

SENATE BILL 677

By Gresham

AN ACT to amend Tennessee Code Annotated, Title 49, Chapter 3, to enact the "Fiscal State Tracking and Accountability Report (STAR) System Act".

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Title 49, Chapter 3, is amended by adding Sections 2 through 7 as a new, appropriately designated part:

SECTION 2. This part shall be known and may be cited as the "Fiscal State Tracking and Accountability Report (STAR) System Act" or the "Fiscal STAR System."

SECTION 3. As used in this part, unless the context otherwise requires:

(1) "Commissioner" means the commissioner of education;

(2) "Fiscal peers" means schools, LEAs, or public charter schools determined by the commissioner to be fairly equitable in terms of school size, student demographics, cost of living factors, average household income of the resident city or county, and other socio-economic factors as determined by the commissioner; and

(3) "Public charter school" means a public school authorized by a chartering authority to provide public education to students under chapter 13 of this title.

SECTION 4.

(a) By April 30, 2014, the state board of education, in consultation with the comptroller of the treasury, shall promulgate rules and regulations necessary to implement the fiscal STAR system and to annually identify schools, LEAs, and public charter schools as having one of the following star ratings:

(1) "5-star" schools ranking "excellent";

(2) "4-star" schools ranking "above average";

(3) "3-star" schools ranking "satisfactory";

- (4) "2-star" schools ranking "below satisfactory"; and
- (5) "1-star" schools ranking "failing."

(b)

(1) The fiscal star rating for all schools, LEAs and public charter schools shall include, at a minimum, a combination of the following factors:

(A) Fiscal outcomes (three stars): A determination of the successful outcomes, including achievement-related return on investment outcomes, associated with the investment of resources by the school, LEA, or public charter school in the previous fiscal year, based upon, but not limited to, the following factors:

(i) The cost of all materials, equipment, salaries, and other support provided to each classroom within each school and across the district, compared to the relative academic gains demonstrated by the students through annual assessments or subject-specific growth measures adopted by the LEA or public charter school that are aligned to state standards;

(ii) The cost of targeted interventions employed by the LEA or public charter school that are designed to raise the achievement of specific students within each school, compared to the annual academic growth demonstrated by the targeted students;

(iii) The cost of all professional development training, materials, and tuition provided for instructional staff on an annual basis, compared to the average annual increases in teacher performance as determined through consistent and reported teacher evaluations;

(iv) The total cost of facility maintenance and small capital projects, compared to teacher-reported facility satisfaction surveys;

(v) The cost of new construction or capital facility repair reported on a cost-per-square foot basis; and

vi) Any other return indicators that directly compare the cost of a project, program, or other expenditure of funds and the measurable academic or other non-financial outcomes associated with the expenditure as determined by the commissioner.

(B) Financial operations (two stars): A determination of general financial operations and overall fiscal health, based on best practice considerations, including, but not limited to:

(i) Annual audits, conducted by a qualified independent auditor;

(ii) Ratios of expenditures to revenues, based on yearly audit documents;

(iii) The LEA's or public charter school's ability to maintain diversified sources of revenue, including local, state, and federal funds, as well as innovative short and long-term debt vehicles;

(iv) Maximized use of federal resources demonstrated through low annual fund lapse;

(v) Debt to operating fund ratios; and

(vi) All other indicators of fiscal health as determined by the commissioner.

(2) For the purposes of assigning a financial operations star rating to schools, the financial operations assessment of the school's applicable LEA or public charter school shall be transferred to the school.

(3) For the purpose of determining the fiscal star rating for each school, LEA, and public charter school for both fiscal outcomes and financial operations, the commissioner shall take into consideration and report the following:

(A) The current distribution of performance of all schools, LEAs, and public charter schools within the state;

(B) The year-to-year performance within each eligible school, LEA, or public charter school; and

(C) The relative performance of fiscal peers.

#### SECTION 5.

(a) Beginning June 30, 2015, the commissioner shall collect the data necessary to implement the fiscal STAR system from each school, LEA, or public charter school that receives public funds and has students who take the state assessment or other nationally normed test. The commissioner shall use the most current data available.

(b) The commissioner shall be responsible for:

(1) Verifying the accuracy of the data collected;

(2) Assigning a star rating to each eligible school, LEA, and public charter school; and

(3) Comparing the fiscal star rating of each school, LEA, or public charter school to its fiscal peers.

(c) For the purposes of this part, non-public schools receiving public funds to support the tuition of students enrolled in a school shall only be subject to the data collection and reporting requirements as outlined in this part.

#### SECTION 6.

(a) By June 30, 2015, and every year thereafter, the commissioner shall create and publish on the department's web site a sortable list of rated schools, LEAs, and public charter schools on each measure of fiscal data used to determine the fiscal star rating. This information shall be presented in a manner that is easily accessed and understood by parents and the community.

(b) The web site shall contain an explanation of the fiscal data and methodology used to assign fiscal star ratings to schools, LEAs, and public charter schools. This explanation shall be written in a parent friendly manner.

(c) The published fiscal star rating for each school, LEA, and public charter school in the current year shall also list its star rating from the prior three (3) years.

(d) The department's web site shall allow rankings and ranking categories for LEAs and public charter schools to be compared to their fiscal peers.

(e) By July 15 of each year, each school, LEA, and public charter school shall link or update a link to the department's web site, which publishes the fiscal star ratings. The link to the department's web site shall be prominently posted on the web sites of LEAs and public charter schools.

(f) Each school, LEA, and public charter school shall be responsible for distributing the fiscal star ratings and reports issued by the commissioner to parents.

SECTION 7.

(a) Beginning June 30, 2016, and every year after, all LEAs and public charter schools that receive a fiscal star rating of two-stars or lower shall be subject to the following interventions, as prescribed in further detail through rules and regulations promulgated by the state board of education:

(1) In the first year, the LEA or public charter school shall be paired with a fiscal peer that has a higher demonstrated fiscal outcomes or financial operations rating. The higher performing fiscal peer shall provide technical assistance to the LEA or public charter school and its governing body in the development of its annual budget, spending plans, and other critical financial decision-making. The LEA or public charter school shall provide an annual report to the commissioner on the technical assistance sought and received from the higher performing fiscal peer;

(2) In the second consecutive year, the commissioner shall review and approve, on a line-item basis, the annual budget for the LEA. The commissioner shall have full authority to allocate funds as determined to be in the best interests of the LEA for strong financial operations and high fiscal outcomes. The LEA shall spend funds as approved by the commissioner, and shall submit detailed requests for any material changes to its spending plan for commissioner's approval prior to making material changes.

(3)

(A) In the third consecutive year and beyond, the commissioner shall appoint a financial receiver, who shall report directly to the commissioner;

(B) The financial receiver shall have the sole ability, without seeking approval from the leadership or governing body of the LEA, to:

(i) Create and execute all budgets and spending plans for the LEA and any of its schools;

(ii) Negotiate, renegotiate, approve, and enter into contracts on behalf of the LEA;

(iii) Receive and disburse on behalf of the LEA or public charter school all federal, state, and local funds earmarked to the LEA or public charter school. These funds may include, but are not limited to, funds for specific programs or the retirement of debt;

(iv) Sell, assign, transfer, or otherwise use the assets of the LEA to meet past or current obligations or assure the fiscal accountability of the LEA; provided, that the use, assignment, or transfer of assets does not impair the education of the pupils of the school or LEA. The power under this subdivision includes the closure of schools or other school buildings within the LEA.

(v) Approve or disapprove the issuance of obligations of the LEA;

(vi) Exercise solely for and on behalf of the LEA all other authority and responsibilities affecting the LEA that are prescribed by law to the local board of education and director of schools of the LEA as determined by the commissioner; and

(vii) Employ or contract for, at the expense of the LEA, any school staff or administrators considered necessary to implement this part.

(C) The financial receiver shall issue quarterly reports to the commissioner on performance related to the measures included in the school and LEA fiscal star ratings and other measures and benchmarks as determined by the commissioner.

(D) The financial receiver shall remain in place until the LEA has increased its operations to a three-star rating or higher for two (2) consecutive years;

(E) The financial receiver shall serve at the will of the commissioner; and

(4) For public charter schools:

(A) In the second consecutive year and beyond, all public charter school chartering authorities shall develop plans for financial intervention for applicable public charter schools to implement; and

(B) Each chartering authority's plan for financial intervention shall be approved by the commissioner.



SECTION 8. The state board of education is authorized to promulgate rules and regulations to effectuate the purposes of this act. All such rules and regulations shall be promulgated in accordance with Tennessee Code Annotated, Title 4, Chapter 5.

SECTION 9. This act shall take effect July 1, 2013, the public welfare requiring it.