

# HOUSE BILL REPORT

## HB 1871

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### As Reported by House Committee On:

Education  
Appropriations

**Title:** An act relating to education system benchmarks and monitoring.

**Brief Description:** Regarding education system benchmarks and monitoring.

**Sponsors:** Representative Santos.

### Brief History:

#### Committee Activity:

Education: 2/6/07, 2/26/07 [DPS];

Appropriations: 3/19/07, 3/26/07 [DP2S(w/o sub ED)].

#### Brief Summary of Second Substitute Bill

- Establishes a financial health and monitoring system to evaluate and rate the long-term financial health of school districts, and requires a review of the current budget submittal and approval process.
- Creates an education data center to provide data analysis and support to the P-20 Council.

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## HOUSE COMMITTEE ON EDUCATION

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Quall, Chair; Barlow, Vice Chair; Priest, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; Haigh, McDermott, Roach, Santos and P. Sullivan.

**Staff:** Andrew Colvin (786-7304).

### Background:

Responsibility for financial management of each school district rests with the local school board and the superintendent they retain to manage the operations of the school district. However, the district's financial management is regulated by state law and supervised by the

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Office of Superintendent of Public Instruction (OSPI). The Washington State Auditor audits school district financial records for compliance with laws and regulations, general accounting practices, and adequate internal controls.

Each school district develops and adopts its own budget prior to the beginning of each school year. The budget process is governed by state law (RCW 28A.505) and regulations (WAC 392.123), and on instructions provided by the OSPI. The budget approval and review process varies slightly between first class and second class school districts, with the second class districts actually having to receive approval from a budget review committee.

The 2005 Legislature created a comprehensive education study to include examination of early learning, K-12 education, and higher education. The study effort, chaired by Governor Gregoire, became known as Washington Learns. Washington Learns issued an interim report in November 2005 and final recommendations in November 2006, for consideration by the Legislature.

As part of addressing quality and accountability, Washington Learns recommended the development of a financial health monitoring system for the K-12 public schools. In its final recommendations, Washington Learns found that the current budget review system focuses on the current school year, and does not provide a long-term, prospective look at school districts' budget health.

Washington Learns also recommended the creation of a P-20 Council to track progress toward long-term goals and improve student transitions through the education system. To provide support for that effort, the recommendation included the development of an education data center, which would compile and analyze student data from the various educational agencies.

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### **Summary of Substitute Bill:**

Financial Health Ratings System for School Districts. The Legislative Evaluation and Accountability Program (LEAP) and the Office of Financial Management (OFM) are directed to identify a limited set of system measures for a public financial reporting system based on recommended measures developed by the Government Finance Officers Association. The LEAP and the OFM shall also develop a financial health outlook rating system consisting of three categories. Based on a school district's system measures, the district will be placed in one of the three financial health outlook categories. The system measures and rating system shall be presented to the Governor and the Legislature by November 2007. The financial health ratings system shall be implemented during the 2008-09 school year unless the Legislature changes the system measures or ratings system during the 2008 legislative session.

Each school district's financial health outlook category will be published annually, and updated as needed. Those districts in the lowest two categories will receive technical assistance through regional financial specialists contracted through Educational Service Districts (ESDs). The LEAP and the OFM shall also review the school district budget

process, and develop recommendations for oversight and potential intervention for districts in the lowest two categories. Such recommendations must receive legislative approval before being implemented.

The system measures and the financial health outlook rating system shall be presented to the Governor, the Superintendent of Public Instruction (SPI), and the fiscal committees of the Legislature by November 1, 2007.

Education Data Center. The Education Data Center shall be established within the LEAP, and will conduct collaborative analyses of education issues across the P-20 system. The education data center will provide the data and analyses to support the P-20 Council, as well as assist other state education agencies in establishing benchmarks and determining progress relative to those benchmarks. To accomplish this, the LEAP may work with the OFM in conducting analysis. The Education Data Center will work with the various state education agencies and institutions to develop data sharing and research agreements. The SPI shall develop format and reporting instructions for school districts to facilitate data analysis of student achievement using disaggregated data.

**Substitute Bill Compared to Original Bill:**

The data center shall be housed in the LEAP rather than in the OFM. The system measures and ratings system shall be developed by the LEAP and the OFM. Implementation of the system is automatic unless the Legislature changes it during the 2008 session. Recommendations by the LEAP and the OFM relative to the school budget process must receive Legislative approval before being implemented.

The Education Data Center is housed within the LEAP rather than the OFM. The SPI must develop collection and format instructions for school districts to collect student demographic data that is disaggregated by distinct ethnic categories within racial subgroups. The data center will conduct analysis using this data.

Deletes the section pertaining to identifying and updating a list of the Global Challenge States (GCS) for purposes of benchmarking.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:**

(Invited testimony) Use of the GCS for benchmarking is an idea that came out of Washington Learns. The GCS are those states in the top eight of the New Economy Index, as published by the Progressive Policy Institute. The index ranks states on their potential to compete in the global economy. Comparisons to other countries would have been preferable, but the data is

not available for that, so the GLC are really a surrogate for international comparisons. School district budgets undergo a number of reasonableness tests. However, the current budget review system is limited, and only provides a snapshot of budgets and year-end financial statements. The ESDs can only provide advice to most districts, not mandate changes. Cuts in funding have limited the ability of ESDs to assist school districts with budget preparation and review. It would be beneficial to be able to see at an earlier stage when a district may be heading for financial trouble. This bill would assist in training of the ESD staff. It may require some additional authorization for some districts to enable them to enter data into the system.

(In support) Making the budgeting process more transparent is a good thing. The public will support education more if they understand it better.

(In support with concerns) This could impose unfunded mandates on school districts. Hopefully this bill will not result in a duplication of efforts. It may be advisable to include the Washington school business officials in the process because they know how the system works. It is important that school districts get actual assistance, not just policing and invention. School districts need assistance from SPI and the ESDs to be successful, so we need to look at the support provided to those entities as well.

(With concerns) Providing school district's with support and assistance in the budgeting process is good, but it is important to consider issues of school district authority and local control. There is some concern over how the system measures would be determined, and how the system would work. These details should be known before anything is implemented. This bill casts a negative connotation on long-term collective bargaining agreements.

(Opposed) None.

**Persons Testifying:** (Invited testimony) Julie Salvi, Office of Financial Management; Cal Brodie, Office of the Superintendent of Public Instruction; Time Merlino, Educational Service District 112; and John Molohan, Educational Service District 113.

(In support) Christie Perkins, Washington State Special Education Coalition.

(In support with concerns) Mitch Denning, Alliance of Education Association; and Allan Jones, Tumwater School District.

(With concerns) Barbara Mertens, Washington Association of School Administrators; Bill Freund, Washington Education Association; and Dan Steele, Washington State School Directors Association.

**Persons Signed In To Testify But Not Testifying:** George Scarola, League of Education Voters.

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Education. Signed by 24 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Haler, Assistant Ranking Minority Member; Anderson, Cody, Conway, Darneille, Ericks, Fromhold, Grant, Haigh, Hunt, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, McIntire, Morrell, Pettigrew, Schual-Berke, Seaquist and P. Sullivan.

**Minority Report:** Do not pass. Signed by 9 members: Representatives Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Buri, Chandler, Hinkle, Kretz, McDonald, Priest and Walsh.

**Staff:** Ben Rarick (786-7349).

**Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Education:**

The Office of Financial Management (OFM), rather than OFM and the Legislative Evaluation and Accountability Program Committee (LEAP), will identify school district financial health system measures and develop a financial health monitoring system. The OFM will seek input from and collaborate with the Office of the Superintendent of Public Instruction (OSPI) and LEAP.

After the measures and system are recommended in November 2007, LEAP will make further recommendations to the Legislature for modification or change if necessary.

The OFM will conduct the review of school district budget submittal processes, also with input and consultation with OSPI and LEAP.

The Education Data Center (Data Center) is created in OFM, rather than LEAP.

The Data Center will:

- (1) conduct collaborative analyses with LEAP;
- (2) to the extent permitted by confidentiality requirements, provide education data electronically to LEAP;
- (3) collaborate with LEAP and the education and fiscal committees to identify the data to be collected and analyzed; and
- (4) phase-in implementation of a comprehensive data system with school-level data consistent with recommendations of the Joint Legislative Audit and Review Committee.

School districts must submit certain data to OSPI beginning with the 2008-09 school year, including:

- (a) for each class in each school, the certification number of the teacher and the student identifier of each enrolled student; and
- (b) for each high school math class in secondary schools, a course code based on a national coding classification.

The OSPI must develop standards for school data systems.

The OSPI must convene a workgroup to develop a plan for coding secondary courses.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Second Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:**

(In support) The Governor supports the proposed substitute. The education data center and financial watch project should be within the forecasting section of OFM. We have a lot of talent and resource already in place to carry out this function. We want to work closely with LEAP but we think that the appropriate place for this is OFM.

I support this bill. Overall we see a need to focus more on the financial problems of school districts. The set of metrics discussed in the bill represent some good ideas. It's also a good idea to incorporate this into the relationships Educational Service Districts (ESDs) already have with school districts, rather than placing it in LEAP or elsewhere. I think I speak for all my colleagues in supporting the second substitute bill.

(With concerns) We would like to thank Representative Santos for greatly improving this bill. However, with Section 1, we have some concerns. Long range budgetary data for school districts currently doesn't exist. The ESDs already have a longstanding budget review system, and the problem is simply lack of funding. It is not necessary to implement a new budget rating system. More funding for ESDs is what is needed, so that they can reach more school districts and spot potential problems.

The Washington Association of School Administrators has some concerns with House Bill 1871. We think that you are putting the cart before the horse. The financial health project is a good idea, and it should be done in collaboration with the educational service districts. But you should not approve and fund it before it has been developed and recommended. At this point, we don't know how many districts would fall into the three categories, so you don't really know how much it will cost to implement. Regarding the Data Center, we have one major concern – are we looking at what we have now? We already have a wealth of data available to us. Will this data really inform decisions?

The financial health monitoring portion of the bill is supported by my clients. Regarding data, however, there are at least five different bills that deal with data collection that involve a lot of different agencies. Before we move forward, we need to do some coordination in terms of the different needs expressed in the various relevant bills.

The Superintendent of Public Instruction supports the proposed second substitute. The financial watch project is becoming increasingly important. We think the financial issues emerging out of these districts are larger in scale than what this current funding proposal would support, and we therefore think it may need to be revisited at some future point.

I support the data center project. This will allow colleges and university teacher education programs to come back to you with research that would inform your funding decisions. We want to go forward with a coherent plan on data, and we note that there are several bills which deal with data centers, data collection, and coordination issues. We urge you to look at these bills and make them a coherent package.

(Opposed) The Washington Association of School Business Officials is opposed to this bill as it appears before you today. We're concerned about potential unfunded costs for the data required from districts for this. Districts already receive bond ratings from Standard and Poors, and annual audits from the State Auditor's office. We respectfully submit that this may constitute duplicative efforts. We believe the process should be simplified rather than made more cumbersome. ESDs actually already approve districts with fewer than 2,000 students. The Legislature should simply provide more resources to ESDs to allow them to do their work.

**Persons Testifying:** (In support) Bill Keim, Educational Service Districts; Victor Moore, Director, Office of Financial Management; and Marcia Fromhold, Washington School Information Processing Cooperative.

(With concerns) Bob Cooper, Washington Association of Colleges for Teacher Education; Barbara Mertens, Washington Association of School Administrators; Bill Freund, Washington Education Association; and Jennifer Priddy, Office of the Superintendent of Public Instruction.

(Opposed) Mitch Denning, Alliance of Educational Associations.

**Persons Signed In To Testify But Not Testifying:** None.