Financial Accountability Testimony

Texas School Alliance

Moak, Casey and Associates

The provisions added to Chapter 39 related to financial accountability include a new responsibility for the Comptroller and a new charge to TEA.

The Comptroller is called on to integrate academic and financial performance information and rank order the performance of all districts and campuses. Based on the experience of TEA, a group of several highly knowledgeable and experienced staff spend thousands of hours each year just to classify district and campus academic performance into a limited number of categories.

TEA does not rank order academic performance, and we believe the reasons for this are self-evident. The complexity of objectively ranking performance in which there are so many dimensions and measures is a source of endless fascination and debate, and a worthy subject for many a doctoral dissertation. But it can be expected to be an even more resource-intensive task than the effort TEA currently expends on the accountability system.

When the charge includes integrating academic and financial performance, we are worried that more simplistic or arbitrary approaches will be appealing because of the relative ease with which they can be executed. We are aware of private vendors that attempt to provide integrated academic and financial accountability reviews, but they do not use the same standards and measures as are used by state accountability and the Financial Accountability Rating System for Texas (FIRST). But those private efforts are for comparative purposes, and do not carry an official state status. While we are encouraged that there seem to be no sanctions tied to the Comptroller's rankings, we would strongly suggest that there be more involvement of school administrators and school boards in the development of resource allocation reviews. From our experience consulting with school districts, the use of comparative information only influences the decisions made on resource allocation when the comparisons make sense to the district administrators and school boards. A state-developed ranking will likely be perceived as arbitrary and without legitimacy if the involvement of these groups is not a vital component of its development.

With respect to the new financial solvency reviews to be conducted by TEA, we are generally in support of longer term planning as a component of a strong financial management structure, but we approach a state role in that effort with caution. Our concern is partially addressed by the specific inclusion of school business officials as part of the development process. Beyond that involvement, there are two specific issues that warrant comment.

First, there is a specific directive for the review process to focus on actual financial data for the month of September. We are aware of no justification for this heightened importance for the financial performance of a single month. In fact, this may actually generate significant distortions, as September is the first month of a fiscal year in some districts, and the third month in others. We would encourage you to consider restating this directive in a less-specific fashion, one that would allow the agency and its advisory panel to develop and specify.

Second, we are worried that the commissioner will be called on to review an inordinate number of financial plans as a result of the projection of deficits. We expect this to occur for two reasons. First, school administrators will be reluctant to forecast tax rate changes as part of their financial plan because the adoption of tax rates is a school board responsibility. We are doubtful that the state template will assume funding formula increases, and with a school finance structure that provides no long-term funding level increases in general law, the ability of school districts to generate revenue will come down to questions of tax rate adoptions.

Second, the budget development process has taught school administrators to be pessimistic with respect to new revenue, and optimistic with respect to new costs. This conservative practice tends to generate shortfalls in available funding, and the budget development cycle is designed to allow school boards to exercise their governing authority to reconcile the revenues and expenditures in a manner that best addresses the needs of their own community. We believe that a five-year forecasting structure, if applied uniformly with the same assumptions for all districts, will inevitably not reflect the district's own forecasts for that time period, but could call on a large number of districts to fall under some form of monitoring by the agency. With resources for this type of activity already thin, we are skeptical that the new review process will really add much value.

We would suggest that long-term forecasts have a place in prudent financial management, but that they should be a local activity that could be combined or presented in a timely manner, such as with the independent audit report for the district.