

OHIO AUDITOR OF STATE
KEITH FABER



Ohio's
Educational Service Centers
Operational Study

May 28, 2020

This page intentionally left blank.



To Ohio’s Educational Service Centers, the Ohio Department of Education, the General Assembly and other policy makers, and the public at-large:

The Auditor of State’s Office recently completed an operational study of Ohio’s Educational Service Center (ESC) network, which is comprised of 51 individual ESCs. This review was requested by the legislature in Senate Bill 3 of the 131st General Assembly and conducted by the Ohio Performance Team.

This report contains recommendations, supported by detailed analysis, to improve the ESC network, and identifies other areas for further study. In addition, a profile for each ESC will be posted on our website with the report. This report has been provided to the Ohio ESC Association and its contents have been discussed with the executive committee.

This data-driven analysis of the network’s operations provides valuable insight and analysis of the network’s operations. We believe this report will satisfy the legislative intent and provide valuable information to the ESCs, the General Assembly and other policy makers, and the public at-large. Additional resources related to performance audits are available on the Ohio Auditor of State’s website.

This report can be accessed online through the Auditor of State’s website at <http://www.ohioauditor.gov> and choosing the “Search” option.

Sincerely,

Keith Faber
Auditor of State
May 28, 2020

This page intentionally left blank.

Table of Contents

Introduction.....	1
Educational Service Centers	2
Study Approach	5
Network Wide Data	5
Groupings and Data Comparisons	9
Report Information.....	12
Study Results	12
Comment on the Evolution of ESCs.....	13
Section 1: Data Management	14
Data Uniformity	16
Data Transparency	20
Section 2: Revenue and Funding	23
Direct Funding Model.....	26
High Performing Designation	30
Section 3: ESC Services.....	33
Section 4: Shared Services.....	36
Educational Regional Service System	40
Councils of Government	41
Section 5: Efficiency.....	43
Key Performance Indicators	46

Introduction

Quality public education is a cornerstone of society and necessary for providing children the tools needed to succeed later in life. In Ohio, public education is provided at the local level through school districts.¹ However, these districts do not act entirely on their own. Ohio’s education system requires the participation of many stakeholders in a complex, collaborative structure. One part of the system are the Education Service Centers (ESCs). ESCs play a vital role in the framework of Ohio’s public and chartered community and parochial schools. Born out of the county boards of education, present day ESCs make hundreds of individual service types available to all school districts in the state.

The State Board of Education and the Ohio Department of Education (ODE or the Department) are responsible for overseeing the state’s public education system. In addition to administering the school funding system, ODE collects performance data and develops academic standards and curriculum for the state. In addition to overseeing public school districts, ODE also monitors regional education providers including ESCs.

The Ohio General Assembly sets the total amount of funds available for education in each biennial budget. These state funds are distributed based on Ohio Revised Code (ORC) and ODE policy. They also provide legislative guidance related to education in Ohio, including identifying new requirements or standards for public education to be carried out by the various actors in the education system.

In March 2017, Senate Bill 3 of the 131st General Assembly (SB3) was enacted. This bill required our office to conduct a comprehensive operational study of all ESCs in the state. This study “shall contain standards and benchmarks unique to educational service centers for further study and that may inform future performance audits of educational service centers conducted under section [§] 3311.051 of the Revised Code.” Further, “The State Board of Education may consider the Auditor of State’s report of the operational study in its formulation of the performance standards for educational service centers, if any, and in its determination of high-performing educational service centers under Section 263.390 of Am. Sub. H.B. 64 of the 131st General Assembly.”

Note: Our report is based on information available prior to the State of Ohio state of emergency declared in March 2020 due to the COVID-19 pandemic. Our analysis does not take into account any changes in operations or potential reduction in future revenues related to the pandemic and state of emergency. These events could have lasting impacts on the ESC operations and the districts they serve.

¹ In Fiscal Year Ending 2020 there were 612 school districts in Ohio

Educational Service Centers

History

In 1914 the Ohio General Assembly created county boards of education in order to provide guidance and oversight to local school districts.² These new boards of education were tasked with the reorganization, consolidation, and centralization of rural and village school districts.³

The creation of county boards of education was designed to provide a centralized approach to public education. County boards of education were responsible for creating a minimum curriculum for all districts to follow, reducing the number of districts through reorganization, and creating training standards for educators. This essentially stripped the townships of local control of rural school districts and created a more systematic, centralized approach to public education and was the precursor to establishing present day ESCs.

During the first 80 years of their existence, between 1914 and 1995, the county boards of education expanded their role in the educational framework of Ohio, gaining responsibility in the areas of special education, school psychology, supervision services, and vocational education. At the same time, the number of districts in Ohio was reduced from more than 2,500 in 1914 to just over 600 in the early 1960s.

In 1995 the General Assembly rebranded the county boards of education as ESCs. At the same time, this legislation identified dates for required mergers for smaller ESCs.⁴ Additional legislative changes granted school districts greater choice in selection of ESCs. These changes essentially allowed school districts to align to an ESC outside of their geographic region, an option that was not previously permitted. As a result of several mergers and changes to operations, the number of ESCs has declined over time.⁵

While the total number of ESCs has declined over time, the number of districts served has increased. Originally only local school districts were required to align with an ESC. Exempted village and city school districts were not subject to the same requirement, but had the option to obtain services from an ESC. However, in 2011 changes made to the Revised Code made it necessary for all school districts, including local, exempted village and city school districts, with an average daily student enrollment of less than 16,000 students to enter into an agreement with an ESC.⁶ This change also allowed, but did not require, districts with an average daily student enrollment of more than 16,000 to enter into an agreement with an ESC. As of FY 2020 only one district – Toledo City School District – was not aligned with an ESC.

² The New School Code Act of 1914 (House Bill 13 of the 80th General Assembly)

³ *History of Ohio's County Boards of Education* (Ohio Department of Education, 1989)

⁴ State Government-Budget-Appropriation and General Amendments, 1995 Ohio Laws File 28 (H.B. 117), 121st General Assembly

⁵ This operational study uses information gathered from 52 ESCs in FY 2018 and FY 2019. As of January 2020 there were 51 ESCs as a result of a merger between Lake County ESC and Geauga County ESC.

⁶ ORC § 3313.843(B)(1)

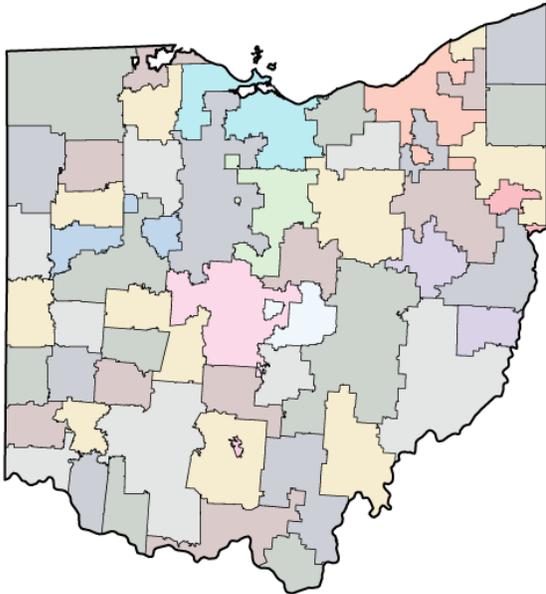
Operating Structure

After creation of the original 88 county boards of education in 1914, mergers, closures, and restructurings allowed by the legislation referred to above resulted in the network of 52 ESCs at this time of this operational study.

While ESCs operate under the oversight of their individual governing boards - they exist due to the membership of their aligned school districts. If all the client school districts of an ESC were to terminate their agreements, the ESC would, by law, dissolve.⁷

In FY 2018 the ESC network offered services to school districts with more than 1.5 million public school students in Ohio. The ESCs offer services to member districts which allow those districts to leverage economies of scale when purchasing services. For example, rather than bearing the full cost of a licensed psychologists, which may not be needed full-time, member school districts may be able to purchase the quantity of service from the ESC that they need, effectively sharing the service of staff across districts at a lower cost than if the district were to provision the service themselves.

ESCs in Ohio



Source: ESCs, ODE, and AOS

ESCs are public entities and receive funding from public sources including an allocation from state government. However, they operate much like private businesses and their primary function is to provide services. As outlined in ORC § 3312.01(C), services may include any of the following:

- Assistance in improving student performance;
- Services to enable a school district or school to operate more efficiently or economically;
- Professional development for teachers or administrators;
- Assistance in the recruitment and retention of teachers and administrators;
- Applying for any state or federal grant on behalf of a school district; and
- Any other educational, administrative, or operational services.

In addition to implementing state and regional education initiatives and school improvement efforts under the educational regional service system, educational service centers shall

⁷ ORC § 3311.0510(A): If all of the client school districts of an educational service center have terminated their agreements with the service center under division (D) of section 3313.843 of the Revised Code, upon the latest effective date of the terminations, the governing board of that service center shall be abolished and such service center shall be dissolved by order of the superintendent of public instruction.

implement state or federally funded initiatives assigned to the service centers by the general assembly or the department of education.⁸

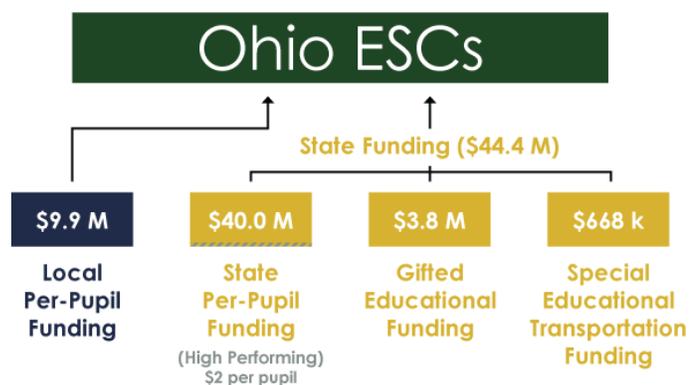
Funding

Unlike a traditional school district that can generate local tax revenue, ESCs have no legal taxing or bonding authority. Instead, ESCs draw revenue primarily through direct public funding, grants, and payments for services rendered.

The ESCs receive direct public funding from ODE through four streams: Local per-pupil funding⁹, state per-pupil funding, gifted education funding, and special needs transportation funding. The state per-pupil funding, gifted education funding, and special needs transportation funding is appropriated to the ESCs by the General Assembly and distributed by ODE. When necessary, ODE may prorate the per-pupil funding amount received by the ESCs if the total calculated allocation for ESCs exceeds the appropriation. Both state and local per-pupil funding are calculated based on the student count of an ESC’s member school districts. ESCs also receive state funding to cover a portion of costs associated with gifted education and special needs transportation services.

Beginning in FY 2017, a new component of the state per-pupil funding model was introduced. In order to receive the full state per-pupil appropriation, ESCs are required to obtain a “high performing” designation from ODE. Any ESC not receiving the designation would receive \$2 less per pupil in state per-pupil funding. In every year that the designation was awarded all ESCs have applied for and received the high performing designation.

Direct Public Funding in FY 2018



Source: ORC, ODE, and AOS

⁸ ORC § 3312.01(C)

⁹ The local per-pupil funding component included within the direct public funding total includes the \$6.50 per pupil, the minimum requirement that ODE deducts from each school districts’ foundation payments and transfers to their aligned ESC in accordance with ORC § 3313.843(H). ODE may deduct an alternative amount in excess of \$6.50 to be paid to the ESC as detailed in ORC § 3313.843(H). However, this direct public funding reflected in the analysis captures the minimum amount of \$6.50 per pupil, as the intent of this revenue breakout is to illustrate the guaranteed direct funding ESCs receive to operate. See **Section 2** for a detailed analysis of direct funding and **Appendix C: Operating Revenue** for explanation of those school districts agreeing to have an excess per pupil amount deducted and paid to their respective ESC.

Study Approach

The ESC network occupies a unique position within Ohio’s education system. Because there is not an administrative office or designated director overseeing all ESCs at the state level, it was necessary to request and collect data and input from each of the 52 ESCs individually. Our report uses financial data from FY 2018 and staffing and service data from FY 2019, the most recent data available at the time of analysis. We conducted site visits with each ESC between March and October 2018 in order to obtain feedback and additional information from individual ESC administrators.

A comprehensive study of ESCs in Ohio has not been completed prior to this report. We were tasked with providing a comprehensive overview of the network and to create standards and benchmarks that could be used to inform future studies. In order to complete the report we conducted reviews based on a “top down approach.” We first gathered and compiled information on the ESC network as a whole, then we identified groupings of similar ESCs which could be used for comparison purposes, and finally we created profiles with financial, staffing, and service data for the individual ESCs.

Once this information was collected we identified objectives and completed additional analysis. The analysis was intended to identify areas for improvement within the network and inform the formulation of future performance standards for ESCs.

Network Wide Data

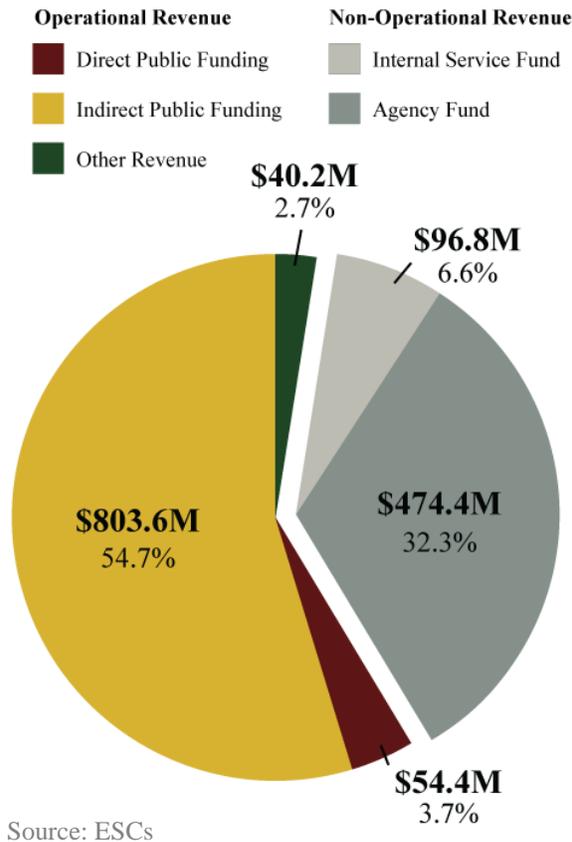
To create a baseline of information we collected available data in several key areas including revenue, expenditures, staffing, and services. The information we gathered was used throughout our study.

Revenue

In total, the ESC network had approximately \$1.5 billion in reported revenue in FY 2018.¹⁰ In order to analyze the true operating revenue of the ESCs, the sources of this \$1.5 billion were evaluated and broken out.

Nearly \$900 million is used for ESC operations and is what we considered

Total Revenue by Source



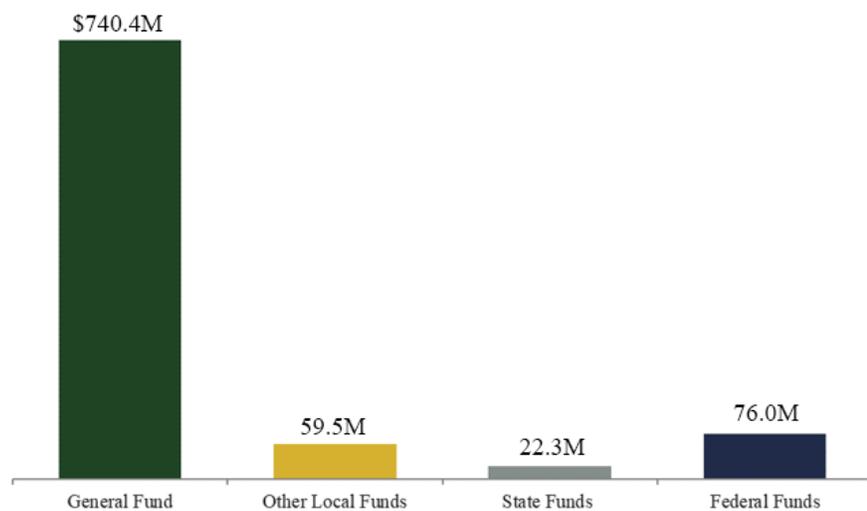
¹⁰ Reported revenue includes operating revenue, fiduciary funds, and internal service funds.

operating revenue for purposes of this study. The vast majority – 89.5 percent – of operating revenue was from indirect public funding. This money refers to revenues received from other public agencies, including their member school districts. Primarily this funding comes from revenue from fees for services provided by the ESCs. Direct public funding are those revenues received through various state allocations and subsidies identified previously. Other revenue represents revenues that are not generated from public funds including investment earnings, donations from private sources, and tuition paid directly from clients for services.

Agency funds reflect assets held by an ESC in a purely custodial capacity. The Employee Benefits Agency Fund is an agency fund which accounts for monies received from school districts forming an insurance "pool" for employee benefits.¹¹ Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies within an ESC, or to other governments on a cost-reimbursement basis. The use of an internal service fund may be applied to situations where the ESC acts as fiscal agent for a multi-district program. To provide an accurate picture of the revenue available for operations, agency and internal service funds were excluded from operating revenue within this study. While activities such as providing health insurance consortiums and acting as a fiscal agent are ESC services (and the administrative fee for providing these services are included in the General Fund) the actual money held within these two funds do not reflect operations but rather are simply held on the books of the ESC. For this reason, they were excluded. Additional data on total revenue and revenue per student by ESC can be found in **Appendix B: Data by ESC**.

The chart to the right shows total operating revenue by fund in order to provide an indication of the restrictive and discretionary nature of funds. The ESC network had \$898.2 million in total operating revenues in FY 2018, the total of the red, yellow, and green slices in the pie chart above. Of this, 82.4 percent, or \$740.4 million, are General Fund revenues and are used to support the general operations and activities of an ESC. The source of these revenues is mainly through direct and indirect public sources and are considered discretionary. The other funds are restricted

Total Operating Revenue by Fund



Source: ESCs

¹¹ The Employee Benefits Agency Fund made up 95.4 percent of the agency fund total for the ESC network in FY 2018.

to expenditures for specified purposes which are typically identified in a grant agreement or legal requirement.¹²

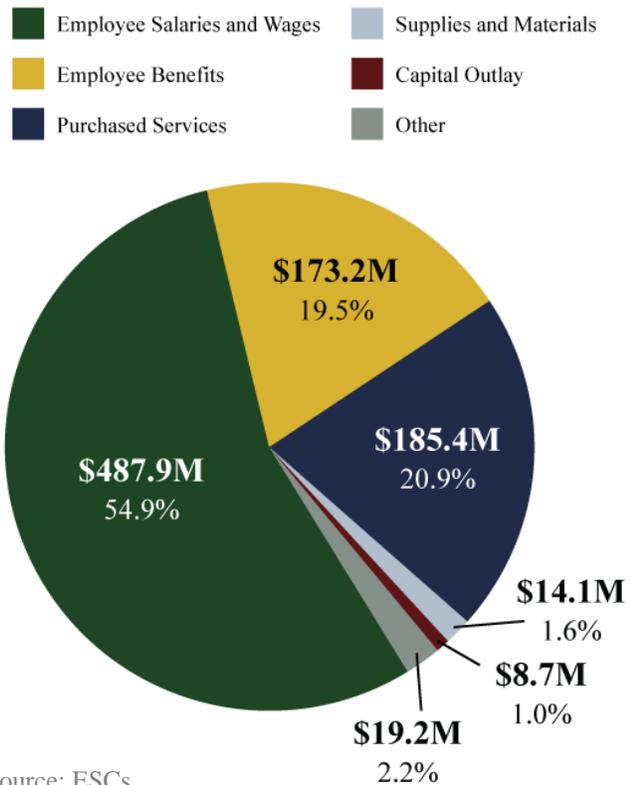
Additional detail regarding operating revenue can be found in **Appendix C: Operating Revenue**.

Expenditures

We reviewed the ESC network’s expenditures, and like revenues, excluded the agency and internal service funds from our analysis in order to identify expenditures directly related to operations. In FY 2018 the network reported nearly \$1.5 billion in expenditures, \$888.5 million when excluding agency and internal service funds, which is the basis of our analysis for this study.

These expenditures are broken down by type.¹³ Of note, nearly 75 percent of expenditures were related to personnel costs with salary and wages accounting for 54.9 percent of expenditures and employee benefits – such as health insurance premiums and retirement benefits – accounting for 19.5 percent of all expenditures. Outside of personnel costs, expenditures also included purchased services¹⁴, supplies and materials, capital outlays, and other expenditures for goods and services not otherwise classified. Additional data on expenditures by ESC and expenditures per student by ESC can be found in **Appendix B: Data by ESC**.

Expenditures by Type



Source: ESCs

¹² State and federal funds are special revenue funds that are used to account for and report the proceeds of specific revenue sources that are restricted and committed for specified services. Other Local Funds reflects revenue in all local funds with the exception of the General Fund, including special revenue and enterprise funds. The majority of this category (80.9 percent) was Other Grants Fund, a fund used to account for the proceeds of specific revenue sources, except for State and Federal grants that are legally restricted to expenditures for specified purposes.

¹³ Type of revenue was determined using USAS object codes.

¹⁴ Purchased services include amounts paid for personal services rendered by personnel who are not on the payroll of the ESC, and other services which the ESC may purchase including, but not limited to, utilities, property services, and communication services.

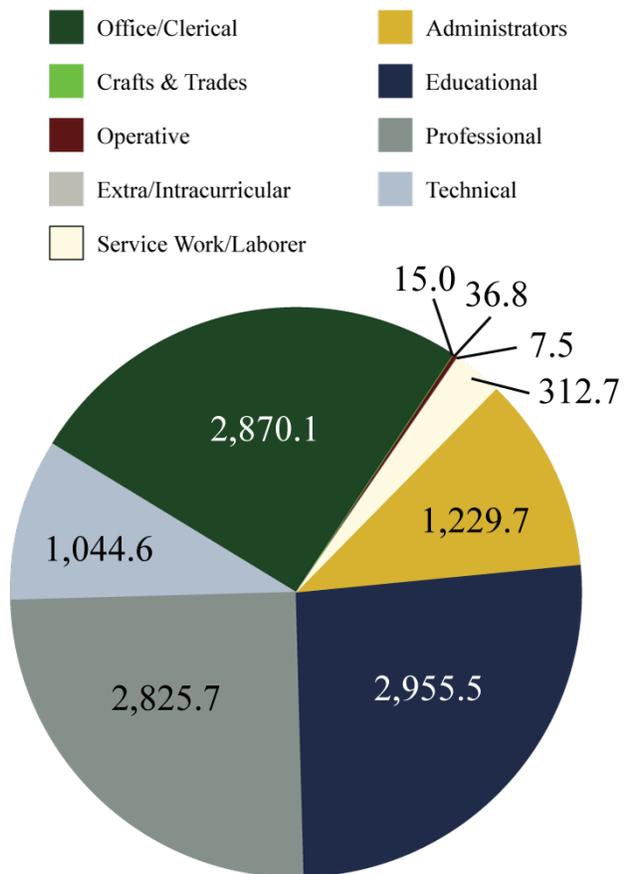
Staffing

As personnel accounted for nearly 75 percent of the ESC network’s total expenditures, it was important to review staffing levels across the network. In total, ESCs reported nearly 11,300 full-time equivalent (FTE)¹⁵ employees in FY 2019.¹⁶ These employees are reported in the Education Management Information System (EMIS) which is maintained by ODE.¹⁷ Further information regarding EMIS can be found in **Appendix D: Education Management Information System.**

As the demand for services can change throughout the year based on an individual school district’s needs, so can the staffing levels required to provide such services. For this reason, ESCs often use part time and temporary employees to fulfill the needs of its customers. While these employees are paid by the ESCs, they are not required to be reported in EMIS and therefore may not be reflected in the total count of employees. The EMIS reporting instructions allow for flexibility when reporting part time employees, and during the collection and verification of ESC staffing totals we noticed differences in how ESCs are reporting part time staff.

Another issue which complicates network-wide staffing data is the use of Councils of Government (COGs) by individual ESCs. COGs are created under ORC Chapter 167 and consist of governing bodies of any two or more political subdivisions. When an ESC uses a COG to

ESC FTEs by Category



Source: ESCs

¹⁵ *ODE EMIS Manual* (ODE, 2019) defines full-time equivalency (FTE) as “the ratio between the amount of time normally required to perform a part-time assignment and the time normally required to perform the same assignment full-time. The number 1.0 represents one full-time assignment. One (1.0) FTE is equal to the number of hours in a regular working day for that position, as defined by the district.”

¹⁶ Staffing data was collected from and verified with each individual ESC. The reported FTEs reflect staffing as of October 31, 2018. This staffing data reflects employees reported through EMIS and paid by the respective ESC. Therefore, services managed by the ESC but provided by third party employees (council of governments (COGs), hospitals, other private agencies) are not included.

¹⁷ EMIS is the statewide data collection system for Ohio’s primary and secondary education. Staff, student, district/building, and financial data are collected through this system. Staff data includes demographic data (race, gender, age, name, education level, attendance, etc.) and employment data (salary, position code, assignment area, fund source, etc.).

provide services, those COG employees would not be reported within the ESC’s EMIS staffing records. For more detail regarding ESCs and COGs see [Section 4](#).

Services

As previously discussed, ESCs are first and foremost service providers. More than \$800 million in indirect public funding comes primarily from fees for services. Additionally, the personnel costs that make up nearly 75 percent of total expenditures are related to the provision of services—the more services that an ESC provides, the more staff they need to provide those services. As services drive the revenues and expenditures for ESCs, it is important to have an understanding of what services are offered and the costs associated with them. However, there is no centralized location which stores data related to services offered by ESCs in Ohio. In order to obtain service data we first collected information available on individual ESC websites, and then conducted interviews to verify and expand on the collected information.

We identified more than 350 unique service descriptions being offered by the ESCs, but this does not mean that there were actually 350 unique services. Through interviews we were able to identify several types of services that were similar, but had different titles and descriptions between ESCs. In order to conduct analysis we identified 21 service categories and grouped similar services together. A full list of services can be found in [Appendix E: Individual Services Offered](#) and the service categories we created can be found in [Appendix F: Service Categories](#).

Groupings and Data Comparisons

The 52 ESCs represent a wide variety of member school districts, each with individual needs, which makes comparisons between ESCs inherently difficult. The needs of an ESC serving primarily urban or suburban districts may not be similar to those of an ESC serving a rural population.

ODE encounters similar issues when attempting to draw comparisons across Ohio’s school districts. In order to address the variation inherent in school districts and to normalize demographic and geographic factors, ODE created the Typology of Ohio School Districts. This classification system divides districts into one of eight types.¹⁸ As a result, the typology classifications can serve as a basis for a stratified sample of districts in the state. These classifications also allow researchers to focus on a specific type of district, such as major urban districts or rural districts with high poverty.

We used the existing typology system in order to develop peer groups within the ESC network. Using the typology categories we identified five ESC groups.¹⁹ These categories were developed by using a weighted average of the ESC’s member district’s assigned ODE typology based on

¹⁸ In 2007, the typology was revised to take advantage of the 2000 census data. With the availability of more recent data from the 2010 census and an increasing demand for analytic uses, ODE again revised the typology for 2013.

¹⁹ Originally, we identified six groups of ESCs. However, Group 1 included only two ESCs. In order to ensure the analyses conducted within the data comparisons produced meaningful results, these two ESCs were included in Group 2.

student enrollment. These groups allow for a more effective comparative analysis as differences in ESCs resulting from environmental factors are normalized.

Additional information regarding ODE’s typology and our internal grouping can be found in **Appendix G: ESC Peer Groups.**

Once groupings were identified, we conducted analyses on ESC groups to provide a basis on which to formulate objectives for this study. The initial analyses allowed our office to identify trends and outliers within the data which could benefit from further review and analysis.

Revenues

We compared the median operating revenue per student within each group to the student population in an attempt to identify trends in the data or outstanding or outlying groups.

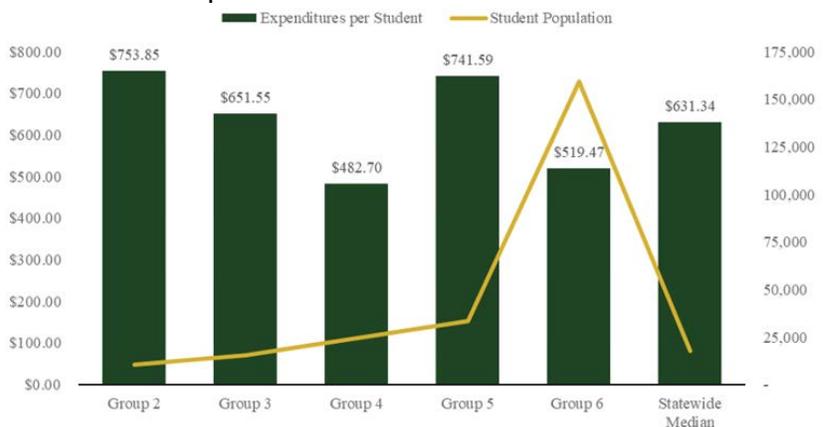
We found that as member district population levels increase (as the group typologies increase), revenue per student shows fluctuation. Specifically, there is a steady decline in revenue per student from Group 2 to Group 4 followed by a large increase in Group 5. The identification of this variance is important, as it signifies that Group 5 ESCs operations could be examined more in-depth as operations in this group differ in some manner from the other groups, allowing the typical Group 5 ESC to generate higher revenues per student even with a higher relative student base.

Operating Revenue per Student by Group vs Student Population



Source: ESCs and ODE

Expenditures per Student by Group vs Student Population



Source: ESCs and ODE

Expenditures

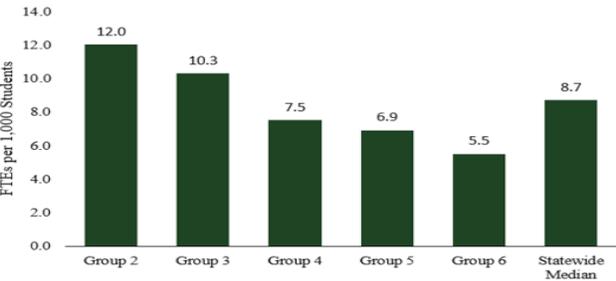
We also reviewed the median expenditures per student within each group compared to the student population in an attempt to identify trends in the data or outstanding or outlying groups.

The expenditure analysis follows a similar trend as that of revenues previously shown. It is reasonable to assume that as member district population levels increase, expenditures per student should decrease due simply to economies of scale. However, the chart above shows that as average student population grows as the group typologies progress, expenditures per pupil show fluctuation. The presence of this fluctuation is important as it signifies a differential in operations between groups, or potentially the percent of the student population in which they serve.

Staffing

We analyzed the median FTEs per 1,000 member district student population by ESC group in an attempt to identify trends in the data or outstanding or outlying groups. There is a clear declining trend in the staffing ratio as the groupings progress, signifying that as member district student populations increase, a fewer number of employees are needed.

FTEs per 1,000 Member District Students



Source: ESCs and ODE

ESC Profiles



We created profiles for each ESC with information regarding financial, staffing, and service data. This information is presented on the individual level and compared to both group and statewide medians. These profiles, and the comparisons within them, provide a snapshot of operations based on one year of performance.

While the information within these profiles is accurate and verified, due to uniformity issues, we limited its use in network-wide analyses. Any conclusions drawn from the information contained within the profiles should be carefully considered because of the issues identified within our operational study.

These evaluations and comparisons could be beneficial to the network if they are conducted on an annual basis in order to evaluate progress or trends. Benchmarks and standards within these profiles can also aid in the development of network-wide key performance indicators.

[Click here to see the profiles for all 52 ESCs.](#)

Report Information

Study Results

This operational study includes historical background regarding the establishment of ESC and current network-wide information to provide context to present day operations of ESCs within Ohio's educational system. Standards and benchmarks unique to ESCs were created and included throughout this study that can be considered by the network, ODE, and policy makers in future decisions regarding how to communicate, measure, and improve the operations of ESCs. These standards and benchmarks may also inform future performance audits of ESCs.

In consideration of the varying size and demographics of ESCs, different types of services provided, and diverse business models in place, objectives were developed with the intent to evaluate high level areas that would provide value to the network as a whole. We conducted detailed review and analyses on the following scope areas: uniformity and transparency, operations, and services. Our review resulted in five recommendations. These recommendations also contain observations related to the ESC network's compliance with Ohio Revised Code as applicable, in order to provide policy makers information to use in making legislative changes and/or decisions regarding ESC operations. The recommendations are as follows:

- The ESCs should work with ODE and AOS to develop and adopt changes to improve the uniformity of reported data that could be used to evaluate the operations of ESCs.
- The ESCs should provide access to their operational data in a transparent and standardized manner.
- The ESCs and ODE should comply with ORC § 3313.843(H) by ensuring if the majority of an ESC's member school districts elect to contribute a larger local subsidy than the minimum then all member school districts contribute the larger amount.
- ODE should improve its process for designating high performing ESCs to ensure that it clearly measures performance in a meaningful way and ensures rigorous and effective review of applications for such designation.
- ODE should develop, track, and use Key Performance Indicators (KPIs) for the ESC network.

We also identified three issues for further study. These conclusions were outside the scope of the operational study but require the attention of stakeholders for future consideration. Issues for further study are included in the areas of funding and shared service initiatives.

Comment on the Evolution of ESCs

The ESC network has evolved over time, but in many cases the supporting structures have not progressed as the network itself has. ESCs have a similar governance structure at the local level as traditional school districts. Like a traditional school district, each ESC is under the oversight of an elected governing board. The governing boards are responsible for hiring the ESC superintendent and treasurer, who in turn report directly to the governing boards.

These governing boards are elected from the respective ESC’s territory. Although the territory of an ESC is comprised of the local school districts within the territory of the county²⁰, ESCs may provide services to city, exempted village, and local school outside of the territory of the ESC. Due to changes in legislation²¹, school districts now have the ability to choose ESC providers. This essentially allows school districts to align to an ESC outside of their geographic region, an option that was not previously permitted. In addition, legislative changes now require all school districts, including local, exempted village and city school districts, with an average daily student enrollment of less than 16,000 students to enter into an agreement with an ESC. The laws surrounding the election of governing boards have not been updated to reflect the current operating environment. As a result, the governing board of the ESC may or may not²² reflect the districts that the ESC serves, and the exempted village and city school districts do not have elected representation on any governing body of an ESC.

Further, as the ESCs have evolved from county school boards into service providers, the representation at the state level has not adjusted to provide necessary communication, support, and accountability. While ESCs receive funding and direct initiatives from ODE, there is no dedicated individual position or office to act as the link to assist communication or cooperation between the ESCs and ODE to better facilitate a close working relationship.

Finally, ESCs use reporting systems that are designed for school districts and the funding model for state and local subsidies is based on a per-pupil metric which mirrors the state’s foundation payments to school districts. Throughout this study we found that the ESCs were operating with structures designed for school districts which do not reflect the current operating environment of the ESCs.

²⁰ ORC § 3311.05

²¹ ORC § 3313.843

²² ORC § 3311.056 allows the elected members of an educational service center governing board to adopt a plan for adding appointed members to that governing board to represent the client school districts of the service center that are not otherwise represented on the board.

Section 1: Data Management

The ESC network has evolved over more than a century. What began as individual county boards of education has evolved into organizations that operate much in the same way as private enterprises – they provide services and compete with each other for customers. However, ESCs receive the majority of their revenue through public funding, which increases the amount of transparency required by them. Taxpayers should be able to understand what their tax dollars are being spent on.

While ESCs' place within the educational system has evolved, they continue to follow the same standards of data reporting that traditional school districts use in Ohio. The lack of specialized systems, or clarity within existing systems, has led to a situation where ESCs are reporting their information in a manner which results in inconsistencies across the network.

Consistent and transparent reporting is a critical component to an efficiently run public organization and reporting guidelines and standards are necessary components of managing data in such a way that valuable comparisons and useful analyses can be completed. Providing information in an open and transparent manner is also important so that the ESCs' clients can make informed decisions about which ESC can best meet their needs.

Why We Looked At This?

The legislation requiring this operational study tasked us with identifying or developing standards and benchmarks unique to ESCs. In order to meet such task, we collected pertinent data needed to evaluate operations and inform the creation of standards and benchmarks in the areas of financial operations, staffing levels, and services offered. By identifying standards and benchmarks, we would be able to provide a basis of comparison which would inform key stakeholders when attempting to draw conclusions related to an ESC's performance.

In order to begin the process of identifying these performance indicators we had to gather data related to the ESCs and in so doing we were struck with the need to review the data management processes which are currently being utilized across the network. The planning phase of the operational study identified deficiencies in reporting financial, staffing, and service data.

What Did We Look At?

ESCs use some of the same systems as traditional school districts. Specifically, a large amount of data is reported to the following:

- Uniform School Accounting System (USAS) – USAS is used to process and track the accounting activity within a school district and includes different dimensions, including funds, functions, and objects that make up a 30 digit account number. Additional information regarding USAS can be found in **Appendix H: USAS and ESC Reporting.**
- Education Management Information System (EMIS) – EMIS was established by law in 1989 and is the statewide data collection system for Ohio's primary and secondary

education. EMIS provides the standards and infrastructure for reporting staffing, student, and building data to ODE.

We gathered information which was available in both of these systems and also conducted interviews with each ESC to verify the data. We collected service data directly from the ESCs, as no standard system to report or track this data exists in the network. The collection of this data was used in attempt to evaluate operations through the development of standards and benchmarks unique to ESCs.

What Did We Find?

We found that there were consistency issues related to the self-reported ESC data within USAS and EMIS and in how ESCs were collecting and reporting their own data regarding services provided. Financial data is not reported in a uniform manner, primarily because reporting standards are not specific to ESCs within USAS. While EMIS does include specific directions for ESCs in regard to reporting staffing data, we found inconsistencies in how these directions are interpreted and consequently how the data is reported. Further, there is no system which is used to collect service related data.

The lack of uniform and transparent data collection methods makes it difficult to develop approaches to evaluate the operations of ESCs network-wide. If we were conducting a study on one individual ESC detailed analysis of operations would be conceivable. However, the time and effort needed to accurately capture and adjust the data for uniformity at this detailed level for 52 ESCs was not feasible as part of this operational study.

In order to create valuable standards and benchmarks, the uniformity and transparency of data should be improved. This will require more than just the efforts of the ESCs for full implementation. The General Assembly, ODE, and the Local Government Services Section of the Auditor of State (AOS), and will need to be active participants in the changes which need to be made within the reporting systems. A collaborative effort providing support and guidance between all key stakeholders is necessary in order to achieve needed systemic changes.

Data Uniformity

Recommendation 1.1: The uniformity of how ESC financial and staffing data is reported should be improved in order to produce more reliable information to be used in evaluating the operations of ESCs. The ESCs should work with ODE and the Local Government Services Section of AOS to ensure necessary changes are developed and adopted. Furthermore, the creation of a standardized method to track and report services offered would provide a baseline for evaluating services across the network.

Methodology

In order to meet the requirements of SB3 and “create standards and benchmarks unique to educational service centers for further study” we gathered available financial and staffing data from the reporting systems in place for ESCs. Specifically, we collected available financial data and reviewed the USAS Manual to gain an understanding of how ESC financial data is recorded within this chart of accounts, promulgated by the Local Government Services Section of AOS. All 52 ESCs follow this accounting structure and receive annual financial audits by the AOS. We gathered staffing information available from EMIS and confirmed data with the individual ESCs. We also reviewed the EMIS Manual in order to determine what, if any, reporting procedures were set for the ESCs. Finally, we collected service data directly from each of the individual ESCs, as no uniform system is in place to track or report service offerings network-wide. Service data collected from websites and through interviews was compiled and provided to each respective ESC for review and confirmation.

Once we had collected available information we conducted various analyses and created benchmarks unique to ESCs. These analyses and benchmarks can be found through this operational study and within the *ESC Profiles*.

Analysis

Financial Data

While creating benchmarks and conducting analysis related to financial operations of ESCs, we found that USAS, in its current structure, is not set up for ESCs to report data in a consistent manner. Further, there is not a means for school districts to identify specific expenditures related to services obtained through ESCs. There are two main reasons for this. First, USAS is designed for school districts – a review of the user manual for USAS identified only two mentions of the ESC network. The second issue is also problematic – there are not specific function or object codes where school districts are required to record payments made to the ESCs for services. Districts primarily code payments made to ESCs as purchased services, but the existing reporting structure does not allow for further identification of what services are in fact purchased, or the cost of individual services.

We did find, during interviews with individual ESCs, that some are using USAS in creative ways so that they can track costs in a more detailed manner internally. Particularly, one ESC uses an Internal Services Rotary Fund – this fund requires AOS authorization to establish and is used to account for operations that provide goods or services to other governmental units on a cost-

reimbursement basis. This type of fund is generally used when a district acts as a fiscal agent for a multi-district program. In this case, the fund allows the ESC to track expenditures by location and by employee, making it easier to track where employees are providing services. While this is not the intended use of the fund type, it does allow the ESC to better track costs and accurately bill for services provided.

While some ESCs have developed their own way in which they are able to track costs by program or service, they have done so independent of each other and the tracking methods are not uniform across the network. In FY 2018 there was only one revenue function and only one expenditure function that was used by all 52 ESCs. The lack of specificity within USAS can lead to instances where two ESCs offer the same service, but code the associated expenditures differently within the system. Further – some ESCs use the “other” or “miscellaneous” function within USAS for coding expenditures, which does not allow for any further identification of expenditures. In addition to inconsistencies with how ESCs report expenditures, revenue tracking also lacks uniformity. ESCs may use the same code within USAS to account for different types of revenues.

For more detail surrounding our analysis of USAS and the reporting variances we found, see **Appendix H: USAS and ESC Reporting.**

Both Michigan and Texas use accounting systems for public education which provide specific guidance to its regional education service centers. Texas has several codes within its financial accounting system which are for ESCs and allow for the uniform accounting of expenditures and revenues. Michigan’s educational financial accounting system includes codes that are designed to track payments between its schools and its Intermediate School Districts—their version of an ESC.²³ These examples could be used as a starting point for expanding Ohio’s current system to better meet the needs of the ESCs.

Staffing Data

ESCs report employment data to ODE through EMIS. ODE provides a manual which is updated periodically to provide uniform and consistent reporting instructions. The specific reporting requirements vary by entity type and are dependent on a variety of factors. The instructions specific to ESCs allow for interpretation which leads to lack of uniformity between entities on how similar information is reported.

In FY 2018, nearly 75 percent of the ESC network’s expenses were related to personnel costs. As such, it is important to have a clear understanding of how an individual ESC is using its existing staff. Generally, we would make comparisons regarding staffing across an identified group of similar organizations – in this case, we should be able to use the identified ESC groupings to make general conclusions relating to employee usage.

While creating benchmarks and completing analysis related to staffing levels within the ESCs, we found instances where we identified issues related to the interpretation of reporting staff through EMIS. For example, there were occurrences where ESC employees were not included in

²³ Michigan’s ESCs are called Intermediate School Districts (ISDs).

EMIS when they should have been. In addition, reporting part-time employees within EMIS is an area where there is variation between ESCs due to different interpretation of reporting requirements. Further, some ESCs use Councils of Government (COGs) to provide services. We found inconsistencies both across the network and within individual ESCs related to how COG employees were or were not reported in EMIS.

Additionally, the EMIS Manual has a section dedicated to the reporting of contracted staff. ESCs are required to report the staff data for contracted staff, which allows ODE to link the contracted employee to the student from the resident/educating district when necessary without requiring duplicative efforts, and allows the contractor (ESC) to report an accurate FTE for the time spent servicing students from each district. The varying agreements that ESCs have with the districts they serve, as well as the large number of ESC employees who are shared among all districts, have resulted in ODE identifying only particular ESC employees who should be reported within this record. Consequently, these EMIS records could not be used to identify all those ESC employees who are working in school district buildings. We attempted to use the EMIS staffing data gathered to analyze and compare operations related to overhead costs, span of control, and staffing levels dedicated to specified services and/or member districts. However, the variances identified in reporting staff through EMIS limited our analyses.

Service Data

There is not a formal reporting system in place to report or track the services provided by ESCs. Therefore we gathered information from individual ESCs through website review and interviews with ESC administrators. During our data collection, we identified more than 350 unique service titles across the ESC network (**see Appendix E: Individual Services Offered**). Many of these service titles used from one ESC to another appeared to be the same service, however the titles often differed and consequently hindered the ability to accurately identify and compare or create benchmarks at the individual service level. We did, however, create high level service categories using the individual service titles and used these categories to complete analysis (see **Section 3**).

Other agencies, such as the Ohio Department of Job and Family Services, have developed manuals with comprehensive service definitions. Providing standard definitions or categories of services provided could increase the standardization of service data elements.

Conclusion

The majority of ESC revenue comes from school districts paying for contracted services while the majority of ESC expenditures are spent on the staff who provide such services. In order to effectively develop and compare benchmarks across the ESC network, consistent and uniform data is critical.

The USAS chart of accounts provides a significant amount of detail and instruction for its users and is a prime tool for managing, recording, and auditing the financial operations of Ohio's school districts and ESCs. Additional functions or codes and/or more detailed instructions specific to the unique operations of ESCs would enhance the use of this fundamental tool by providing more accurate detail to use in evaluating and comparing operations network-wide. The ESCs should work with ODE and The Local Government Services Section of AOS to identify

areas within the USAS chart of accounts that could be expanded to achieve greater standardization in financial reporting specific to the ESCs. A close partnership with Local Government Services Section of AOS will be critical to ensure that potential changes or enhancements are within the limitations of the USAS chart of accounts.

While the EMIS manual provides guidance to ESCs in regard to reporting staff, there is variance in how these guidelines are interpreted. There are also areas that may be expanded to provide a more simplistic way to report ESC staff working in the school districts they serve. The ESC network should work with ODE to identify how EMIS, or the directions currently in place, could be improved to provide more accurate and uniform data to use in reporting, evaluating, and comparing staffing resources network-wide.

Improving the uniformity of financial and staffing data would result in more reliable information to be used in evaluating the operations of ESCs and creating valuable performance benchmarks to measure outcomes (see **R5.1**). Furthermore, the creation of a standardized method to track and report services offered would provide a baseline for evaluating services offered across the network. This may be achieved by enhancing the current legislation regarding posting service offerings (see **R1.2**). Standardized and defined service names would also aid in communicating what ESCs provide to customers across the state (see **R1.2**).

Data Transparency

Recommendation 1.2: The ESCs should provide access to their data in a transparent manner. Information should be made available in an easily accessible format that is standardized across the ESC network.

Further, the ESCs should ensure compliance with the current laws in place in regard to filing service contracts with ODE and communicating service offerings and prices on their websites. The General Assembly may consider enhancing the legislation to achieve greater standardization in how service information is communicated.

Methodology

During initial interviews many ESCs made mention of the uniqueness of their respective services and operations. Some ESCs emphasized on the importance of communicating these resources as there is sometimes a limited understanding from the public of what ESCs are or what they do. As an integral part of Ohio's education system, it is important that the public is able to easily access and understand critical information regarding ESCs.

During the planning stages of this operational study we conducted extensive research on the data available on Ohio's ESCs to provide a baseline for our review. We first reviewed the Ohio Educational Service Center Association (OESCA or the Association)²⁴ website to determine what type of network wide information was posted for public use and what types of past studies or reports were available. We then reviewed each ESC's individual website to gather information and obtain understanding of operations. Finally, we reviewed other governmental agencies in Ohio as well as other states to examine the practices in place to communicate operational information to stakeholders.

Analysis

OESCA's website includes high level information on the services and programs offered by the state's 52 ESCs. For example, the ESC network released a report in honor of the 100th anniversary of the network. This report included results from the ESC's FY 2014 member survey including limited financial, staffing, and service information. The website also includes some basic information about ESCs including laws and regulations, relationship to Ohio's school districts, funding information, and a brochure from 2009 outlining ESC structure and operations. While the website does provide general information, the majority of publications included are outdated. According to OESCA, the network does conduct a member survey on a routine basis, however the results are used internally and are not published for public consumption.

²⁴ OESCA represents the governing boards, superintendents, teachers, supervisors and other personnel of the ESCs. Membership in OESCA is an organizational membership consisting of each ESC. The Association has two employees, an Executive Director and Executive Assistant.

With each ESC having its own website, we found that the level of operational data available at the individual ESC level varied greatly across the network. Most ESCs include comprehensive information about the services and programs offered and some post annual reports with financial activity and service statistics. Others have limited data in comparison.

Each individual ESC receives an annual financial audit which provides an objective independent examination of the financial statements. These audits are posted on the Auditor of State’s website. Fiscal transparency also occurs through the ESC’s reporting and disposition of unexpended funds under service agreements with school districts.²⁵ In addition, ESCs report staffing data to ODE on an annual basis. This staffing data is not communicated to the public in any formal manner.

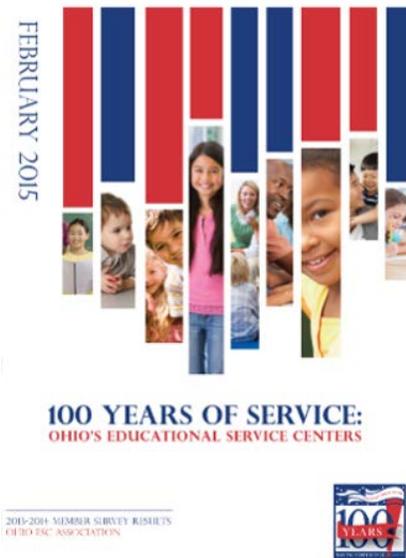
During the course of our study we found laws specifically designed to enhance the transparency of the services offered by ESCs. However, we determined that all ESCs are not adhering to these requirements:

- ESCs are required by law to provide both a list of services offered and what those services cost on their website. According to ORC § 3313.843(F), “Not later than January 1, 2014, each educational service center shall post on its web site a list of all of the services that it provided and the corresponding costs for each of those services.” A review of all 52 ESC websites found that 23 ESCs, or 44 percent, do not list services and the corresponding costs for services on the website. While some ESCs have a comprehensive list, including prices, in a single location, others list information in multiple locations on the website, and others only list service information and exclude costs.
- Both ORC § 3313.843²⁶ and ORC § 3313.845²⁷ require the agreements entered under each section be filed with ODE; only those entered into under ORC § 3313.845 must be

²⁵ ORC § 3313.848(C)

²⁶ ORC 3313.843: School districts with 16,000 or fewer students shall enter into an agreement with an ESC and have until January 1st of odd numbered years to notify its affiliated ESC if it wishes to terminate its agreement for services and join a different ESC. If no notice is given the agreement continues for the next two school years. The agreement shall be submitted to the ODE by the first day of July of the school year for which the agreement is to be in effect. ODE will annually deduct from each school district who enters into an agreement with an ESC and pay the ESC an amount equal to \$6.50 times the district’s total student count.

²⁷ ORC 3313.845: in addition to the authority in ORC 3313.843, school districts and an ESC may enter into an agreement for services. Services provided, the amount to be paid for such services and the manner of payment shall be mutually agreed to and specified in the agreement. Also, if specified as the manner of payment, ODE shall pay the ESC the amounts due under the agreement for services to the school district and deduct that amount from the



Source: OESCA

filed to be valid. In attempting to obtain service contracts from the ESCs and ODE, we realized there was inconsistency in the understanding of what needed to be, and what ultimately was, filed with ODE. Some ESCs indicated they file all service contracts with ODE while others do not. ODE indicated that they only have the contracts under ORC § 3313.845 which include a foundation deduction. We requested copies of service contracts from the ESCs directly and received information from 46 of the 52 ESCs.

Annual reports are used by multiple state agencies to communicate background information and financial and operational data. ODE publishes annual reports for a variety of programs and services each year. For example, the 2019 Annual Report on Community Schools includes details on the effectiveness of academic programs, school operations, and financial condition. Providing this data in an electronic format also has several benefits, it can add interest by allowing for unique and creative ways to display information, greater content variety by allowing for links to other pertinent information, increased shareability, and quicker updates.

A review of state agencies in Ohio also found various examples in communicating the respective services offered to the public at the state level. For example, the Ohio Department of Developmental Disabilities and the Ohio Department of Administrative Services both have websites dedicated to defining and explaining the services available.

Conclusion

Throughout our analysis, we found barriers to the collection of uniform data necessary to effectively evaluate the operations of the ESC network. These barriers were not at the individual ESC level, but rather at the network level in the form of a lack of uniformity in how data is collected and communicated among the group of ESCs as a whole. The ESC network should increase the transparency into operations by reporting financial, staffing, and service data on a routine basis and in a transparent manner. At the network wide level, OESCA should work to regularly update publications and make its information widely available in order to provide insight into the operations of ESCs. This could include sharing the results of its member survey and/or working with ODE to create a network-wide annual report with benchmarks similar to those developed in the profiles of this operational study. OESCA may also consider including a service tab on its website to outline and describe key services offered by Ohio's ESCs.

Individual ESCs should ensure adherence with the laws currently in place that were designed to enhance transparency of the services offered. Once a standardized method defining ESC services (and/or service categories) is created (see **R1.1**), the General Assembly should consider enhancing and strengthening the legislation around posting services to provide a clearer expectation in regard to what ESCs should be communicating.

school district's Chapter 3317 payments. Any agreement entered into pursuant to this section shall be valid only if a copy is filed with ODE.

Section 2: Revenue and Funding

An ESC, while a government entity, operates much like a private enterprise. They market their services, compete for customers, and charge for services. Nearly 90 percent of the total operating revenue within the ESC network comes from indirect public funding, primarily from fees for services provided to both member and nonmember school districts. School districts have the opportunity to change the ESC with which they are aligned with every two years, so ESCs are incented to provide quality services at a reasonable price – if the quality of service is lacking, or if services are deemed too expensive, an ESC risks having member districts taking their business elsewhere.²⁸

A small portion of the ESC operating revenue comes from direct public funding via local and state subsidies. This portion of the operating revenue is discretionary and is intended to support the basic operations of the individual ESC. Both subsidies are based on the student population of an ESC’s member districts. In FY 2018 both subsidies accounted for approximately 5.6 percent of operating revenue received by the ESCs.

Why We Looked At This?

ESCs have evolved into a system which operates much more like a private business than government agencies, placing increased importance on the revenue generated from service offerings. An ESC’s ability to determine the optimal mix of service offerings, pricing structure, and marketing techniques, as well as ensuring customer satisfaction and quality services is critical to its success. Initial interviews with ESCs suggested that both the geographic location and demographics of the population served can impact an ESC’s ability to generate revenue.

While the network has evolved overtime, the mechanism for the portion of ESC funding received from the state has largely remained the same, for both state and local subsidies, specifically on a per student basis much like a traditional school district.

Direct funding represented approximately 5.6 percent of ESC operating revenue in FY 2018 and is discretionary – meaning that ESCs have the ability to determine how it is spent. This funding is inherently different from fees for services, and we reviewed its use to understand how ESCs are operating differently throughout the state. The funding provided to ESCs is calculated based on the number of students within its respective member districts. However, the ESC network is not designed, nor is it intended, to provide services for every student within its member districts. Further, ESCs often provide services to students outside of their aligned member districts.

A portion of the state subsidy is awarded to ESCs based on performance. SB3, the legislation that required this study, suggests “The State Board of Education may consider the Auditor of State’s report of the operational study in its formulation of performance standards for educational service centers, if any, and in its determination of high-performing educational service centers

²⁸ Under ORC § 3311.0510 if an ESC loses all of its member districts it ceases to exist; the superintendent of public instruction appoints someone to administer the dissolution of the ESC.

under Section 263.390 of Am. Sub. H.B. 64 of the 131st General Assembly”. Therefore, examination of the current process in place for determining high performance within the ESCs was conducted.

What Did We Look At?

In regard to the direct public funding, we reviewed the current legal provisions relating to both the state and local subsidy to determine what requirements exist. Conversations with individual ESCs were conducted to collect insight into how these funds are being used across the system.

Although larger ESC student member population bases provide an inherent ability to generate more revenues (due to higher state and local per pupil funding), we developed a ratio to examine revenue generation in relation to direct public funding in an effort to determine if an ESC’s population base limits its ability to generate revenue through indirect public funding (fees for service). This ratio, revenue generation ratio, shows the revenue generated from services provided relative to the direct public funding received from state and local subsidies.

Examining the revenue generation ratio across the network, and by group, allowed us to identify statistical outliers²⁹ (ESCs) within the network. These outliers differed greatly from the majority of the data set. Once these outliers were identified, we examined the financial operations of the respective ESCs and conducted follow up interviews to determine if unique or specific practices were in place that allowed for greater revenue generation that could potentially be implemented network-wide as a means to maximize service provisions. For detail surrounding this analysis see **Appendix I: Revenue Generation.**

Lastly, we reviewed the distribution of the state subsidy, through the high performing designation, as it is currently being awarded via ODE. We examined the rules around the designation and evaluated the process of designating ESCs as high performing.

What Did We Find?

The identification of statistical outliers indicated that there was not a direct correlation between revenue generation and direct public funding. This indication could be the result of two things - either ESCs generate revenue independent of their customer base and/or the presence of inconsistencies in the data used in the analysis.

Interviews with outliers resulted in many justifications related to the methods in which revenue is recorded in the USAS system (**R1.1**). Ultimately we concluded that data reporting variances skewed this revenue generation ratio analysis and we did not draw conclusions based solely on the data. Although there are limitations to using this ratio in network-wide comparisons, a historical trend of revenue generation can be valuable on the individual ESCs level. Once the

²⁹ Outliers are statistically identified values determined from the quartiles of the data set. The interquartile range (IQR) represents the middle 50 percent of the data points (equal to the data set between the 75th and 25th percentiles). Outliers are any value that falls outside of 1.5 times the IQR.

ESC's financial data is improved, this analysis can be replicated by the network as a way to identify potential opportunities to maximize service provisions network-wide.

When completing the revenue generation analysis we did observe that some ESCs with smaller student populations are generating more revenue than their larger counterparts relative to the direct public funding received. This observation posed the question of what the direct funding is being used to support across the network. While we know that ESCs do not serve each individual student in their member district population base, we also know that ESCs provide services outside of that base.

In evaluating the direct public funding model, our office found that there is a lack of clarity regarding expectations for the usage of funds and we identified that there are inconsistencies related to the use of direct public funding by the 52 ESCs. Lastly, we found that ODE's process for designating high performing ESCs should be improved.

Direct Funding Model

Recommendation 2.1: The ESCs and ODE should comply with ORC § 3313.843(H) by ensuring if the majority of an ESC’s member school districts elect to contribute a larger local subsidy than the minimum then all member school districts contribute the larger amount.

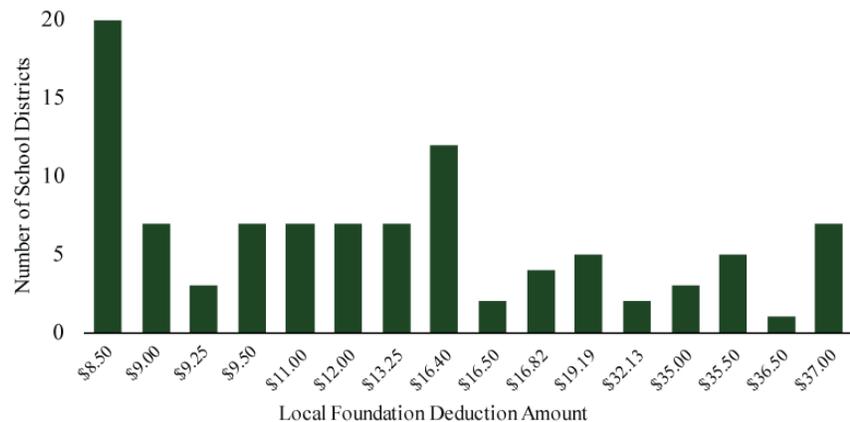
Issue for Further Study: The General Assembly should examine the direct funding model of ESCs to ensure the formula is aligned with the operational practices of the ESCs and that the intent of the funding is transparent.

Local Subsidy

In FY 2020 the local subsidy was a minimum \$6.50 per student and it is deducted from a member district’s state foundation funding, as set by ORC § 3313.843.³⁰ According to ORC § 3313.843(G)(1) in discussing the calculation of any state operating subsidy provided to ESCs, it is noted these funds are paid “for the operations of that service center and any services required under Title XXXIII of the Revised Code”.

If they choose to do so member school districts can agree to pay a larger subsidy.³¹ Of the 611 districts aligned with an ESC in FY 2020, 99 chose to deduct a larger subsidy, ranging from \$8.50 to \$37.00 per student. This subsidy is deducted from the member districts’ foundation payments and paid to the ESCs. While there is no specific

Excess Subsidy Amounts



Source: ODE

requirement as to what exactly the local subsidy is meant to support, the ESCs provided varying explanations as to how they use this subsidy. Specifically, 18 ESCs credit it back to member districts, providing them a line of credit, to encourage the purchase of ESC services. Other ESCs

³⁰ School districts are funded in Ohio using the foundation system. Under this system the General Assembly appropriates funds to school districts that are distributed based on a formula to each individual school district. Out of the allotment received by each school district a portion is deducted and transferred to its ESC. The amount deducted and paid to the ESC is agreed upon by the ESCs and their member school districts and are specified in the contracts filed with ODE in accordance with ORC § 3313.843.

³¹ ORC § 3313.843(H)

indicated the subsidy is retained and used to support complimentary services such as professional development to member districts.³²

According to ORC § 3313.843(H), if the majority of member school districts elect to contribute a larger subsidy than the minimum, then all member school districts must contribute the larger amount. Our review found that seven ESCs had member school districts that are not contributing the higher amount as the majority of their fellow member school districts. Specifically, in FY 2020 there are 14 school districts that are not contributing the larger subsidy amount, despite the majority of their fellow member districts contributing the larger amount.³³ All but 1 of the 14 school districts are either a city or exempted village district, indicating this may be the result of the respective ESCs and school districts not adhering to recent legislative changes that require all types of school district to comply with this provision.³⁴

Further, ORC § 3313.843(B)(3) states that the services to be received are specified in the agreements filed with ODE, and may include:

- Supervisory teachers³⁵;
- In-service and continuing education programs for district personnel;
- Curriculum services;
- Research and development programs;
- Academic instruction;
- Assistance in the provision of special education accommodations and classes; or
- Any other services the member school districts and the ESCs agree to.

While ORC § 3313.843 requires that school districts reimburse the ESC through the local foundation deduction for those services included in the agreements, there is not a method in place to track specifically what the local subsidy is being used to support at the ESC level. For this reason, we were unable to analyze precisely how the ESCs' use the local subsidy or make comparisons regarding services supported by these funds within the system.

³² We reached out to each ESC and receive responses from 50 out of 52. These responses informed our understanding of how the local subsidy is being used by the ESCs. Additionally, one ESC noted that it also credits back its state subsidy funding to its member districts to use towards the purchase of services.

³³ Ashtabula Area CSD and Geneva Area CSD (Ashtabula County ESC), Greenville CSD (Darke County ESC), Lancaster CSD (Fairfield County ESC), Celina CSD, Coldwater EVSD, and Versailles EVSD (Mercer County ESC), Circleville CSD (Pickaway County ESC), Portsmouth CSD (South Central ESC), Greenfield EVSD, Hillsboro CSD, Ohio Valley LSD, Washington Court House CSD, and Wilmington CSD (Southern Ohio ESC).

³⁴ Prior to December 21, 2011 if the majority of local school districts within the ESC choses to contribute a larger subsidy amount then all local school districts were required to contribute the larger subsidy amount. This excluded city and exempted village school districts. With the enactment of HB 157 by the 129th Ohio General Assembly all school districts, regardless of type, are required to contribute the larger subsidy amount if the majority of school districts aligned with the ESC chose to do so.

³⁵ Prior to FY 2014 these services were required and ESCs received additional funding to provide these services to member districts. In the last year that this supervisory allowance local deduction funding was provided to the ESCs (FY 2013), it totaled \$23.7 million.

State Subsidy

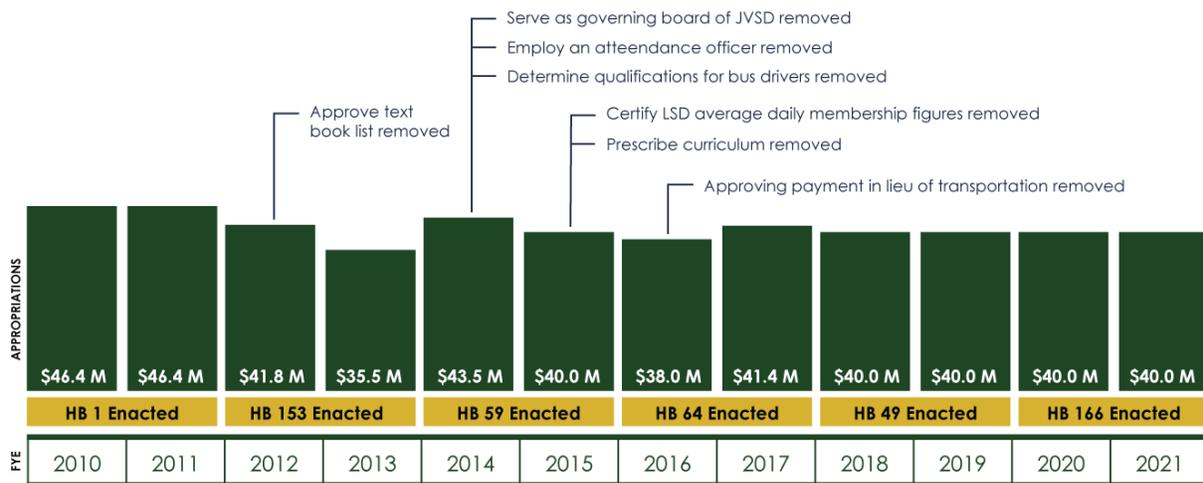
The state subsidy for ESCs is set each biennium as a part of the state operating budget. The budget includes both a per-pupil appropriation and a total appropriation, or a cap, for the entire ESC network. Because of this, the per-pupil subsidy may be prorated to ensure the amount distributed to the ESCs does not exceed the total appropriation. The state subsidy reached a peak total appropriation of \$52 million in FY 2008 and was \$40 million at the time of this operational study. In addition, legislation requiring additional school districts to align with an ESC increased the population base in FY 2013 impacting the per-pupil appropriation.³⁶

The state subsidy provides support to the operation of the ESCs, including the services ESCs are required to provide to member districts. In 2010 there were specified requirements to provide services to member school districts, including, but not limited to:

- Approving textbooks for local school districts;
- Employing an attendance officer and assistants for local school districts;
- Provide physicals and certification for local school district bus drivers;
- Certify local school district average daily attendance numbers; and
- Prescribe curriculum for local school districts.

The graphic below shows the changes in the state subsidy and the elimination of certain requirements set by the General Assembly since 2010. This analysis did not consider historical changes to any other funding streams over this time period, but rather focused on the mandated

Appropriations & Services Timeline



Source: ORC and Legislative Service Commission

³⁶ The ESC network did see an influx of students and member districts as a result of HB 153 in FY 2012. This bill required all school districts with fewer than 16,000 students to align with an ESC. As a result of this bill, the ESC network gained 31 school districts in FY 2013 and increased the student base by over 120,000 students, or 8.7 percent.

per-pupil state subsidy provided to the ESCs to support basic operations and statutorily mandated services.

Currently there are three specifically required services in the ORC:

- ESCs must approve any contract or agreement between a local school district and another school district or early learning provider for the identification, evaluation, or service of children with disabilities (ORC § 3323.08(B)(4));
- Each school district must consult with the ESC in providing services to children with disabilities (ORC § 3317.15); and
- Develop in conjunction with local school districts a fingerprinting program to identify missing children, if the local school district chooses to develop one (ORC § 3313.96).

While the ORC identifies the specific requirements listed above, the ESCs indicated that they are routinely assigned initiatives from ODE under ORC § 3312.01(C) which states:

“In addition to implementing state and regional education initiatives and school improvement efforts under the educational regional service system, educational service centers shall implement state or federally funded initiatives assigned to the service centers by the general assembly or the department of education.”

Examples provided by the ESCs include training ESC employees, who can then in turn train staff at their member school districts on these specific educational initiatives. The ESCs indicated that while ODE often provides the materials for these trainings, and sometimes covers a portion of the associated costs, that it is ODE’s interpretation that the state subsidies which ESCs receive should help to cover this type of assigned work.

Conclusion

ESCs operate in a different environment than traditional school districts within the educational system. Specifically, they compete for customers, charge for services, and receive government funds to offset operating costs. ESCs are provided both the state and local subsidy based on the total student population of its member districts, a model similar to how school districts are funded. There is currently little transparency into how the funds received by ESCs through local and state subsidies are used.³⁷ The funding model should be examined to ensure the basis of the formula which funds ESCs is in-line with the environment in which they operate and expectations of their purpose within the educational system. Finally, the intent of the funding should be transparent.

³⁷ There are several funding earmarks in the state operating budgets for ESCs outside of the state subsidy. These are to provide professional development or other specific services but are not distributed to each ESC and is at the discretion of ODE.

High Performing Designation

Recommendation 2.2: ODE should improve its process for designating high performing ESCs to ensure that it clearly measures performance in a meaningful way and ensures rigorous and effective review of applications for such designation.

Methodology

In order to review the distribution of the state subsidy, through the high performing designation, we examined the rules around the designation and the historical appropriation and number of ESCs receiving the high performing subsidy. We requested and collected supporting documentation and evaluated ODE’s process of designating ESCs as high performing.

Analysis

In FY 2017 the state began awarding an additional subsidy to ESCs designated as high performing. The high performance subsidy is a set per-pupil amount which is added to the standard state subsidy. As a result of the bill creating the high performing designation, OAC 3301-105-01 was designed by ODE governing how the designation would be awarded. Applications for the high performing designation must be submitted to ODE each fall and the designation is based on the previous fiscal year’s financial data. ESCs must demonstrate that the services they provide to its member school districts provided cost savings compared to other vendors or providing the services in-house. According to ODE, there are four employees who share the responsibility of reviewing applications and supporting documentation. Each individual application is reviewed by one of these four employees and a determination is made by the respective reviewer. There is no additional evaluation or review.

In FY 2017 the high performing subsidy amount was set at an additional \$2 per pupil. This amount has remained unchanged through the FY 2021 budget. In FY 2020 and FY 2021 the base state subsidy is \$24 and \$26 for high performing ESCs.

FY 2017 – FY 2020 State Appropriations, Subsidy and Actual Spend

	FY 2017	FY 2018	FY 2019	FY 2020
Total State Appropriation	\$41,400,000	\$40,000,000	\$40,000,000	\$40,000,000
Number of Students	1,539,866	1,537,579	1,535,839	1,530,675
Subsidy / High Performing Subsidy per Student	N/A / \$27	\$24 / \$26	\$24 / \$26	\$24 / \$26
# of High Performing ESCs	52	52	52	52
Actual Spend				
Actual Spend	\$41,576,382	\$39,977,054	\$39,931,814	\$39,797,550
% of Appropriations	100.4%	99.9%	99.8%	99.5%

Source: Legislative Service Commission analysis of enacted budgets (Greenbook) and ODE settlement reports
Note: The FY 2017 subsidy / high performing subsidy per student was originally set at \$33/\$37. However, the high performing subsidy was prorated to \$27 per student due to the appropriation limit.

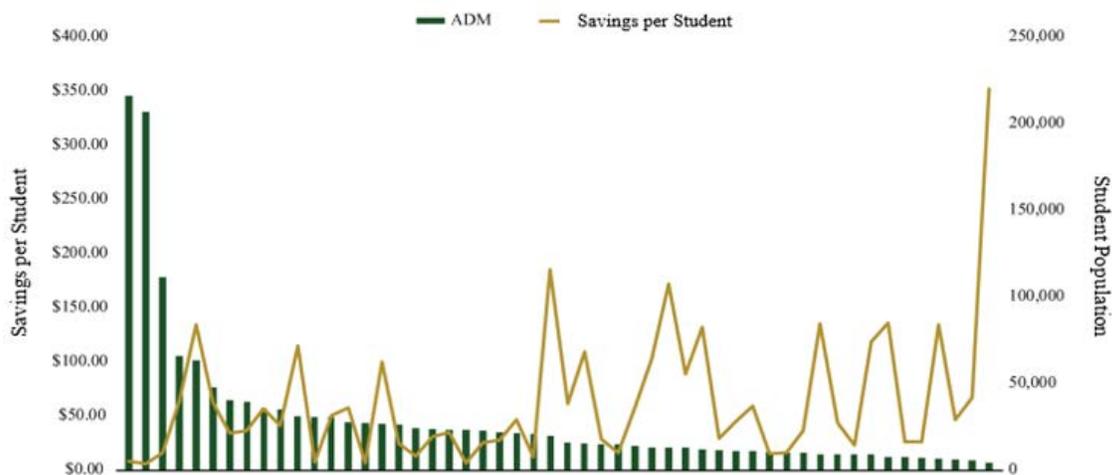
Shown above, all 52 ESCs were awarded the high performing designation in each year since its creation, resulting in the total appropriation being met each year.

In order to obtain high performing status, an ESC must demonstrate to ODE that it has generated total cost savings of at least 5 percent on primary services.³⁸ We identified several issues related to both the identification of primary services and the savings associated with them, including:

- There is no set definition of a primary service. OAC 3301-105-01(A)(2) defines a primary service as “...the five services provided by an educational service center to its clients that the service center selects to demonstrate cost savings for purposes of this rule.” As such, ESCs are allowed to select any service that they provide and refer to it as a “primary service” for the purposes of the high performing ESC application.
- An ESC can claim a primary service is paid out of state subsidy funds, and thus claim no cost to its member district, resulting in 100 percent savings for that service. There is no consistency between ESCs on which services are claimed to be paid out of state subsidy funds, or from local subsidy funds or through direct bill with the member districts receiving those services.
- While ESCs are supposed to submit supporting evidence for the claimed cost savings, ODE does not require supporting documentation such as price estimates from third-party vendors to be submitted with the application. Without supporting documentation we were unable to determine the accuracy of the applications and the reported savings.

Because there is no set definition of a primary service, ESCs can opt to include specialized services that are not used on a regular basis by member districts – such as an employment search for a district administrator while others may choose to include services that comprise the majority of their regular operations.

Savings per Student in Relation to Student Population



Source: ODE

While the information related to reported primary services and associated savings was not consistent, we attempted to normalize the information by looking at per-pupil cost savings. As seen in the chart on the previous page, those ESCs with a similar population base had wide

³⁸ Per OAC 3301-105-01, each ESC is required to identify five primary services on its high performance application.

variation in the reported cost savings on a per-pupil basis. This variation indicates that the self-identified and reported data is so inconsistent between ESCs that no further analysis can be completed.

Conclusion

All 52 ESCs have applied for high performing designation since its creation and all 52 have received the designation in each year of application. If the General Assembly determines that ESCs should continue to receive a portion of funding based on performance, ODE should improve its process for designating high performing ESCs. Specifically, the following should be considered:

- The selection of primary service should have some parameters, as some reported primary services are little used by clients and represent small amounts of their overall budgets. As mentioned previously, an administrator search provided to one school district can be considered a primary service but represents a one-time service.
- ODE's process for awarding high performing ESCs does not allow for vetting of the applications. There is no structure in regard to what ESCs need to provide as supplemental support to the applications and ODE does not require supporting documentation that would verify the reported savings. There is not a method in place at ODE to thoroughly examine, review, and sign off on what is in fact submitted by the ESCs.

In considering alternative methods of designating high performance, Ohio should review how other states have addressed this issue. Texas and Illinois, which have organizations similar to Ohio's ESCs, both have a more defined process with requirements and expectations relating to performance.

- Texas has a performance standards and indicators manual for its Regional Education Service Centers that is used to evaluate the performance of its ESCs. Due to the diversity of the ESCs within Texas, it is not used as a comparison tool but instead as a way to provide clear and consistent data for an annual performance evaluation. The expectation is that regardless of the types of services provided that those services are offered in a manner that meets the performance standards as outlined in the manual.
- Illinois State Board of Education has program evaluation standards and procedures within its administrative code³⁹ that includes the submission of annual applications that detail the services to be provided by the ESC equivalent⁴⁰ which includes timelines and specific activities. As part of the application process, a plan for evaluating the usefulness of the services provided and whether they meet the needs of the school districts served. Approved applications results in a grant agreement that provides funding for the organization.

³⁹ 23 Illinois Administrative Code 525

⁴⁰ Illinois has the following organizations that are treated similarly under the Illinois Administrative Code and provide similar services to Ohio's ESCs: Regional Office of Education (ROE), Cook County Intermediate Service Centers (ISC), and City of Chicago School District 299.

Section 3: ESC Services

ESCs provide a wide variety of services to Ohio's school districts and the students they educate. These services range from curriculum and professional development for district educators to specialized student service including physical and occupational therapy, special education and preschool. ESCs operate purchasing and health insurance consortia, foster community meetings, coordinate administrative employment searches, and provide technology support. These services, among the many others, provide support to Ohio's school districts in areas where they would struggle to develop or finance or independently. ESCs are large-scale service providers and play a significant role in Ohio's educational system.

Why We Looked At This?

The revenue generated from fees for services provided to school districts is the largest revenue source for each of the 52 ESCs. Ohio's school districts rely on the ESCs for the many services and programs they provide, both from a cost savings standpoint and quality of service perspective.

Evaluating services, and the level in which they are used across the state, would provide insight into the areas where school districts rely most on the ESCs. This could then shed light on the critical areas ESCs are needed within Ohio's educational system and highlight what types of school districts (geographically or demographically) use ESCs for different types of services.

During our discussions with ESCs, we recognized that many have developed core competencies, service areas they specialize in. This can occur either because of needs and demands from the customers they serve or because of the desire not to compete with other ESCs. When core competencies are developed, the relationships between ESCs is key, as ESCs can refer member districts to another ESC for specific service needs.

What We Looked At?

Service data was obtained from the ESCs during the planning phase of this operational study. More than 350 individual services were identified by the ESCs and can be found in **Appendix E: Individual Services Offered**. Through review of the service data collected and interviews with ESCs we recognized that the level of unique services offered across the network, the lack of a defined and uniform service descriptions, and the absence of uniform financial data relative to specific services (see **Section 1**) would hinder our ability to conduct network wide analysis of detailed services comparisons such as cost per service and customer per service.

If we were conducting a study on one individual ESC, or a subset of ESCs, this type of detailed analysis would in fact be plausible as each ESC does have this data available. However, the time and effort needed to accurately capture and adjust the data for uniformity at this detailed level for 52 ESCs was not practicable as part of this operational study.

Given the fact that there is such a broad range of services descriptions across the network and insufficient data relative to customers receiving services at the network level, we classified services by creating broader categories in order to complete a high level network wide comparison. These categories provide a more comprehensive method of categorization while still maintaining a descriptive overview of the kind of services which fall within each type. See **Appendix F: Service Categories** for an overview of the categories created for this analysis.

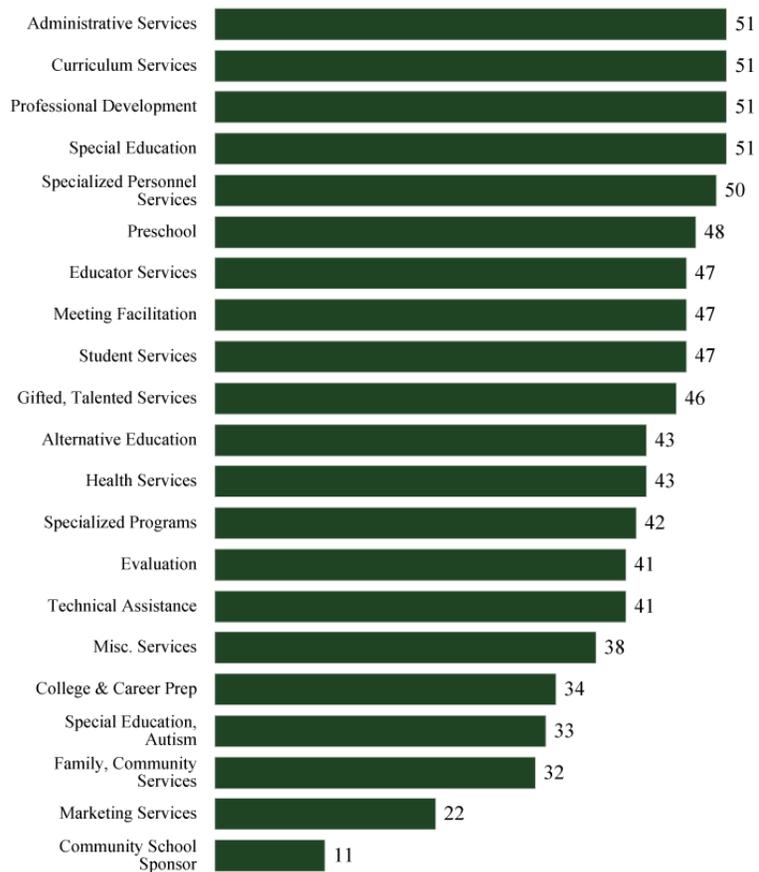
What Did We Find?

Using these 21 service categories, we analyzed service offerings across the network. A service category offered is one in which an ESC reported offering at least a single individual service. The number of service categories offered ranged from 5 to 21 across the network. Overall, the average ESC offered services in 16.7 categories.

The most common service categories included administrative services, curriculum services, professional development and special education, with 51 ESCs offering services within these categories. The least common categories reported were marketing services and community school sponsorship.

Service offerings are driven by customer demand and compliment the needs of the customer base. As the population of students served increases, so does the diversity of the needs of that population. When analyzing service categories offered by group, there was a general increase in the median service categories offered. In other words, as an ESC's student membership population increased, the number of service categories also increased.

Count of ESCs Offering a Service Category



Source: ESCs

Site visits revealed the tendency for some ESCs to develop the specialization in certain services over time. We attempted to examine service offerings by ESC to determine what core services

exist and whether or not the strategy of developing such services results greater value to school districts in the state.

Without data to understand the receiving end of the services provided makes it difficult to gauge the impact of where the most value is received. It would be assumed that certain types of school districts (by size, by location, by student population needs) would utilize ESCs services in different ways. Greater transparency and standardization regarding ESC services, specifically the resources used to provide them, the revenue generated from them, and the customers receiving them, would provide a baseline to understanding this impact (see **Section 1**).

In conclusion, key components of the data needed to come to conclusions regarding the optimal mix of service offerings and the potential value of creating core services was unavailable at the network-wide level. While many, maybe all, ESCs have this type of data available and use it internally to track service offerings at their respective ESC, without network-wide uniform data, the evaluation of core services within the system could not be completed. Therefore, no findings were generated from this analysis. However, understanding where individual ESCs provide the most valuable support to the different types of customers should be considered when developing KPIs (see **R5.1**).

The *ESC Profiles* include the number of reported services by category for each of the 52 ESCs.

Section 4: Shared Services

Collaboration and sharing services are valuable tools for public entities seeking to provide constituents quality services at an economic value. In 2012 a study of existing shared services in Ohio was conducted with the results being submitted to both the Governor and the General Assembly in the report *Beyond Boundaries: A Shared Services Action Plan for Ohio Schools and Governments* (Governor’s Office of the 21st Century Education and the Office of Budget and Management, 2012). The study was based on the concept that:

Shared services is a collaborative strategy designed to optimize public resources including staff, equipment and facilities – across jurisdictions. Because of its repeated demonstrated, effectiveness in reducing costs, improving service and increasing efficiencies, shared services approaches have been gaining support among policy makers.

The need for shared services has not waned since the *Beyond Boundaries* report was released. Technological advances provide opportunities for efficiency and the general public expects value for their tax dollars. Public entities should strive to provide excellent services while remaining good stewards of public funds. Shared services are one way in which this goal can be achieved.

Education in Ohio is a complex system with many organizations working together to provide students a quality education. As public resources are finite, sharing services and acting in a collaborative manner are both necessary to achieve desired educational outcomes.

Why We Looked At This?

ESCs are inherently shared service centers –school districts are able to purchase services from a central source and share the cost of overhead and personnel with others. These services are critical for the students who are receiving them, but the burden of expense may be difficult for districts to absorb. Within a single district, overhead and employee costs typically comprise the majority of expenditures. ESCs provide school districts with the opportunity to purchase more affordable support services by pooling resources and spreading these costs among multiple member school districts.

Sharing services within Ohio’s education system is beneficial and helps educators and students succeed while allowing districts to practice fiscal responsibility. The General Assembly recognized this and in 2006 a new law was enacted establishing the Educational Regional Service System (ERSS)⁴¹, which created 16 regions across the state. The ERSS was created with the intention of facilitating the coordination of support services within the educational system and reducing the unnecessary duplication of programs and services. The current system largely relies on strong working relationships to execute shared service initiatives.

The concept of shared services has been identified as a tool for governmental entities to provide services in a more efficient and effective manner. The use of shared services within Ohio’s

⁴¹ ORC Chapter 3312

public education system is an area where further review should be conducted to ensure students are provided quality, economic services and that opportunities to share services are being maximized by providers and users.

What We Looked At?

We met with each of the 52 ESCs to gather information regarding how services provided are shared between the school districts they serve. We collected and evaluated the high performing ESC documentation from ODE in attempt to evaluate the savings achieved from shared services, with the understanding that the services included in this supporting documentation was not a comprehensive list but rather those identified by individual ESCs for the purpose of the designation (see **R2.2**).

Because ESCs have multiple touchpoints within the statewide system of educational support we discussed with ESCs the relationships they have with other service providers. Two common themes identified from the individual ESC meetings were their relationships with State Support Teams (SSTs)⁴² and their use of and involvement with Councils of Government (COGs).⁴³ As a result of this determination, we met with select SSTs to collect information in regard to how they work with ESCs and reviewed financial audits and websites of COGs to determine ESCs level of involvement with various COGs.

Laws and regulations surrounding ESCs, other service providers, and other types of governmental organizations were also reviewed to identify any opportunities or roadblocks in relation to sharing services.

What Did We Find?

We attempted to identify shared services efforts across the ESC network to identify best practices which could potentially be implemented network-wide, however, this was challenging given the level of service data we were able to collect at the network level. Specifically, we were unable to breakout ESC services and resources (employees providing the service) by district or customer served. However, through interviews with ESCs and review of the savings reported in the high performing applications, it was apparent that the services provided by ESCs to their member districts allow school districts to eliminate duplicative services and reduce costs.

Review of the high performing applications showed that the most common shared services included in the applications were occupational therapy, physical therapy, speech and language, and psychology services. While school districts purchase a variety of services from ESCs, they rely heavily on ESCs for those services that are incremental in nature. For example, a school district may demand the services of a physical therapist for ten hours a week. Rather than absorb the cost of a full-time employee, without the demand for full-time services, the district is able to

⁴² SSTs exist in each of the 16 educational regional service system regions defined in ORC § 3312.02. These teams are coordinated by ODE and provide consulting and support services to school districts.

⁴³ COGs are created under ORC Chapter 167 and consist of governing bodies of any two or more counties, municipal corporations, townships, special districts, or other political subdivisions.

purchase these services in a manner which better aligns supply and demand. Through ESCs, districts are able to share these services, and the costs associated with them, with each other.

Though interviews with ESCs we found that informal alliances between ESCs have also formed to address mutual needs. These alliances are designed to leverage the capacity and expertise of the individual ESCs. Some ESCs have developed core competencies, service areas they specialize in such as curriculum, special education or technology. When a good working relationship is in place, these partnerships allow ESCs to recognize that one ESC is better at a service than another and reduces the competition and potential duplication of services while continuing to ensure member districts receive quality services. In practice, this may result in one ESC referring a customer to another ESC for a specialized service.

Each of the 16 SSTs have an ESC serving as the fiscal agent and information shared from these fiscal agents was generally positive and identified many benefits to the shared services in place between ESCs and SSTs. When discussing the working relationship with SSTs during ESC site visits, however, feedback varied greatly across the network. For example some ESCs provided examples of support from the SSTs while other ESCs indicated there is not much interaction from SSTs other than occasional meetings. In extreme circumstances, some ESCs indicated there was no communication at all and were uninformed of the role of the SST within the educational system.

In review of the financial audits of all COGs registered with AOS⁴⁴, we identified that every ESC has some involvement with at least one COG, either as a fiscal agent or as a customer of services provided. In regard to administrative and personnel services provided through COGs, ESCs indicated during site visits that when they operate COGs for this purpose, it provides greater flexibility when employing personnel to provide services to school districts. Specifically, COG employees are not employees of the ESC and therefore can have different salary schedules and benefits packages. In addition, ESCs use COGs for purchasing cooperatives, to reduce the cost of procurement of health insurance and other selected supplies. Outside of a required audit of financial statements, there is no formal reporting requirements on the operations of COGs in Ohio, nor any standardized systems similar to EMIS or USAS.

Improving the uniformity and transparency of the services provided within the ESC network (**R1.1** and **R1.2**) will provide better opportunities to identify those shared services that have the greatest impact in Ohio educational system and that may be replicated throughout the state. During our operational study, we recognized that effective shared services within the ESC

⁴⁴ ORC §167.04(D) provides the following requirement for COGs: "The officers of the council shall notify the auditor of state of the regional council's formation, provide a copy of the council's by-laws, and provide on a form prescribed by the auditor of state any other information regarding the regional council that the auditor of state considers necessary. The council shall take no official action, other than formation, before notifying the auditor of state of its formation in accordance with this section. Any official action the council takes before making that notification, including entering into any contract, is void." Additionally, ORC §117.10(E) requires "Within thirty days after the creation or dissolution or the winding up of the affairs of any public office, that public office shall notify the auditor of state in writing that this action has occurred." Therefore, a council of governments must register with the AOS before transacting business but no later than 30 days after creation.

network is very much relationship driven – when good working relationships are in place, shared services are effective. We identified two areas that could be studied in further depth to enhance the use and transparency of shared services in Ohio’s educational system – the current implementation of the ERSS as it relates to ESCs and the relationship between ESCs and COGs.

Educational Regional Service System

Issue for Further Study: The General Assembly should review the existing structure of the ERSS and analyze its current implementation to determine if more explicit guidelines and/or accountability measures would provide better opportunity for ODE to leverage the ESC network as shared service providers.

The ERSS⁴⁵ was established in 2006 to provide support for state and regional education initiatives and efforts to improve school effectiveness and student achievement. According to the enabling legislation:

“It is the intent of the general assembly that the educational regional service system reduce the unnecessary duplication of programs and services and provide for a more streamlined and efficient delivery of educational services without reducing the availability of the services needed by school districts and schools.”⁴⁶

The legislation stated that each region of the ERSS shall have a regional advisory council made up of education leaders including the superintendents of each ESC within the region. The regional advisory council has many responsibilities including identifying regional needs and priorities for educational services to inform ODE in the development of the performance contracts entered into by the fiscal agent of the region.⁴⁷ These performance contracts define the services that will be provided to school districts in the region for that school year. State Support Teams (SSTs) exist to carry out this scope of work.

When speaking with ESCs and SSTs, we were unable to determine when, or if, regional advisory councils were meeting in order to inform the performance contracts. While some SSTs and ESCs explained detailed procedures for meeting, other ESCs indicated that they are not involved in identifying the regional needs and priorities and do not have communication with their regional SSTs. Further, the fiscal agents (ESCs) were chosen through a bidding process when the ERSS was created. ODE has not re-opened the bidding process to give other ESCs an opportunity to serve as the fiscal agent of their respective region. Finally, many of the performance contracts have not been signed by both ODE and the fiscal agent until a few months had passed in the academic year.

If work is being performed by the SSTs without the full and/or timely input of the appropriate ERSS stakeholders, the possibility exists that the full intent of the ERSS is not being realized. Regular meetings involving ESCs and ODE leadership could further inform structure and procedures that need to be implemented to ensure that the ERSS functions as intended.

⁴⁵ The ERSS consists of advisory councils and subcommittees; a fiscal agent for each of the 16 regions; and educational service centers, information technology centers, and other regional education service providers.

⁴⁶ ORC § 3312.01

⁴⁷ ODE was required to identify a school district or ESC in each region of the ERSS as a fiscal agent. The fiscal agent is responsible for entering into performance contracts with ODE to implement state and regional education initiatives and school improvement efforts.

Councils of Government

Issue for Further Study: The relationship between ESCs and COGs should be reviewed to ensure partnerships are being leveraged to optimize the provision of services. Further, evaluation of the use of COGs within the ESC network could provide greater transparency into the operations of ESCs where COGs are involved (see **R1.1**).

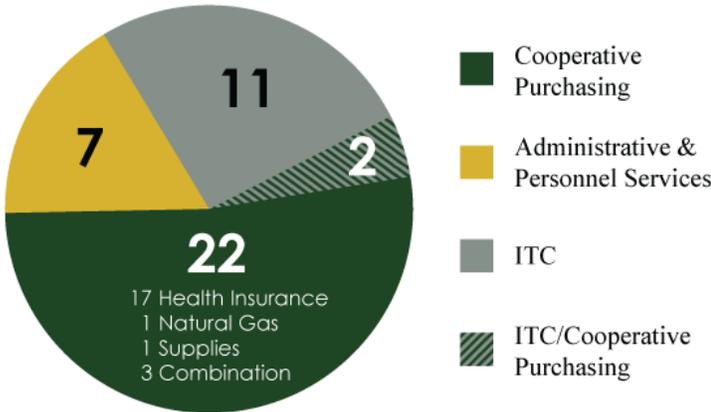
COGs are created under ORC Chapter 167 and consist of governing bodies of any two or more counties, municipal corporations, townships, special districts, or other political subdivisions. COGs allow these political subdivisions to come together to form a new, wholly separate, legal entity; this structure makes it easier for cooperative efforts. As a legal entity, a COG may have a treasurer, make purchases, hire staff, and issue debt obligations. COGs also receive routine financial audits from the AOS. In addition, COGs are subject to and must comply with the Open Meetings Act (ORC § 121.22) and the Public Records Act (ORC § 149.43).

Within Ohio’s public education system, COGs are used by local education agencies to obtain and provide services. Each of Ohio’s 52 ESCs have some level of involvement with at least one COG, and many ESCs act as the fiscal agent.

ESC are involved with 42 of the 138 Ohio COGs registered with the AOS. During our site visits the ESCs repeatedly remarked that COGs are an integral part of operations for the ESCs in the provision of services for their member districts, citing the flexibility and a wider array of service offerings that leverage economies of scale COGs provide.

ESCs use COGs to obtain and provide a range of services. The most common use of COGs by ESCs falls within the cooperative purchasing category, primarily for establishing and carrying out a cooperative health program. Administrative and personnel services provided through COGs include substitute teachers and classified personnel. The technology services obtained and provided by COGs are through Information Technology Centers (ITCs)⁴⁸ which have chosen to organize as a COG.⁴⁹

COGs by Type



Source: ESCs and AOS

⁴⁸ ITCs are technology based service organizations which provide fiscal, support, and student services to Ohio’s school districts.

⁴⁹ According to ORC § 3301.075, “Each information technology center shall be organized in accordance with section 3313.92 or Chapter 167 of the Revised Code.”

While financial audits review the accounting practices of the COG and provide a general overview of the finances, they do not review the actual operations regarding what services a COG provides to the ESCs or their member districts. The money exchanged for specific services, especially on a unit basis, and/or the level of staffing which can be found within a COG to provide these services is not reported. The further study of COGs would at a minimum result in increased transparency into their operational and staffing data (see **R1.2**) and could help ensure that ESCs are providing services in an optimal manner.

Section 5: Efficiency

Efficiency is defined as achieving maximum productivity with minimum wasted effort or expense. Within government, the efficient delivery of goods or services is an important indicator of effective operations. Generally, an efficient organization is one that is able to control expenses. Delivering high quality services at a low cost should be a goal which every government entity works towards.

Key performance indicators (KPIs) are standards that can be used to evaluate an organization's effectiveness. These indicators are standards that can be developed through peer review and analysis or through observations of industry standards. KPIs are useful to both the internal organization and external stakeholders when making decisions to maximize efficiency and effectiveness.

Why We Looked At This?

In fulfilling the requirement of SB3, we examined potential standards and benchmarks unique to ESCs that the State Board of Education may consider in its formulation of performance standards. Benchmarks and standards would allow for network-wide comparisons and provide an opportunity to identify best practices which could be replicated across all ESCs. Further, these metrics can be used for continuous monitoring of performance which would allow individual ESCs to routinely measure their successes and identify opportunities for improvement.

What Did We Look At?

We collected data from all 52 ESCs and created standards and benchmarks related to the revenues, expenditures, staffing, and services of ESCs. These benchmarks were compared to group and statewide medians for all ESCs and can be found within the *ESC Profiles*.

In addition to the creation of the Profiles, one specific indicator we used in attempt to evaluate the efficiency and effectiveness of an ESC was General Fund operating margins. Effectiveness can be partially attributed to an ESC's ability to maximize revenues while efficiency can be attributed to the ability to control expenses. Operating margins provide a possible gauge on these two areas because they are determined by taking an ESC's results of operations relative to revenues. ESCs that can effectively generate a higher level of revenues and/or successfully control expenses will generally have higher operating margins while those that do not will have lower.

Examining the General Fund operating margin across the network, and by group, allowed us to identify statistical outliers⁵⁰ (ESCs) within the network. These outliers differed greatly from the majority of the data set. Once these outliers were identified, we examined the financial operations of the respective ESCs and conducted follow up interviews to determine if unique or specific

⁵⁰ Outliers are statistically identified values determined from the quartiles of the data set. The interquartile range (IQR) represents the middle 50 percent of the data points (equal to the data set between the 75th and 25th percentiles). Outliers are any value that falls outside of 1.5 times the IQR.

practices were in place that caused the higher and lower General Fund operating margins in the respective ESCs. For detail surrounding this analysis see **Appendix J: Operating Margin**.

Finally, we looked outside of Ohio to see what other educational agencies were doing to measure and track performance. We also looked at what Ohio's ESCs are currently doing and have done in the past as a starting point to develop more optimal indicators.

What Did We Find?

As we began to evaluate the data collected we realized that there were issues with both the amount of information available and the uniformity in which available data was reported and stored. While the standards and benchmarks within the Profiles can provide valuable information to the individual ESC and may serve as a starting point for the creation of performance measures, the data currently included should be used with caution when comparing ESCs to each other due to the known variances in the uniformity of data reported (see **Section 1**).

While interviews with outlier ESCs from the General Fund operating margin analysis yielded information identifying potential practices that may contribute to results, there were multiple mentions of one time operational practices and the methods in which revenue and expenditures are captured in USAS which identified that a one year snapshot of this indicator is not optimal in regard to measuring performance. The variance in how ESCs bill for services (either through direct bill or foundation deduction) results in inconsistencies of when revenue is recorded. For example, an ESC that bills for services may receive and record revenue from a prior fiscal year service in the following fiscal year, while an ESC collecting contract payments through foundation deductions would record all revenue for services in the same fiscal year. Although efficiency conclusions were not drawn from this analysis, the ESCs should consider evaluating General Fund operating margins over multiple years as a way to identify potential best practices in the network.

During network-wide interviews with individual ESCs we determined that there is a great deal of data being collected at each individual ESC. They track and evaluate operations using a number of different methods. The superintendent and treasurer were usually able to provide detailed explanations relating to the services provided and often shared their own methods of evaluating financial operations, and programs and service offerings. We likely could have completed more detailed analysis if the study was conducted on an individual ESC, rather than the network as a whole.

Some of the network-wide analyses that were planned, but were ultimately not completed due to the identified data limitations include:

- **Services received by district** – Determining how many or what percentage of districts rely on ESCs for specific services such as preschool or special education;
- **Complementary services** – Identifying what, if any, services are routinely provided by ESCs to member districts at no cost;
- **ESC employee assignments** – Looking at where ESC employees are assigned and how time is split between member districts;

- **Cost per service offered (or student served)** – Understanding what the costs for providing specific services are for an ESC;
- **Number of customers per service** – Quantifying how many customers (students or district staff) are impacted by a given service provided by an ESC; and,
- **Overhead costs** – comparing how the costs of operating an ESC differ across the system.

The ESC network would benefit from the development of standards, benchmarks, and KPIs, based on the operational needs of the ESC network. These indicators should be tracked to allow individual ESCs, citizens, and the ESC network as a whole to evaluate success and identify areas for improvement. Standards and benchmarks can be developed to measure financial operations as well as the quality and success of services provided.

Key Performance Indicators

Recommendation 5.1: ODE should develop, track, and use Key Performance Indicators (KPIs) for the ESC network as a method to measure and hold ESCs accountable for performance. Further, KPIs would help individual ESCs routinely measure their successes and identify opportunities for improvement.

Methodology

As mentioned in **Section 1**, data was collected from multiple sources to develop standards and benchmarks. We created the Profiles as a basis for evaluating and comparing ESC network wide as part of this operational study. We met with ESCs to determine the internal methods in place to track performance and conducted a detailed statistical analysis on the General Fund operating margins network wide. Finally, we researched other states and sources of criteria to determine other potential KPIs and methods of developing such benchmarks.

Analysis

A standard set of KPIs for the ESC network does not exist. Through interviews we found that many ESCs are tracking costs for services, students enrolled in specific programs, as well as other metrics, but this data is not tracked in a consistent manner and the information is not communicated in a standard location or uniform way.

Ohio school districts have indicators that measure success, one of which is the local report card.⁵¹ The Report Card measures six main components: achievement, gap closing, graduation rate, progress, improving at-risk K-3 readers, and prepared for success.

In addition to these six components, a performance management data section is also included in the report card and shows financial and academic indicators such as cost for classroom instruction, average cost per student, sources of revenue, and compares these measures to other districts and schools.



Achievement

The Achievement component of the report card represents the number of students who passed the state tests and how well they performed on them. It also includes an indicator that measures the percentage of students who miss too much school.



Progress

The Progress component looks closely at the growth that all students are making based on their past performances.



Gap Closing

The Gap Closing component shows how well districts and schools are meeting the performance expectations for all students, especially our most vulnerable populations of students, in English language arts, math and graduation, and how they are doing in teaching English learners to become proficient in English.



Improving At-Risk K-3 Readers

The Improving At-Risk K-3 Readers component looks at how successful districts and schools are at getting struggling readers on track to proficiency in third grade and beyond. Third Grade Reading Guarantee Promotion rate information also is found here.



Graduation Rate

The Graduation Rate component looks at the percentage of students who are successfully finishing high school with a diploma in four or five years.



Prepared for Success

The Prepared for Success component looks at how well prepared Ohio's students are for all future opportunities, whether training in a technical field or preparing for work or college.

Source: ODE

⁵¹ Ohio School Report Cards can be found on ODE's website, <https://reportcard.education.ohio.gov/> and provides information about how districts are performing, by celebrating successes and identifying areas for improvement.

While ODE has a formal process for evaluation of school districts, there is not a standard way in which ESC operations are measured or evaluated at the state level. More than 20 years ago, the *Status Report on the Consolidation of Educational Service Centers* (Legislative Office of Education Oversight, 1999) examined the impact of ESC consolidation on the cost and quality of services ESCs provide. Part of this study identified that there is very little oversight of ESC operations by ODE and recommended that performance standards or other accountability measures be considered. As a result, various attempts were made to develop such measures for the ESCs including a task force and a pilot program. However, due to a lack of resources and interest at the state level the projects did not continue.

OESCA as well as the individual ESCs themselves have been tracking internal benchmarks however, they are not being used uniformly to inform larger network-wide decisions. We are still finding the same issues 20 years later, there are no standards or accountability measures for the ESC network and a lack of oversight at the state level.

Other states, specifically Michigan and Texas provide performance criteria for organizations similar to Ohio's ESCs. Specifically, Michigan identifies a few key performance indicators that are useful in education, such as current operating costs per pupil and current expenditures per pupil, as well as cost effectiveness ratios. The State School Aid Act of Michigan requires information to be posted to district websites, including the Annual Budget & Transparency Reporting which provides an opportunity to communicate to their communities on how resources that are provided to them are used, including operating expenditures. Additionally, the State of Michigan has a dashboard that shows a variety of performance metrics for each Intermediate School District (ISD), the equivalent of an Ohio ESC, and school district, including metrics such as student outcomes⁵², value for money⁵³, salary data⁵⁴, and culture of learning⁵⁵.

Texas's *Regional Education Service Center Performance Standards and Indicators Manual* (Texas Education Agency, 2014) is a resource that outlines the performance standards and indicators used by the Texas Education Agency to evaluate the performance of ESCs. Due to the diversity of districts, it is not intended to be used as a comparison tool of ESCs, rather to provide a clear and consistent means of reporting data for annual performance evaluation.

The metrics and benchmarks identified by Michigan and Texas may not be the best option for Ohio ESCs, as all ESCs shouldn't be evaluated on the same basis due to differences in diversity of students and geographic location. However, the ESCs should work with ODE to determine the appropriate metrics for Ohio.

⁵² Students proficient in English Language Arts at the end of third grade, student academic growth 3-8, students proficient in math and English 3-8, students proficient on M-STEP 11th grade (all subjects), SAT total score, SAT College and Career Readiness Benchmarks, 4 year graduation rate, and dropout rate.

⁵³ Districts with ongoing deficits for three consecutive years, General Fund balance, instructional expenditures per pupil, and average class size K-3.

⁵⁴ Superintendent, principals, and teachers maximum, average, and minimum.

⁵⁵ Total breakfast participation as a percentage of total lunch participation, free and reduced lunch participation by eligible students, and economically disadvantaged students.

Conclusion

The ESC network would benefit from the development of standards, benchmarks, and KPIs. Benchmarks would provide insight into the operations of ESCs and can help inform those charged with decisions in the future. Benchmarks will also allow individual ESCs, citizens, and the ESC network as a whole to evaluate success, room for improvement, and potentially inform system-wide decisions.

A strong partnership between the ESCs and ODE is important in the establishment of KPIs. Once a system which allows for the uniform and transparent tracking of data is established, ODE can develop a tool similar to the Ohio School Report Cards or the *ESC Profiles* created as part of this operational study to provide information on both financial operations and the quality of services provided by ESCs. These metrics could include the following: number of customers receiving a service/program, cost per service/program offered, resources (employee labor hours, supplies and materials, etc.) dedicated to each member district, customer satisfaction results, and student outcome metrics in areas where instructional services are provided or supported by the ESC. Our analysis of other states along with previous research suggests that in order for the network-wide tracking of KPIs to be successful and useful a strong partnership between the ESCs and ODE will be necessary.