

The 65% Rule and Financial Accountability for School Districts

2006 Texas Fellows Alumni Retreat
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School FIRST – cont.

- Based on answers to 21 questions
 - Critical Indicators 1 – 5
 - 1) Total fund balance – reserved > \$0
 - 2) No default on bonded indebtedness
 - 3) Audit report filed timely
 - 4) Unqualified opinion in audit report
 - 5) No disclosure of material weaknesses in internal controls

Overview

- School FIRST
- Executive Order RP 47
- NCES definitions
- Proposed changes to School FIRST
 - 65% rule
 - Alternate indicator

School FIRST – cont.

- Other indicators
 - Fiscal responsibility
 - Budgeting
 - Personnel
 - Cash management

School FIRST

- School Financial Integrity Rating System of Texas (FIRST)
 - Requires Texas Education Agency (TEA) to issue financial accountability ratings
 - Requires school districts to publish ratings and conduct public hearings
 - Requires corrective action plan to be filed with TEA if ratings are substandard or data quality problems exist

School FIRST Ratings

- Superior Achievement = 0 – 2
- Above Standard Achievement = 3 – 4
- Standard Achievement = 5 – 6
- Substandard Achievement = > 6
- "No" on critical indicators = Substandard Achievement
 - "No" to 1, 2, or 3
 - "No" to both 4 and 5

School FIRST Ratings

- Preliminary rating
 - District has 30 days to request review
 - Reporting errors are not basis for review
- Final rating
 - Review must result in final rating within 45 days
 - Final rating may not be appealed

Executive Order RP 47

- Directs commissioner of education to:
 - Adopt an indicator that requires 65% of school districts funds be spent on instructional purposes
 - Use National Center for Education Statistics (NCES) definition of instructional purposes

School FIRST – History

- 1999: SB 875 authorized development of proposal
- 2001: SB 218 required adoption of rules for implementation and administration
- 2002: Rules adopted
- 2003: Rules amended to reflect changes in audit report standards

Executive Order RP 47

- Requires adoption of additional reporting requirements for school districts
 - Expenditures not related to instruction
 - Counseling services
 - Technology
 - Nursing
 - Social services
 - Expenditures on facilities
 - Maintenance
 - Repair
 - Construction

School FIRST – History

- 2004-2005: Two proposals to amend were published and later withdrawn
- 2006: Executive Order RP 47 directs commissioner to adopt 65% standard for instructional expenditures

Executive Order RP 47

- Additional reporting requirements – *cont.*
 - Expenditures on professional development and how funds relate to core academic areas
 - Expenditures on dues or contributions to non-instructional clubs, committees, or organizations
 - Expenditures on lobbying, consulting services, media, public relations
 - Expenditures on legal services
 - Available fund balances

NCES Definition
<p>% of Instruction Spending = $\frac{\text{Instruction Expenditures}}{\text{Current Expenditures}}$</p> <ul style="list-style-type: none"> ■ Instruction Expenditures <ul style="list-style-type: none"> - Salaries, benefits, supplies, materials and contractual services - Includes salaries for teachers, teacher aides and assistants - Includes payments from all funds, including federal

School FIRST – 65% Indicator
<ul style="list-style-type: none"> ■ Required by Executive Order RP 47 <ul style="list-style-type: none"> - Modifies indicator that currently requires 54% instructional expenditures based only on Instruction (Function 11) - Proposes phased in standard: <ul style="list-style-type: none"> ■ 55% - 2006-07 ■ 60% - 2007-08 ■ 65% - 2008-09 - Current unweighted statewide average = 64%

NCES Definition
<ul style="list-style-type: none"> ■ Current expenditures <ul style="list-style-type: none"> - Support services <ul style="list-style-type: none"> ■ Business/central office ■ General administration (school board and superintendent) ■ Operations and maintenance ■ Pupil transportation ■ School administration (principal) ■ Other elementary/secondary programs – e.g. food services, enterprise operations, etc.

School FIRST – 65% Indicator
<ul style="list-style-type: none"> ■ District that does not meet 65% standard will not be penalized in rating <i>if</i> the district's check register is published on the district's website <ul style="list-style-type: none"> - Notify TEA within the 30 day review period that the check register has been published - Provide TEA with website address

NCES Definition
<ul style="list-style-type: none"> ■ Current expenditures – <i>cont.</i> <ul style="list-style-type: none"> - Instructional staff support <ul style="list-style-type: none"> ■ Curriculum development ■ Staff training ■ Library/media or computer centers - Pupil support services <ul style="list-style-type: none"> ■ Social work ■ Counseling

School FIRST – Proposed
<ul style="list-style-type: none"> ■ Other required reporting <ul style="list-style-type: none"> - Superintendent's employment contract - Schedule of reimbursements to superintendent and board members - Schedule of earnings by superintendent from consulting or other personal services - Summary of gifts to officers and board members exceeding \$250 in value, excludes some board travel

School FIRST – Proposed

- Two new critical indicators
 - Academically unacceptable
 - Total unrestricted net asset balance > \$0
 - Net of accretion of interest for capital appreciation bonds
- Other indicators – 5 point system
 - Fiscal efficiencies and academic performance
 - Fiscal responsibility
 - Budgeting
 - Personnel
 - Cash management

Summary

- Expect publication in late February/early March
 - 30-day public comment period
 - May request public hearing
- Proposed amendments reflect policymakers concerns with how school districts do business
 - Transparency
 - Efficiency

School FIRST – Proposed

- Alternate instruction indicator
 - New numerator will include:
 - Nurses
 - Counselors
 - Librarians
 - Phased in standards:
 - 60% - 2006-07
 - 65% - 2007-08
 - 70% - 2008-09

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School FIRST Ratings

- Superior Achievement
 - ≥ 85 points and Exemplary or Recognized Academic rating
- Above Standard Achievement
 - 75-84 points OR ≥ 85 and not Exemplary or Recognized
- Standard Achievement
 - 65 – 74 points
- Substandard Achievement
 - <65 points or *No* on critical indicator
- Suspended – Data Quality