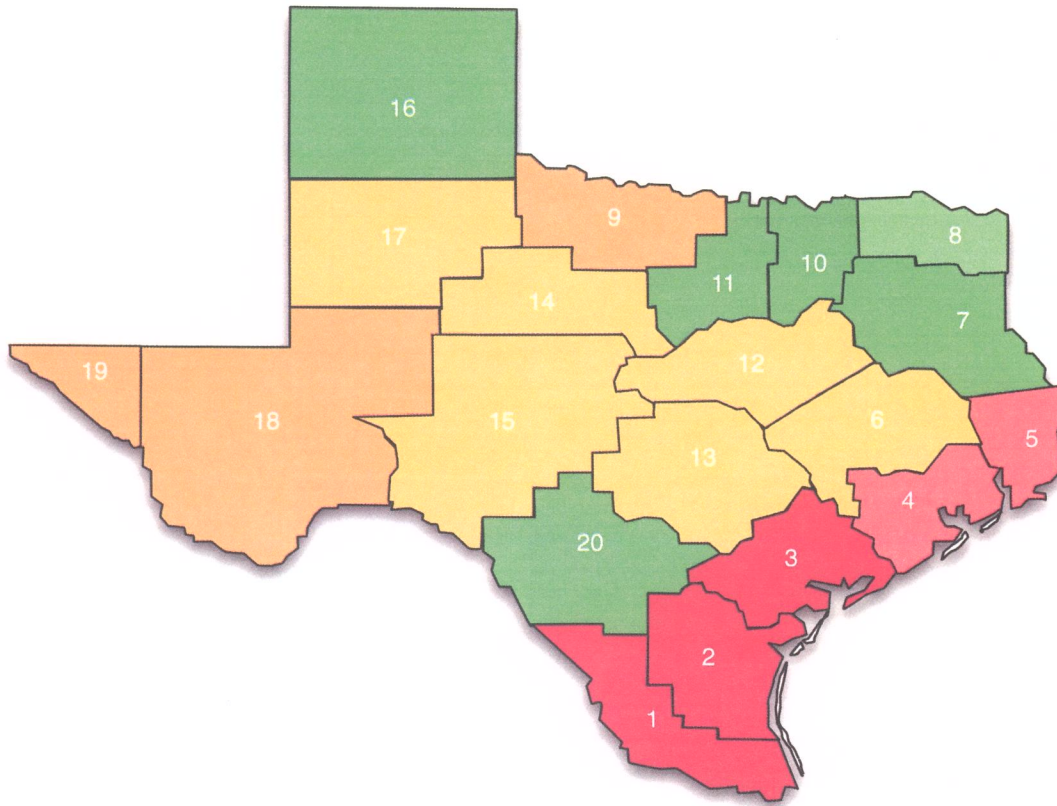
Appendix A

TASBO Information

TASBO was organized in 1946 and currently has almost 5,000 members serving as school business and operations officers in school districts throughout the State of Texas. TASBO supports strong financial positions for Texas schools by offering a wide variety of programs to strengthen the operational efficiency and effectiveness of Texas public school staff members. Since there is no requirement in state law that school business and operations officials be certified in order to manage what is generally the biggest business in most communities – the public school, TASBO leaders developed and implemented a voluntary certification program for school business officials more than twenty years ago. This program is recognized as an excellent training program and many school districts now require or encourage their business officers to earn TASBO certification. A partial list of the services provided by TASBO is listed below, to give you some idea of our efforts to help management of Texas schools be the best it can be.

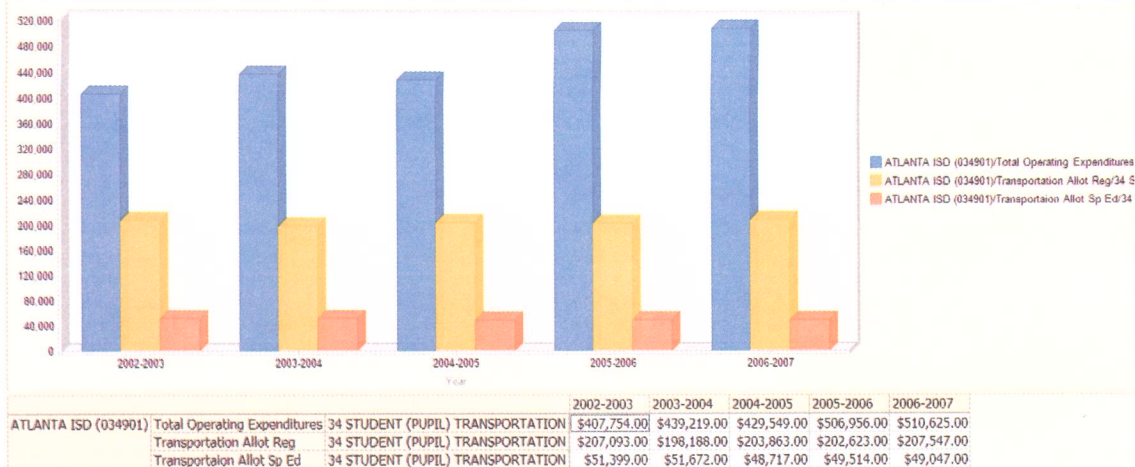
- Voluntary certification program
- Workshops
- Conferences
- Webinars
- Formal mentoring program
- Resource for interpretation and guidance related to state and federal laws and regulations, such as:
 - Publication of Business Office calendar
 - School FIRST Communication Resources Kit (developed in conjunction with the Texas School Public Relations Association)
 - SHARS guidance (School Health and Related Services reimbursement)
 - Distribution of information related to EPA asbestos-removal guidelines
- Best Practices website
- eFACTS+ (an analysis tool for benchmarking and decision-making)
- Benchmark 4 Excellence facility review program
- Management reviews (similar in some ways to the Texas School Performance Reviews)
- Consulting Services
- Development of an initiative to recognize school districts that are providing excellent educational services efficiently and effectively using the Baldrige process
- Monitoring of Legislative activities

Appendix B
Screen Shots from eFACTS+

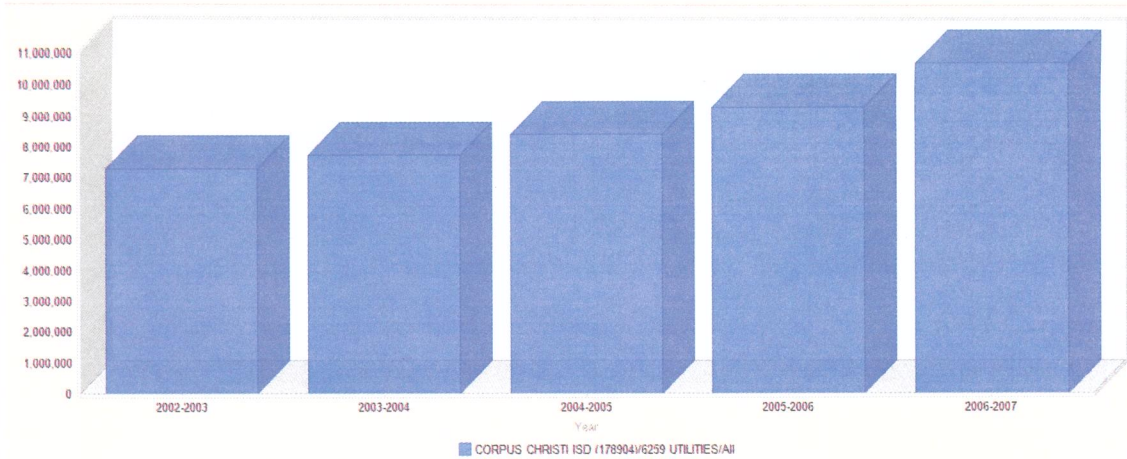


Average Percent Change for Insurance Cost per Student for Independent School Districts by Regional Education Service Center for Three-Year Period Fiscal Year 2005 through 2007

Region	Average Percent Change for ISDs	Region	Average Percent Change for ISDs
1	50.0%	11	-1.9%
2	50.9%	12	1.0%
3	63.5%	13	1.6%
4	90.2%	14	3.7%
5	160.1%	15	1.9%
6	0.8%	16	-1.2%
7	-0.4%	17	1.2%
8	-5.2%	18	13.9%
9	9.1%	19	7.4%
10	-1.8%	20	-3.7%

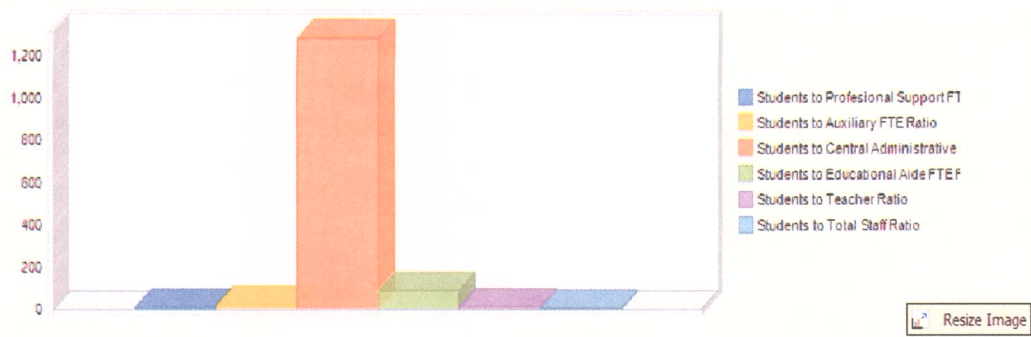


Comparison of expenditures to state aid allotments for transportation services for a school district



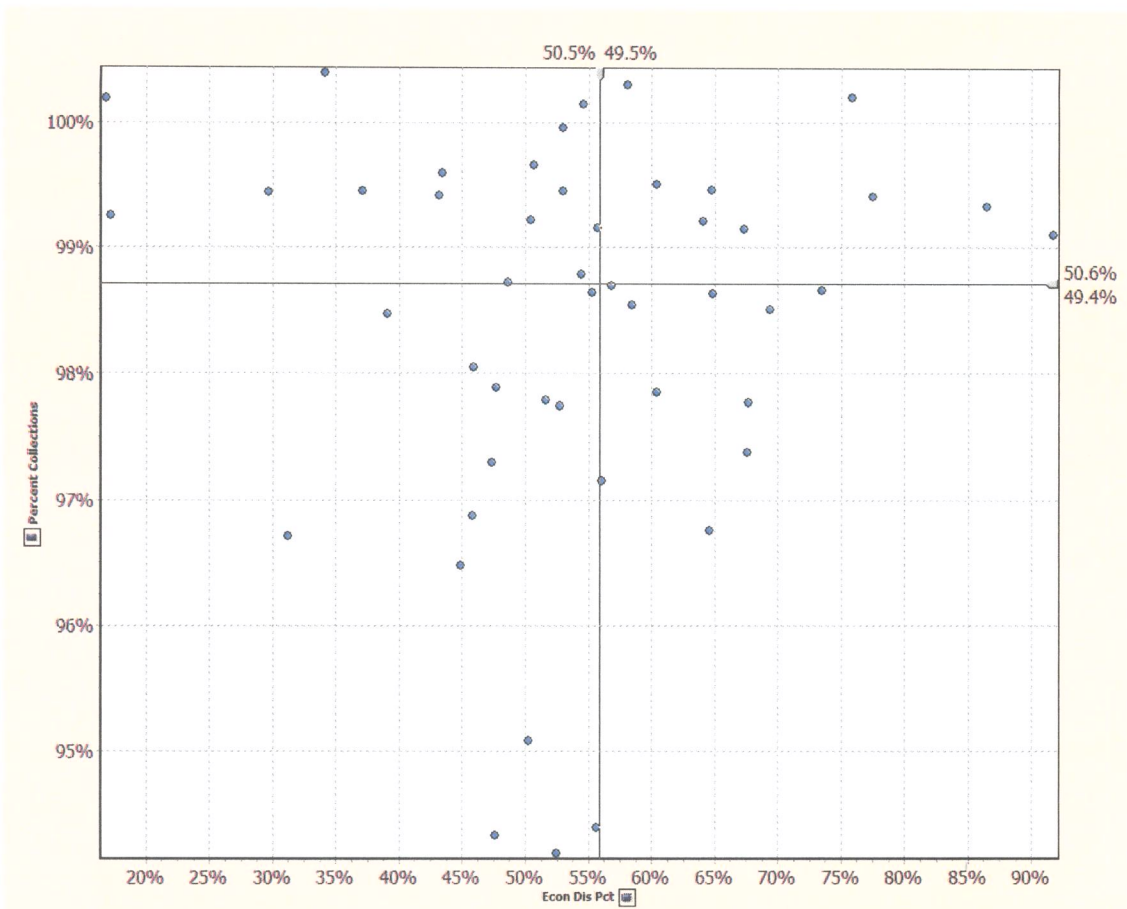
	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
CORPUS CHRISTI ISD (178904) 6259 UTILITIES All	\$7,297,332.00	\$7,738,061.00	\$8,418,103.00	\$9,276,792.00	\$10,695,912.00

Utility cost trend for a school district

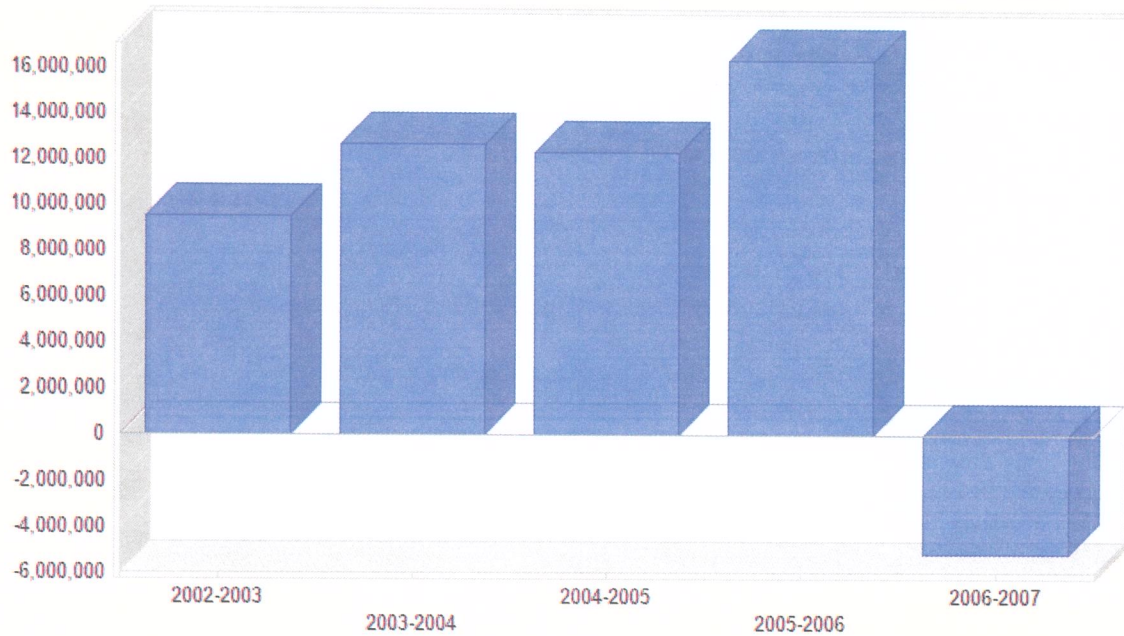


Students to Professional Support FTE Ratio	11.14
Students to Auxiliary FTE Ratio	17.36
Students to Central Administrative FTE Ratio	1,279.57
Students to Educational Aide FTE Ratio	88.96
Students to Teacher Ratio	14.13
Students to Total Staff Ratio	6.30

Staffing ratios for a school district



Percent tax collections and percent economically disadvantaged students for school districts located in one of regional education service centers



General fund fund balance trend for a school district

User: Arthur Martin
 User Role: District

YEAR 2006-2007 Select An Option

[Help](#) [Home](#) [Log Out](#)



Financial Integrity Rating System of Texas

2006-2007 DISTRICT STATUS DETAIL

Name: **LUBBOCK ISD(152901)** Publication Level 1: 6/9/2008 1:55:51 PM
 Status: **Passed** Publication Level 2: None
 Rating: Superior Achievement Last Updated: 6/9/2008 1:55:51 PM
 District Score: 85 Passing Score: 55

#	Indicator Description	Updated	Score
1	Was The Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund?	4/18/2008 12:34:40 PM	Yes
2	Was the Total Unrestricted Net Asset Balance (Net of Accretion of Interest on Capital Appreciation Bonds) In the Governmental Activities Column in the Statement of Net Assets Greater than Zero? (If the District's 5 Year % Change in Students was 10% more)	4/18/2008 12:34:40 PM	Yes
3	Were There No Disclosures In The Annual Financial Report And/Or Other Sources Of Information Concerning Default On Bonded Indebtedness Obligations?	4/18/2008 12:34:40 PM	Yes
4	Was The Annual Financial Report Filed Within One Month After November 27th or January 28th Deadline Depending Upon The District's Fiscal Year End Date (June 30th or August 31st)?	4/18/2008 12:34:40 PM	Yes
5	Was There An Unqualified Opinion in Annual Financial Report?	4/18/2008 12:34:40 PM	Yes
6	Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?	4/18/2008 12:34:40 PM	Yes
			1 Multiplier
			Sum

7	Did the Districts Academic Rating Exceed Academically Unacceptable?	4/18/2008 12:34:10 PM	5
8	Was The Three-Year Average Percent Of Total Tax Collections (Including Delinquent) Greater Than 98%?	4/18/2008 12:34:41 PM	5
9	Did The Comparison Of PEIMS Data To Like Information In Annual Financial Report Result In An Aggregate Variance Of Less Than 3 Percent Of Expenditures Per Fund Type (Data Quality Measure)?	4/18/2008 12:34:41 PM	5
10	Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) < \$250.00 Per Student? (If The District's Five-Year Percent Change In Students = Or > 7%, Or If Property Taxes Collected Per Penny Of Tax Effort > \$200,000 Per Student)	4/18/2008 12:34:41 PM	5
11	Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?	4/18/2008 12:34:42 PM	5
12	Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g. No Conservator Or Monitor Assigned)	4/18/2008 12:34:42 PM	5
13	Was The Percent Of Operating Expenditures Expended For Instruction More Than 65%? (Functions 11, 36, 93, 95) (Phased in over three years, 55% for 2006-2007; 60% for 2007-2008; and 65% for 2008-2009)	4/25/2008 1:02:19 PM	3
14	Was The Percent Of Operating Expenditures Expended For Instruction More Than or equal to 65%? (Functions 11, 12, 31, 33, 36, 93, 95)	4/18/2008 12:34:43 PM	3
15	Was The Aggregate Of Budgeted Expenditures And Other Uses Less Than The Aggregate Of Total Revenues, Other Resources and Fund Balance In General Fund?	4/18/2008 12:34:43 PM	5
16	If The District's Aggregate Fund Balance In The General Fund And Capital Projects Fund Was Less Than Zero, Were Construction Projects Adequately Financed? (To Avoid Creating Or Adding To The Fund Balance Deficit Situation)	4/18/2008 12:34:43 PM	5
17	Was The Ratio Of Cash And Investments To Deferred Revenues (Excluding Amount Equal To Net Delinquent Taxes Receivable) In The General Fund Greater Than Or Equal To 1:1? (If Deferred Revenues Are Less Than Net Delinquent Taxes Receivable)	4/18/2008 12:34:44 PM	5
18	Was The Administrative Cost Ratio Less Than The Threshold Ratio?	4/18/2008 12:34:44 PM	5

19	Was The Ratio Of Students To Teachers Within the Ranges Shown Below According To District Size?	4/18/2008 12:34:44 PM	5
20	Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size?	4/18/2008 12:34:44 PM	5
21	Was The Total Fund Balance In The General Fund More Than 50% And Less Than 150% Of Optimum According To The Fund Balance And Cash Flow Calculation Worksheet In The Annual Financial Report?	4/18/2008 12:34:44 PM	5
22	Was The Decrease In Undesignated Unreserved Fund Balance < 20% Over Two Fiscal Years?(If 1.5 Times Optimum Fund Balance < Total Fund Balance In General Fund Or If Total Revenues > Operating Expenditures In The General Fund,Then District Receives 5 Points)	4/18/2008 12:34:45 PM	5
23	Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?	4/18/2008 12:34:45 PM	5
24	Were Investment Earnings In All Funds (Excluding Debt Service Fund and Capital Projects Fund) More Than \$20 Per Student?	4/18/2008 12:34:45 PM	4
			85
			Weighted Sum
			1 Multiplier Sum
			85 Score

DETERMINATION OF RATING

A. Did The District Answer 'No' To Indicators 1, 2, 3 Or 4? **OR** Did The District Answer 'No' To Both 5 and 6? If So, The District's Rating Is **Substandard Achievement**.

B. Determine Rating By Applicable Range For summation of the indicator scores (Indicators 7-24)



- Superior Achievement 75-85 and Yes to indicator 7
- Above Standard Achievement 65-74 or >= 75 and No to indicator 7
- Standard Achievement 55-64
- Substandard Achievement < 55 or No to one default indicator

INDICATOR 19 & 20 RATIOS

Indicator 19	Ranges for Ratios		Indicator 20	Ranges for Ratios	
	Low	High		Low	High
District Size - Number of Students Between			District Size - Number of Students Between		
< 500	7	22	< 500	5	14
500-999	10	22	500-999	5.8	14
1000-4999	11.5	22	1000-4999	6.3	14
5000-9999	13	22	5000-9999	6.8	14
=> 10000	13.5	22	=> 10000	7.0	14

OPTIONS

Update Unpassed	Update All	Lower Publication Level	Raise Publication Level
Suspend	Suspension Reason.		

Audit Home Page: **School Financial Audits** | Send comments or suggestions to schoolaudits@tea.state.tx.us

THE TEXAS EDUCATION AGENCY

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