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**ESV COMPUTER COUNCIL
REPORT TO THE LEGISLATURE ON
COST EFFECTIVE DATA REPORTING**

December, 1983

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EXECUTIVE SUMMARY

Currently, all districts are required to affiliate with one of seven ESV regional management information centers. These regional centers offer management, accounting and data processing services to their member school districts. Additionally, the state uses the regional centers as sources of uniform data. Concerned with the level and continued appropriateness of state funding in this area, the ESV Computer Council was directed by the 1983 Legislature to make recommendations by December 1, 1983 concerning:

- The state and local benefits derived from ESV-IS and the costs associated with providing the benefits;
- An alternative number of regional and state data processing sites and the cost of each alternative;
- The ESV-IS software necessary to support state mandated data acquisition;
- Alternatives for supporting the development and maintenance of ESV-IS and SDE-IS software and the cost of each alternative; and
- Costs and benefits of releasing large districts from the regional affiliation mandate.

After careful study, the ESV Computer Council recommends a process for future change and a series of mid-course corrections that are intended to prevent costs from increasing, promotes stability while giving districts more data processing options, and protecting the integrity, timeliness, and security of education data. The Council notes that the regions have evolved from hardware centers to district management support centers. Although cooperative hardware purchase and use is still a function of ESV regions, other services such as accounting support, software evaluation and solving district management information problems have become the major focus of ESV regional activity. These functions, expensive if performed individually, have been cost effectively accomplished through the regional service center cooperatives. This has not gone unrecognized by districts. The majority (80 percent) of districts, both large and small, answered a recent survey question by responding that the benefits of participating in an ESV regional service center outweighed the detriments. Consequently, the changes that are recommended in this report are in favor of creating an evolving market force for district MIS services without destroying a service provision network that is working well. For instance, the Council supports a regional fee structure that is based on districts paying for actual services rendered, especially in the case of districts owning and operating their own computers. This combination of district-based computing and fees for service will prompt the reduction in size and consolidation of regional hardware. The central point of these recommendations is that the processing role of the regions will continue to wane as a logical consequence of districts exercising their right of choice. At the same time, the service role of regions will continue to gain in importance. Any attempts to force consolidation of regions or decentralization of district processing is not warranted by the wishes of the majority of districts who instead prefer to avail themselves of options and evolve their own future at their own pace.

Specifically, the ESV Computer Council recommends that:

- All districts should continue to affiliate with an ESV Region.
- Use of district computers for all ESV-IS applications should be permitted.
- Districts operating standalone systems should be required to pay a proportionate share of outstanding regional debt for hardware, software, facilities and other fixed costs in addition to the costs of services provided.
- Regional plans to upgrade, acquire or otherwise change their hardware architecture should be approved only after a detailed analysis of feasible options to coordinate the hardware needs of that region with those of others.
- All district, regional and state management information software development and maintenance should be coordinated centrally by the state with the advice of the ESV regions.
- State funds for new development or acquisition of software should be allocated to developers, both public and private, under a project bidding system established by the state with the advice of the ESV regions.
- Districts using regional personnel/payroll and student record systems should not be required to continue paper/pencil reporting of information deliverable from those systems.
- A data base of information that will be collected from districts should be established.
- The state should pay a percentage of the costs for ESV-IS.
- The appropriate state level of funding for ESV-IS should be determined by a committee of information user representatives. Pending that determination, the 1982 funding level should be the state share of ESV-IS.
- State funds should be distributed to regions in accordance with the current distribution formula but the formula will be reconsidered prior to each biennial appropriations session of the Legislature.

A scenario of what might happen if these recommendations are adopted is as follows: Districts will rely more and more on their internal data processing capabilities but will still report to the State through their regional center. A few years from now it could be anticipated that the number of regional centers offering mainframe computer processing would be reduced by one to three. This will happen only after careful coordination, planning and equipment needs forecasting by the Council. Those regions that discontinued mainframe processing support would, however, continue to assist districts with other data processing support needs such as accounting and state reporting assistance. Very little data will be reported on forms; electronic transfer of data through regional centers will account for most of the data reported to the State. The State will still pay for the data but will get more for its money because costs have been reduced and precisely what the State is paying for has been identified. School districts would pay their regional center only for the services they actually received as well as their share of their region's long term debt.

INTRODUCTION

(1) Issues

As part of his proposed 1984-1985 biennial budget, the Governor recommended a series of policy and funding changes regarding school district management information data processing. One of those recommendations was that state funding for ESV-IS should terminate after the first year of the biennium. Concerned that implementing that recommendation may jeopardize state acquisition of uniform, timely and accurate education data, the legislature chose not to adopt that recommendation without a study of related issues. Instead, a limited amount of state funds were appropriated to a contingent account and the ESV Computer Council was directed to study the following issues and report back with appropriate recommendations.

- (1) The state and local benefits derived from ESV-IS data processing and the current costs associated with providing the benefits;
- (2) An alternative number of regional and state data processing sites and the cost of each alternative;
- (3) The ESV-IS software necessary to support state mandated data acquisition;
- (4) Alternatives for supporting the development and maintenance of ESV-IS and SDE-IS application software and the cost of each alternative; and
- (5) The costs and benefits of releasing large districts from the mandate to affiliate with ESV Regions.

(2) Background

All Minnesota districts have been required by statute to affiliate with an ESV regional management information center. The seven ESV Regions are located in different parts of the state and they currently serve both state and district interests. To districts, ESV Regions are a service center for accounting, equipment, software, and state data reporting support. To the state, ESV Regions are a mechanism for obtaining uniform, accurate and timely information. The state has provided annual funding for the operation of ESV regions. However, district funds make up the majority of regional center revenue.

ESV regional software has been developed primarily at MECC with additional development effort provided by ESV Regions and school districts. The MECC development has been funded by state appropriations to the department that are released to MECC under the terms of an annual services agreement between MECC and the Department. Because state funding is limited and software developed must meet the needs of a large number of districts, some software needs of individual districts are met by district funded development. Locally funded development is not coordinated statewide.

(3) Process

This report was developed with the assistance of an advisory committee of district, private industry, and state representatives.

Members of that committee were:

Richard Pearson, Superintendent, Duluth Public Schools
Ray Hoheisel, Superintendent, Cambridge Public Schools
John Regan, Superintendent, Danube Public Schools
Charles Kyte, Superintendent, Eden Valley-Watkins Schools

Don McGuire, Superintendent, 817
E. John Young, Business Manager, Hopkins Public Schools
Darrold Williams, E. F. Johnson Co.
John Madden, Honeywell
Patricia Jilk, ESV Computer Council liaison

The Committee was assisted by the following legislative, department and Computer Council staff people:

Eric Radtke, House Appropriations
Peggy Ingison, Senate Finance
Charles Coskran, State Department of Education
Daniel Loritz, State Department of Education
Joanne Carlson, ESV Computer Council

As a first step in developing recommendations, the needs of individual system users were identified and considered. User needs were identified in several ways. First, all districts were given the opportunity to respond to a questionnaire regarding their data processing needs and opinions about current state data processing requirements. Many district superintendents and other staff members were also contacted individually by members of the Advisory Committee and the Council. Next, large districts (over 5,000 students) were asked to respond in narrative fashion to a series of questions about their interest in pursuing data processing autonomy. Finally, Department of Education and Legislative staff were contacted regarding their needs for data.

After identification of user needs, various potentially cost effective alternatives for meeting those needs were identified and analyzed. For purposes of this report, "cost effective" data reporting was defined as use of technology that is available and acceptable to users for enhancing data usefulness while limiting the cost of information processing and reporting for system users. Therefore, while the range of alternatives for data reporting is almost unlimited, those options that would significantly increase costs or reduce data usefulness were not considered as viable options. Likewise, alternatives requiring the use of technology that is not currently available were dismissed. Finally, it should be noted that what is cost effective for a small number of users may not be cost effective overall. Since the objective of the study was to recommend action expected to be cost effective overall, these alternatives were also rejected.

RECOMMENDATIONS

The Council found a high level of district satisfaction with current data processing practices. Approximately 80% of the districts responding to the data processing questionnaire had high marks for the support received from ESV regions and believed the benefits of participating in an ESV region outweighed the detriments. For those districts, regional centers are a cost effective method for supporting data processing and reporting needs. If that high level of satisfaction is to be maintained, changes in the regional support network must be made cautiously. Consequently, the Council's recommendations address a process for future change and a series of mid-course corrections that are intended to prevent costs from increasing, promote stability while giving districts more data processing options and guarantee the integrity, timeliness and security of education data.

Recommendation

The Council recommends that all districts continue to affiliate with an ESV Region.

While some districts have the desire, expertise and resources to operate on a standalone basis, data integrity and reporting timeliness can best be accomplished at a regional center. Furthermore, some regional services, such as training for UFARS and changed reporting requirements, will continue to be needed by all districts, regardless of the system used. Use of trained regional center staff for such district training functions is undoubtedly the least expensive and most effective method of providing such service. It should also be noted that some districts, those with AVTI processing capability, have a built-in alternative for securing low cost data processing service. Allowing those districts to use that capability for administrative processing will result in higher costs for the great majority not fortunate enough to have an AVTI. Finally, survey results did not indicate a sufficient level of dissatisfaction with regional data processing to warrant the increased district and state expenses associated with repeal of the mandate for regional affiliation, particularly when it appears that most district interests can be met by making less radical modifications.

Recommendation

The Council recommends that use of district computers for all ESV-IS applications be permitted.

To guarantee financial data integrity, only state approved finance systems should be used. Since at least two districts operated finance systems are currently being tested by the state, in district finance processing options should be approved and available in the near future. To prevent major district and regional problems caused by inaccurate or lost data, districts should continue to report all financial information to an ESV Region on a monthly basis for editing and storage. However, districts operating standalone systems should be required to pay for services received and a proportionate share of the outstanding regional debt for hardware, past development, facilities and other fixed costs.

Recommendation

The Council recommends that districts operating standalone systems should be required to pay a proportionate share of outstanding regional debt for hardware, software, facilities and other fixed costs in addition to the costs of services provided.

The Council notes that all regions have incurred long term fixed expenditures on behalf of member districts. Although districts operating standalone systems may not continue to use the objects of those expenditures to the same degree that is anticipated for districts continuing to require cooperative mainframe services, the Council believes that it would be unfair to reduce the obligation for past debt of those districts choosing to pursue more autonomous processing modes. However, the Council also believes it would be unfair to require one user to subsidize the future processing costs of another. Instead, the Council recommends that future services be funded in a manner more reflective of services used. If thorough district and regional resource needs planning precedes resource decision making, the escalation of future costs of participating in a region can be controlled and each district will have an economic incentive to review its processing methodology.

Recommendation

The Council recommends that regional plans to upgrade, acquire or otherwise change their hardware architecture be approved only after a detailed analysis of feasible options to coordinate the hardware needs of that region with those of the others.

While the Council believes that the detriments of forced regional consolidation outweigh the benefits, the Council also recognizes that voluntary and planned hardware sharing can prevent the long term escalation of costs. Consequently, individual regional architecture changes should be approved only after all potentially beneficial sharing options have been rejected by the Computer Council on the basis of cost or equally significant considerations. While hardware sharing and associated planning may cause some inconvenience to the districts of a particular region, the potential for benefits to district members of other regions are significant. It should be noted that the need for architecture changes within the next several years are anticipated.

Recommendation

The Council recommends that all district, regional and state management information software development and maintenance be coordinated centrally by the state with the advice of the ESV regions.

This recommendation will not operate to prohibit district and regional software development. While software need not be developed centrally, central coordination will operate to reduce overall costs by controlling redundant development. The Council also recommends that all software be evaluated and stored at a central software library. To help encourage cooperation, regular communication about available software and development projects should take place. These recommendations will require additional funds to support the coordination function but that expenditure will be minimal compared to the cost of unnecessary software development.

Recommendation

The Council recommends that state funds for new development or acquisition of software be allocated to developers, both public and private, under a project bidding system established by the state with the advice of the ESV regions.

Use of bidding systems has the advantage of promoting cost savings while increasing accountability for quality and timeliness of development projects. Furthermore, some systems may be more cost effectively developed and maintained by specialized staff not available to all developers. Consequently, both cost and effectiveness objectives will be enhanced. For the remainder of the current biennium, maintenance contracts should continue as they currently exist but development funds that become available should be apportioned on the basis of the bidding system.

Recommendation

The Council recommends that districts using regional personnel/payroll and student record systems should not be required to continue paper/pencil reporting of data deliverable from those systems.

Implementation of this recommendation will substantially reduce the data handling burden for many districts and will increase the overall cost effectiveness of ESV-IS.

Recommendation

The Council recommends that a data base of information that will be collected from districts should be established.

The Council also recommends that current State Department of Education data collection should be examined and eliminated where the data is not significantly used. Several users, including legislative staff, have indicated that too much information is as significant a problem as too little information. Establishing and collecting a database of information that is limited to only that data currently required for education management will reduce district data handling costs, computer storage and processing costs and state processing and storage costs. It will also be an aid in future ESV-IS system development. The committee believes that the future cost of adding needed data elements is less than the present cost of reporting, processing and storing unnecessary data.

Recommendation

The Council recommends that the state should pay a percentage of the costs for ESV-IS.

The state derives substantial benefit from requirements to use the finance system and it should pay for that service. While districts have derived a benefit from the mandate in the sense that mandatory ESV-FIN use creates a funding base on which the optional regional services have been built, that benefit could have been realized

without imposition of a mandated finance reporting system. The premandate success of TIES demonstrates this point. Furthermore, since ESV-IS funding is a small part of both state and local budgets, neither should be financially harmed by a continuation of the partnership. It should be noted that even prior to the funding withdrawals last year the state paid only a small percentage of the cost of ESV-IS.

Recommendation

The Council recommends that by March 5, 1984 the appropriate state level of funding for ESV-IS be determined by a committee of information user representatives. Pending that determination, the 1982 funding level should be the state share of ESV-IS.

Although the ESV systems and regional network was developed and implemented to serve both state and local interests, the state currently funds, at best, only 10% of the visible cost of operating ESV-IS. (Because many district costs are invisible, this percentage was calculated using only regional and MECC support components of the overall costs. Even before the state funding of ESV-IS was reduced to 1.5 million dollars, the state contribution was only 16% (3.6 million) of the visible overall cost. The Council believes that level of state support is too low and does not reflect the partnership between districts and the state in satisfying information needs. However, the Council does not have an alternative recommendation to present at this time. Instead, we recommend the ESV Computer Council establish a committee composed of information user representatives, specifically including legislative, department, district, and governor's office staff members, to develop a recommended cost apportionment methodology. The Council believes that the recommendations of such a committee have a far greater chance of receiving broad acceptance than would the individual recommendations of any one of the represented organizations. The Council recommends that the committee's work be finished prior to March 5, 1984 to allow enough time for incorporating the recommendations in the biennial budget development process.

Recommendation

The Council recommends that state funds be distributed to regions in accordance with the current distribution formula but that the formula be reconsidered prior to each biennial appropriations session of the Legislature.

The Council notes that the current formula was developed after several years of regional discussion, debate and compromising. Having heard no complaint about the formula, the Council recommends that its use be continued. However, the Council also recommends that the regions conduct a biennial review of the continued appropriateness of the formula.

ANALYSIS OF ISSUES AND ALTERNATIVES

(1) The State and Local Benefits Derived From ESV-IS and the Costs Associated With Providing the Benefits.

The state has derived significant benefits from the establishment of ESV regions, development of ESV software and the mandate to affiliate with a region. Those benefits are in two major areas - receipt of accurate, uniform, timely data and cost reduction. Prior to imposition of UFARS accounting and the mandate to use the UFARS compatible finance reporting system, it was virtually impossible to determine the financial condition of school districts or make a comparative analysis of the expenditures of one district against others. The first receipt of post-mandate data showed that legislative concern regarding district financial health was valid. One hundred thirty-five districts were in statutory operating debt. Since that time, required use of the financial reporting system has made possible yearly identification of districts in operating debt followed by development of special financial operating plans to restore financial health to those districts. Despite continued problems with declining enrollment, salary inflation, and public funding limitations, the number of districts with operating debt problems is currently limited to twenty-nine districts, each of which will now operate under a special financial plan. Since use of the regional financial system allows relatively easy annual identification of financially troubled districts, problems associated with district insolvency are less likely to arise.

State benefits from receipt of accurate, comparable and timely data are not limited to easing the threat of district insolvency, however. The data has also enhanced legislative decision making. Because current data on district fund balances were available, the state was able to use that information in balancing its own budget during crisis situations. Furthermore, the data has been used effectively by the legislative and executive branches of state government in program evaluation and policy making. It should be noted that the benefits of accurate, comparable and timely data do not extend merely to financial data. While only use of the financial reporting system is mandated, the state can and should derive similar benefits from data reported by districts using the student record and personnel systems. State-wide student progress, curriculum evaluation and teacher assignment decision making will be enhanced by district use of systems that are designed to process accurate and comparable data. Finally, state costs for manual data handling and data processing have been reduced. The extent to which the state will continue to reduce overall costs for data handling will depend on the degree to which it captures data stored at regional center computers instead of requiring the completion of paper/pencil forms. It should be noted, however, that some forms serve such a small population that automating them serves no purpose.

In addition to reaping the same benefits as does the state from ESV systems and regions, districts also enjoy some unique benefits. For districts, affiliating with a regional center and using state supported software has reduced the cost of complying with the state mandate. Without regional center hardware and software, district expenditures to acquire, maintain and use hardware and software for mandated UFARS reporting would have been, and will continue to be, prohibitively expensive. ESV regions and software are a low cost training and processing alternative. Many districts have neither the desire nor the staff capability for stand-alone processing. For those districts, a cooperative venture is not only a low cost alternative, it is the only alternative. Districts have also benefitted from a recent

reduction of manual financial reporting which is possible because financial information resident at the regional computers can be automatically transferred to the state. As the state begins to automate the transfer of student and personnel information, the same benefit will accrue for student and personnel reporting of the districts using those systems. While cost savings are a major benefit, the benefit most often cited by districts is the regional service center staff support available for help in a number of areas including accounting support, training, equipment support, software evaluation, and information needs planning. Finally, the ESV system and regional data processing has provided districts with better and more timely data for administrative decision making while reducing the amount of time superintendents handle data.

(2) An Alternative Number of Regional and State Data Processing Sites and the Cost of Each Alternative.

The Council considered several alternatives regarding the number of regions. Following is a summary of the costs and benefits of each:

Consolidating two or more regions: At this time, the availability of regional computer time during school hours is limited. Consequently, without major systems and processing philosophy changes (restricting district use of on-line, day time processing), no region has sufficient computer or staff resources to handle all the districts of any other region. Consolidation would therefore require either transfer of computer and staff resources from one region to another or acquisition of new computer and staff resources. Whether cost savings would accrue if this approach was taken is debatable. Short term hardware moving or acquisition costs and long term increased staff (travel time) and communications expenses will off-set possible cost savings in the areas of facility (lease, utility and maintenance), governance (board and director), and operations expenses (systems software and computer operations). Short term (five year) costs would dramatically increase for all affected districts as costs for staff retraining, moving and hardware costs are absorbed. Individual district control of regions would diminish as the number of districts within a region increase. Depending on the services offered by the consolidating regions, districts may suffer a degradation of service levels or enjoy enhanced service levels. District staff time to aid in the conversion process will be required.

Regional dissolution and attachment: Dissolution of a region and attachment of its districts to other regions could result in long term savings in governance, hardware, service staff, facilities and operations. However, the probability and degree of savings would depend on whether receiving regions could accommodate additional districts without increasing hardware, facilities and staff resources. Although some cost savings would be offset by increased travel and communication costs, this alternative would operate to prevent the escalation of costs. On the short term, cost increases would be the result of pursuing this alternative. Staff separation, outstanding lease requirements, hardware remarketing costs and communication line transfer costs must be absorbed. As with consolidation, some diminishment of individual district control may result. However, diminishment of individual district control could be minimized by equally allocating the dissolving region's districts among the remaining regions. Depending on the services offered by the dissolving region and the regions to which districts become attached, some districts may suffer a degradation of service levels or enjoy enhanced service levels.

Multiple regional hardware centers: Long term cost savings on facilities, maintenance, operating staff and utility costs could result from hardware sharing between regions. As with the previous alternatives, short term costs for equipment moving, remarketing or upgrading may result. Likewise, costs for remodeling one of the existing sites to accommodate additional hardware or establishing an off site, neutral location for housing computer resources would rise for a short term. Hardware pairing alone should neither diminish nor enhance effectiveness but would operate to control escalating costs. Since the effect on district operations would be minimal, this alternative has the additional benefit of preserving stability if accomplished over time.

No change in current regional structure: Education data processing costs will continue to escalate in pace with inflation if no change in the regional network is made. However, economics (escalating costs) will provide incentives for regions to consider cost reducing options. Since ESV regions have the authority to pursue any of the previous alternatives, it is likely that regional boards would consider a voluntary change if costs rise significantly. Until that happened, districts would benefit from stability.

Repeal the mandate for regional affiliation: On the short term, districts lacking the computer expertise or funds required for standalone processing will pay more for the same service as the regional fee base erodes. (Over the long term, regions could minimize this consequence by downgrading hardware). Overall costs will escalate due to duplication of effort. If some regions dissolve, member districts will be liable for outstanding regional obligations. State needs for accurate, uniform and timely data may not be met. Competition for districts may provide incentives for further regional economies. Districts may suffer a degradation of services while a few would enjoy enhanced service levels. Overall cost savings are extremely unlikely since duplication of staff, hardware and operations costs will be the rule.

(3) The Software Necessary to Support State Data Acquisition.

The software necessary to support state data acquisition is that which automates the processing of data reported on a regular and periodic basis by districts. At a minimum, applications to support finance, personnel and student information mandated reporting are needed. Current ESV finance, personnel and student systems can accommodate a substantial part, but not all of the processing required for state reporting. However, with some exceptions in the finance, special education and civil rights reporting areas, SDE programs to "pick up" student record and personnel/payroll information stored at regional centers have not yet been written. Assuming continued legislative and public interest in moving toward strengthening program evaluations and program funding, integrated finance, personnel, student record and instructional management (test scoring) software may be needed in the future. This will require some ESV regional system development and SDE data base definition and systems development.

(4) Alternatives For Supporting the Development and Maintenance of Software and the Cost of the Alternatives.

The Council considered the following alternatives for the development and maintenance of SDE and ESV regional software:

Establishment of a central development group for regional software: Establishment of a central development group alone will not cause significant cost savings. Regional development staff and MECC development staff perform different functions. Consolidation of those staffs may result in some regional facility and staff expense reductions, but those regional savings would be offset by short term staff severance and significant start up and long term operational costs that will probably equal, and may exceed, current development and maintenance costs. Establishment of a central development group coupled with a requirement that districts could use no management software other than that developed and supported by the control group could result in cost savings. That requirement may operate to eliminate some redundant systems support funded locally but would also significantly decrease the level of software responsiveness to user needs.

Eliminate state software support function: Elimination of state support for software development and maintenance would cause a funding shift but would not result in overall cost savings. Furthermore, state interests in software that can be used for reporting accurate, uniform and timely information may be jeopardized as districts fund development and maintenance to meet district needs instead of district and state needs.

Central coordination of software development and funding distribution: Permitting bidding for development and maintenance projects will raise accountability for project results. The competition for available project funds and central project coordination may also help promote economies in software development and maintenance reducing redundant efforts.

No change in software support structure: Software support costs will neither be adversely nor positively affected.

(5) Costs and Benefits of Releasing Large Districts From Regional Affiliation Mandate.

The argument that individual districts can inexpensively purchase, operate and staff a data processing venture has not been persuasive to the Council. Although cooperation may somewhat diminish effectiveness for a single district, it also reduces costs. Furthermore, if large districts are permitted to withdraw from regional participation, the cost of regional operation will be spread across a smaller fee base, potentially resulting in prohibitive fee increases for the districts desiring to remain part of the cooperative. It should be noted that release of regional hardware and staff is not a solution to this problem. Even if possible, staff severance and remarketing costs will offset any possible savings from staff and hardware reduction. Finally, assuming some large districts do take advantage of a release from the mandate, it can be anticipated that state costs will also rise. Training and communication costs will increase if the number of data processing sites increases.

Although releasing large districts from the mandate will increase costs, it can be predicted that some districts will perceive enhanced effectiveness. The logical consequence for the state, however, is a diminishment of effectiveness as the number of organizations responsible for providing accurate, uniform and timely information increases.