

STORAGE NAME: h0469.ei

DATE: November 16, 1999

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
EDUCATION INNOVATION
ANALYSIS**

BILL #: HB 469 (PCB EI 00-01)

RELATING TO: School District Best Financial Management Practices Reviews

SPONSOR(S): The Committee on Education Innovation and Representative Melvin

TIED BILL(S): None

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

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I. SUMMARY:

HB 469 combines two reviews conducted by the Office of Program Policy and Government Accountability (OPPAGA) into one review for the school districts. According to OPPAGA, the benefits of consolidating the reviews into the best financial management practices review are to:

- Eliminate overlap between two types of reviews
- Simplify administration of school district reviews
- Resolve confusion among school districts about the reviews
- Provide a consistent application of criteria for reviewing the performance and use of best practices among school districts
- Enable all districts to participate

HB 469 also requires OPPAGA to recommend a ten-year cycle of reviews. The schedule is subject to the approval of the Legislature in the General Appropriations Act. In addition to designing a schedule, OPPAGA is also required to recommend to the President of the Senate and the Speaker of the House of Representatives the districts proposed to undergo review during the next fiscal year. This recommendation must be submitted by December 31 of each year.

The Legislature will annually designate in the General Appropriations Act, based on recommendations by OPPAGA, those school districts that receive a fully-funded best financial management practices review. The cost of each review is based on the size of the district. Reviews of very large districts cost approximately \$600,000; large districts \$500,000; medium districts \$250,000; and small districts \$135,000. According to OPPAGA report number 98-18, in fiscal year 1997-98, OPPAGA received \$500,000 to conduct three school district performance reviews. In fiscal year 1996-97, as well as fiscal year 1998-99, the amount appropriated was \$750,000 for three school district reviews. Based on the findings of six reviews, over a ten-year period, these six school districts could have a combined cost savings of \$148 million.

If the Legislature chooses to review all districts based on the ten-year cycle, the estimated annual cost will be approximately \$3.45 million. The cost of seven additional OPPAGA staff required to oversee mandatory reviews of each district as well as the projected cost of private consultants to actually conduct the reviews is included in these projections.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

B. PRESENT SITUATION:

The Office of Program Policy Analysis and Government Accountability (OPPAGA)

The 1994 Legislature created the Office of Program Policy Analysis and Government Accountability (OPPAGA) to help improve the performance and accountability of state government. OPPAGA is a research unit that conducts studies on Florida agencies and programs to identify opportunities to improve services to citizens and reduce government costs.

OPPAGA produces policy analyses and performance reviews on state government programs. These studies assess the efficiency, effectiveness, and long-term implications of state policies and programs, and make recommendations to Florida government. OPPAGA also produces program evaluation and justification reviews of Florida agencies that are operating under Performance-Based Program Budgeting (PB²).

Currently, OPPAGA administers two types of reviews of Florida school districts: school district performance reviews and best financial management practices reviews.

School District Performance Reviews

The 1996 Florida Legislature created the school district performance review program to assist Florida school districts in identifying ways to save funds, improve management, and increase efficiency and effectiveness. Pursuant to s. 230.2302, F.S., the Legislature annually designates the districts to undergo a review. These reviews are conducted by private consulting firms selected by OPPAGA using a request for proposal (RFP) process and are fully funded by the state. Participating school districts retain any cost savings resulting from the implementation of review recommendations.

According to s. 11.515, F.S., school district performance reviews must examine the following 11 broad school district management and operational areas:

- school district organization and management
- educational service delivery
- community involvement
- facilities use and management
- personnel management
- asset and risk management
- financial management
- purchasing

- transportation
- food service
- safety and security

OPPAGA works with school districts undergoing a review to refine the scope to address specific district issues. Six districts have undergone this review: Hamilton, Hillsborough, Lee, Clay, Glades, and Orange. A private consultant was utilized for each of these reviews. The Legislature fully funded these reviews.

The 1999 Legislature appropriated \$30,000 in the General Appropriations Act (GAA), Line Item 131, for post-review evaluations of Hamilton, Hillsborough, and Lee County schools. The Legislature did not appropriate any funds in the 1999-2000 GAA for school district performance reviews.

Best Financial Management Practices Reviews

The 1997 Legislature directed OPPAGA and Florida's Auditor General to develop a system for reviewing the financial management practices of the school districts. OPPAGA and the Auditor General developed best financial management practices for Florida school districts (s. 230.23025, F.S.). The best practices were then adopted by the Commissioner of Education. OPPAGA and the Auditor General jointly examine school district operations to determine whether they are using the best financial management practices. Best financial management practices reviews are designed to encourage school districts to:

- use performance and cost-efficiency measures to evaluate programs
- use appropriate benchmarks based on comparable school districts, government agencies, and industry standards to assess their operations and performance
- identify potential cost-savings through privatization and alternative service delivery
- link financial planning and budgeting to district priorities, including student performance

OPPAGA published the first best financial management practices review, a review of Manatee County School District, in October of 1998. The possible net savings to the district as a result of this review *could* surpass \$35 million if the school board follows through with the implementation of this plan. Manatee County voted to implement all of the recommendations made by OPPAGA. Manatee County's initial report on the implementation of these changes will be published in November of 1999.

In 1999, OPPAGA conducted a best financial management practices review for the Polk County School District and contracted a combined performance and best financial management practices review for the Brevard and Martin County School Districts. These reviews are funded on a 50-50 basis; the district pays for half and the Legislature funds the other half. The *estimated* (if the school board were to vote to implement all of the recommendations) savings to the district, as a result of these reviews, could be:

- Polk County -- \$1.5 million in fiscal year 1998-99 and \$8 million over five years
- Martin County -- \$16.4 million over five years
- Brevard County -- \$6 million over five years

Differences

School district performance reviews differ from best financial management practices reviews in several ways:

- School districts participating in performance reviews are generally identified by the Legislature, whereas school districts may apply to OPPAGA for a best practices review.

- Although the general areas covered by both reviews are similar, best practices reviews determine whether a district is using a comprehensive set of standards, or best practices, adopted by the Commissioner of Education. If a district is found to be using the best practices, it is eligible for a "Seal of Best Financial Management."
- The performance reviews currently cover four areas for which no best practices have been adopted: educational service delivery, community involvement, safety and security, and instructional and administrative technology.

C. EFFECT OF PROPOSED CHANGES:

The bill combines school district performance reviews with best financial management practices reviews into one school district review, the best financial management practices review. According to OPPAGA, the benefits of consolidating these reviews would be to:

- Eliminate overlap between two types of reviews
- Simplify administration of school district reviews
- Resolve confusion among school districts about the reviews
- Provide a consistent application of criteria for reviewing the performance and use of best practices among school districts
- Enable all districts to participate

Best Financial Management Practices Review

The purpose of a best financial management practices review is to improve a school district's management and use of resources, and to identify cost savings. The Director of OPPAGA is given the discretion to hire an outside consultant to conduct all or part of these reviews by using a request for proposal (RFP) process. The scope of the review is required to include, but is not limited to:

- Management structures
- Educational service delivery
- Community involvement
- Facilities
- Personnel systems and benefits
- Student transportation
- Food service operations
- Safety and security
- Performance accountability
- Use of lottery proceeds
- Cost control systems
- Instructional and administrative technology

In areas for which there are not established best practices, OPPAGA can develop additional best practices with input from a broad range of stakeholders and present them for review and adoption by the commissioner.

According to the OPPAGA, their role in administering the combined reviews will be:

- Develop RFPs
- Select consulting firms using RFP process
- Work closely with school district staff to ensure districts' expectations are met
- Actively monitor consultants' fieldwork

- Provide consultants with written feedback on draft reports
- Ensure consultants adhere to requirements of the RFP to deliver a quality product to the school board
- Work collaboratively with consultant and district staff to provide useful recommendations
- Attain consistent application and interpretation of the best financial management practices among consulting firms
- Issue a short report to the Legislature on whether each district is using best financial management practices
- Determine whether the districts are meeting the adopted best practices
- Achieve statewide consistency in best practices
- Provide technical assistance to the school board and district staff
- Monitor districts' implementation of recommendations and progress toward using the best financial management practices
- Develop and revise the best financial management practices and indicators

Cycle of Reviews

HB 469 also requires OPPAGA to recommend a ten-year cycle of review for all school districts. The schedule is subject to the approval of the Legislature in the General Appropriations Act. In addition to designing a schedule, OPPAGA is required to recommend to the President of the Senate and the Speaker of the House of Representatives the districts to undergo review during the next fiscal year. This recommendation must be submitted by December 31 of each year.

Payment of Reviews

The Legislature will annually designate in the General Appropriations Act, based on recommendation by OPPAGA, those school districts that receive a fully-funded best financial management practices review.

The estimated cost of each review is based on the size of the district. Reviews of very large districts would cost \$600,000; large districts \$500,000; medium districts \$250,000; and small districts \$135,000. All costs are approximations.

Seal of Best Financial Management

Districts that comply with the best financial management practices will receive a "Seal of Best Financial Management" from the State Board of Education. This seal certifies that the district is adhering to the state's best financial management practices and is effective for a five-year period beginning on the certification date. If districts do not comply at the time of review, the report must include a recommended action plan detailing how to meet the best financial management practices.

District school boards must vote to implement or not to implement the recommended action plan provided in the report. The vote must take place within 90 days after receiving the report. In order to be considered for a "Seal of Best Financial Management," districts must implement the plan which details how the district could meet best practices within a two-year period. School boards that agree to institute the plan are required to submit a report to the Legislature, the Governor, the SMART Schools Clearinghouse, OPPAGA, the Auditor General, and the Commissioner of Education on the progress made toward implementing the plan. The initial report is due no later than one year after the board receives OPPAGA's report. A second report is due a year later. This district report on progress does not take the place of the required annual financial audit.

For the two years after the school board votes to implement the action plan, OPPAGA reviews the district to assess implementation and progress.

D. SECTION-BY-SECTION ANALYSIS:

- Section 1** Amends s. 11.51, F.S., requiring the office of Program Policy and Government Accountability to conduct or contract for best financial management practices reviews of school districts and correcting a cross reference.
- Section 2** Amends s. 11.515, F.S., revising references to “performance reviews”; clarifying and conforming the authorization for contracting for reviews; revising the scope of the reviews.
- Section 3** Amends s. 230.23025, F.S., providing the purpose of a best financial management practices review; clarifying the procedure for revising best financial management practices adopted by the commissioner; authorizing OPPAGA to develop certain additional best practices for review and adoption by the Commissioner of Education; revising areas addressed by the review; establishing a time frame for school district review; requiring OPPAGA to make recommendations for districts proposed to undergo review; requiring districts to be reviewed to be specified in the General Appropriations Act; providing funding requirements; revising provisions relating to the “Seal of Best Financial Management”; revising requirements for district progress reports from districts which have voted to implement the plan.
- Section 4** Amends s. 230.23026, F.S., conforming terminology; conforming funding requirements.
- Section 5** Amends s. 235.2197, F.S., correcting a cross reference.
- Section 6** Repeals s. 230.2302, F.S., relating to performance reviews.
- Section 7** Provides an effective date of July 1, 2000.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

N/A

2. Expenditures:

OPPAGA would be required to conduct reviews for school districts designated in the GAA. The cost of these reviews would depend on the size and the number of the districts to be reviewed. OPPAGA will recommend a schedule for all districts based on a ten-year cycle.

If the Legislature chooses to review all districts based on the ten-year cycle, the estimated annual cost will be approximately \$3.45 million. The cost of seven additional OPPAGA staff required to oversee mandatory reviews of each district as well as the projected cost of private consultants to actually conduct the reviews is included in these projections.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

By allowing private consulting firms to continue to conduct these reviews, and by increasing the number of reviews completed if every district were to undergo a review on a ten-year cycle, the private consulting firms selected through the RFP process could benefit.

D. FISCAL COMMENTS:

According to OPPAGA report number 98-18, in fiscal year 1997-98, OPPAGA received \$500,000 to conduct three school district performance reviews, in fiscal year 1996-97, as well as fiscal year 1998-99, the amount appropriated was \$750,000 for three school district reviews. Based on the findings of six reviews, over a ten-year period, these six school districts could have a cost savings of \$148 million. This savings is substantially greater than the cost of the reviews.

The possible net savings to the Manatee County School District, which received the first best financial management practices review in October of 1998, *could* surpass \$35 million over a five-year period if the school board follows through with the implementation of this plan.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

The bill does not require counties or municipalities to expend funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority of counties or municipalities to raise revenue.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

The bill does not reduce the percentage of state tax shared with counties and municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On November 3, 1999, the Committee on Education Innovation amended PCB EI 00-01. The committee approved two amendments.

- Amendment one was technical in nature and reinserted existing language that was stricken in the PCB.
- Amendment two added the word "after" to further clarify reporting requirements.

The committee subsequently voted unanimously to file the PCB as amended.

On November 16, 1999, PCB EI 00-01 was assigned the bill number HB 469.

VII. SIGNATURES:

COMMITTEE ON EDUCATION INNOVATION:

Prepared by:

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