

What's Not to Love about Shared Service Arrangements?

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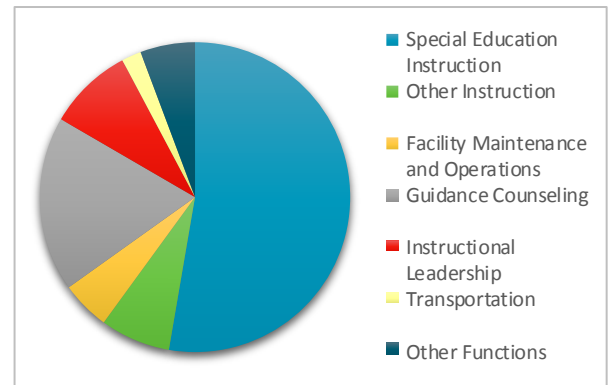
With the state of public education funding in flux, many educators are looking for creative ways to reduce costs, while also maintaining the accountability standards set by the state and national governments.

Shared Service Arrangements (SSAs) are one potential source of major cost savings. SSAs allow school districts to partner with other districts to provide services to their students, enabling resource sharing among local education agencies (i.e. charter schools, traditional ISDs, and educational service centers). SSAs are particularly useful when they allow small providers to achieve economies of scale without losing local control.

In 2015-16, Texas school districts spent \$296 million in SSA funds. SSA funds were most commonly spent on special education instruction and guidance counseling, but were also used for other important functions such as instructional leadership and transportation. (See Figure 1.)

A number of Texas school districts report realizing major cost savings through SSAs.¹ Spring Branch ISD has saved nearly \$1.5 million annually by contracting with the Harris County Department of Education to provide discipline alternative education placement (DAEP) programs

Figure 1: SSA Expenditures 2015-2016



Source: TEA SSA reports and authors' calculations

rather than overseeing the program individually. Richardson ISD has saved \$2.5 million annually through partnerships with Dallas ISD and the Region 10 Education Service Center to provide transportation services and curriculum for special education programs, respectively. Using a

Transparency in educational spending:

- Leads to better budget and decision making
- Leads to better voter oversight
- Requires accuracy!

creative SSA, El Paso ISD contracted with smaller school districts and the regional education service center to provide printing services through its district print shop, realizing a profit of \$250,000 in 2010.

What's Not to Love About SSAs?

So...what's not to love about SSAs? We see two key problems. First, a lack of accurate reporting about SSA expenditures is undermining the transparency and accountability of the Texas school system. And second, charter schools are being left out of the loop.

A Lack of Accurate Reporting

Every SAA has a fiscal agent—the lead partner who is responsible for paying the bills. The Texas Education Agency (TEA) requires fiscal agents to report SSA spending to its Public Education Information Management System (PEIMS) for the purpose of improving transparency and enabling accurate assessment of education expenditures. These supplemental SSA reports indicate not only what was spent by fiscal agents, but also how much was spent on behalf of each member district.

During the 2015-16 fiscal year, 228 school districts served as fiscal agents for one or more SSAs. Unfortunately, as Table 1 illustrates, only 91 of those 228 districts provided SSA spending

reports that were consistent with their other PEIMS financial reporting. More than half of the fiscal agents filed an SSA report that was inconsistent with PEIMS. For example, South San Antonio ISD reported on the PEIMS actual financial report for 2015-16 that it spent a total of \$225,819 from shared service fund 435 on behalf of its member districts. However, South San Antonio ISD's SSA report for the same year indicates that it spent a total of \$610,162 from shared service fund 435 on behalf of 10 member districts. Either the actual financial report or the SSA report must be wrong. Whenever the SSA data are off by more than 2% and by more than \$2,000, we conclude that the data were inconsistent. Of the \$296 million in PEIMS SSA expenditures for 2015-16, more than \$134 million was inconsistently reported to TEA.

Some of the inconsistent reporting was particularly egregious: 10% of fiscal agents failed to file any report on how their expenditures were distributed among their member districts. While the proportion of fiscal agents failing to file an SSA distribution report with TEA has fallen sharply since 2008-09, the lack of reporting remains a serious concern.

Why is there such inconsistency in the reporting? There are two likely sources. First, the districts themselves may have trouble keeping

Table 1: Districts with Inconsistent Financial Data

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Number of Districts or Charter Schools Serving as Fiscal Agents	308	298	275	262	253	237	230	228
Number of Fiscal Agents failing to file an SSA Distribution Report	93	66	28	27	30	26	23	22
Number of Fiscal Agents filing an Inconsistent SSA Report	121	155	150	150	135	132	120	115
Number of Fiscal Agents filing a Consistent SSA Report	94	77	97	85	88	79	87	91

track of their SSA expenditures, perhaps because of a lack of administrative capacity or a gap in their internal controls or audit procedures. Second, districts could be keeping a close eye on their SSA expenditures, but be confused and burdened by TEA's reporting requirements. The former is clearly the greater concern, but both sources of inconsistency make it difficult to hold school districts accountable for their financial decision-making.

Limited Number of Charter School SSAs

The second problem we see in the SSA data is an apparent lack of partnerships between traditional ISDs and charter schools in Texas. None of the 228 fiscal agents in 2015-16 were charter schools, and only a handful of charter schools were identified as members of an SSA led by a traditional public school district.

Charter schools would seem to be logical partners for an SSA. Most charter schools are small, so they would seem to have as much to gain as traditional ISDs from combining their purchasing power in a SSA. They also have much to offer as partners. As noted in a previous Smart Steps issue, charter schools perform particularly well in apples-to-apples comparisons with traditional public schools. While charter school districts represent a much smaller percentage of school districts in Texas as compared to traditional school districts, they represent nearly half of the 5-star districts identified by TSS.² With such high performance, it would seem ideal for both traditional, and charter school districts to enter into more shared service arrangements.

Accounting issues may be creating a barrier to charter school participation in SSAs. According to TEA's Financial Accountability System Resource Guide (FASRG), non-profit charter schools are "required to record the results of shared service arrangements within their own

financial statements"³ and are not required to report separately on their SSA spending. By creating separate reporting standards for charter schools and traditional ISDs, the state increases the likelihood of misreporting and could be disincentivizing partnerships between charter schools and traditional ISDs.

SSAs and TSS

The Smart Schools model accounts for SSAs when measuring a district's real spending and assessing its fiscal efficiency. If school districts and charters appropriately report their expenditures to TEA, then that information is accurately reflected in TSS's Real Spending Index for each school district.

For example, in 2014-15 Hudson ISD reported spending \$649,402 on shared service arrangements as a fiscal agent for three other school districts: Lufkin ISD, Diboll ISD, and Central ISD.⁴ Because Hudson ISD only spent \$119,090 (18%) of those funds on its own behalf, TSS only includes that 18% when calculating its real spending, not the entire contracted amount. Instead, 58% of Hudson ISD's shared service spending in each category is treated as spending by Lufkin ISD, 13% as spending by Diboll ISD, and 11% as spending by Central ISD.

However, the Smart Schools model, just like any cost estimator, is dependent on correct reporting. Reporting incorrectly can, as a result, lead to overstated fiscal spending numbers by fiscal agents. It may be no coincidence that one quarter of school districts failing to report on the distribution of their shared service arrangements received "Very High" spending indices from TSS.

Takeaway

While SSAs can save money for both the fiscal agent and the education institutions that contract with it, the current state of reporting these arrangements is deplorable. With 60% of fiscal

agents either failing to file or filing inconsistent SSA reports in 2016 alone, Texas either has a problem with the way in which the data is collected, or the fiscal agents are having a problem with their own internal financial controls.

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Without better reporting methods, school administrators won't be able to make smart decisions on SSAs or other methods of cost-savings that are imperative in times when schools are pressured to perform better with limited resources. Additionally, the lack of similar standards of reporting for charter schools discourages partnerships and is inherently non-transparent. With improved reporting and transparency on SSAs, the TSS model can better illustrate true spending patterns, leading to better policy decisions by school administrators. School districts should be commended on their creativity when cutting costs, and with better data reporting policies and procedures, administrators can use the Texas Smart Schools scores to innovate and incentivize best education practices that use taxpayer monies more efficiently.

About the Authors

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Notes:

1. The examples in this paragraph come from <http://txsmartschools.org/highlights/smart-practices/studSvc.php>
2. Taylor, L. (2016). Charter Schools Well Represented Among Five-Star Schools. *Smart Steps*, 1(1). <http://txsmartschools.org/pdf/SS%20V1-1%20Charter%20Schools.pdf>
3. Special Supplement to the Financial Accountability Resource Guide: Charter Schools (2010, January). Texas Education Agency. Update 5.0, p. 11. <http://tea.texas.gov/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=2147486722&libID=2147486721>
4. TXSmartSchools Methodology Technical Description. <http://txsmartschools.org/pdf/TXSmartSchools%20Methodology%20Technical%20Description.pdf>

About TXSmartSchools.org

TXSmartSchools.org is an online resource which allows anyone to access Texas school and district-level data and "Smart Scores" free of charge. It uses comprehensive academic, financial, and demographic data to create the fairest, most apples-to-apples comparisons available. The goal is to improve education by identifying Smart Schools that are both effective and efficient and then highlighting their successful practices.

TXSmartSchools.org is built on the foundational work of the Financial Allocation Study for Texas (FAST) launched by Susan Combs during her tenure as Texas Comptroller. It is supported by Susan Combs through Texans for Positive Economic Policy and administered by Texas A&M University.

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