

STORAGE NAME: h0269s2.llc.doc
DATE: February 27, 2001

**HOUSE OF REPRESENTATIVES
AS FURTHER REVISED BY THE
COUNCIL ON LIFELONG LEARNING
ANALYSIS**

BILL #: CS/CS/HB 0269

RELATING TO: School District Best Financial Management Practices Reviews

SPONSOR(S): Council for Lifelong Learning, Committee on Education Appropriations, Representatives Murman, Lacasa, Byrd, Mack, Melvin, Diaz-Balart, Cantens, Bense, Argenziano, and Lynn

TIED BILL(S):

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

- (1) COMMITTEE ON GENERAL EDUCATION YEAS 13 NAYS 0
 - (2) EDUCATION APPROPRIATIONS YEAS 14 NAYS 0
 - (3) COUNCIL ON LIFELONG LEARNING YEAS 15 NAYS 0
 - (4)
 - (5)
-

I. SUMMARY:

This bill, named the "Sharpening the Pencil Act," combines two existing school district review programs (the school district performance review program [s. 230.2302, F.S.] and the best financial management practices review program [ss. 230.23025, and 11.515, F.S.]), into a single revised and expanded best financial management practices review program. One of the most important modifications is that the revised review program is no longer selective or voluntary, and is instead mandatory, requiring that each school district must undergo such a review at least once every five years.

Under the revision, elements of the school district performance reviews are included in the best financial management practices review program, and the school district performance review program is eliminated. The bill specifies the areas in which best practices shall be developed, and specifically lists which school districts are to be reviewed in each annual cycle. The State Board of Education shall adopt the best practices as a standard, and the Office of Program Policy Analysis and Government Accountability (OPPAGA) shall, in their review, consider implementation of the best practices as the goal for school districts.

Once a district has been reviewed, OPPAGA issues a final report noting any shortcomings in complying with the best financial practices, and providing the district an action plan on how to come into compliance. The district must vote on whether it will seek to implement the plan. If, in the assessment of OPPAGA, the district successfully implements the best financial management practices (as set forth in the action plan) within two years, the State Board of Education will award the district a "Seal of Best Financial Management." The seal is good for five years, but the State Board of Education may revoke the seal at any time it determines that the district is no longer complying with the best practices.

In order to review all 67 districts on a five year cycle, OPPAGA must conduct an average of 13 to 14 reviews per year. They are authorized to employ such consultants as they deem necessary to conduct all or part of any review. School districts will no longer pay part of the cost of a review. These reviews are to be funded by the Legislature to the extent provided in the General Appropriations Act. OPPAGA's estimated cost per year for the five year cycle is just over \$4.1 million per year.

On 2/6/01, the House Committee on General Education adopted six amendments. On 2/9/01, the Education Appropriations Committee adopted two amendments, and made the bill a Committee Substitute (CS). On 2/21/01, the Council for Lifelong Learning adopted three amendments, making the bill a Council Substitute (CS/CS). **See the *Amendments or Committee Substitutes* portion of this bill analysis for details.**

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"/> |

For any principle that received a "no" above, please explain:

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. Nine districts have undergone this review: Hamilton, Hillsborough, Lee, Clay, Glades, Orange, Broward, Brevard, and Martin. The Legislature fully funded these reviews, except for Brevard and Martin, which actually received a combined performance review/Best Financial Management practices review, for which they paid part of the cost. A private consultant was utilized for each of 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.) and submitted them to the Commissioner of Education to be adopted. The Commissioner of Education adopted them in September of 1997. The best practices may be revised, as needed. To date, they have been revised only once, in October of 2000.

OPPAGA and the Auditor General jointly examine school district operations to determine whether they are using the best financial management practices in certain statutorily specified areas. 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 February of 2001.

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

The 2000 Legislature directed OPPAGA to expand the best financial management practices to include four additional areas—school safety, community involvement, administrative and instructional technology, and educational service delivery. The Commissioner of Education adopted the revised and updated best practices in October 2000.

In addition, the 2000 Legislature directed OPPAGA to conduct a BFMP review in Lake County during the 2000-01 fiscal year. OPPAGA has obtained a consultant to conduct the review, and expects to begin the review in March 2001.

Differences

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

- A performance review is selective, but compulsory, in that districts participating in it are generally designated by the Legislature, whereas a best practices review is voluntary, in that school districts apply to OPPAGA to conduct the 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. In a best practices review, if a district is found to be using the best practices, it is eligible for a Seal of Best Financial Management.

1999 General Session

The House passed HB 469 that would have integrated the school district performance reviews and the Best Financial Management Practice Reviews into a single process. HB 469 died on the Senate calendar. OPPAGA indicated, "combining the two programs would eliminate overlap between the two types of reviews, simplify administration, resolve confusion among school districts about the reviews, and enable all school districts to participate."

C. EFFECT OF PROPOSED CHANGES:

Essentially, the bill combines and revises two existing school district performance review programs into a single program.

The bill revises and expands the best financial management practices review (s. 230.23025, F.S.). That review program is conducted by OPPAGA and is, in its current form, selective and voluntary. The revised best financial management practices review becomes mandatory, and provides that each school district shall undergo the review at least once every five years.

Having included elements of the school district performance review (s. 230.2302, F.S.) in the revised best financial management practices review, the bill eliminates the school district performance review.

D. SECTION-BY-SECTION ANALYSIS:

Section 1. Titles the Act the "Sharpening the Pencil Act."

Section 2. Amends s. 230.23025, F.S., revising the best financial management practices review of school districts in the following manner:

- Provides for a mandatory comprehensive review of each school district, establishing a schedule of specific districts to be reviewed each year, on a schedule providing that each district will be reviewed at least once every five years (i.e., in a "continuing five year cycle"). The reviews will no longer be voluntary and districts will not choose between a full or partial review. The Office of Program Policy Analysis and Government Accountability (OPPAGA) will conduct the review.
- Provides that the Joint Legislative Auditing Committee, the President of the Senate, or the Speaker of the House of Representatives may add up to two reviews in any given year, if such review is deemed necessary to address adverse financial conditions. Provision is also made for the Joint Legislative Auditing Committee to adjust the schedule of reviews in any given year, when unforeseen circumstances have prevented, or would prevent, scheduled reviews from being conducted.
- Provides that the reviews must be fully funded by the Legislature. Districts will no longer contribute part of the estimated cost.
- Provides a clear statement regarding the purpose and objectives of the review, together with the listing of the "best practice" areas that must be covered.
- Provides that OPPAGA shall contract with outside consultants, selected through a formal request-for-proposal process, to perform the review, and that at least one member of the consulting team must have expertise in school district finance.
- Provides that the OPPAGA review shall be completed within six months of its commencement, and that OPPAGA shall issue its final report on that review within 60 days of that completion. That final report must detail any ways in which the district fails to meet best financial management practices (best practices), and must include an action report on how the district could meet the best practices within two years.
- Provides that the school district must, within 90 days, vote on whether or not to implement the action plan and pursue a "Seal of Best Financial Management." This seal is awarded by the State Board of Education to any school district that has been found to have successfully implemented the best practices within two years of the issuance of OPPAGA's report. The vote to pursue the seal must be by a majority of the board, plus one (i.e., if the board has seven members, it would take an affirmative vote from five members).
- Any school board, having voted not to implement the action plan and pursue the seal, may still reverse itself and choose to implement the plan and pursue the seal. However, in order to receive the seal, the district must complete successful implementation of the best practices *within two years from the date of the issuance of the final report in its initial review.*
- A district that that has voted to pursue the seal must submit a status report on its progress, no later than one year from the date of the issuance of the final report. OPPAGA will then assess the district's progress. If the district is found not to have successfully completed implementation of the best practices at that point, they have one more year. At the completion of that second year, the district submits a second status report. OPPAGA again assesses their progress, and may recommend that it be granted the seal. Each time OPPAGA assesses the district's progress, its assessment is issued as a report, and is provided to both the district and the Legislature. If, at any point within two years from the issuance of OPPAGA's final report, OPPAGA concludes that the district has successfully implemented the best practices, the State Board of Education shall issue the district the "Seal of Best Financial Management." OPPAGA has indicated that some of the best financial management practices will be considered more

important and given more weight than others, and that "successful" implementation of the best practices does not necessarily require 100% conformance with every practice.

- Once a seal is issued, it is good for five years, or until the next review. A district that has received a seal must submit a report each year notifying the Auditor General and the State Board of Education of any changes in policies or operations or any other situations that would not conform to the best practices. The State Board of Education may revoke the designation if it determines that the district is no longer complying with the best practices.
- If a school board fails, within 90 days of the receipt of OPPAGA's final report, to vote as to whether it will seek to implement the action plan, school board members may be required to appear before the Legislature to explain their inaction. And, if the school board votes to implement the action plan, but fails to do so within two years from the issuance of the final report by OPPAGA, school board members, or the superintendent, may be required to appear before the Legislature to explain their failure to implement the action plan.
- Provides for an citizen appeal process, to the DOE, regarding the actions/inactions taken by the school district subsequent to the review

Sections 3 and 4. Repeal ss. 11.515, and 230.2302, F.S., eliminating the school district performance reviews.

Section 5. Repeals s. 230.23026, F.S., repealing the Florida School District Review Trust Fund. Since school districts will no longer pay part of the cost of reviews, there is no need for this trust fund.

Sections 6-9. Amend ss. 11.51, 230.23027, 233.43, and 235.2197, F.S., making purely technical changes to correct cross references.

Section 10. Provides that the bill shall take effect July 1, 2001.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

In order for each of the 67 school districts to be reviewed at least once every five years, OPPAGA must conduct an average of 13 to 14 reviews per year. They are authorized to employ such consultants as they deem necessary to conduct all or part of any review. The reviews are to be funded by the Legislature, at no expense to the school districts. Based on the cost of the nine districts reviewed since 1997, OPPAGA estimates the annual cost to review all 67 districts within 5 years to be \$4.1 million per year.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

The districts will no longer be required to provide a portion of the funding for the audits. In addition, the audits will generate cost savings for the districts. Previous best financial management practices reviews have provided potential savings amounts of \$35 million, \$16.4 million, \$8 million and \$6 million for certain districts.

C. **DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

Private consulting firms chosen by OPPAGA can expect to derive a substantial amount of business in assisting OPPAGA with these reviews.

D. **FISCAL COMMENTS:**

Based on previous OPPAGA best financial management practices reviews each school district can implement changes in the use of resources that result in saving millions of dollars that can be used to help increase student achievement. In addition by providing the services in the best financial management practices reviews to school districts, without requiring the districts to share in the cost of the review, will produce some savings to local school districts, who currently have to pay part of the costs of the reviews.

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

A. **APPLICABILITY OF THE MANDATES PROVISION:**

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. **REDUCTION OF REVENUE RAISING AUTHORITY:**

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

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

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. **CONSTITUTIONAL ISSUES:**

None.

B. **RULE-MAKING AUTHORITY:**

The Commissioner of Education must adopt the best financial management practices for school districts.

C. OTHER COMMENTS:

The purpose of this program is to provide cost effective assistance to all school districts to enable them to achieve efficient and effective use of all resources available to provide a high quality education for their students.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On February 6, 2001, the House Committee on General Education adopted six amendments. The amendments:

- Name the act the "Sharpening the Pencil Act;"
- Clarify that the best practices must be adopted by the Commissioner of Education;
- Provide that the reviews shall include the school districts use of *all* resources;
- Require that OPPAGA contract with outside consultants and that at least one member of the consulting team have expertise in school district finance;
- Require public meetings subsequent to the issuance of the report;
- Require distribution of the report to school advisory councils and district advisory councils; and
- Provide that superintendents, in addition to school board members, are subject to being called before the legislature if the district fails to implement the best practices after having voted to implement them.

The amendments were not engrossed into the bill and are traveling with the bill.

On February 9, 2001, the House Committee on Education Appropriations heard this bill and adopted two amendments. One amendment provided that funds saved by a school district as a result of implementing the best financial management practices reviews must be spent at the school and classroom level in the district to correct student outcome deficiencies. The other amendment changed the time of the scheduled review for the Volusia school district from year 1 to year 2. The amended bill was made a Committee Substitute.

On February 21, 2001, the House Council For Lifelong Learning made three additional changes, and made the bill a Council Substitute. Those changes:

- Moved the Osceola County review from year 2 to year 1;
- Provided for an citizen appeal process, to the DOE, regarding the actions/inactions taken by the school district subsequent to the review; and
- Removed the language providing that cost savings resulting from the reviews must be redirected to the classroom (*the committee indicated that there was a technical problem with the provision and that language correcting the problem would be developed at a later date, and the provision could then be reinserted into the bill*).

STORAGE NAME: h0269s2.llc.doc

DATE: February 27, 2001

PAGE: 9

VII. SIGNATURES:

COMMITTEE ON GENERAL EDUCATION:

Prepared by:

Gip Arthur

Staff Director:

Ouida Ashworth

AS REVISED BY THE COMMITTEE ON EDUCATION APPROPRIATIONS:

Prepared by:

William Cecil Golden

Staff Director:

John Newman

AS FURTHER REVISED BY THE COUNCIL ON LIFELONG LEARNING:

Prepared by:

Gip Arthur

Staff Director:

Patricia Levesque
