

MINUTES

JOINT ADEQUACY EVALUATION OVERSIGHT SUBCOMMITTEE

9:30 A.M.

Thursday, May 20, 2010

Room 171, State Capitol

Little Rock, Arkansas

Senator Jimmy Jeffress, the Senate Vice-Chair of the Joint Adequacy Evaluation Oversight Subcommittee, called the meeting to order at 9:30 a.m.

MEMBERS OF THE JOINT ADEQUACY EVALUATION OVERSIGHT SUBCOMMITTEE IN

ATTENDANCE: Senator Steve Bryles, Senate Co-Chair; Representative Bill Abernathy, House Co-Chair; Senator Jimmy Jeffress, Senate Vice-Chair; Representative Eddie Cheatham, House Vice-Chair; Senator Joyce Elliott; Senator Johnny Key; Senator Mary Anne Salmon; Representative Monty Betts; Representative Toni Bradford; Representative Les Carnine; and Representative David Rainey.

OTHER MEMBERS OF THE GENERAL ASSEMBLY IN ATTENDANCE: Senator Randy Laverty; Representative Jerry Brown; Representative Eddie Cooper; Representative Robert Dale; Representative Jody Dickinson; Representative Curren Everett; Representative Debra Hobbs; Representative Buddy Lovell; Representative Mark Martin; Representative Tim Summers; and Representative Linda Tyler.

Senator Jeffress raised a point of personal privilege and recognized **Mrs. Kristen Sharp**, noting that today was her last day with the Bureau of Legislative Research (BLR). He noted that Mrs. Sharp had done a great job as a staff member since 2006, but had made a decision to leave to take care of her family. Mrs. Sharp commented that she had enjoyed working for the state and the BLR and that the decision to leave was difficult, but one she and her husband felt was best for their family. Senator Jeffress thanked Mrs. Sharp for her service and expressed best wishes for the future.

Discussion of Issues Concerning the Operations and Maintenance Component of the Funding Matrix

Mr. Michael Brown, Legislative Analyst, Bureau of Legislative Research, was recognized. Mr. Brown presented a report, "2010 Arkansas School Districts Operations and Maintenance Report," about the line item in the Matrix that deals with the upkeep of facilities in and around a school district. In his introductory remarks, Mr. Brown spoke of the testimony presented by the Arkansas Association of Educational Administrators (AAEA) before the Adequacy Subcommittee in 2008 that raised concern about increases in expenditures in the operations and maintenance (O&M) component. He said that in order to understand the underlying trend behind the increased expenses, an analysis was designed around the idea of breaking out total expenditures into a consumption component and a price increase component, and a district-level survey was designed to capture this data. However, with only about fifty (50) accurate responses with usable data returned from Arkansas's 244 school districts, the original analysis could not be run.

Mr. Brown said that this report provides a historical review of O&M funding along with a comparison between actual O&M expenditures and foundation funding. It includes consumption values broken out from the returned survey data and an analysis of possible reasons for increases in expenditures, but it cannot conclusively report on the cause of those increases. It also provides an economies of scale analysis.

Mr. Brown reviewed the contents of the report starting with Part I and the history of O&M funding. He called attention to Table 1 and Table 2, both on page 3. The former shows that the percent of foundation funding provided for O&M exceeds the 9% currently established by Act 1426 of 2005, and the latter shows the differences

between O&M costs and funding. In Part II, he went over the costs that have increased in O&M: personnel, professional and technical services, utilities, and other costs, including supplies. He indicated that the series of pie charts on page 5 breaks out each of these categories as a total of O&M funding. An analysis of these charts shows that through time the composition remains constant, but the prices are changing. Table 3 presents the three-year change in each of the major O&M expense categories, with the two biggest concerns being an 8.1% increase in costs of O&M salaries and benefits, and a 15.39% increase in the cost of utilities.

Mr. Brown spoke additionally on the factors that are driving O&M expenses and discussed:

- o Table 4: AR Average Commercial Electricity Prices,
- o Table 5: AR Average Commercial Natural Gas Prices,
- o Table 6: O&M Salary & Benefit Costs, and
- o Table 7: Utility Consumption Changes.

He summarized that, based on the analysis, expenditures for O&M are due primarily to cost increases for utilities and O&M personnel, and are only slightly tied to increased utility consumption. He indicated that in the economies of scale analysis, *i.e.*, the change of O&M costs across the size of school districts, that was conducted, smaller school districts, as measured by average daily membership (ADM), in general, do not spend more per pupil on O&M than larger districts.

Mr. Brown cited a report by the AR Division of Legislative Audit, "2009 Operations and Maintenance Expenditures Coded to Athletics," that was handed out to the Subcommittee, that contained expenses for athletics nested into O&M expenses. He described this is an example of other subcomponents of O&M not covered in today's report. Another handout, "Schedule 3, 2009 -- Expenditure Percentages by District," was provided to the Subcommittee to show the impact that O&M has across school districts.

Mr. Bill Goff, Assistant Commissioner, Fiscal and Administrative Services, Arkansas Department of Education, was recognized, and provided information during the discussion that followed. Topics raised included:

- ◆ Privatization of janitorial services,
- ◆ The effect of the low base originally set for O&M Matrix Funding per ADM,
- ◆ Use of funding from other sources,
- ◆ Coding to athletics,
- ◆ The number of schools needed to make up a representative sample to do a power analysis,
- ◆ Efficient, standardized reporting procedures,
- ◆ Delayed maintenance costs,
- ◆ Creating a backlog; reexamining the same issues,
- ◆ Contract management,
- ◆ Unspent O&M transfers into escrow accounts,
- ◆ Accuracy of athletics reporting by school districts,
- ◆ Reasons for the lack of response to surveys by school districts,
- ◆ Explanation of Personal Services – Salaries, on the 2009 O&M Expenditures Coded to Athletics chart,
- ◆ Guidance, if any, provided to auditors for information legislators need for evaluations,
- ◆ Sources of funding that make up the gap when the ADM may not match the category expenditure, and
- ◆ Planning for adequacy and equity for 2113, the 10-year date.

Representative Abernathy thanked Mr. Brown and Mr. Goff for the discussion.

Mr. Richard Wilson, Assistant Director, Research Services, Bureau of Legislative Research, was recognized. At the request of Representative Abernathy, Mr. Wilson brought the Subcommittee up-to-speed on the history of the Matrix from its simpler version created in FY2003 through its recalibration in FY2006. He related that as part of

the recalibration, the Carry-Forward number was broken into three components: Transportation, Central Office, and O&M. He said that, of these line items, the one that continues to be questioned by administrators, superintendents, and legislators is O&M; and it's still undecided whether the current level of funding is accurate for the proper level of O&M. The research team sought to get a better handle on the cause of the increasing O&M costs with the latest round of school district surveys, and the Board of the Arkansas Association of Educational Administrators (AAEA) was consulted to review the survey questions and to provide assistance with wording. Mr. Wilson stated that the response to the survey from the 244 school districts was excellent; however, there was a problem with the districts providing historical information on utility bills. Once this data had been secured, it was not helpful, so the methodology had to be reinvented. Mr. Wilson said that any conclusion drawn from that particular line item remains unclear.

Dr. Tom Kimbrell, Commissioner, Arkansas Department of Education, and **Dr. Richard Abernathy**, Superintendent, Bryant School District, were recognized. Dr. Kimbrell and Dr. Abernathy each addressed the issue of obtaining completed surveys from school districts where administrators and teachers have to deal with an overabundance of paperwork. Dr. Kimbrell said that both the purpose and importance of a report need to be communicated, either through face-to-face meetings at the district or by utilizing technology. Dr. Abernathy agreed and said that, from a school district's perspective, if the need is understood and the AAEA is involved, the communication will be more effective. Other issues discussed to help future reporting included:

- ⇒ Utilizing better methods for obtaining reports,
- ⇒ Involving superintendents and districts before the survey goes out,
- ⇒ Training personnel for coding requirements,
- ⇒ Using certified public accountants or competent bookkeepers for today's complex financial operations in schools,
- ⇒ Sending reminders to districts for completion of surveys,
- ⇒ Involving the AAEA in following up with districts,
- ⇒ Collecting information as an ongoing process,
- ⇒ Reducing paperwork for teachers, and
- ⇒ Consolidating required reports.

Representative Abernathy requested that Mr. Wilson, Mr. Brown, the AAEA, and the Arkansas Department of Education (ADE) get together and strategize how to collect the necessary information to give statistical accuracy to the current cycle of reports and the Adequacy report. Dr. Kimbrell offered to work with the research staff in contacting superintendents and bookkeepers of delinquent school districts to help them understand the issues, to collect the information, and to determine if the Matrix is actually providing adequate levels of funding for the schools' O&M, and to determine what the trends are that are driving up the rates.

Senator Jeffress thanked the Subcommittee for a great discussion.

Senator Jeffress recognized Mr. Wilson to talk about future dates and planning. He said there are two reports ready and scheduled to be presented on Monday, May 24, followed by three remaining reports, of which two are critical: 1) the Resource Allocation Report, and 2) the review of inflationary adjustments for the line items in the Matrix. Mr. Wilson suggested August 23 and 24 for the next meeting of the Subcommittee when the rest of the reports could be presented and still meet the September 1 deadline, and August 30 and 31 to be held in reserve for the next meeting of the full Committees for their review.

Pursuant to the motion by Senator Jeffress to accept Mr. Wilson's recommendation, and seconded by Representative Abernathy, the next meetings of the Joint Adequacy Evaluation Oversight Subcommittee were set for Monday, August 23, and Tuesday, August 24, 2010, and the next meetings of the Joint Interim Committees on Education were set for Monday, August 30, and Tuesday, August 31, 2010.

The motion was approved without objection.

Senator Jeffress announced that the next meetings would be for the Joint Subcommittee on Grade Inflation at 10:00 a.m. on May 24, 2010, in Room 171 of the State Capitol, followed by a meeting of the Joint Adequacy Evaluation Oversight Subcommittee at 1:30 p.m. on May 24, 2010, in Room 171 of the State Capitol.

There being no further business, the meeting adjourned at 11:32 a.m.