

School Finance Redesign Project

center on reinventing public education

TOWARD EFFECTIVE RESOURCE USE:

Assessing How Education Dollars Are Spent

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Working Paper 16

May 18, 2007



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The School Finance Redesign Project

The School Finance Redesign Project (SFRP) encompasses research, policy analysis, and public engagement activities that examine how K-12 finance can be redesigned to better support student performance. The project addresses the basic question, “How can resources help schools achieve the higher levels of student performance that state and national education standards now demand?”

Check in with us periodically to see what we’re learning and how that information may reshape education finance to make money matter for America's schools. You can find us at www.schoolfinanceredesign.org.

Jacob Adams, Principal Investigator

The SFRP Working Paper Series

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Support from the Bill & Melinda Gates Foundation

This work was supported by the School Finance Redesign Project at the University of Washington’s Center on Reinventing Public Education through funding by the Bill & Melinda Gates Foundation, Grant No. 29252. The views expressed herein are those of the authors and are not intended to represent the project, center, university, or foundation.

Introduction

The management of educational resources has significantly changed due to various fiscal, political, and economic factors in America. Changes in the school finance landscape including rapidly rising costs, slowing state aid, and resistance from local taxpayers to raise property taxes are beginning to redefine how school districts allocate both instruction and non-instruction dollars. For many school districts, the conversation is no longer about just *how much* more to spend but about *how* to more effectively allocate resources. Unfortunately, many school districts are not equipped with the tools and knowledge to allocate resources for optimal effectiveness. Standard & Poor's would like to contribute to this shifting conversation by sharing its findings from a year long "listening tour" where dozens of state and local education leaders were interviewed on how to best help states and districts better allocate existing resources.

This paper will explain what constitutes effective resource use, the major financial issues facing school leaders, and solutions delivered through a "Resource Management Service" being developed by Standard & Poor's. In addition, the paper concludes with ways to create more capacity to conduct this work.

Two Types of Effective Resource Use

There are two ways to achieve effective resource use in education:

1. Identify what resource configurations consistently help raise student achievement. This includes reviewing staff configurations, curriculums, and/or school reform models.
2. Eliminate inefficiencies, mainly in non-instruction spending, in school districts by streamlining systems or using cost-avoidance techniques—then opportunities for resource reallocation emerge.

This paper will focus on the tenets of a Resource Management Service, which centers on the second method: the reallocation of non-instructional costs such as associated with transportation, operations and maintenance, food service, or business services. There are instances where items that are classified as instructional spending, such as healthcare benefits or pension obligations for teachers, overlap with topics addressed in non-instruction.

In the context of this paper, effective resource use is defined as a school district's collection of processes and outcomes that, compared to operationally-similar peers¹ on a standardized per unit measure, costs less to maintain. A framework to further understand this definition is explained later in the paper.

The need to more effectively allocate resources has been brought into sharp focus because of rapidly rising costs, the crowding out of and volatility of state aid, and increasing resistance from local taxpayers to raise property taxes. Standard & Poor's conducted interviews and focus groups

¹ Operational data are defined as those indicators that describe the non-instructional aspects of school districts. For example, this may be total miles traveled by school buses for transportation or total square footage of educational facilities for operations and maintenance.

to obtain direct feedback from school district administrators and state leaders who provided on-the-ground perspectives about the localization of these issues.²

Major Education Resource Issues

Over the past decade, school business officials have struggled to maintain funding for quality instructional programs while battling the rising costs of various budget items. Employee pension and healthcare benefits, fuel for buses, and energy costs account for some of the largest line-item increases. These rising costs have caused a reduction in the discretionary dollars available to support teaching and learning (i.e., a “crowding out” effect). Coupled with pressure to improve student achievement under the *No Child Left Behind Act* (NCLB), districts are being asked to improve academic results despite the depletion of discretionary spending.

Public Pension Guarantees

Referred to by some as the “perfect storm,” a combination of a weakening financial environment, slow economic growth, and shifting demographics have raised concerns that pension programs could create financial instability in local and state governments through unprecedented rising costs to sustain these programs.³ Public pension funds consist of liabilities (financial obligations to retired public employees) and assets (contributions of members, employers, the state, and the earnings on those contributions). The funding ratio, which is the percentage of total assets to total liabilities, is one of the best measures of a pension program’s fiscal health.

Since FY 2000, the funding ratios for many public pension programs have fallen dramatically due to lower returns on invested assets, growing liabilities from an increased number of retirees, and enhanced program amendments enacted in the late 1990’s. Primarily due to the changes in program benefits, many states now face growing, unfunded pension liabilities. One solution that many states have begun to utilize is to ask local government and program members (i.e., public employees) to contribute more.

For example, consider Providence Public Schools. When the Rhode Island Employee Retirement System (RIERS) announced its \$3.1 billion unfunded pension liability and drop in funding ratio for teacher pensions “from 73.2% in fiscal 2003 to 60.3% in fiscal 2005,” the state asked members and government employers to pitch in (Rhode Island Public Expenditure Council 2005). As a result, Providence Public Schools’ Chief of Finance, Mark Dunning, during 2006-07 budget talks indicated that the school district’s state retirement contribution was one of the fastest growing items in the budget, increasing nearly 23% from the prior year’s budget (Providence Schools 2006).

² Standard & Poor’s conducted qualitative interviews and focus groups with over 150 school district and state leaders representing 90 school districts in nine states throughout the country over a period of nine months. These leaders included superintendents, school business officials, education service agency administrators, and state department of education staff.

³ Giertz and Papke (2007) presented a preliminary draft of a paper “clarifying the close connection between state revenues and state pension solvency.”

Health Insurance

Unfunded pension liabilities are only part of the story when it comes to explaining the unprecedented rising costs in many school district budgets. The cost of providing healthcare benefits to public employees also has been a major driver of costs for school districts.

For example, in 2006, Michigan school districts were offered annual health insurance coverage at more than \$16,000 per teacher, which is more than \$5,000 above the national average as reported by the Kaiser Family Foundation (Michigan Education Report 2006).

Results from a 2005 Association of School Business Officials (ASBO) International survey provide a representative, nationwide picture of health insurance costs for school districts. Of all respondents, 58% said rising healthcare costs were among their biggest concerns. Additionally, 91% of respondents commented that during the most recent renewal of their district's health insurance plan their health insurance premiums had increased. When asked if the rising cost of health care had negatively affected the ability of the district to provide academic services to students, 68% of respondents either agreed or strongly agreed (Skinner 2005).

Fuel & Energy

Two areas of non-compensation that school districts allocate a growing portion of their budgets towards are fuel for buses and energy used to heat, cool, and provide electricity to school buildings. A school district with around 1,000 students might spend approximately 17% of its transportation budget on fuel. The same district might spend approximately 25% of its operations and maintenance budget on energy costs.

Spending on fuel and energy has also contributed to rapidly rising costs in many school district budgets. Since 2002, the Energy Information Administration reported that the average cost for a gallon of diesel fuel had risen 116% to \$2.49 in 2006.⁴ This is compared to only a 10% increase between 1998 and 2002. For a school district, this would mean that fuel would consume a larger proportion of the budget, increasing from 10% in 2002 to 17% in 2006.

Similar to the increase in fuel price, the fluctuation in prices has also grown. For example, between July 1998 and July 1999 there was a 12-cent gap between the highest and lowest average monthly cost for a gallon of diesel fuel. Between July 2005 and July 2006, that gap was 46 cents. Because school district administrators set budgets prior to the beginning of the fiscal year, estimating the annual cost for goods and services, such as fuel, that have a lot of price volatility can wreak havoc on expected school district spending.

It is apparent that "fixed costs" such as natural gas and electricity have been partly responsible for the recent increases in many school district budgets. According to the Energy Information Administration, the average retail price for electricity has increased by 16.7% over the past five years to \$8.67 per kilowatt-hour from \$7.43. For natural gas over that same five year time period, the increase has been 18.2% to \$11.57 per 1,000 cubic feet from \$6.35 at the end of 2001 (Sack 2005).

⁴ The percentage increases cited are the differences between annual averages between 2002 and 2006 (Energy Information Administration 2006).

Barriers to Increasing Discretionary Funding for Education

Two barriers to increasing discretionary funding for education are: (1) resistance by local taxpayers to increase property taxes and (2) funding pressures associated with student academic performance under NCLB. Much of the resistance to higher property taxes originates in property value increases over the past six years and a lack of understanding as to whether or not the school district is properly spending taxpayer dollars. Standard & Poor's research suggests that communication of district financial matters are often poorly handled. In fact, many school business officials lack the tools to effectively communicate and build confidence among local education stakeholders.

Growing Resistance to Increasing Property Tax Rates. While district administrators grapple with the flattening of support that states provide for their school systems, the other primary source of financing for education, property taxes, has not fully offset the slowdown in state revenues. Still, property tax bills increased dramatically starting in 2001. This, among other things, has caused some of the discontent among property taxpayers. Resistance to increased support for education through local sources may be best illustrated in states such as Ohio, Pennsylvania, New Jersey, and Oregon where various strategies to limit further increases in property taxes have been formulated.

This resistance is further complicated by the challenge among school district leaders to clearly communicate and build the support of key, local education stakeholders around the financial needs of the school district. These stakeholders typically include school board members, employees, union representatives, community members, and the local media. For many, the explanation of revenue and spending for the school district are difficult to understand, let alone to make a decision based upon the information. As skepticism grows among local communities about school district spending, the ability to simply communicate complex financial matters is crucial.

Implications of the No Child Left Behind Law (NCLB). It is unlikely that anyone fully realized the rippling effect that NCLB would have on the education community when President Bush signed it into law in early 2002. Redefining how education leaders look at high-quality teaching, assessing the progress of students, or even taking action to reform schools, NCLB most notably has put increased pressure on schools and school districts to consistently improve student performance by showing Adequate Yearly Progress (AYP). Yet another challenge that schools and school districts face, in addition to lagging state and local fiscal support, is increasing pressures to ensure constant progress among all students. While some still debate whether NCLB is an unfunded mandate, the fact remains that education administrators are being asked to do more with less discretionary funding.

Uneven State Support For Education

Prior to the economic downturn in 2001, education in the United States was receiving increased support from both state and local sources. Between FY1995 and FY 2001, the average annual increase in support for state K-12 education funding was 4.5%.⁵ Between FY 2001 and FY 2004, the average annual support for K-12 education decreased to 0.13% (Figure 1). The

⁵ Percentage change calculated using state revenue allocations dedicated towards K-12 education converted to constant 2004 dollars (National Center for Education Statistics 2007; Bureau of Labor Statistics 2007).

decrease was due to slower economic growth and, consequently, lower revenues. According to the National Conference of State Legislatures (NCSL), during FY 2001, there were 17 states that actually cut K-12 education funding for the year (Gehring 2002).

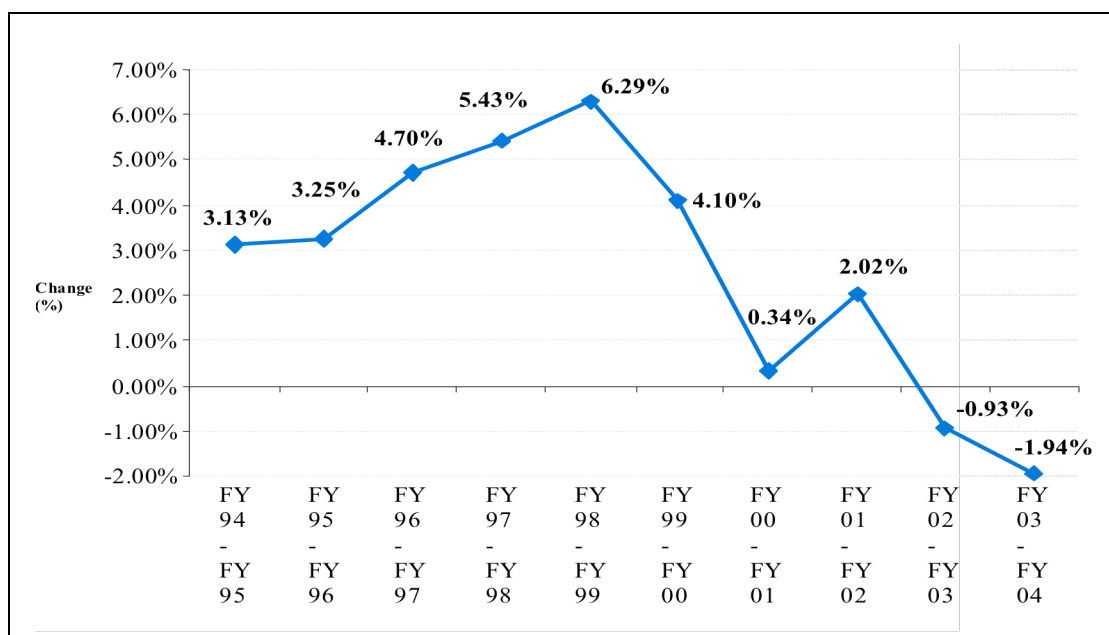


Figure 1. Percentage Change in State Education Revenues, constant 2004 dollars

In 2005, states began seeing surpluses in their budgets. But a logjam of spending priorities, including rising benefit costs and depleted rainy day funds, forced K-12 education funding to take a back seat (Education Week 2002). Budgets for K-12 education are expected to grow significantly in the coming years, as many states are proposing double-digit increases for fiscal 2008 (National Conference of State Legislatures 2006).

Addressing the Major Resource Issues

Drawing upon the market analysis and qualitative interviews with state and district administrators, Standard & Poor's is developing a Resource Management Service that will provide web-based, customized cost savings profiles to help identify and capture potential savings in five major operational areas including instruction, transportation, food service, operations and maintenance, and business affairs. The approach is designed to be seamless for school districts by leveraging existing data and working with state education agencies to synthesize and analyze the following data:

- Financial data by function (e.g., transportation), object, and fund
- Staffing (e.g., bus drivers) data by function
- Operational indicators (e.g., miles traveled)
- Analytical ratios (e.g., cost per mile traveled)

The data framework will enable state and school district leaders to benchmark spending on a per unit basis (e.g., cost per meal served) against operationally or demographically similar peers and to understand why spending differences exist.

With that context, the guiding theory behind the framework in Figure 2 is that school districts can no longer simply contemplate *how much* additional money should be allocated but should ask a more crucial question: “*How* should education dollars be spent more effectively to achieve the goal of raising student achievement?”

The effective resource use framework that follows is meant to offer a continuous improvement process to school district and state education leaders. While both states and districts have varying roles and responsibilities throughout this process, the one commonality is that the goal remains the same: understanding *how* education dollars can be better spent to more effectively raise student achievement. Figure 2 provides a visual representation of the framework, and the subsequent text discusses its implications for day-to-day practice.

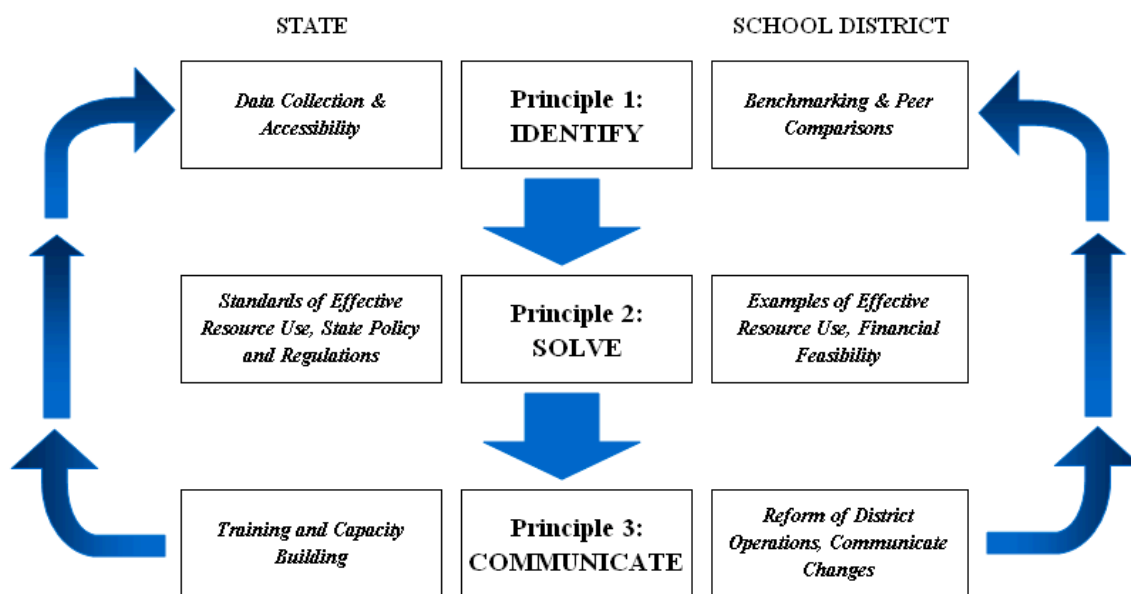


Figure 2. Effective Resource Use Framework

The common thread between the state and school district is that for each principle – identify, solve, and communicate – both levels of government play key roles in contributing to the overall success of the process, though their activities differ. In short, states provide the data framework that enables school districts to allocate resources more effectively.

- **Principle 1: Identify.** This principle recognizes the need for school district administrators to go beyond just complying with reporting requirements by making the data they collect more actionable for both internal and external stakeholders. This may include helping to identify additional discretionary dollars that may be allocated towards higher priority areas. This is accomplished by analyzing granular data in a comparative framework that enables education

leaders to understand not only how much but how their district's spending differs from operationally similar school districts.

- **Principle 2: Solve.** This principle focuses on the implementation and understanding of resource-effective practices. Resource-effective practices may be drawn from the research literature or may be identified through a nationally recognized awards program, such as the Association of School Business Officials International's Pinnacle Award. This principle addresses the need for district administrators to respond to shifting market demands such as the crowding out of or volatility of state support for education by exploring viable alternatives to help lower operational costs. It spurs school districts to use data to take action in reforming processes to become more cost-effective.
- **Principle 3: Communicate.** This principle focuses on the implementation and communication of operational reforms. This principle addresses the need to effectively communicate with key local stakeholders to make more effective resource allocations and help to validate past spending decisions. This step leverages objective data, reports, and tools to better communicate spending priorities and cost saving opportunities.

Identify Potential Cost Savings

As mentioned earlier, the issue of rising costs in employee benefits, fuel, and energy is a chief concern among many school districts. The "identify" principle helps to provide insight to a school district about whether costs are high, low, or standard in comparison to similar peers.

This principle involves the need to analyze data in a framework that provides accurate and fair comparisons and enables district leaders to understand the differences that exist between their school district and other similar entities. A school district may ask, "Where is the district spending more or less than comparable peers?" For the state, this principle is about identifying what data exist that support school districts in their benchmarking analysis. A state may ask, "Given current accounting rules and standards, what other indicators could be collected to better inform this analysis?"

The principle applies a peer identification method that emphasizes operationally similar peers versus the traditional geographic or demographically similar peers.⁶ Standard & Poor's developed the method to create operationally similar peers based on specific district functions, such as transportation or operations and maintenance. As a result, the spending comparisons generated from this new identification method would be more analytically sound and realistic.

To create a more robust comparison, a more precise unit of measure is needed than is customarily used. Traditionally, the standard unit of measure for education finances is on a per-student basis. For example, in operations and maintenance, the traditional method would be operations and maintenance spending per student. Under the new method, the measure would be operations and maintenance per 1,000 square feet. Or in transportation, the unit of measure

⁶ Not all states use a peer methodology to compare school district data, but those that do generally create demographically similar peer groups, for example, Michigan, Pennsylvania, and Ohio. Standard & Poor's has not found a state that creates operationally-similar peers, as proposed in this paper.

would be cost per mile traveled. Such units of measure enable more appropriate comparisons of school districts' efficiencies. Otherwise, random differences in enrollment could create differences in per-pupil costs, even if two otherwise comparable districts spent the same total amount of money. Table 1 shows the differences that can result from using different units of measure.

Table 1. Comparison of Spending per Student vs. per Mile Traveled

	Example School District		Peer School Districts	
	Operations & Maintenance Spending per Unit	Percentile Rank	Average Operations & Maintenance Spending per Unit	Difference in Spending (Example School District to Peers)
Spending per Student	\$725	97th	\$871	-\$146
Spending per 1,000 Square Feet	\$6,555	77th	\$5,815	\$740

In this example, the per-student cost figure fails to take into account some important factors considered by the per-1,000-square-foot measure. First, the per-1,000-square-foot cost reflects the actual operation of that area of spending, whereas per student is a simple common denominator of the school district. Additionally, by using a more precise measure such as per 1,000 square feet, spending analyses can better reflect the actual cost structures of school districts. By adding distribution indicators, such as percentile rank, a district can see where in a population range it falls.

This type of analysis displayed in Table 1 is possible because Standard & Poor's uses multiple types of data in the analysis including financial, staffing, and operational characteristics of the school district. Granular comparisons allow a more focused understanding of the differences in school district allocations, and, to that end, a more specific identification of cost saving opportunities. Using an example school district, Table 2 shows that this school district has higher operations and maintenance spending per 1,000 square feet. This is useful when getting a quick glance at school district expenditures. But, as Table 3 demonstrates, this more fine-grained analysis also reveals *why* the example school district is spending more than its peers.

Table 2. Summary Analysis of Operations & Maintenance Costs

Summary Analysis (per 1,000 square feet)	Example School District	Peer School Districts	Difference in Spending (Example to Peers)
Operations & Maintenance Spending	\$6,554	\$5,576	\$977

Table 3 shows that the example school district spends \$818 more per 1,000 square feet on non-compensation items but that the majority of the difference is found in repair and maintenance and contracted services. Further, this example school district is spending less in the areas of both electricity and gas. As a result, district administrators can now focus on assessing the necessary changes to building maintenance and operations to come in-line with peer school districts.

Table 3. Detailed Analysis of Operations & Maintenance Costs

Detailed Analysis (per 1,000 square feet)	Example School District	Peer School Districts	Difference in Spending (Example to Peers)
Overall Non-Compensation	\$3,311	\$2,493	\$818
General Supplies	\$304	\$294	\$10
Buildings & Related Materials	\$138	\$41	\$97
Property Insurance	\$183	\$99	\$84
Repair & Maintenance	\$850	\$338	\$512
Electricity	\$580	\$829	- \$249
Gas	\$397	\$697	- \$300
Contracted Services	\$859	\$125	\$734
Other Non-Compensation Expenses	\$0	\$70	- \$70

The application of this principle also provides additional benefits. As opposed to most analyses of financial allocations, this approach is more constructive and diagnostic. The second additional benefit is that this analysis helps to initiate conversations about past *and* pending resource allocation decisions in detail. Whereas some general statements about spending patterns may be observed looking at the aggregate per-student spending figures, this new method facilitates an active dialogue among school district decisionmakers about the precise areas of necessary change or reallocation.

Provide Opportunities to Take Action

The volatility in state support for K-12 education combined with increased competition for state revenues from other public sectors such as Medicare create limited opportunities for sustained annual increases in available revenues for school districts. The second principle suggests that school district leaders should identify examples and understand the process of effective resource use by other school systems. A school district might ask, “What issues are associated with the implementation of these practices?” For the state, this principle is about working to create standards, definitions, or collections of these practices. A state might ask the question, “Is there an ability to create inventories of effective past practices?”

For example, if a state cut transportation aid or if fuel costs rose, a school district would either have to find additional dollars to cover this cost or find a way to cut back on fuel. One method may be to reroute buses to maximize capacity and reduce idle time. How might the

school district know if rerouting the buses would save a substantial amount of money? How would this practice be implemented in the school district?

Standard & Poor's research suggests that to provide the momentum to enact meaningful financial reform there needs to be both a qualitative approach that takes into account *processes* of enacting effective and proven financial practice and a quantitative approach that assesses the financial *feasibility* through web-based what-if simulations. Standard & Poor's is developing an approach for each of these in its Resource Management Service. One is the diagnostic road map, and the other is the financial management calculator.

The diagnostic road map is a process-oriented tool (see Figure 4). While data analysis shows how much may be saved by a school district, it is unable to explain how. The diagnostic roadmaps created for each of the five major spending categories—instruction, transportation, food service, business services, and operations and maintenance—provide one piece of information necessary to create real cost-saving opportunities.

Table 4. Standard & Poor's Diagnostic Road Map

Steps	Diagnostic Questions
Step #1: Effective Past Practice	Does this practice fit within state and federal regulations and policies? Does this practice help the school district meet its mission?
Step #2: Management Considerations	Does the district leadership have the capability and capacity to execute the identified effective past practice? If not, can the necessary resources be obtained? How might this practice interact with other existing policies in the school district? Does it create a conflict of interest?
Step #3: Community Considerations	How would other local stakeholders react to the implementation of this practice? What support and/or resistance might the district leadership expect from the implementation of this practice?
Step #4: Peer Questions	Did the practice work? How would the practice be implemented differently if it were done again? What were the biggest challenges to successfully implementing the practice?

The diagnostic road map starts with the effective past practices (step #1) that are customized by Standard & Poor's through its Resource Management Service. These practices are designed to accompany the peer analysis that identifies potential cost savings in the major spending areas. This comparative analysis uses peers that are operationally or demographically similar and spend less on a per-unit basis. To help capture those savings, the diagnostic roadmap provides implementation factors that a school district needs to consider.

Depending upon the potential savings opportunities for the school district, different practices may be suggested. For example, for a school district that spends significantly more on fueling buses for transporting students, a suggested practice might be to join a cooperative with other school districts in the region. Alternatively, the practices of a neighboring district whose actions are more resource efficient may suggest something more modest, such as rearranging bus routes to reduce the number of bus stops and potential idle time.

Such effective practices could come from various sources. For non-instructional areas, the Association of School Business Officials (ASBO) International's awards programs could be a source. One awards program in particular, the Pinnacle Award, is applicable to the diagnostic road map because applicants have to show significant cost savings as a result of their practice. In the event that state policy prevents the implementation of a practice, an alternative could be explored.

Step #2 along the roadmap involves management considerations, encompassing the logistics of implementation. These questions might be raised during the superintendent's leadership team meeting and may provide an opportunity to establish immediate action steps towards integrating effective practices into existing school district operations. For example, if the effective past practice involved reducing fuel costs, one management consideration might be, "If the school district were to enter into a co-operative, what would be the net impact on spending this year and in the future?"

Step #3 on the roadmap addresses concerns that may emerge from other key, local stakeholders, including school board members, community leaders, labor unions, or even the media. These questions may be considered in preparing for a school board presentation or similar public presentation. Referring to the larger bus policy, a community consideration might be, "How much earlier would the bus pick up the children? If the community meets this new policy with resistance, is there a way to optimize the bus routes so that the buses are arriving only a few minutes earlier?"

The final step along the roadmap will require research on the part of the district to find districts that have executed that practice. The diagnostic questions (step #4) that district leadership would ask of their counterparts in more effective districts would help them discover the "lessons learned" in spending areas of interest. Again, with the larger bus example, "Did the school district buy or lease the bus? If the school district did it again today, would it make the same decision and why?"

Ultimately, the goal of the roadmap is to facilitate a discussion of understanding and learning from the successful financial practices of other districts. The four-step process is designed to help education administrators understand the potential for incorporating effective past practices. Each step is accompanied by some basic diagnostic questions.

The second approach is a more quantitative approach to realizing potential cost savings. This approach employs web-based financial management calculators that allow school district administrators to test the financial feasibility of an effective past practice. For example, if an effective past practice is to use larger buses, then the calculator will help assess if the potential savings from having fewer staff to operate fewer buses will offset the costs of leasing a new bus. These "what-if" scenarios assess various assumptions of cost and human resource allocations using the detailed financial data of the school district. Additionally, users have the opportunity to explore potential financial allocations versus benchmarked peers. While it is suggested that operationally similar peers may be useful, the knowledge of similar school districts and local circumstances may provide additional insight for the user.

Different districts have varying motivations and rationales for selecting different benchmarks or peer groups. Below are a few of the options that may be available to school district administrators to compare themselves against.

- **Operationally similar.** These are the default peers for the four major, non-instructional spending categories. These peer groups are defined using operational indicators for each individual spending area.
- **Demographically similar.** These are the default peers for instruction. Peers would have a similar proportion of economically disadvantaged students, community type, enrollment, and academic achievement.
- **Resource efficient.** This peer group statewide spends the least on a per-unit basis.
- **Geographically similar.** This includes districts within the same county, metropolitan area, or region.
- **User-defined.** This allows the flexibility for users to select their own set of peer school districts.

Communicate Effectively

The third and final principle suggests that an inability to communicate will hinder any successful chance of financial reform efforts, particularly as they relate to key stakeholders such as the school board or local teacher unions. With various impinging challenges such as complying with the NCLB law, increased financial regulations, and waning support from local property taxpayers, the need to clearly articulate and inform supporters about the financial status and reforms of the school district is critical.

Leveraging information from an independent third party such as Standard & Poor's can help with both communication among district management as well as other local stakeholders such as school board members, teacher unions, and community members. Particularly with external stakeholders, there is a natural mistrust that exists because there are conflicting interests.

Effectively communicating the financial condition and spending/budget initiatives of a district to the school board, employees, and community is one the more challenging aspects of a district administrator's responsibilities. Many of the stakeholders do not always "connect the dots" when presented with budget information, especially the less financially savvy stakeholders. Inability to understand a district's financial condition or the consequences of a cost saving initiative creates indecision, uncertainty, frustration, and even mistrust. Standard & Poor's research strongly suggests that financial information be presented in an easy-to-understand, storyboard approach. This approach presents the information in "layered" format so all users can have an almost immediate impression when reviewing the district's information. For example, by establishing the graphical relationships between operating deficits (revenue versus spending), the trend of fund balance levels and comparing fund balance to peer districts, not only increases the retention of the information, but also helps stakeholders see the interrelationships, allowing them to better internalize the information. As needed, the drill down details that include graphs, tables and written analysis would provide further interpretation.

Creating Capacity for Effective Resource Use

The Resource Management Service principles outlined above provide a method to improve school district operations. Developed under consideration of the current school finance and accounting system, certain changes to data systems and other statewide efforts may allow for greater capacity to drive the widespread use of these principles. Currently, however, there are several barriers that prevent the broad implementation of the principles described above.

Limitations of Existing State Data Systems

In most cases, financial, staffing, and operational data sets that are collected by state departments of education exist wholly separate from one another. One data systems analyst at a state department of education was surprised to learn that some data elements even existed, “We have that data? I never knew that existed.” This results in a disparate source of information on states’ schools and school districts causing uncoordinated efforts and competition for dollars to expand such systems. The collective power of these data sources would enable unique and innovative analysis that could be offered by the state.

In addition to the differences in reporting timelines and types of data from states, there are a variety of deficiencies that exist in processing data for public release. Of course, the integration of these data systems requires resources. Unfortunately, one of the constant struggles that many state departments of education have with maintaining data systems is the dedication of appropriate staff and funding. For many states it is more often a question of available resources than the will to provide upgrades and enhancements to these systems. In addition to limited resources, another chief limitation is the timeliness of this information. A common practice is to hold back on the release of a statewide dataset because small portions of school districts are tardy in reporting their information. This practice can delay the use of the information by practitioners for months.

Focus on Academic Standards & Accountability

Due to state and federal academic accountability pressures, most state investments in data systems have focused on shoring up academic data collections and processes to appropriately report test scores and other student outcomes, such as graduation and attendance rates. This focus is not to a state’s detriment, as many of these systems have been vital to meeting the reporting and regulatory requirements of NCLB. However, this aggressive investment has hindered investments in other data systems including financial and operational data. As a result, such systems collect only a minimal amount of data and fail to effectively inform school district activities. As previously mentioned, these types of state data systems tend to be older, less flexible, and designed for compliance purposes, not for improving performance.

Inability to Assess Quality of District Operations

The origins of data collection and reporting for non-instruction areas of school district operations focus on compliance and regulation. A classic example of this is transportation spending. Many states use students transported, miles traveled, and like indicators to determine

the proper reimbursement to local school districts for transporting students. Most of the required data reporting under transportation is based on the notion of *appropriateness*, not necessarily *performance*. That is, the way in which the data indicators are reported are to ensure those operations are within the guidelines of state law.

Similar to the area of transportation, most data reporting for other areas are done for the purposes of compliance with laws or to regulate activities. Exceptions to this exist in the area of instruction where quality measures such as standardized test scores and graduation rates are collected. But, by and large, compliance issues are applied to most data reporting systems. Compliance- and regulatory-oriented data collection processes do not improve service delivery or quality. To offer opportunities for improvement, the type of data identified and collected must fundamentally change.

Conclusion

The convergence of escalating benefit and fuel costs, flat state aid, local resistance to property tax increases, and mounting pressure to increase student achievement per NCLB make effective resource use an immediate necessity. The traditional method of comparing spending with neighboring districts simply does not provide the systematic approach that states and districts need to optimize existing resources. As mentioned, states and districts should consider a baseline analysis that identifies potential savings compared to a unique set of operationally-similar peers for each major spending area. To capture the identified savings, school leaders should consider both the qualitative and quantitative implementation factors. The Standard & Poor's diagnostic road map provides effective past financial practices, management and community considerations, and key diagnostic questions to ask other districts. The quantitative approach should assess the feasibility of implementing a suggested best practice by testing various financial "what-if" scenarios. Still, to attain "buy-in" from key stakeholder groups, despite how rigorous or insightful the analysis might be, state and district leaders benefit when information is provided by a respected third party and is presented in a layered, easy-to-understand storyboard approach.

As mentioned, while there are barriers that might hinder broad implementation of a resource management type service, our research suggests that nearly all states collect the necessary financial, operational, and staffing data to conduct the detailed peer analysis. Finally, Standard & Poor's believes that before states and school districts seek or spend new education funds, increasingly they will be required to demonstrate that existing resources are being effectively deployed.

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