



# Education Funding Reform

## Model Policy: School Level Financial Transparency Act

ExcelinEd Policy Toolkit - 2017

*This document provides model policy (legislation) for increasing school level financial transparency to maximize the impact of resources on student learning. Before providing the model legislation, it explains the value of school level financial transparency and what it looks like.*

### OVERVIEW

#### Why School Level Financial Transparency Matters

How does your state fund student learning? Do you know how much money each school spends per student, or why some schools see better results for the same funding? Are schools in control of their funds? If a student moves midyear, does funding follow the student to the new school?

School-level financial transparency serves several purposes. **First**, it promotes more effective and efficient use of resources. For the foreseeable future, schools across the nation will likely face tight fiscal times. Given this reality, to improve student learning significantly, schools need to maximize the impact of the resources they have. Unfortunately, schools often lack basic information on how much they spend - both overall and on key activities - and how that spending compares to other, similar schools that are getting better results. These tools are commonly used in other sectors to improve outcomes. School level financial transparency enables school leaders to identify comparable schools that are getting better student outcomes with the same or less funding. It then provides information on how these other schools are spending money differently in a way that may explain the better outcomes.

**Second**, school level financial transparency promotes empowerment of school leaders and educators - those who are closest to students and have the greatest understanding of their unique needs. The way states and districts provide resources to schools often leaves school leaders with very limited flexibility. The first step in addressing this problem is to require districts to report how much funding each school receives per student and indicate how much of this funding is received by the school for their use, as opposed being controlled by the district.

**Third**, school level financial transparency promotes student opportunity. Often, if parents want to move their child to another school, they must give up some of the services their child is receiving because some of the money associated with their child does not follow him or her to the new school. Currently, it is very hard to identify and communicate this point, as it is unclear how much funding a school receives and why. One way to expose this problem is by highlighting how much funding a school is receiving per student. With that information, parents can then advocate for money to fully follow their child to a new school.

**Finally**, school level financial transparency promotes fairness. It can identify schools that are getting less money per student than other comparable schools. By showing "actual" per pupil expenditures in each school, it is possible to see whether schools are getting fair funding. ("Actual" means using the salaries of the staff working at school, instead of a districtwide average.) School level financial transparency can also highlight whether additional funding provided to districts for students with special needs or disadvantages is getting to the schools that are serving these students. This can be done by comparing how much revenue is generated by the students in a school and how much actual money that school receives.

To make this financial information useful, it must be available in a timely and easy-to-understand manner. Some states—like Colorado, Georgia and Texas—are creating online tools to making school funding comparisons easy and providing actionable information for schools and parents.



## Key Lessons from Other States

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Texas is a leader in school level financial transparency with its Texas Smart Schools initiative. Schools are given a Smart Score of one to five stars based on their academic progress and spending per student. With the apples-to-apples website, schools can see how they compare to “fiscal peer,” schools that have the same or lower spending per student but are achieving more academic progress. Schools can also identify their own comparison schools. This initiative was started by the state comptroller and is now independently managed.<sup>1</sup>

Colorado is another leader in school level financial transparency. A bipartisan coalition of state legislators championed the issue through legislation that linked new funding with increased transparency.<sup>2</sup> Rather than leave the information buried, school level financial data is available through a new state website.<sup>3</sup> The legislation also goes below the total spending in a school and requires schools to report their spending on each job category, so that schools can see how they are spending money differently than others.

State legislators in Georgia also championed school level financial transparency. Each school is given a financial efficiency rating based on its spending and student outcomes.<sup>4</sup> To make these comparisons fair and meaningful, the state set forth rules on how districts allocate spending down to the school level. State legislators then passed legislation to require transparency on how much schools spend on key activities, like professional development and to make this information available through an online sortable database.<sup>5</sup>

Finally, Florida has legislation which ensures that the additional funding provided by the state for students with special needs or disadvantages gets to those students. In each school, districts must spend at least 80 percent of the funding generated by the students in that school.<sup>6</sup>

## Key Components of Model Legislation

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A School Level Financial Transparency Act can promote resource effectiveness, school empowerment, student opportunity and fairness, and should include the following key components:<sup>7</sup>

### 1. Expenditures by Schools

Schools can improve effective use of resources when they can identify other schools that have similar per student expenditures but are getting better student outcomes. To enable these comparisons, states need to require some consistency in terms of how districts allocate expenditures to each school, including benefits, pensions, transportation, district administrators and shared staff. States can also require districts to allocate *all* their expenditures to schools, while distinguishing between expenditures that are controlled by a school vs. those the district controls, e.g., to provide core central office services.<sup>8</sup>

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<sup>1</sup> See <http://www.txsmartschools.org/Apples2Apples/CampusMultiSelect.aspx>.

<sup>2</sup> See America Succeeds, *Pulling Back the Curtain: How Colorado's Transparency Law Sheds New Light on School Funding*; <http://americasucceeds.org/downloads/curtain.pdf>.

<sup>3</sup> See <https://coloradok12financialtransparency.com/#/>.

<sup>4</sup> See <https://gosa.georgia.gov/financial-efficiency-star-rating-0>.

<sup>5</sup> See [https://gov.georgia.gov/sites/gov.georgia.gov/files/related\\_files/document/HB%20139\\_2017.pdf](https://gov.georgia.gov/sites/gov.georgia.gov/files/related_files/document/HB%20139_2017.pdf).

<sup>6</sup> See [http://www.leg.state.fl.us/Statutes/index.cfm?App\\_mode=Display\\_Statute&Search\\_String=&URL=1000-1099/1011/Sections/1011.69.html](http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=1000-1099/1011/Sections/1011.69.html).

<sup>7</sup> While the focus on this model legislation is the school, financial transparency is also important at the district level.

<sup>8</sup> Under the federal Every Student Succeeds Act, states must report actual per pupil expenditures for every school.



## 2. Revenues by Schools

Traditionally, districts report that a school's revenue is simply how much money was spent there. However, this methodology hides the possibility that schools are not receiving all the revenue generated by students in the school (e.g., based on the state's funding formula). In contrast, Florida requires that each school receives at least 80 percent of the generated revenue. School level financial transparency legislation can require that districts report on how much revenue is generated by the students in each school and how that compares to actual expenditures.<sup>9</sup>

## 3. Student Learning Outcomes and School Financial Efficiency Ratings

Schools should see both financial and student learning data in the same place, so that they can better determine how much impact various investments are making. Also, to make it easier to identify schools that are getting better student learning outcomes with the same per pupil expenditures, states can provide school financial efficiency ratings, as is the case in Georgia. Each school gets a star rating, between a half-star and five stars, with five stars denoting a school with relatively low per pupil expenditures and relatively high student learning outcomes.<sup>10</sup> For states that have summative ratings based on student outcomes (e.g., A-F), they should make their school financial efficiency ratings distinguishable by using stars, colors or another label.

## 4. Expenditure Benchmarking

Comparing per pupil spending to another school is very helpful, but it raises the question, "How is another school spending its resources differently?" Answering this question requires looking at spending on specific activities, like core instruction teachers, instructional aides, professional development, interventions for at risk students, guidance counseling, and instructional materials and equipment. Schools do not normally keep track of spending on these activities. Instead, they track spending on broader categories, like teacher salaries and benefits, which provide less meaningful information. Activities like professional development are more specific, but they may include a portion of the time of various personnel, which make them harder to calculate. While it is not realistic to ask schools to break all their expenditures into activities, it is necessary to prioritize important ones, based on the usefulness of knowing the expenditure on an activity and the difficulty of calculating it, with enough precision and consistency to enable comparisons.

## 5. Student Demographics

Schools often want to compare themselves to schools with similar demographics, so it is important to provide this information and have the capability to identify schools that are doing better with specific student subgroups and then examine expenditures in those schools.

## 6. School Level Financial Transparency Website

As noted above, communicating school level financial data in a timely manner as well as in a user-friendly format is paramount. This means developing or adding report features to a website featuring all of the data discussed above. Reporting should be intuitive and clear to allow for easy comparisons between similar schools (see Texas and Colorado for good examples of such features).<sup>11</sup>

*What follows is the model state policy that includes these key components discussed above. States can and should adapt this model to meet their unique circumstances and priorities.*

<sup>9</sup> See [http://www.leg.state.fl.us/Statutes/index.cfm?App\\_mode=Display\\_Statute&Search\\_String=&URL=1000-1099/1011/Sections/1011.69.html](http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=1000-1099/1011/Sections/1011.69.html).

<sup>10</sup> See <https://gosa.georgia.gov/financial-efficiency-star-rating-0>.

<sup>11</sup> See <http://www.txsmartschools.org/> and <https://coloradok12financialtransparency.com/#/>.



## MODEL POLICY: SCHOOL LEVEL FINANCIAL TRANSPARENCY ACT

### Section 1: Title

This Act shall be known as the School Level Financial Transparency Act

### Section 2: Definitions

1. The “Department” means the State Department of Education.
2. “Advisory Board” means a statewide representative sample of leaders of local education agencies, including charter schools.
3. “School” means the entity included in the annual report cards issued by the Department or a local educational agency pursuant to the federal Every Student Succeeds Act. A school is not the same as a school building or school site, and it is possible to have more than one school in the same school building.
4. “Expenditure activity” means a categorization of budgetary inputs, e.g., dollars and personnel, that can be clearly associated with some service provided by a school.

### Section 3: Expenditures and Revenues by Schools

- A. On annual basis, the Department shall report the actual per pupil expenditures and revenues at each school:
  1. The Department shall issue and annually update, in consultation with the Advisory Board, guidance to ensure uniform and effective statewide reporting. The Department shall consider how other states are reporting similar information to maximize the possibility of meaningful comparisons between schools in different states.
  2. The Department shall enhance as necessary the state’s chart of accounts pertaining to local agency agencies and schools, including but limited to, having a school designation for expenditure and revenues.
  3. Pursuant to guidance from the Department, each local education agency shall allocate all its expenditures to schools, distinguishing between expenditures that are controlled by the local education agency and those controlled by the school.
  4. The report for each shall include overall per pupil revenues and shall be broken out by state, local and federal sources.
  5. The report for each school shall include the per pupil state and local revenue generated by the students in that school and indicate actual state and local per pupil revenue as a percentage of generated revenue.

### Section 4: Student Learning Outcomes and School Financial Efficiency Ratings

- A. The Department shall include student learning outcomes, overall and for student subgroups, in the financial report on each school pursuant to Section 3 of this Act.
- B. For each school, the Department shall determine on an annual basis a school financial efficiency rating between one-half and 5 stars, where a rating of one-half star designates a school with high per pupil spending and low student learning outcomes and a rating of five stars designates a school with low per pupil spending and high student learning outcomes.
  1. For spending, the Department shall use actual per pupil expenditures, as determined pursuant to Section 3 of this Act.
  2. For student learning outcomes, the Department shall use same the rating or measure of student proficiency and growth for each school, as determined by the Department pursuant to the federal Every Student Succeeds Act.



- C. The school financial efficiency ratings shall be easily distinguishable from any ratings required based on student outcomes.
- D. Each local education agency shall include the financial efficiency rating of each school in a prominent position on the home page of that school's website, within 30 days of determination by the Department.

#### **Section 5: Expenditure Benchmarking**

- A. In consultation with the Advisory Board, the Department shall identify and annually update a list of expenditure activities that each local education agency shall report for each school.
  - 1. For each activity, the local education agency shall report the actual per pupil expenditures, including actual salaries and benefits.
  - 2. The number of expenditure activities identified initially shall be no less than 10.
- B. In identifying an expenditure activity for initial and continued inclusion on the list, the Department shall consider the following criteria:
  - 1. The extent to which the activity has a significant impact on student learning;
  - 2. The extent to which having expenditure comparisons on this activity will produce actionable information; and
  - 3. The amount of effort needed to calculate the expenditure activity with accuracy and uniformity statewide.
- C. For at least the first year in which an activity is included on the list, the Department shall provide guidance and support to local education agencies, including, but not limited to, an examination of data in a representative sample of schools for accuracy and uniformity.
- D. The Department shall consider modifications to the state's chart of accounts pertaining to local education agencies and schools to facilitate calculation of expenditure activities.

#### **Section 6: School Level Financial Transparency Website**

- A. In consultation with the Advisory Board, the Department shall create by no later than one year after the effective date of this Act, and maintain and update thereafter a school level financial transparency website that:
  - 1. Is designed to ensure the greatest clarity and usefulness to local education agencies, schools, parents and the public;
  - 2. Includes the actual per expenditures and revenues for each school, pursuant to Section 3 of this Act;
  - 3. Includes student learning outcomes, overall and for student subgroups, as well as the financial efficiency rating for each school, pursuant to Section 4 of this Act.
  - 4. Includes the expenditure activities for each school, pursuant to Section 5 of this Act;
  - 5. Includes student demographics for each school; and
  - 6. Enable comparisons of all expenditure and revenue data between one school and other schools, including those that have similar student demographics.
- B. The Department shall undertake activities each year to inform parents, schools and other stakeholders about the school level financial transparency website and how to use the website.
- C. Each local education agency shall be able to upload the data for each of its schools directly to the website.



**Section 7: Annual Appropriation**

A. Each year, the legislature shall appropriate an amount necessary to implement this Act.

**Section 8: Rules and Regulations**

A. The Department shall issue such rules and regulations as are necessary for implementation of this Act.