



**National School
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LEADERSHIP Insider

PRACTICAL PERSPECTIVES ON SCHOOL LAW & POLICY

A Membership Benefit of NSBA National Affiliates

Beyond the 65 Percent Solution

Effectively and efficiently financing schools

By Keri McWilliams

Arizona State Senator John Huppenthal's words have been echoed nationwide by critics of increased public education spending: "[M]any in the education establishment want to preserve the status quo," Sen. Huppenthal wrote in an op-ed column in the *Arizona Republic*. "They advocate continuing to pour money into an education abyss that has proved resistant, and often impervious, to reform and accountability."

Instead, Sen. Huppenthal supports "the 65 percent solution," a school-spending initiative requiring school districts to spend at least 65 percent of their total funding "in the classroom."

The 65 percent solution is the brainchild of Overstock.com founder Patrick Byrne, who has spearheaded a similar effort in eight states so far under an umbrella organization known as First Class Education (www.firstclasseducation.org). By the end of 2008, the organization wants to "pass a law in all 50 states and the District of Columbia requiring every school district to spend at least 65 percent of its education operational budgets in classrooms for the benefit of teachers and kids."

So far, Louisiana has adopted legisla-

tion urging the state board of education to impose this mandate on local boards, while Kansas has adopted the "public policy goal" that at least 65 percent of state funds appropriated to school boards be spent in the classroom or for instruction. And in Texas there is a push to inject a 65 percent decree into a state school finance package that is being considered in a special legislative session in response to a finance adequacy lawsuit.

This effort is just one example of sometimes shaky public trust in, and organized attacks against, the way school districts are spending their money.

Getting and Spending

For educators, school finance involves two primary challenges. The first is how to get the money you need. The second is how to spend the money you get most effectively.

As the battle to get the money in the first place is being fought in state legislatures and courts across the country, it has become increasingly obvious that perceptions about educational money management often affect the outcome of the fight. Legislators and their constituents want to know that the money they invest

in public education is being used in the areas where it is really needed. They want to be convinced that their increased school spending correlates with increased academic achievement. This means your school board's decisions will be considered with growing scrutiny.

In the increasingly politicized arena of school finance, the new challenge is managing the money schools receive in an effective way that can be explained to the public. School districts and states across the country have approached this issue in a variety of different ways, many of which will be discussed in the following pages.

In This Issue

Some districts and states have focused on large expenditures in individual districts and tried to reduce costs in those areas. An example of such expenditures is the cost of health insurance for employees, which has represented the biggest increase of any traditional school expenditure in recent years.

NSBA Council of School Attorneys Chair David A. Farnelo's article on page 5 surveys the various approaches districts have taken to reduce health care expenditures without alienating the recipients of

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About NSBA

The National School Boards Association is the nationwide advocacy organization for public school governance. NSBA's mission is to foster excellence and equity in public elementary and secondary education in the United States through local school board leadership. Founded in 1940, NSBA is a not-for-profit federation of state associations of school boards and the school boards of the District of Columbia, Hawai'i, and the U.S. Virgin Islands.

About the National Affiliate Program

The National Affiliate Program extends NSBA's services directly to local school districts. School districts are eligible to join provided they are members in good standing of their state school boards association.

About the National Education Policy Network

The National Education Policy Network (NEPN) helps foster better communication, understanding and management of local school districts through better policy-making. It offers access to a sample policy clearinghouse and current policy-related resources, as well as publications and tools to help districts keep their policy manuals well-organized and up-to-date.

About the Council of School Attorneys

The Council of School Attorneys provides information and practical assistance to attorneys who represent public school districts. It offers legal education, specialized publications, and a forum for exchange of information, and it supports the legal advocacy efforts of the National School Boards Association.

those health care benefits.

Other districts have focused on overall efficiency. Lonnie Palmer leads the New York State School Boards Association's approach to efficiency, which provides comparisons with peer school districts across the state (page 3). There, outside consultants create a comprehensive database of a district's information on spending, reserves, staffing, salaries, and student achievement. Then they create a detailed report comparing that district across a wide range of distinct areas with comparable districts in the state.

In Virginia, the state department of education has begun school efficiency reviews using consultants with business and management expertise. The consultants conduct efficiency analyses in particular districts and report on what works

well and what could be streamlined.

Pamela Curry, Virginia's Deputy Secretary of Finance, considers this practice on page 9, and a participating district talks about its experience with the process on page 11.

Finally, Standard & Poor's School Evaluation Services have launched a new website, www.schoolmatters.com, aimed at giving districts the power to make their own data comparisons and self-determinations. On page 12, Jennifer Rogers of the Michigan Association of School Boards briefly considers the potential benefits of the resource.

Keri McWilliams is a summer legal intern in NSBA's Office of General Counsel. She will begin her second year of law school at Georgetown University in the fall.

ONLINE RESOURCES

American School Board Journal has a variety of articles and resources that address issues in school spending and provide thoughtful solutions:

Data and Dollars: How One District Saved Millions on its Special Education Program. Recounts the experience of one district that found a technology-based solution to special education paperwork that saves millions in staffing costs. www.asbj.com/2005/05/0505asbjdempsey.pdf.

Budget Red Flags: Avoiding Financial Catastrophe in Your School District. Highlights warning signs of financial trouble and gives school board members several easy steps to ensure that they are meeting their obligation of fiscal oversight. www.asbj.com/schoolspending/0504asbjchan.pdf.

Juggling Act: Balancing safety, security, and yield in school investments. Provides basic advice and resources for schools on developing sound investment strategies and evaluating acceptable levels of risk. www.asbj.com/schoolspending/resources0501sallack.html.

Setting Budget Priorities. It isn't that your district doesn't have much money—it's just that you don't have as much as you want. Explores potential innovations in the way school districts budget, from creative personnel man-

agement to critical evaluation of existing programs. www.asbj.com/schoolspending/resourcespicus.html.

Cutting Costs Without Cutting Quality: Sound Impossible? Not If You Follow These Basic Principles. Shows how districts can save up to 10 percent of their budgets by following six simple guidelines. www.asbj.com/schoolspending/resourcespereus.html.

Anatomy of a Budget Cut: For boards faced with tough financial choices, maintaining credibility is critical. Tells the story of budget cuts made 25 years ago that still echo today—a cautionary tale for districts considering program cuts. The repercussions of. www.asbj.com/schoolspending/Quinn.html.

Money Talks: Communicating Your Budget to the Public Can Increase Support. Shows the importance of supplementing solid budget proposals with equally solid public relations to ensure public approval and trust in district fiscal decision-making. www.asbj.com/2005/05/0505asbjmorgan.pdf.

The Case of Precinct 5: Investigation Into a Failed Tax Levy Leads to Success at the Polls. Recounts one district's targeted strategy for reaching out to voters after a failed education tax increases. www.asbj.com/schoolspending/0405asbjlifo.pdf.

Benchmarking in New York

How one state helps school districts make sense of data

By Lonnie Palmer

Every year, the tight financial climate in public education forces school leaders to make tough choices about which positions, programs, and projects to fund and which to forgo. These choices are full of conflict and controversy because they affect the future of staff and students. It is not uncommon for school board members to feel that they lack enough solid information to make these choices and defend them to the public.

At the same time, many board members feel bombarded with more raw data than they could ever hope to digest or understand. The Era of Accountability has brought with it the Era of Data, accompanied by exhortations from state and national officials that school board decisions should be data driven.

Meanwhile, board members are told they should exercise independent judgment to properly fulfill their fiduciary duties. But relying solely on data that has been filtered and edited by the very organization they are expected to monitor seems to fall somewhat short of due diligence.

Finally, board members are told they should stick to policies, plans, and broad goals and not get involved with day-to-day decisions about how best to carry them out. Yet, without independent information about what improvement goals are both challenging and achievable, it is often difficult for boards to take an active and independent role in the goal-setting process.

Launching a Project

The leadership of the New York State School Boards Association believed these issues were interrelated. What was needed was a way to organize and focus the mass of potentially useful data created by the state accountability system into comprehensible information relevant to decisions and actions routinely required of local school board members.

NYSSBA was fortunate to have Charles Winters as a consultant to work on this project. A former school business official, Winters had already developed a prototype database sophisticated enough to meet these comprehensive decision-

making goals. But making the database truly useful required comparison data—benchmarks.

Developing benchmarks was a lot more complicated than it might seem. New York school districts are incredibly diverse in terms of regional costs, size, demographics, and local wealth. This diversity creates major obstacles to making valid comparisons. Peer selection is another issue. New

these to four levels of proficiency on all state exams. We found it was possible to calculate a composite level score that had a common meaning across all state tests. The composite scores showed what level of proficiency students demonstrated across nine tests at grades four and eight and at the high school level.

Finally, NYSSBA designed and tested software that facilitated the selection of a



The Era of Accountability has brought with it the Era of Data.



York contains 680 separate school districts, so there are many districts to choose from.

NYSSBA turned to a cadre of retired superintendents and business officials who had decades of experience and had made their services available as consultants. They formed a team, and the benchmarking project was launched.

Over the course of a year, the project team obtained state data on a variety of subjects—spending, reserves and balances, staffing, salaries, expenses in specific categories, and a wide variety of student outcomes. Much of this data was available via the Internet and through a helpful and supportive state Education Department, which has tracked a wider range of fiscal and academic data than many other states.

With Winters' help, the team compiled, edited, and recast much of the raw data into more useful ratios. We also undertook a regional cost study to develop appropriate indices for the extensive data on spending and finances in different areas of the state.

Next, after consulting academics and state education officials, we identified the key features of school districts that were critical to making valid comparisons. One example involves reducing a variety of different test scores into a common yardstick. New York presents not only raw scores and mean scores, but also relates

unique and tailored set of comparable districts for 85 percent of the school districts in the state. Some K-6, K-8, and special education districts and a few very small districts had no legitimate comparable districts and could not be included in the final benchmarking report database.

The software also created the charts and graphs that formed the backbone of an extensive report for nearly 600 K-12 districts in the state. Each district variable is compared to the state as a whole and to its own group of 12 to 30 similar districts in more than 350 fiscal and academic categories and calculated variables.

The Benchmarking Report

We spent a lot of time developing a report that is comprehensive, yet user-friendly. Each district is compared to the 75th and 25th percentile and the median of the comparable districts on costs, placement rates, test outcomes, and staffing ratios. This allows the board and central office staff to see the district in the context of other districts of similar total enrollment and student composition.

An executive summary highlights district highs and lows on these measures. From this comparison, district leaders can make more informed and defensible judgments about areas they can be justly proud of, as well as areas they can reasonably expect to improve upon. The report contains extensive disclaimers about the need

to go beyond the immediate data to verify and substantiate the areas pointed out in the report.

A district's benchmarking report usually runs about 80 pages, not including additional explanation and calculations, as well as a piece advising school boards on how to communicate the report to the

community. The benchmarking process costs only \$700 for a school district, which receives 10 copies of the report for the board and key administrators.

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Feedback and comments from several dozen districts have been helpful and gratifying. The reports have been particularly well received by new superintendents who need to get an immediate handle on their district's strengths and weakness to guide their efforts to develop potential improvement plans.

"We in Herricks are serious about being the best academically and doing so in the most efficient and effective manner," said Jack Bierwirth, superintendent of the Herricks Union Free School District. "The NYSSBA benchmarking report was a useful tool in this regard because it took data with which we were already familiar, com-

bined it with other data we did not have access to, and then produced a useful report. ... The report has already had a powerful and beneficial impact in our community."

Ralph Marino, superintendent of the at Hunter Tannersville Central School District, had a similar comment. "This

[benchmarking] report is very helpful, and we're going to spend an entire meeting discussing it and using it to set goals for the future," he said.

Limitations and Possibilities

Some limitations are inherent in the benchmarking process, however. Other than some of the testing data, the report is only a snapshot of a single year. As the process continues, longitudinal financial data will become available and help demonstrate how much normal fluctuation occurs in districts from year to year.

Also, it takes the state Education Department about a year to compile certain data, which means the results are rapidly aging by the time the report is available. We believe local spending patterns are fairly durable over time, yet two-year

old spending data is sometimes discounted as out of date.

Despite these possible limitations, NYSSBA believes annual benchmarking reports will prove useful to districts in showing that school improvement initiatives are paying off with visible and independently verified results. We are also hoping to see local school leadership teams build on this data by setting specific local targets for projects and outcomes that tie into the expected long-term improvements contained in the big picture. We believe these reports can be a critical part of a local decision-making process that is truly data driven but also student centered.

As Utica City School District Superintendent Daniel Lowengard observed, "It is good to have a 'fair witness.' We talk about data but so much of what administrators do involves politics, emotions, and opinions. The benchmarking report allows districts to tie decisions to the data and place student achievement first."

Lonnie Palmer is the director of Advisory Solutions, a New York State School Boards Association initiative offering consultant services to school districts in order to enhance operational effectiveness. A former superintendent, administrator, and educator with several New York school districts, he was most recently superintendent of the Albany City School District.

Sample benchmarking charts are available on the Leadership Insider page of the National Affiliate website, www.nsba.org/na.

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Benchmarking reports will prove useful to districts in showing that school improvement initiatives are paying off.

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Dealing with Rising Health Care Costs

How to choose an effective strategy

David A. Farmelo

The largest single category of school district expenditure is employee compensation, and after salaries and wages, the largest component of that compensation is the provision of health care benefits. For years, the cost of providing those benefits has increased far more rapidly than the rate of inflation or the rate of increase in salaries and wages. Since 1980, food costs increased by 104 percent and the consumer price index increased by 129 percent,¹ while health insurance costs increased by 281 percent.²

The situation has become even more troubling in recent years. Since 2000, wages increased by 12.4 percent, but health care costs rose by 36 percent.³ The increases in health care costs have been so great that the 2004 increase of “only” 7.5 percent was the lowest increase since 1999.⁴ As a result of these increases, the cost of family coverage under a preferred provider organization now averages nearly \$10,000 per year.⁵

This dramatic increase results from various factors, including advances in medical care, most of which arrive with a high cost; new and improved prescription drugs, also generally accompanied by high cost; and an aging population. At age 65, a person’s use of health care services is three times larger than it was at age 45; at age 80, it is nine times larger.

The U.S. health care system is primarily designed to pay for treatment of conditions after they arise, rather than paying for preventive medical care. This leads to a greater number of medical conditions needing treatment. In addition, the U.S. system of providing benefits through insurance, HMOs, and other health benefits programs generally separates the consumption of health care services from the payment for those services, giving the consumer little or no incentive to consider what services cost.

While health care costs are spiraling, school districts are facing increasingly difficult budgetary times—as well as mandates that make additional demands on already strained financial resources. In the face of citizen calls for holding the line on tax increases, many districts have looked to limits on health care costs as one way to control budget increases.

Deciding the best strategy requires

knowing the forms of health care coverage available in your area, the market forces at play, the usage pattern of your employees, applicable provisions of the Internal Revenue Code, and, in some cases, the provisions of your state’s insurance law. And, of course, in those states which have collective bargaining, changes in employee health care benefits will be subject to negotiation, unless the terms of your contract give the district authority to make changes in the health care coverage provided.⁶

U.S. districts have used three types of strategies to limit health care costs:

1. Steps to limit the district’s contribution to premiums;
2. Steps to limit eligibility for benefits; and
3. Steps to pay less money to the health benefits companies.

These options do not reduce the cost of health care, of course; they merely shift it from the district to the employee. Increases in employees’ costs effectively offset any wage increases the employees receive, presenting a classic win-lose scenario. If this is the only step taken, every dollar the district does not pay must be paid by the employee.

Limiting Eligibility

Some districts have considered limiting which employees are eligible for family health care benefits, usually by establishing minimum annual earnings or hours of work. One difficulty is that for some employees—especially those with 10-month schedules and relatively low wages—health care may be a significant reason for taking the job in the first place.



While health care costs are spiraling, school districts are facing increasingly difficult budgetary times.



Not every strategy works in every district, due to differences in the history and current state of health care coverage in your state and district.

Limiting Premiums

Frequently, such strategies involve reducing the percentage of the premium paid by the district or changing to a lower-cost plan. For example, a district that offers three levels of HMO coverage with the same carrier might establish its premium contributions on the lowest form of coverage.

Another technique is to establish a base of district contribution and then institute cost sharing of future premium increases. For example, the district’s contribution is established on a certain date, and all future increases are split on a 50-50 basis.

The most direct means, of course, is to establish a dollar limitation on the amount that will be contributed by the district.

Eliminating it may make employees reluctant to accept or remain in those positions.

In addition, this type of provision eliminates or limits health care coverage for persons who actually need it. While it does reduce district expenditures, it may not be desirable from a policy standpoint to exclude people from that coverage.

One compromise is not to make eligibility an all-or-nothing proposition but to give employees who work less than full time a prorated health care benefit. Another compromise is to phase in the district’s contribution to health insurance benefits, so that the district’s share of the premium increases with the employee’s longevity in the district. Employees are rewarded for continued service to the district, and the district benefits from the incentive for employees to remain in their positions.

One limitation on coverage that all school districts (indeed, all employers)

should consider is to eliminate duplicate coverage when employees and their dependents have access to health benefits through the employee's spouse. There is no reason two employers should pay premiums for coverage for the same person or persons. The only party that benefits is the health care company that receives the premiums but does not have to provide the service.

Some districts have collective bargaining agreements or personnel policies prohibiting duplicate coverage, but it is difficult to enforce such provisions if districts do not know whether an employee has other coverage. Employees can be required to file annual statements or even affidavits that neither they nor any covered dependents are receiving health care benefits from another source.

Another approach is to provide an annual cash incentive for employees who decline district coverage. The incentive can be a fixed dollar amount or a percentage of the premium cost of the coverage which is declined. When considering such a provision, it is important to review the

spend less for those benefits.

This is possible because, as a general rule, it is relatively expensive to purchase coverage for additional benefits—the premium paid will far exceed the additional benefits paid out. Compare the cost of a plan with no copay for doctor visits to a plan with a copay of \$10. The number of doctor visits required to offset the higher premiums of the zero copay plan is usually far greater than the number of visits most people are likely to make.

The same holds true for changes in the copay levels for prescription drugs. Offsetting the cost of a plan with a lower copay requires each insured person to have an enormous number of prescriptions filled.

Reducing the level of benefits provided, in other words, generally frees up more premium dollars than will be necessary to offset the higher copays or higher deductibles.

The district must then decide whether to pass a portion of the savings along to the employees. If the employees contribute to premiums, the savings can be used to offset some of those costs, but that

erage from a zero copay for hospitalization to \$500 or \$1,000. The number of hospitalizations can be actuarially predicted, and almost always the premiums saved are far in excess of the cost of the copay—even with a significant cushion of money reserved in case of an unusually high number of hospitalizations in a given year. Therefore, the district can pay the copay on behalf of the employees, who still have no out-of-pocket costs for hospitalization. The remainder of the premium savings reflect a cost reduction for the district.

Section 125 and HRAs

Districts that change the level of health care benefits almost certainly will want to make sure employees will not be taxed on the payments they make for the uninsured benefits. A plan under Section 125 of the Internal Revenue Code allows employee accounts to be established for the payment of uninsured medical expenses, including copays or deductibles for benefits. Many school districts already have Section 125 plans so that employees can make their premium contributions on a pretax basis.

Section 125 accounts can also be used for the payment of other benefits, such as disability insurance and dependent child care. They are frequently referred to as cafeteria plans because the employee can choose which form of fringe benefit to purchase with the money from the account. Section 125 plans are funded by an employee deferring a portion his or her salary into the account, and the employee is not taxed on that amount. At the end of the plan year, however, any unused funds revert to the employer.

The monies in a 105(h) account (sometimes called a health reimbursement account, or HRA) can be used only for unreimbursed medical expenses. Contributions to the plan can be made by the employer (as well as the employee), and the employee is not taxed. Unlike a Section 125 plan, at the end of the plan year, these monies can remain in the account for future use.

If an employer has agreed to make a payment to employees in a health benefit plan with a lower level of benefits to offset higher copays or deductibles, or if the employer decides to self-insure the deductible for hospitalizations, the money can be given to the employee on a tax-free basis by placing it in a 105(h) account. The money is then used to pay the health care provider.

Arrangements usually can be made for



There is no reason two employers should pay premiums for coverage for the same person or persons.



use of district-provided health benefits coverage. In many cases, a significant employee contribution to premiums serves as a deterrent to duplicate coverage, and the presence of an incentive may do little to reduce costs.

It also is important to determine whether employees already declining coverage will receive the incentive payment. If so, the amount they will receive must be factored into the cost of instituting this provision, as the cost could be greater than the savings realized.

Paying Less to Health Care Companies

To avoid the difficult issues presented by cost-sharing and eligibility limitation, some districts have tried to reduce the amount of money they pay to health care companies. The goal is to maintain equal or nearly equal levels of benefits but to

will not be the case if the employees are not making a significant contribution to the premium for their coverage.

Some New York districts found that changing to a lower level of HMO did not eliminate any benefits—it simply altered the amount of the copay on doctor's visits. Just half of the savings was enough to cover the higher copays for almost all doctor visits during the course of a year. Most employees had money left over to pay for other uninsured medical expenses. Those few who had an extremely high number of doctor's visits incurred some increased cost, but since they were making more use of the benefits than other employees, that did not seem unfair. The district, of course, retained the other half of the savings, so its costs were reduced while the benefits for the employees were largely unchanged.

Another example is to change the cov-

these transactions to occur without any action by the employee other than submitting a claim. The money can be put in by the employer and paid out by the third-party administrator without the employee incurring even a temporary out-of-pocket expense.

Other Strategies

In addition to the strategies discussed above, districts can take the following specific steps:

1. Establish Health Savings

Accounts. Section 223 of the Internal Revenue Code established a new variation on the concept of insuring a lower level of benefits and using the money saved to pay for uninsured medical costs.

Under this provision, if an employer provides health benefits coverage with a high deductible (at least \$1,000 single and \$2,000 family), either the employer or the employee can establish a Health Savings Account to which both can contribute. Employees are not taxed on the funds in the accounts, and they control how the money is invested and expended. They make the payments directly, without any third-party administrator. Withdrawals of funds from the account for the payment of uninsured medical expenses are also tax free.

Like a section 105(h) plan, unexpended funds are retained in the account rather than returned to the employer. Employees own their accounts, and can keep them at the end of the plan year,

even if they change jobs. The money still can be used only for qualified medical expenses. The idea is that less insurance is purchased, so the employees are allowed to save on current and future uninsured medical expenses.

2. Purchase coverage cost-effectively.

A relatively simple way to reduce costs is to make sure your district is paying the lowest price possible for its health coverage, whatever the level of benefits. Many

plans will allow a district to have an experience-rated rather than a community-rated plan. That means the district's premiums will be based on the benefit claims of the district's employees, rather than the claims of everyone in the plan. Because school employees are relatively healthy compared to the general population, almost all school districts will face lower premiums by moving to such a plan.

3. Consider self-insurance. Here



The greater the number of employees in the group, the greater the negotiating leverage.



employers have saved by having a single provider, rather than offering employees a choice of providers. The chosen provider reduces its price in order to capture all of the district's employees.

The district can be sure it is getting the lowest possible price by soliciting single-provider bids from all the health care companies in the area. Joining with one or more other districts can also help: The greater the number of employees in the group, the greater the negotiating leverage.

In addition, most single provider pro-

viders, the cost of the coverage depends on the claims made by the school district's employees. But instead of paying premiums to the insurance company to cover the cost of the plan's administration as well as its benefits, the district funds the benefits directly and either administers the plan on its own or engages a third-party administrator to do so.

Self-insurance requires a large enough number of insured parties to spread the risk of a benefit claim for serious medical conditions. If the group is not large enough, a few serious medical conditions



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The National School Boards Association can help you make sense of the new law through its No Child Left Behind Web site. This site provides the latest information on NCLB, its impact on school board governance, solutions for meeting adequate yearly progress, tips on hiring and retaining highly qualified teachers, and more. Visit our site at www.nsba.org/nclb.



could prove disastrous. Most districts that self-insure purchase stop-loss coverage to cover unusually high claims. Districts must also put away sufficient reserves to help cover the cost of such claims.

An experienced and knowledgeable consultant generally can help a district analyze the self-insurance option. In addition, the district should check with its legal counsel to determine whether state insurance law regulates such plans. As with purchasing insurance from a single provider, the district may wish to consider banding together with one or more other districts to establish a multi-employer self-insured plan.

One benefit is that a self-insurance plan can be custom-designed more readily than a plan purchased from an insurance provider. For example, the conventional wisdom is that attaching a copay to doctor visits will reduce the cost of health benefits coverage because employees will be more careful about going to the doctor if there is a cost attached to each visit. One district's self-insurance plan, however, reasoned that a zero copay for doctor visits would encourage employees to have problems treated early, thus reducing the number of serious problems requiring hos-

pitalization, one of the greatest costs in the provision of health care benefits.

Under this plan, hospitalizations in the covered group were reduced by 50 percent. The resulting savings allowed the district to establish more than sufficient reserves to offset future high dollar claims. The amount paid into the plan for each covered employee or family has therefore increased far more slowly than the premiums for insurance, HMOs, and other third-party health care coverage in the area.

4. Manage chronic health conditions.

The theory behind the zero copay program is that providing earlier medical treatment prevents more serious, high-dollar claims.

That same theory underlies another cost-savings strategy: the management of chronic health problems. By better educating employees and providing services to help them manage chronic conditions, the plan will realize cost savings by eliminating higher-cost claims down the road. It is not possible to measure the cost/benefits ratio of such an approach, but it appears to be another means of reducing the cost of health care benefits—and contributing to employees' well-being.

David A. Farmelo, a partner in the Education Practice Group of Hodgson Russ LLP in Buffalo, N.Y., is chair of NSBA's Council of School Attorneys.

ENDNOTES

1. CPIU U.S. City Average, all items 1982-84=100.
2. Oregon School Boards Association, www.osba.org, citing Mercer Human Resource Consulting.
3. Connolly, Ceci. "Higher Cost, Less Care," *Washington Post*, Sept. 28, 2004, at AOL.
4. Mercer Human Resources Consulting, "Overview of 2004 U.S. National Employer

Sponsored Health Plans Survey."

5. LRA On-line, "First Steps Toward Real Health Care Solutions," www.laborresearch.org.
6. To complicate the matter further, many districts must address coverage for retirees as well as active employees. Issues specific to retiree coverage are beyond the scope of these materials.

AVOID INSURANCE PROBLEMS EARLY WITH JOINT COMMITTEES

Oregon School Boards Association

The usual strategy of negotiated trade-offs isn't the best way to plan health care benefits these days—especially when everyone should agree to share the burden of rising costs.

More boards and unions are getting their heads together another way, through Labor-Management Insurance Committees. A committee dedicated to insurance can take the time to really understand and explore the complexities and get the best buy and the buy-in from the union.

"Insurance committees create trusting relationships and better communication with employees from the beginning," says Brett Yancy, budget and finance director for Oregon's Springfield School District. "You also end up doing what's best for your employees, avoiding rumors, and educating employees about how they impact costs."

Springfield's insurance committee does the hard work—creating plan

designs and recommending carriers—so all the board and union need to do is bargain how much premium (cap) the district pays. "We can avoid rumors like 'the district increased our premium' by sharing how claims experience actually increased the premium," says Yancy.

Labor-Management Insurance Committees are created through your union contract. Composition, structure, participants, and purpose are determined through negotiations.

Among the major considerations:

- Each party should appoint an equal number of members.
- The committee's charge should be stated in clear, unequivocal language.
- The committee's authority should be clearly stated; for example, to "make recommendations, publish a report, make operational decisions."
- Specific procedures directly related to the committee's power should be set forth formally. Advisory committees are usually able to agree internally on how the group functions; but if commit-

tees make decisions, this process is specified in the contract. For example, "All committee decisions shall be by a majority vote of a quorum of the voting members appointed to the committee."

• The committee's leadership should be defined; co-chairs for labor and management are common.

The most common purpose of an insurance committee is to explore and recommend various insurance carriers and plans to get the best buy. The committee can also review quarterly reports on how members are using benefits to track trends, explore self-insurance, research member needs and opinions, and act as a sounding board for employee ideas.

Adapted with permission from the Oregon School Boards Association, Negotiations Update, Feb. 24, 2005; www.osba.org/pubs/nu/2005/INU050224.pdf.

OSBA has a website devoted to health care resources at www.osba.org/hotopics/hlthcare/index.htm.

Virginia's School Efficiency Reviews

Studies of individual districts identify savings and best practices

By Pam Currey

When Virginia's Gov. Mark R. Warner took office in January 2002, the state's budget shortfall was estimated at \$3.8 billion over three fiscal years; by summer, it exceeded \$6.0 billion. The new governor addressed the shortfall by eliminating more than 50 agencies, boards, and commissions; eliminating 5,000 positions from state government; laying off state workers; cutting state agencies by an average of 20 percent; reducing the revenue stabilization (rainy day) fund; and implementing significant reforms through government-wide efficiency plans.

As Gov. Warner began to prepare a budget for 2004-06, projections showed that shortfalls would continue through 2010—even with an economic recovery. Even an optimistic forecast could not support our most basic commitments to traditional state priorities.

Funding for K-12 education consumes more of the state budget than any other activity, and it drives huge demands. In 2003, with 100,000 new students projected by the end of the decade, local governments did not think the state was meeting its commitment to education. There were competing demands for increased resources for Medicaid, adult corrections, higher education, and a uniquely Virginia program, the personal property tax relief program.

Gov. Warner decided tax and budget reform would be the priority for the next session of the General Assembly. In November 2003, he proposed a tax reform plan with three major objectives:

1. Make the tax system more fair;
2. Meet Virginia's constitutional commitment to education; and
3. Protect the Commonwealth's fiscal integrity (AAA bond rating);

Ultimately the General Assembly enacted a tax reform package that provided sufficient resources for an additional \$1.5 billion in K-12 funding for the 2004-06 biennium—a historic investment in public education.

Education and Efficiency

Virginia's annual investment in public education is significant. In fiscal year

2002-03, Virginia spent almost \$9.5 billion in state, federal, and local funds for elementary and secondary education—approximately \$1,300 for every citizen in the Commonwealth. But for Virginians to understand the need to invest additional taxes in education, they must be confident the schools were using existing resources wisely and efficiently.

Enter Gov. Warner's school efficiency review initiative, part of his Education for a Lifetime program. The initiative, modeled after successful programs in Texas and Arizona, involves reviews of individual school districts to identify savings that can be gained through best practices, thereby allowing the district to divert savings back into the classroom for an even

The purpose of the pilots was to refine the approach and demonstrate that savings could, in fact, be identified in Virginia's diverse educational environment. To ensure the appropriateness of comparisons made across school districts, analysts created clusters of similar school districts, using statistical comparison of numerous factors, including size, population density, type of community (rural, urban, or suburban), and a composite index that measures a locality's ability to pay for education.

Results of the 2003-04 Pilots

In each district, the reviewers interviewed administrators and staff, reviewed documents, and toured facilities. At the

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The process is meant to create collaboration between the reviewers and school officials. There is no savings target.

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greater investment in the academic program.

The reviews—which cover leadership, organization and management, educational service delivery, human resource management, facilities use and management, financial management, transportation, computers and technology acquisition, and purchasing—also document especially efficient business practices so that other districts may replicate them.

Three school districts volunteered to participate in pilot studies in 2003-04: New Kent County, Roanoke County, and the City of Richmond. Leading the pilot were the Office of the Secretary of Finance and the Best Management Practices District of the Virginia Department of Planning and Budget, which has expertise in auditing and evaluating both private sector and government programs. A former Virginia school superintendent provided educational management expertise.

end of the review, superintendents examined a draft report to correct errors or clarify misunderstandings. Upon completion of the reports, the review team made formal presentations to each school board. The process is meant to create collaboration between the reviewers and school officials. There is no savings target.

The three pilot districts represented the state's diversity—small, medium, and large student enrollments, as well as rural, suburban, and urban settings. Savings and best practices were found in each district:

1. New Kent County. Population: 13,462. Area: 472 square miles. School employees: 350, including 209 full-time teachers. Annual budget: \$18.8 million. Enrollment: 2,511 students in four schools.

Reviewers found that New Kent's staff was creative, resourceful, and efficient in providing services for students. Due to the district's small size, staff members were responsible for many different areas of

operations and made excellent use of cross training.

Total recurring annual savings of \$238,800 were identified, including changing health insurance providers, implementing energy efficiency programs, outsourcing payroll, assessing the county government for mechanical work completed by school personnel, trading in retired buses to the manufacturer rather than selling them, and purchasing paper through a state contract.

2. Roanoke County. Population: 85,778. Area: 250 square miles. School employees: 2,165, including 1,133 full-time teachers. Annual budget: \$123.2 million. Enrollment: 14,119 students in 30 schools.

Reviewers found that Roanoke's system was a model for empowering principals. They found the staff to be extremely efficient and focused on the core mission of improving educational attainment for stu-

dents. Roanoke also had an award-winning energy management program that could provide a model for other districts.

Total recurring annual savings of \$294,032 were identified, including entering into a performance contract to replace older lighting in schools, using software to consolidate bus routes, eliminating overtime by hiring additional maintenance staff, purchasing janitorial supplies from a distribution center, and changing investment rules for funds raised by school activities.

3. Richmond City Public Schools. Population: 197,790. Area: 60 square miles. School employees: 3,433, including 1,982 full-time teachers. Annual budget: \$229.8 million. Enrollment: 25,545 students in 63 schools.

Among the best practices found in Richmond was an ingenious teacher recruitment strategy that used the resources of the local business, banking,

and commerce communities. By attracting the best candidates and matching them with the most appropriate school and principal, the district had reduced first-year teacher turnover rates from 25 percent to less than 4 percent between 1997 and 2003.

Total recurring annual savings of \$2,139,292 were identified, including eliminating high bus driver overtime costs, purchasing fuel directly from suppliers, using existing software to consolidate bus routes, purchasing items through state contracts, increasing energy efficiency in school buildings, paying bills on time, and changing the discipline process for classified employees.

Additional Pilots

While state and local officials were pleased with these initial reviews, they recognized that completing the reviews was very labor intensive for a state agency

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with countless other responsibilities. With an appropriation of \$984,000, the Commonwealth conducted a competitive procurement to select outside consultants to complete reviews that would start in the fall of 2004.

Four consulting firms were selected to conduct reviews in six districts, with enrollments ranging from 1,115 to 25,635. Four reviews have been completed to date, with savings identified in each district.

Using consultants resulted in some changes in the review process and content. The firms brought with them experience from Texas, Florida, and elsewhere. There was a certain amount of sorting out as the consultants worked with state officials and the local superintendents to adapt their product to the Virginia legal, financial, and cultural environment.

In this phase, state officials served as negotiators between the consultant and the local superintendent and provided technical expertise and quality control. The consultants' reports are reviewed by state officials (including the original review team) and must be accepted by the governor's office before publication. One of the goals in this phase was to keep a collaborative approach in place in spite of

the natural tension between collaboration with the district and the independent consultant's need to show savings.

The first district to be reviewed by an outside consultant was Stafford County. The firm was Gibson Consulting Group, Inc., which had reviewed 20 Texas school districts and conducted similar performance audits in Florida, Illinois, and Colorado. The Gibson evaluation team con-

including 1,651 teachers, the district's FY 03-04 budget was almost \$200 million. The district has 25,635 students enrolled in 25 schools. The average teacher salary in 2002 was \$45,472.

Stafford was noted for its unique principal mentoring program, appropriate outsourcing of services, automated textbook management system, use of the Internet auction program for surplus property, and



Centralized data can be misleading and should not be used as the sole basis for decisions and recommendations on spending.



sisted of functional experts in each area of study, including former teachers, a former superintendent, a former school system chief financial officer, three CPAs, and a nationally recognized K-12 facilities consulting firm.

One of the fastest growing counties in Virginia, Stafford County had a 2000 population of 92,446 and covers an area of 270 square miles. With 3,118 employees,

effective special education mediation practices.

Total recurring annual savings of \$1.7 million were identified, including outsourcing custodial operations, increasing Medicaid reimbursements, consolidating bus routes, expanding the use of just-in-time delivery of goods, and increasing energy efficiency in school buildings. (See the sidebar.)

Additional reviews have been completed for the Portsmouth Public Schools, Spotsylvania Public Schools, and Surry Public Schools. Savings and best practices have been found in each of these reviews, as well. The reviews of Campbell Public Schools and Williamsburg/James City County Public Schools will be completed later this year.

Lessons Learned and a Look Ahead

The review process is not easy for the superintendents and school boards involved—one superintendent referred to it as “tears and trauma.” By the end of the review, however, superintendents have been pleased with the product.

As challenging as the startup has been, we believe we have learned a number of lessons. First, each district is unique, and it is not possible to determine appropriate savings without spending time in a district. We also have learned that centralized data can be misleading and should not be used as the sole basis for decisions and recommendations on spending.

Savings can almost always be identified when an independent party comes into the district and reviews operations with-

A POSITIVE PROCESS

By Chuck Woodruff

Stafford County Public Schools recently participated in an efficiency review. Although the process required a tremendous amount of effort for the staff, it was a positive experience.

Volumes of data were compiled and provided to the review team. In addition, the team conducted on-site interviews and made every effort to understand the issues before making recommendations. The district will not implement all recommendations, but I estimate that 80 percent or more of them will be undertaken.

Among its significant findings, the review identified what we are doing correctly and validated that the district is a very efficient, effective organization. It also recommended adding 21.5 support positions, which are desperately needed. The study pointed out that Stafford County Public Schools was staffed administratively as if it were a

school district of 14,000 students when we now have more than 26,000 students.

The review is serving as a catalyst in obtaining these additional positions and in identifying options to save money and increase revenue. In all cases, it benefits the students. Moreover, it will make Stafford County Public Schools a better system by:

- Increasing community support for the schools;
- Validating the district's efficiency;
- Recommending essential support positions; and
- Recommending additional efficiencies so that we are getting the greatest possible value for each dollar invested.

I highly recommend Virginia's efficiency review for any school district in the state.

Chuck Woodruff is assistant superintendent of financial services in the Stafford County (Va.) Public Schools.

out the distraction of day-to-day operations. But not all recommendations by outsiders are feasible for a community. There are many circumstances that only the local school board and superintendent fully understand, such as community sentiment and political climate for some types of changes.

As a result, the Virginia efficiency reviews generate options for consideration by local officials—not mandates from the state.

One benefit of the reviews has been a stronger understanding within communities of how the schools spend tax dollars and, as a result, a greater trust in what is

being done. While opportunities for savings were found for each district, recommendations for additional investments were also included. And, best practices have been highlighted.

Each review is posted on the Efficiency Review website (www.pen.k12.va.us/VDOE/efficiencyreview.html) so that citizens and other districts can examine them.

In March 2005, Gov. Warner signed legislation to codify the school efficiency reviews. A total of \$1,182,000 is appropriated for the program for the 2005-06 school year. The Department of Planning and Budget will be conducting another

competitive procurement this summer to select one or more consultants to complete the reviews.

Pam Currey is the deputy secretary of finance for the Office of the Governor in the Commonwealth of Virginia. Her office leads the efficiency reviews.

Note: The Texas Financial Accountability System Resource Guide can be accessed at www.tea.state.tx.us/school.finance/audit/resguide10/far/far.html#P62_515. More information about the Arizona Department of Education's Student Accountability Information System is online at www.ade.state.az.us/sais.

Data Makes the Difference

A new website draws connections between spending and student achievement

By Jennifer Rogers

It all started with a federal law that requires states to collect a host of education data and make it public to various stakeholders and demographic groups. Now this data is available in one, convenient stop—a new website developed by Standard & Poor's School Evaluation Services. The site, www.schoolmatters.com, posts test scores, school spending, student demographics, and success stories and offers powerful comparison capabilities with other states and schools.

Even though the site may look intimidating on the first visit, it is easy to use with a little patience and has a wealth of information and resources, starting with the 2003-04 school year.

After the user has selected the desired state, the site prominently displays a snapshot of overall student performance on state and national math and reading tests, enrollment of students with special needs, and adult education levels. Users may find similarities to the old School Evaluation Services site, minus the out-of-date information.

A new feature is a tool that identifies schools that are outperforming others with similar demographics. The tool—RAMP—combines reading and math proficiency and measures how close a school, district, or state is to meeting the goal of 100 percent student proficiency to adhere to requirements of NCLB.

SchoolMatters says it gives people a way to measure whether school spending

translates into student achievement. But the site leaves it up to users to make their own assumptions—after reviewing spending and performance data—which is never a good thing, considering the average user may not be well versed on education data.

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The time and money a school district can save using this tool is significant.

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Users can only compare their own state with three others, but the site is comprehensive. At the push of a few buttons, it generates comparisons on NAEP performance, college entrance exam performance, classroom profiles, enrollment demographics, teacher salaries, spending per student, revenue per student, and community profiles.

After navigating through the site, I realized that its most important component is information about each state's high-performing school districts. SchoolMatters is useful if it helps shed light on effective strategies and “best practices” that can help lower-performing districts make needed improvements.

Kathy Hayes, codirector of the Michigan Association of School Boards' Leadership Development Department, says the site is a good place to determine a school's return on investment. The data clearly shows how each district's per-pupil spending compares to student achievement. If spending is average or low but student achievement scores are high, then, of course, the return on investment is very good.

Hayes also emphasizes how easy it is to see the breakdown of spending in the district, such as on transportation, food services, custodial work, and so on.

SchoolMatters provides the ability to uncover the stories behind the numbers and further the discussion about how to improve student performance. The time and money a school district can save using this tool is significant. And with the ability to compare and conclude findings right at their fingertips, school officials can spend more time having an impact on student achievement.

Jennifer Rogers is the assistant director of public relations and communications for the Michigan Association of School Boards. MASB was a key player when Michigan became the first state to participate in Standard and Poor's School Evaluation Service.