

# HOUSE BILL REPORT

## 2SHB 1871

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**As Passed House:**  
March 28, 2007

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

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

**Sponsors:** By House Committee on Appropriations (originally sponsored by 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)].

**Floor Activity:**

Passed House: 3/28/07, 68-29.

**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).

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### HOUSE COMMITTEE ON APPROPRIATIONS

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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.*

**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).

**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 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 and regulations, and by 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 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.

**Summary of Second Substitute Bill:**

Financial Health Ratings System for School Districts. The Office of Financial Management (OFM), with input and collaboration from the OSPI and the Legislative Evaluation and Accountability Program (LEAP), must identify a limited set of system measures for a school district financial reporting system based on recommended measures developed by the Government Finance Officers Association. The OFM must also develop a financial health outlook rating system consisting of three categories.

Based on the system measures, school districts are placed in one of the three categories. The system measures and the financial health outlook rating system are presented to the Governor and the Legislature by November 2007, and are implemented during the 2008-09 school year unless the Legislature makes changes. Each school district's financial health outlook category is published annually. Districts in the lowest category receive technical assistance through regional financial specialists.

The OFM, also with input and collaboration from the OSPI and the LEAP, must review the school district budget process and develop recommendations for changes, as well as for oversight and potential intervention for districts. Intervention must receive legislative approval before being implemented. The recommendations are presented to the Governor, the LEAP, and the fiscal committees of the Legislature by November 15, 2007. Education Data Center. An Education Data Center (Center) shall be established within the OFM. Jointly with the LEAP, the Center conducts collaborative analyses of education issues across the P-20 system; coordinates with other state education agencies to compile and analyze education data; provides research that focuses on student transitions; and phases-in implementation of a comprehensive data system with school-level variables. The Center also works with various state education agencies and institutions, including private nonprofit institutions of higher education, to develop data sharing and research agreements.

The OSPI must develop a reporting format and instructions for school districts to collect data on student demographics that is disaggregated by ethnic categories within racial subgroups.

School Data. No later than the beginning of the 2008-09 school year, each school district must submit data for each class offered that includes the teacher's certification number and the student identifier for all students enrolled in the class. For high school math classes, a course code must be submitted that is based on the Classification of Secondary School Courses from the National Center for Education Statistics. The OSPI convenes a work group to develop an implementation plan for coding other secondary courses and develops technical standards for school data systems.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:** (Education)

(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 GCS 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.

**Staff Summary of Public Testimony: (Appropriations)**

(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:** (Education) (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 Testifying:** (Appropriations) (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:** (Education) George Scarola, League of Education Voters.

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