



House Bill 3

Efficiency Audits for School Districts Before Increasing Maintenance and Operations (M&O) Taxes

Purpose of HB 3 Efficiency Audits:

Texans are demanding meaningful property tax relief and reform. Property tax reform should include helping to ensure that school districts are using taxpayer money efficiently before increasing taxes.

[House Bill 3](#) requires that, prior to seeking a maintenance and operations (M&O) voter-approved tax increase, a school district must “conduct an efficiency audit.”¹

To Ensure HB 3 Efficiency Audits Are Not Expensive for School Districts, HB 3 Provides:

- The school district can use its existing CPA/auditor. That auditor will already be familiar with the school district and its programs, records, and personnel.
- The efficiency auditor must use a predefined LBB guideline document, limiting the audit scope.
- The auditor must complete the audit in three months or less.
- The school board does not have to implement the audit recommendations.

Examples of Efficiency Audits Saving Taxpayer Dollars:

According to at least one prominent efficiency audit practitioner, the savings identified through efficiency audits are consistently at least 10 times the cost.² That threshold of savings appears to be consistent with the experience of other state and local governments, including:

- **Detroit Public Schools:** Facing a deficit of more than \$300 million, Detroit’s distressed public school system initiated a wide-ranging performance audit that “[identified \\$53 million in annual savings](#).”³
- **The State of Kansas:** In 2016, efficiency auditors provided 105 separate recommendations that were estimated to generate more than \$2 billion over five years.⁴
- **The State of Wyoming:** In 2017, Wyoming legislators created the [Wyoming Spending and Government Efficiency Commission](#) which oversaw a third-party audit of certain state agencies’ budget and operations. This limited review identified opportunities to improve the state’s fiscal position by \$227.6 million over a biennium.⁵

In 2018, the city of Austin asked voters to accept or reject Proposition K, which would have required a third-party independent audit of the city’s budget and operations. While Austinites ultimately rejected the proposition, it was estimated that taxpayers could have seen “[savings of between 4 and 10 percent of total city expenditures, or \\$156 million to \\$390 million a year, based on the current \\$3.9 billion budget](#).”⁶

1 Tex. H.B. 3, § 11.184 (b), 86th Leg., R.S. (2019).

2 Phone conversation between TPPF staff and Erin Covington, Alvarez and Marsal, on April 23, 2019.

3 Mark Lisher, “[Austin Citizens Group Set to Turn in Signatures to Get Audit Question on Ballot](#),” (*Texas Monitor*, July 11, 2018).

4 Alvarez & Marsal, *Kansas Statewide Efficiency Review* (2016), 8.

5 Joel Funk, “[Efficiency Recommendations Coming to State Legislature](#),” (*Gillette News Record*, Nov. 15, 2018).

6 Mark Lisher, “[Austin Citizens Group Set to Turn in Signatures to Get Audit Question on Ballot](#),” (*Texas Monitor*, July 11, 2018).

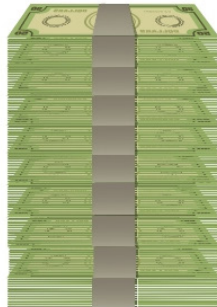
Midland ISD Efficiency Audit Potential Taxpayer/Costs Savings:

Reports have surfaced that Midland ISD considered conducting a wide-ranging exemplar efficiency audit.⁷ A potential audit firm indicated the cost of the audit was estimated to be approximately \$900,000, or less than one third of one percent of Midland's \$281.5 million [2018-19 budget](#).⁸ If Midland ISD opted to pursue this approach and the norm holds true, the potential annual savings could be as high as \$9 million or \$45 million over five years. ★

\$900,000
spent on an efficiency audit



Up to
\$9 Million
saved EACH fiscal year



OR

Up to
\$45 Million
saved over the next 5 years



⁷ It is important to note that the Midland ISD costs would likely be substantially reduced if the audit were conducted under HB 3, because under HB 3, (1) Midland ISD could use its existing CPA/auditor, (2) the audit could not take longer than three months, and (3) the auditor would be required to use the LBB guidelines.

⁸ Midland ISD, [2018-2019 Approved Budget](#), (Midland ISD, July 1, 2018).