

School Financial System Redesign

2017–19 Biennium Budget Decision Package

Agency: 350 Office of Superintendent of Public Instruction

Decision Package Code/Title: AM/School Financial System Redesign

Budget Period: 2017–19

Budget Level: PL

Agency Recommendation Summary Text:

The Superintendent requests funds to redesign state and school district financial systems and guidance, responsive to RCW 28A.655.210. The proposal is to design and implement an account code structure for school districts to record transaction-level expenditure data classified as either federal, state, or local costs aligned to the prototypical school model, and establish uniform accounting and reporting of school building level financial data. Both categories of data would be reported to the state at a summary level through school district yearend financial reports. Costs are estimated at \$9.9 million in the 2017–19 biennium, and \$59.4 million in the 2019–21 biennium.

Fiscal Summary: Decision package total dollar and FTE cost/savings by year, by fund, for 4 years.

Additional fiscal details are required below.

Operating Expenditures	FY 2018	FY 2019	FY 2020	FY 2021
Fund 001–01	\$387,505	\$9,490,225	\$26,417,825	\$32,973,000
Total Cost	\$387,505	\$9,490,225	\$26,417,825	\$32,973,000
Staffing	FY 2018	FY 2019	FY 2020	FY 2021
FTEs	0	0	0	0
Revenue	FY 2018	FY 2019	FY 2020	FY 2021
Fund 001–01	\$0	\$0	\$0	\$0
Object of Expenditure	FY 2018	FY 2019	FY 2020	FY 2021
Obj. A	\$0	\$0	\$0	\$0
Obj. B	\$0	\$0	\$0	\$0
Obj. C	\$384,880	\$647,600	\$35,200	\$0
Obj. E	\$2,625	\$2,625	\$2,625	\$0
Obj. G	\$0	\$0	\$0	\$0
Obj. J	\$0	\$0	\$0	\$0
Obj. N (Program 021)	\$0	\$8,840,000	\$26,380,000	\$32,973,000

Package Description

Background:

Funding for K12 noncapital educational programs in Washington State school districts is provided by federal agencies, state agencies, and local sources such as excess levies. Most state funding that flows to local school districts is calculated and distributed through a school “apportionment” system managed by the

School Financial System Redesign

Office of the Superintendent of Public Instruction (OSPI). School districts submit financial data and reports including their annual budgets and financial statements to OSPI as required under state statutes and regulations. The school apportionment system is closely coupled with three other major subsystems operated by the state to collect and report school district information and data.

The state mandated chart of accounts used to record and report school district financial information was developed and is maintained by the Washington State District Accounting Advisory Committee under the joint direction of the OSPI and the Washington State Auditor. Authority for this regulatory guidance is provided in RCW 43.09.200, RCW 28A.505.140 and WAC 392-123-010.

Additional legislation intended to “establish a comprehensive K12 education data improvement system for financial, student, and educator data” was adopted in 2009 and codified in RCW 28A.655.210. In part, subsection (3) requires the following:

- (g) A common, standardized structure for reporting the costs of programs at the school and district level with a focus on the cost of services delivered to students;
- (h) Separate accounting of state, federal, and local revenues and costs;
- (i) Information linking state funding formulas to school district budgeting and accounting, including procedures:
 - (i) To support the accuracy and auditing of financial data; and
 - (ii) Using the prototypical school model for school district financial accounting reporting;

The statewide school district financial accounting and reporting system already complied with most of the requirements in this statute with a few exceptions. First, while the account code structure provided for separate accounting of state, federal, and local revenues, as well as federal costs at the district level, it did not distinguish between state and local costs at either the district or school level; second, the system was not constructed to collect financial data at the individual school building level, and therefore, the accounting guidance did not prescribe that items of cost be captured at the school building level; and third the account code structure did not fully link the prototypical funding model to the school district account coding structure. The legislature did not provide the funding necessary to make changes to the system to accommodate these additional requirements.

Current Situation:

Working within available resources OSPI created the “District Allocation of State Resources Portal Page”. This EXCEL model is available on the agency’s website and allows users to compare allocations provided by the state under the prototypical model to the actual costs for staff salaries at the district or school level for each school year. It also provides the ability to compare this data between schools. Other information provided by the portal includes per-student cost information. In addition, OSPI regularly provides analysis related to state and local revenue and expenditure data in response to queries from the legislature or public. Despite these efforts, some legislative members have continued to ask for more detailed accounting data.

Proposed Solution:

This decision package requests funding for changes to the school district accounting and reporting system that would allow for transaction level categorization of costs as either a state cost or a local cost, and

School Financial System Redesign

establish state collection of school building level financial data including the development and implementation of standardized school based accounting and reporting.

This project consists of design, development and implementation of a new school district financial statement system (F-196) that will collect Washington Public School District expenditure information by revenue source and at the school level. This project will also include a redesign of specific parts of tightly coupled financial subsystems within OSPI, specifically the school district Budget (F-195), Cash File (F-197), Budget Extension (F-200) subsystems.

The work is expected to take 22 months including a 2-month contingency and provides for Project Management, requirements definition, design, development, testing design, testing, implementation and post implementation support. Due to the annual nature of the accounting and reporting process, the timing of the project is critical. School districts report their year-end fiscal information to OSPI in November following the close of the school year. If funding were provided and work commenced on this plan in September 2017, it would be completed in June of 2019. This means that school districts would report expenditures in this system for the first time in November of 2020 based on data from the 2019–2020 school year.

Contact person

- T.J. Kelly, Director of School Apportionment and Financial Services 360-725-6301
- Greg Beck, Director of Application Development 360-725-6447

Base Budget: If the proposal is an expansion or alteration of a current program or service, provide information on the resources now devoted to the program or service.

This request is not an expansion or alteration of a current program or service. It is an enhancement of a data collection currently required by law, which is necessary to comply with state statutes.

Decision Package expenditure, FTE and revenue assumptions, calculations and details:

Costs for new F-196 collection system:

Task	Total Hrs	Hrly Rate	SFY18 Costs	SFY19 Costs	SFY20 Costs
Project Management	880	\$110	\$48,400	\$48,400	
Requirements Definition	800	\$95	\$76,000		
Design	960	\$105	\$100,800		
Development	4,160	\$103	\$98,880	\$329,600	
Testing Design	960	\$95	\$60,800	\$30,400	
Testing	800	\$95		\$76,000	
Contingency	640	\$110		\$35,200	\$35,200
Implementation	640	\$100		\$64,000	
Implementation Support	640	\$100		\$64,000	
Agency Indirect			\$2,625	\$2,625	\$2,625
Total			\$387,505	\$650,225	\$37,825

Decision Package Justification and Impacts

What specific performance outcomes does the agency expect?

It is expected that, over time, collecting fiscal as presented in this request will help the legislature and the citizens of Washington better understand how the various revenue streams are spent, and potentially

School Financial System Redesign

identify commonalities between expenditures patterns within or across school districts as they relate to student performance.

Performance Measure detail: Student performance can be measured across school districts or buildings as it relates to how districts chose to allocate their fiscal resources.

Fully describe and quantify expected impacts on state residents and specific populations served.
State residents and the legislature would have a new way of answering questions related to how districts utilize different types of revenue, including local tax collections.

Distinction between one-time and ongoing costs:
All state expenditures in this document are one-time costs.

What are other important connections or impacts related to this proposal?

Impact(s) To:		Identify / Explanation
Regional/County impacts?	Yes	Identify: Washington School Districts
Other local gov't impacts?	No	Identify:
Tribal gov't impacts?	Yes	Identify: Washington Tribal Compact Districts
Other state agency impacts?	No	Identify:
Responds to specific task force, report, mandate or exec order?	No	Identify:
Does request contain a compensation change?	No	Identify:
Does request require a change to a collective bargaining agreement?	No	Identify:
Facility/workplace needs or impacts?	No	Identify:
Capital Budget Impacts?	No	Identify:
Is change required to existing statutes, rules or contracts?	Yes	Identify: Accounting Rules
Is the request related to or a result of litigation?	No	Identify lawsuit (please consult with Attorney General's Office):
Is the request related to Puget Sound recovery?	No	If yes, see budget instructions Section 14.4 for additional instructions
Identify other important connections		

School Financial System Redesign

Please provide a detailed discussion of connections/impacts identified above.

School districts will experience an increase in costs related to the implementation of and transition to a new accounting structure. Additional costs to school districts may include, but are not limited to, payments to software vendors that will need to change their products to match the new reporting structure, hiring of additional staff or accounting offices (including salary, benefits, computers, and other work station necessities), staff training on the new accounting structure, and entering expenditure data into necessary systems throughout the year with the newly required revenue and building codes.

OSPI estimates that the additional staff needed at the district level in order to report fiscal data to the state at a more detailed level varies by district size. The chart below shows the estimated number of additional full time FTE needed for implementation by district size.

Student Full-Time Equivalent	Total Additional Full-Time Equivalent Classified Staff
< 2,000	0.5
2,000 – 5,000	1.5
5,000 – 10,000	3.0
>10,000	4.0

Using district enrollment as of July 2016, and the assumptions in the above chart, districts would have to employ approximately 379 additional full-time equivalent classified staff statewide. If we assume that the statewide average district cost per employee is \$65,000 for salary and \$22,000 for benefits, then total ongoing school district cost is \$32,973,000. Without a specific allocation from the state to cover these costs, they would have to be paid through state basic education or local levy money which would be diverted from the classroom for the purpose of gathering an enhanced level of fiscal data.

One-time startup costs include investments in both technology and professional development for training staff on the new reporting structure. For a district of approximately 10,000 student FTE, these costs are estimated at \$50,000. Districts of approximately 30,000 student FTE may incur one-time start-up costs are estimated at an average of \$250,000. These costs are higher than the estimate costs for smaller districts because larger districts typically have more staff to train on the new reporting structure, and have multiple data systems with more than one vendor that would need to be changes to accommodate the new reporting structure. The chart below outlines an estimate of one-time startup costs that would be incurred beginning in the 2017–18 school year, state fiscal year 2018.

District Size (Student FTE)	Number of Districts	Estimated Start Up Costs Per District	Estimated Total Start Up Cost
> 20,000	11	\$250,000	\$2,750,000
5,000 to 20,000	48	\$50,000	\$2,400,00
< 5,000	236	\$25,000	\$5,900,000
Total	295		\$11,050,000

In addition, the largest school fiscal software vendor in the state provided a cost estimate of approximately \$195,000 for software development and \$25,000 for implementation for a total of \$220,000 one-time costs.

The chart below shows the combined local costs of both start-up and on-going costs for the implementation of this decision package.

School Financial System Redesign

School Year	2017–18	2018–19	2019–20	2020–21
One-Time Costs	\$0	\$11,050,000	\$0	\$0
Staffing Costs	\$0	\$0	\$32,973,000	\$32,973,000
Total Costs	\$0	\$11,050,000	\$32,973,000	\$32,973,000
State Fiscal Year	2018	2019	2020	2021
Total Costs	\$0	\$8,840,000	\$26,380,000	\$32,973,000

What alternatives were explored by the agency and why was this option chosen?

OSPI is required by state law to produce the expenditure to resource allocation portal on an annual basis, which provides a district by district and school by school comparison of how districts (schools) receive their allocation through the state funding formula versus how the allocation is actually spent.

OSPI has also done extensive analysis on how districts use their local levy money. This has been done to illustrate what portion of local levy funds are being used to pay for either additional salaries for staff allocated through the prototypical school funding formula, as well as the cost of hiring staff units over and above what the state funding formula generates.

If neither of these analyses have provided legislative decision makers with the type of fiscal information they need to make policy decisions needed to fully-fund basic education, then revamping the account code structure may be necessary.

What are the consequences of not funding this request?

Without this decision package, OSPI will continue to provide the answers to questions related to the use of a specific revenue stream or costs associated with a particular school building in the same manner we have since the transition to the prototypical school model in 2009.

How has or can the agency address the issue or need in its current appropriation level?

OSPI performs analyses through excel based tools that have provided answers to questions related to revenue to expenditure and building based accounting. We will continue to do this within our current appropriation level. Without additional funding from the legislature, changes to the accounting structure of this scope cannot be integrated into the reporting systems.

Other supporting materials:

Activity Inventory:

Activity Inventory Item	Prog	Staffing			Operating Expenditures			
		FY18	FY19	Avg	FY 2018	FY 2019	FY 2020	Total
A002	010				387,505	650,225		1,037,730
A038	021					\$8,840,000		8,840,000
Total Activities					387,505	9,490,225		9,877,730

Information technology: Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

No 

Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.)

School Financial System Redesign

2017-19

IT Addendum

Part 1: Itemized IT Costs

Please itemize any IT-related costs, including hardware, software, services (including cloud-based services), contracts (including professional services, quality assurance, and independent verification and validation), or IT staff. Be as specific as you can. (See chapter 12.1 of the operating budget instructions for guidance on what counts as “IT-related costs”)

Information Technology Items in this DP <i>(insert rows as required)</i>	FY 2018	FY 2019	FY 2020	FY 2021
Project management	\$48,400	\$48,400		
Requirements	\$76,000			
Design	\$100,800			
Development	\$98,880	\$329,600		
Testing Design	\$60,800	\$30,400		
Testing		\$76,000		
Contingency		\$35,200	\$35,200	
Implementation		\$64,000		
Support		\$64,000		
Indirect	\$2,625	\$2,625	2,625	
Total Cost	\$387,505	\$650,225	\$37,825	

Part 2: Identifying IT Projects

If the investment proposed in the decision package is the development or acquisition of an IT project/system, or is an enhancement to or modification of an existing IT project/system, it will also be reviewed and ranked by the OCIO as required by RCW 43.88.092. The answers to the three questions below will help OFM and the OCIO determine whether this decision package is, or enhances/modifies, an IT project:

1. Does this decision package fund the development or acquisition of a new or enhanced software or hardware system or service? Yes No
2. Does this decision package fund the acquisition or enhancements of any agency data centers? (See [OCIO Policy 184](#) for definition.) Yes No
3. Does this decision package fund the continuation of a project that is, or will be, under OCIO oversight? (See [OCIO Policy 121](#).) Yes No

If you answered “yes” to any of these questions, you must complete a concept review with the OCIO before submitting your budget request. Refer to chapter 12.2 of the operating budget instructions for more information.