THE SEEK FORMULA FOR FUNDING KENTUCKY'S SCHOOL DISTRICTS: AN EVALUATION OF DATA, PROCEDURES, AND BUDGETING

Adopted by the Program Review and Investigations Committee

PROGRAM REVIEW & INVESTIGATIONS COMMITTEE STAFF REPORT

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Research Report No. 310

LEGISLATIVE RESEARCH COMMISSION

Frankfort, Kentucky

Program Review and Investigations Committee

Adopted: November 14, 2002

This report has been prepared by the Legislative Research Commission and printed with state funds.

FOREWORD

Program Review staff would like to acknowledge the cooperation and assistance of the Kentucky Department of Education, particularly the Division of School Finance. Department staff answered numerous questions and spent time compiling some of the data required for this study.

The assistance of the Office of Education Accountability is also appreciated. Program Review staff were lucky that former OEA staff member Pam Young is not only an expert on school finance but was willing to explain things repeatedly. Her assistance was critical to the report and she could not have been more helpful.

Dudley Cotton, of the LRC's Budget Review Office, answered questions, discussed issues related to the study, and reviewed draft versions of this report. Barry Boardman, LRC Staff Economist, did the research for the section of the report on equity of funding. Tom Crawford, of the Revenue Cabinet's Division of Local Valuation, provided a helpful overview of the local tax collection and reporting process. Staff from the Governor's Office for Policy and Management provided useful information on the budget process.

Finally, staff would like to acknowledge the school superintendents who responded to the survey and provided insights into the school districts' view of the SEEK funding formula.

Robert Sherman
Director

Frankfort, Kentucky
November 14, 2002

LEGISLATIVE RESEARCH COMMISSION

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MEMORANDUM

TO: The Honorable Paul E. Patton, Governor,
The Legislative Research Commission, and
Interested Individuals

FROM: Representative H. "Gippy" Graham, Chair
Senator Katie Stine, Co-Chair

SUBJECT: Adopted Committee Staff Report: *The SEEK Formula for Funding Kentucky's School Districts: An Evaluation of Data, Procedures, and Budgeting*

DATE: November 14, 2002

In June 2002, the Program Review and Investigations Committee approved a study of the components, data collection and data analysis, data validity, and calculations of the Support Excellence in Kentucky (SEEK) formula.

Committee staff reviewed and analyzed data and documentation used by the Kentucky Department of Education (KDE) to calculate SEEK funding and budget requests. Interviews were conducted of staff of the KDE, the Kentucky Revenue Cabinet, the Governor's Office of Policy and Management, the Auditor of Public Accounts, the Office of Education Accountability, and the Interim Joint Committee on Education. In addition, staff surveyed school superintendents.

Based upon analysis of this information, and the review of the information, the Committee adopted the recommendations contained in the report. The Kentucky Department of Education's written response to this report is included as Appendix G.

Major Conclusions

The following major conclusions are a summary of the results obtained by Program Review staff:

- KDE provides insufficient verification that school districts' reported attendance statistics are accurate.
- KDE provides insufficient verification that school districts' reported transportation costs are accurate.
- Since the inception of SEEK, projecting assessments and student counts, both of which have a great impact on the SEEK calculation, has been difficult.
- A ten-year trend of declining student counts has reversed slightly and has led to recent under-projections.
- The $12.9 million under-funding of SEEK in FY 2002 resulted from a $50 million budget reduction that was partially restored based on estimates that fell short of final calculations.
- Preliminary estimates of FY 2003 indicate short-funding of SEEK due to adjustments to student counts and assessments made in the Governor's Recommendation, and a failure to incorporate increased transportation costs into projections.
- Three-fourths of superintendents report that their current funding is better than it was before SEEK, but only about 40 percent feel that their districts' funding is about the same as other districts.

Summary of Recommendations

The following recommendations were offered to improve the program's operations. The full text of each recommendation can be found in Chapter 3 of the report.

Recommendation 3.1: KDE should implement a risk-based approach to auditing school districts' reported attendance statistics. This approach should consider the risk of significant error in the per-pupil funding amount and should tailor the audit procedures accordingly by auditing large districts more often than small districts.

Recommendation 3.2: All procedures designed to test the validity of reported attendance statistics should be performed on every attendance audit and at all schools in the district.

Recommendation 3.3: When the time of late arrival or early departure is not entered on the schools entry/exit log, the student should be counted absent for the full day.

Recommendation 3.4: When sampling a school's attendance records, the auditor should use a random selection technique so that the error rate in the overall population can be estimated.

Recommendation 3.5: KDE should adjust a district's ADA for significant errors in reported statistics noted in the initial audit of school records and should further adjust ADA when follow-up testing indicates that a school continues to have significant errors.

Recommendation 3.6: KDE auditors should be required to review charges to transportation accounts and reimbursements received. The approach should consider the risk of significant error in the per-pupil transportation funding amount and tailor procedures accordingly.

Recommendation 3.7: KDE should assign a knowledgeable employee not involved in the SEEK calculations to review the work of employees who perform the calculations.

Recommendation 3.8: KDE should give top priority to developing an automated and integrated system that provides for on-line real-time updating of files. Staff should receive training and be able to produce ad hoc reports from the system.

Questions or requests for additional information should be directed to Dr. Greg Hager, Committee Staff Administrator for the Program Review and Investigations Committee.

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An Overview of the Study and the SEEK Formula

The Program Review and Investigations Committee voted on March 7, 2002, to have staff evaluate the components, data collection and data analysis, data validity, and calculations of the Support Education Excellence in Kentucky (SEEK) formula. The Committee approved a study proposal at its June 2002 meeting.

SEEK was created by the Kentucky Education Reform Act of 1990 as a mechanism to provide financial resources to Kentucky's public school districts. Among the goals of SEEK are to provide a minimum level of education funding for each student regardless of the wealth of the student's school district; require at least a minimum level of effort to provide funding from each school district; make spending per pupil more equal across Kentucky by basing the amount of state aid per pupil on the wealth of the local school district; and within the constraint of keeping funding per pupil relatively equal, encourage local school districts to increase education funding.

The state determines a guaranteed minimum amount of spending per pupil. Adjustments are then made to account for districts having different costs for transporting students and for serving students who may have additional educational needs. Local school districts are required to provide funding as well, but any required local effort should reflect the local taxpayers' ability to pay. To encourage districts to increase spending per pupil, the state provides some matching of additional local funding up to a threshold. To allow districts to spend more on schools if they wish, districts are allowed to raise additional funds, but to prevent vastly unequal amounts of spending per pupil, these amounts are not matched by the state and, with some exceptions, there is a cap on the amount of additional funds.

The *guaranteed base* is the minimum spending per pupil that districts will be allocated. This amount is specified in Kentucky's Biennial Budget and is based on projections of variables in the SEEK formula. Funds are distributed to local school districts through the SEEK formula on a per-pupil basis. The *equalization level* is specified in the biennial budget based on a projection of 150 percent of the average statewide assessment per pupil and sets the limit to which the state will match additional local funding. In SEEK, the number of pupils in a district is defined as its *average daily attendance* from the previous school year plus any growth in the number of students in the first part of the current school year.

The SEEK formula provides additional funding for special populations that are presumed to need additional resources. The formula does this by assigning a weight to each type of population and multiplying the weight by the guaranteed base amount of funding per pupil. *At-risk students* are those from low-income households, defined as students who qualify for the federal free lunch program. *Exceptional children* are those with disabilities; weights are assigned based on level of disability. *Home and hospital* students are those who are being taught at home or in a hospital due to a medical condition.

SEEK funding for *transportation costs* is based on the number of transported students multiplied by the average cost per pupil per day of transporting pupils in districts having a similar density of transported students per square mile of area served.

The local share of base SEEK is the *required 30-cent effort*: 30 cents per $100 of current property assessments. The effect of this component is for districts with greater property wealth to bear a greater portion of the costs of educating students. Additional revenues are divided into two tiers: *Tier I* is partially matched by the state to adjust for the district's per-pupil assessment relative to the statewide average; *Tier II* is capped and is not matched by the state.

Tier I *equalization* is based on local tax effort, not just local property taxes. A school district's tax effort is measured by the *levied equivalent rate*, which in simple terms is total tax revenues divided by assessments. *Permissive taxes* provide the tax revenues beyond local property taxes that are included in the levied equivalent rate. Permissive taxes may include taxes on utility receipts, an occupational tax (income tax), and an excise tax on residents' state income tax liabilities. The revenues provided through permissive taxes are included in the levied equivalent rate and are thus matched by the state if the district is in Tier I. The ratio at which the state equalizes Tier I funding, however, is based on property assessments.

At a minimum, school districts must receive the same per-pupil state funding as in fiscal year 1992. If a district's calculated state SEEK funding per pupil is less than this amount, then under the *hold harmless* provision the district would receive the 1992 amount.

Chapter 2
The Components of SEEK: Description and Trends

After a brief overview of Kentucky's 176 school districts, this chapter discusses six components of SEEK: state guaranteed base and equalization level; funded average daily attendance; exceptional and at-risk students; transportation costs; local taxes; and the hold harmless provision.

There are about half a million public school students in Kentucky in 120 county and 56 independent districts. The typical county district has about 2,500 students. The typical independent district has about 900 students.

In nominal dollars (not adjusted for inflation), the guaranteed base grew in almost every fiscal year that SEEK has existed, usually by around three percent, and was one-third higher in fiscal year (FY) 2002 than in FY 1991. Adjusted for inflation, however, the guaranteed base in FY 2002 was 0.4 percent lower than it was in FY 1991. In nominal dollars, the 2000-2002 annual equalization level of $470,000 was more than twice as high as the 1990-1992 figure. Adjusted for inflation, the increase was 56 percent.

The number of students funded through SEEK at the state level has been relatively stable, but significant changes have occurred at the district level. In half of Kentucky's school districts, attendance as measured by Funded ADA changed by at least 10 percent from FY 1991 to FY 2002. Most of the county districts with the largest percentage decrease in students over the 1990-2002 period are in eastern Kentucky or the Western Coal Field regions of the state. Most of the fastest growing county systems are located in northern Kentucky, central Kentucky, and counties surrounding Jefferson County. During the same period, the number of students classified as at-risk or exceptional has increased. There are over 250,000 at-risk students, up 21 percent since FY 1992. The number of exceptional students has increased 18 percent to over 85,000.

Until FY 2001, SEEK transportation costs had been relatively stable, increasing approximately $10 million over four years. In the past two years, transportation costs increased as much each year as in the entire FY 1997 to 2001 period, and annual SEEK transportation costs are now over $200 million per year. Districts are not necessarily reimbursed for their total transportation costs but get a percentage based on how their costs per-pupil compare to costs of other districts of similar geographic density of transported students.

If controlling for the density of districts' transported students means that districts will have different costs because some districts are more efficient than others, then each type of district should be spread randomly across the state. This is not the case, however. Several contiguous blocks of districts have similar reimbursement rates. While it is possible that districts' capacity to transport students efficiently varies by region, it seems plausible that costs are affected by factors other than density, such as the terrain of the district.

Statewide assessments have not declined in SEEK's history, growing by more than four percent each year. This means that all else equal, the share of SEEK funding provided by local school districts would have also increased over time. The annual percentage change in total assessed property value varies significantly. Large changes in assessments from one year to the next are not unusual at the district level. Over 12 percent of the time, assessments went up over 10 percent. This is significant because a large change in a district's assessment would have a significant effect on its share of SEEK funding.

Local property taxes comprise a majority of local funding for education; permissive taxes contribute most of the remainder. Statewide, permissive taxes make up 23 percent of local tax revenue. Nineteen districts have no permissive taxes. Of these, 13 are independent districts, including 7 northern Kentucky independent school districts. Independent districts are also over-represented among the districts that use permissive taxes the most. Twelve of the 28 districts in which over 27 percent of local tax revenues come from permissive taxes are independent districts. With the notable exceptions of Fayette County and Jefferson County, the state's two largest school districts, the majority of counties most reliant on permissive taxes are in the western part of the state.

Chapter 3
Flawed Data and Procedures Result in SEEK Calculation Errors

This chapter provides an overview of the organizational structure of the Kentucky Department of Education (KDE), describes the validity of the data and the process used to calculate the SEEK funding formula, and provides a number of recommendations for improving and verifying the accuracy of information and calculations.

The SEEK formula is calculated in the Reporting Branch of the Division of School Finance. The division's 3 branches have a total of 23 employees, only 7 of whom work in the Reporting Branch. Implementation of the recommendations in this chapter may require the division to increase its levels of technical expertise and resources.

Accurate attendance statistics are critical to correctly calculating the SEEK funding formula. For example, if FY 2002 statewide ADA were overstated or understated by just one percent, the effect on SEEK funding would have been $19.5 million. KDE does not adequately verify the accuracy of the reported statistics on a regular basis, however. The procedures used in an attendance audit do not consider the risk of significant error in the per-pupil funding amount and do not ensure that the usefulness of the results is worth the audit effort expended. Attendance audits are conducted at each district about every four years, but not all schools in the district are audited. In addition, some important audit procedures are not performed at schools that receive high scores on the Commonwealth Accountability Testing System (CATS). A school's CATS scores are not necessarily related to the accuracy of its reported attendance. Attendance statistics measure whether a student was in the classroom, while CATS scores measure how well a student did in the classroom.

To put into perspective the importance of accurate attendance statistics, consider that in FY 2002, five school districts accounted for over 25 percent of statewide average daily attendance (ADA). With an ADA over 80,000 students, Jefferson County alone accounted for over 14 percent of total statewide attendance. The General Fund's FY 2002 SEEK contribution to Jefferson County was over $200 million. If Jefferson County's ADA were overstated by just one percent (800 students), the effect on the General Fund would have been an overpayment of $2 million to this district.

To test the effectiveness of the attendance audit process in verifying the accuracy of ADA statistics, Program Review staff reviewed a sample of attendance audit reports and audit documentation files. In over half of the audited schools, full-day and half-day absences were not recorded correctly. This type of error can have a significant effect on the SEEK funding formula.

If a district has errors in its overall ADA, those errors are carried over to the transported student ADA and the transportation growth factor. In 18 percent of the audited schools, special transportation codes were not being used correctly. A district receives an add-on of four times the ADA for special transportation students.

The other data element used to calculate a district's transportation component is the cost of transporting students. Transportation costs that are used in the funding formula may include expenditures that are not eligible for SEEK reimbursement. Ineligible expenditures include the cost of field trips and the cost of salaries charged 100 percent to transportation when school transportation officials have other unrelated duties. To demonstrate the importance of accurate information in calculating SEEK transportation, in FY 2002 the transportation component was $193.5 million, representing over 10 percent of total SEEK payments.

In addition to errors in data validity, the SEEK calculation process itself is subject to error. At almost any point in the process, human error can, and sometimes does, result in incorrect calculations that affect the published SEEK dollar amounts. For example, in the tentative SEEK transportation calculation for FY 2003, a human mistake resulted in a total error in the tentative SEEK transportation calculation of $8.9 million. This error, which has since been corrected, was discovered by Program Review staff during the course of this study. If KDE had an internal review process in place, this error might have been prevented.

The SEEK transportation component is calculated using the SAS statistical software package. KDE officials have indicated that no one in the Division of School Finance understands the SAS program code. If the program should experience a problem and start to produce inaccurate information, division staff may have difficulty identifying the problem. Thus, in addition to improving the validity of data used in the calculation, KDE should improve the process and staff's understanding of the process.

Chapter 4
Budget Reductions, Increased Student Counts, and Not Incorporating Increased Transportation Costs into Projections Led to Recent Under-Funding of SEEK

This chapter examines the circumstances surrounding SEEK funding for FY 2002 and FY 2003. In FY 2002, SEEK was originally over-funded, but the first round of budget reductions caused it to fall short of full funding once final calculations were made. In the current fiscal year (FY 2003), preliminary estimates indicate that the Governor's Spending Plan does not fully fund SEEK.

In order to provide specific dollar amounts for SEEK in the biennial budget, the Kentucky Department of Education (KDE), and the Governor's Office of Policy and Management (GOPM), and the Revenue Cabinet project figures for the district-level input variables for each of the upcoming two years of the biennium. These projections, along with the statewide variables (guaranteed base per pupil and equalization level), determine total SEEK dollars appropriated. When the total dollars that the formula determines are more than what is available, the SEEK formula cannot be *fully funded.*

In addition to the calculations performed during the Biennial Budget process, three official SEEK calculations, or bulletins, are released at different times by KDE: *Forecast*

SEEK is released to aid the districts in formulating their draft budgets; *Tentative SEEK* is released to incorporate actual district-level input data except for the actual growth factor variables; and *Final SEEK* is released once all figures are final. When the process is complete, it may be determined that the biennial budget appropriation that was intended to fully fund SEEK may be more or less than the amount required to fully fund the Final SEEK calculation. If Final SEEK is over-funded, the extra amount may be directed to other areas as specified by the General Assembly. If Final SEEK is under-funded, KDE must reduce each district's allocation by the same percentage, so that total State SEEK dollars equal the amount appropriated.

The following items appear to have played a significant role in what has occurred in FY 2002 and FY 2003:

- Since the inception of SEEK, projecting assessments and student counts, both of which have a great impact on state SEEK dollars, has been difficult.
- In the recent past, the projection errors have often led to over-funding of SEEK.
- Revenue shortfalls have increased pressures to remove any over-funding of the SEEK formula.
- The Agency Requested Budget of November 2001 appears to have under-projected transportation costs for FY 2003 relative to estimates for FY 2002 that were available at the time.
- A $50 million budget reduction in early FY 2002 was partially restored in December 2001 based on available cost estimates. The final calculation in February 2002, however, revealed SEEK to be under-funded by $12.9 million because of increased student counts.
- Tentative SEEK often underestimates what Final SEEK will be, in part because of districts' tendency to estimate their SEEK revenue conservatively. In FY 2002, a substantial increase in Growth Factor magnified this difference.
- A ten-year trend of declining student counts has reversed slightly, leading to recent under-projections.
- Executive Branch adjustments to KDE's FY 2003 budget projections for student counts and assessments contributed to the under-funding of SEEK in FY 2003.
- Updated information available from the FY 2002 Final SEEK calculation of February 2002 showed further increases in transportation costs and student counts but was not incorporated into the versions of the budgets considered by the General Assembly or the subsequent Governor's Spending Plan.

RECOMMENDATIONS

3.1 KDE should implement a risk-based approach to auditing school districts' reported attendance statistics. This approach should consider the risk of significant error in the per-pupil funding amount and should tailor the audit procedures accordingly. School districts with large attendance statistics should be audited more frequently than those with small attendance statistics.

3.2 All procedures designed to test the validity of reported attendance statistics should be performed on every attendance audit and at all schools in the district.

3.3 When the time of late arrival or early departure is not entered on the school's entry/exit log, the student should be counted absent for the full day.

3.4 When sampling a school's attendance records, the auditor should be required to use a random selection technique so that the error rate in the overall population can be estimated. When documenting the results of testing, the auditor should fully describe the work performed to support significant judgments and conclusions in the report. The documentation should include the scope of work, the methodology followed, and any sampling criteria used. The auditor should sign and date all audit documentation and include the source of the documentation, such as a school's summary reports from its computer system.

3.5 KDE should adjust a district's ADA for significant errors in reported statistics noted in the initial audit of school records. In addition, KDE should require a follow-up on-site review of the school's records to determine whether the corrective action plan was implemented in the year of audit. When follow-up testing indicates that a school continues to have significant errors in reported statistics, ADA should be further adjusted.

3.6 KDE auditors should be required to review charges to transportation accounts and reimbursements received. Consistent with recommendation 3.1, the audit approach should consider the risk of significant error in the per-pupil transportation funding amount and should tailor audit procedures accordingly. The approach should identify districts with high transportation costs that can have a significant effect on the statewide SEEK transportation component.

3.7 KDE should assign a knowledgeable employee not involved in the SEEK calculations to review the work of employees who perform the calculations. Such a review could help identify and correct errors before the tentative and final calculations are released to school districts.

3.8 KDE should give top priority to developing an automated and integrated system that provides for on-line real-time updating of files. Staff should be able to produce ad hoc reports on demand, providing a current global view of SEEK that would help identify errors. Staff who perform calculations should receive training to ensure they understand how the overall system works.

CHAPTER 1

AN OVERVIEW OF THE STUDY AND THE SEEK FORMULA

Introduction

The SEEK formula was designed to guarantee a minimum level of state and local education funding per student regardless of the wealth of the student's school district.

The Kentucky Education Reform Act (KERA) of 1990 created a new school finance formula called Support Education Excellence in Kentucky (SEEK) to provide financial resources to Kentucky's public school districts. The declaration of legislative intent in KRS 157.310 states that

> It is the intention of the General Assembly to assure substantially equal public school educational opportunities for those in attendance in the public schools of the Commonwealth, but not to limit nor prevent any school district from providing educational services and facilities beyond those assured by the state supported program.

The SEEK funding formula establishes a basic level of per-pupil funding, which requires a minimum level of local tax effort, increases support to school districts, and distributes state funds on a more equitable basis than the previous funding model.

SEEK is complicated and the terminology used in this report may be difficult to understand at times, so it is important to understand the basics of what SEEK is supposed to accomplish:

- Provide a minimum level of education funding for each student regardless of the wealth of the school district;
- Require at least a minimum level of effort to provide funding from each school district;
- Make spending per pupil more equal across Kentucky by basing the amount of state aid per pupil on the wealth of the local school district;

- Within the constraint of keeping funding per pupil relatively equal, encourage local school districts to increase education funding; and
- Not punish school districts that were spending more per pupil before SEEK was implemented.

Description of This Study

Study Background

In a memorandum dated March 5, 2002, to Senator Katie Stine, Chair of the Program Review and Investigations Committee, Senator Richie Sanders, Chair of the Senate Appropriations and Revenue Committee, raised questions about the implementation of SEEK. The memorandum stated that SEEK funding to local school districts would be reduced by approximately $12.9 million before the end of fiscal year (FY) 2002. The reduction was estimated at an additional $27.5 million for FY 2003 and $41.3 million for FY 2004.

The Program Review and Investigations Committee voted to approve a study of SEEK in March 2002.

The Program Review and Investigations Committee voted on March 7, 2002, to have staff evaluate the components, data collection and data analysis, data validity, and calculations of the SEEK formula, and to elicit and report on the opinions of school superintendents about aspects of the SEEK formula. The Committee approved a study proposal on June 6, 2002.

On March 22, 2002, Program Review staff sent members a memorandum on issues of direct relevance to the ongoing legislative budget process: recent growth in transportation costs, the transportation growth factor, and the growth factor for average daily attendance. A copy of the memorandum is included as **Appendix A**.

How This Study Was Conducted

In conducting the study, Program Review staff reviewed and analyzed data and documentation used by the Kentucky Department of Education (KDE) to calculate SEEK funding. Interviews were conducted of staff of the KDE, the Kentucky Revenue Cabinet, the Governor's Office of Policy and Management, the Auditor of Public Accounts, the Office of Education Accountability, and the Interim Joint Committee on Education. In addition, staff surveyed school superintendents.

Organization of the Report

The structure of the report is as follows:

- The remainder of Chapter 1 summarizes major conclusions from the report and describes the SEEK funding formula.
- Chapter 2 provides context by showing how major components of SEEK such as students per districts and tax assessments have changed over time, and how the values of some of these components vary across districts.
- Chapter 3 describes and evaluates the validity of data used in the SEEK funding formula. The chapter also describes and evaluates the process by which SEEK is calculated. Recommendations are made for improving the accuracy of the calculation process and the validity of the data used.
- Chapter 4 describes and evaluates the budgeting process through which funding is provided for the SEEK program, with details on fiscal years 2002 and 2003.
- Chapter 5 summarizes the results of a survey of school district officials. Throughout the report, comments that were volunteered by superintendents or finance officers are included when relevant.

The Kentucky Department of Education's written response to this report is included as **Appendix G**.

Major Conclusions

The study's major conclusions are as follows:

1. KDE provides insufficient verification that school districts' reported attendance statistics are accurate. Errors in attendance statistics can have a multi-million dollar effect on the General Fund budget.

2. KDE provides insufficient verification that school districts' reported transportation costs are accurate.

3. The process used to produce the SEEK calculations should be automated and integrated.

4. Assessments and student counts, which have a great impact on the SEEK calculation, have been difficult to project. Because the SEEK formula distributes over 25 percent of the General Fund,

small projection errors can have large financial impacts. A ten-year trend of declining student counts has reversed slightly and has led to recent under-projections.

5. The $12.9 million under-funding of SEEK in FY 2002 resulted from a $50 million Budget Reduction that was partially restored based on estimates that fell short of final calculations.

6. Preliminary estimates of FY 2003 indicate under-funding of SEEK due to adjustments to student counts and assessments made in the Governor's Recommendation, and a failure to incorporate increased transportation costs into projections.

7. Based on a survey described in Chapter 5, three-quarters of superintendents report that their current funding is better than it was before SEEK, but only about 40 percent feel that their districts' funding is about the same as other districts. Majorities of superintendents in the districts with relatively high property wealth report that school funding for their districts is worse than before SEEK and worse than in other districts now.

The SEEK Formula

The goals of the SEEK formula are easy to understand, but application of the formula is complex.

As discussed earlier, the basic concepts behind Support Education Excellence in Kentucky (SEEK) are relatively simple. The state determines a guaranteed minimum amount of spending per pupil. Adjustments are then made to account for districts having different costs for transporting students and for serving students who may have additional educational needs. Local school districts are required to provide funding as well, but any required local effort should reflect the local taxpayers' ability to pay.

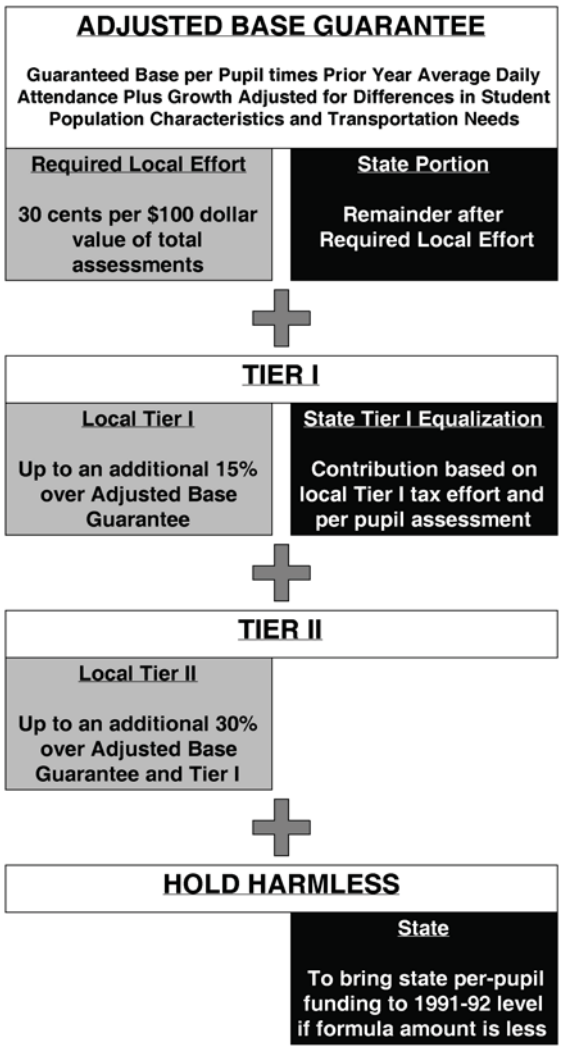
To encourage districts to increase spending per pupil, the state provides some matching of additional local funding up to a threshold *(Tier I)*. To allow districts to spend more on schools if they wish, districts are allowed to raise additional funds, but to prevent vastly unequal amounts of spending per pupil, these amounts are not matched by the state, and there is a cap on the amount of additional funds *(Tier II)*. The legal basis for the components of the SEEK formula is reviewed in **Appendix B**, which summarizes relevant Kentucky statutes.

The concepts may be easy to understand but translating these concepts into reality is complicated. This chapter provides a basic description of how the SEEK formula works. It should first be noted that although a district's SEEK funding is based on particular variables, such as certain characteristics of its students and costs of

providing transportation, SEEK funds do not have to be allocated by the district on that basis. For example, when a calculation is made to determine a district's SEEK funding, transportation costs might make up 10 percent of the figure. This does not mean that when the local district receives its state SEEK allocation that 10 percent has to be spent on transportation.

Figure 1.A provides a general outline of the major components of the SEEK formula, distinguishing between local and state revenues. **Table 1.1** provides a more detailed description of what goes into the calculation of the state portion of SEEK funding.

Figure 1.A
Major Components of the SEEK Formula
Local (gray) and State (black)



Source: Compiled by Program Review staff based on interviews with KDE and LRC Budget Review staff.

Table 1.1
Component Structure of State SEEK Funding

	Conceptual Variable	Common Terminology	Basic Calculation
TOTAL ADJUSTED BASE SEEK	Prior Year Number of Students	End-of-Year ADA	Prior Year Average Daily Attendance
	Adjustment for Districts Showing Current Year Growth	Growth Factor	Current Year Sep-Oct ADA percent change from prior year Sep-Oct ADA multiplied by End-of-Year ADA (only positive values used)
	Special Populations Needing Additional Resources	Add-on Populations	At-Risk (0.15 added weight); Exceptional Severe (2.35 added weight); Exceptional Moderate (1.17 added weight); Exceptional Speech (0.24 added weight); Home & Hospital (Guaranteed Base - 100)
	Transportation costs based on density of transported students per square mile	Calculated Transportation	A regression line is fit to all district values of Eligible Transportation costs per Transported Student and Transported Students per Square Mile. Each district then receives the amount where their transported students per square mile meets the regression line.
	A minimum amount of resources per pupil guaranteed	Guaranteed Base	This figure is specified in the Biennial Budget and is determined by the **projected** values of all other variables constrained by the amount available for appropriation
	LESS		
REQUIRED LOCAL EFFORT	Local Area's Ability to Generate Revenues	Assessments	Current Year Property Assessments
	Required Local Effort	Thirty Cent Effort	0.30 times Current Year Assessment divided by 100
	PLUS		
TIER I EQUALIZATION	A minimum amount of Assessment per Pupil to which the State would like to raise each district's tax base	Equalization Level	This figure is specified in the Biennial Budget and is 150% of the **projected** average statewide assessment per pupil (averaged for the two years of the biennium)
	Actual Assessment per Pupil	Assessment per Pupil	Assessments divided by End-of-Year ADA adjusted for Growth (**Funded ADA**)
	A maximum amount of local revenues that will be equalized to the higher tax base	Allowable Tier I Income	15% of Total Calculated Base SEEK
	The tax rate that represents the maximum that will be equalized	Max Tier I Rate	(Allowable Tier I Income divided by Funded ADA) divided by the higher of Assessment per Pupil or Equalization Level
	Actual Local Effort	Levied Equivalent Rate	Local Tax Revenues (including permissive taxes) divided by Assessments
	The tax rate that is applied to the Equalization Level	Tier I Rate	The lesser of Levied Equivalent Rate minus 0.35 or the Max Tier I Rate
	State Dollars required to bring resources to the higher tax base	Tier I Equalization	The Tier I rate times (higher of Equalization Level or Assessment per Pupil) times Funded ADA times (1-(Assessments per Pupil divided by Equalization Level)
	PLUS		
HOLD HARMLESS	Make sure the district does not get less state SEEK funding per pupil than it did in 1991-1992	Hold Harmless	If calculated state SEEK funding per pupil is less than the 1991-1992 amount, take the difference between the two amounts and multiply by end-of-year ADA adjusted for growth

Source: Compiled by Program Review staff based on interviews with KDE and LRC Budget Review staff.

Adjusted Base Guarantee

The guaranteed base per pupil is specified in the budget and is determined by projected SEEK formula inputs constrained by General Funds available for appropriation.

Guaranteed Base. The *guaranteed base* is the minimum spending per pupil that districts will be allocated. This amount is specified in Kentucky's Biennial Budget and depends on projections of variables in the SEEK formula, such as local property tax assessments, number of students, growth in the number of students, and transportation costs. When these projected district-level values are keyed into the formula, the guaranteed base is adjusted in order to derive a statewide total figure that is equal to the amount available to be appropriated. In fiscal year 2002, the guaranteed base was $3,066 per pupil.

Each district's guaranteed base funding is determined by its prior-year adjusted average daily attendance (ADA) plus any growth. The growth factor is calculated by multiplying the prior year ADA by the percent growth in the first two months of the current year compared to the same period of the prior year.

Funds are distributed to local school districts through the SEEK formula on a per-pupil basis. In SEEK, the number of pupils in a district is defined as its average daily attendance from the previous school year plus any growth in the number of students in the first part of the current school year.

For illustration, assume that a district's prior year average daily attendance (ADA) was 2,000 students. To determine the number of additional students in the district this year, a growth percentage is calculated. A district's growth factor is the percentage change from last year's average daily attendance (ADA) over the first two months to the same period this year. If the two-month ADA for this district last year was 1,975 and this year it is 2,025, the percentage change is 2.53%. The result of multiplying this percentage by the prior year ADA (2,000) is 50.6 students. This number is added to the prior year ADA (2,000) to produce the funded ADA for this district for this year: 2,050.6.

Districts with declining populations are not penalized and receive funding based on prior year attendance.

Districts do not have their number of funded pupils decreased if their student population decreases during the current school year. In practice, this means that if the two-month growth factor for a district is negative, the percentage decrease is not subtracted from its prior year ADA. For example, if a district's average daily attendance last year was 2,000 but its two-month attendance this year was five percent less than in the corresponding two months last year, its funded students this year would still be 2,000.

TWO COMMONLY REFERENCED STUDENT COUNT MEASURES

Prior Year ADA = End-of-Year Adjusted Average Daily Attendance

Funded ADA = Prior Year ADA Adjusted for Growth in First Two Months of This Year

Adjustments to each district's base SEEK are made to provide additional funding for populations presumed to need additional resources.

Add-on Populations. The SEEK formula provides additional funding for special populations that are presumed to need additional resources. The formula does this by assigning a weight to each type of population and multiplying the weight by the guaranteed base amount of funding per pupil. In effect, this means that each special population student is counted more than once, as part of the average daily attendance and again by a weighted value. The populations and weights are as follows:

- *At-risk students* are those from low-income households, defined as students who qualify for the federal free lunch program. Last year's eight-month average of free lunch qualifiers is multiplied by 15%.

- *Exceptional children* are those with disabilities; weights are assigned based on level of disability. The number of students within each category is based on a count done on December 1 of the prior year.

    - Low incident disabilities, weighted 2.35 (functional mental disability, hearing impairment, emotional-behavioral disability, visual impairment, multiple disabilities, deaf-blind, autism, or traumatic brain injury).

    - Moderate incident disabilities, weighted 1.17 (mild mental disability, orthopedic impairment or physically disabled, other health impaired, specific learning disabilities, or developmental delay).

    - High incident disability, weighted 0.24 (communications disorders of speech or language).

For illustration, assume a guaranteed base of $3,000. The amount of funding for each student in the above categories would be as follows:

- At-risk: $3,000 plus $450 ($3,000 times .15) equals $3,450.
- Low incident disability: $3,000 plus $7,050 ($3,000 times 2.35) equals $10,050.
- Moderate incident disability: $3,000 plus $3,510 ($3,000 times 1.17) equals $6,510.
- High incident disability: $3,000 plus $720 ($3,000 times .24) equals $3,720.

The base amount for students who are being taught at home or in a hospital due to a medical condition is adjusted by subtracting the capital outlay allotment ($100). The reasoning is that these students are not using the facilities for which the capital outlay is intended to provide. With a $3,000 guaranteed base for each home and hospital student, SEEK would allocate $2,900 ($3,000 minus $100) beyond the $3,000 allocated to the student through the average daily attendance calculation.

Transportation funding is added to each district based on the district's density of transported students per square mile.

Transportation. SEEK funding for transportation costs is based on the number of transported students multiplied by the average cost per pupil per day of transporting pupils in districts having a similar density of transported students per square mile of area served. Details are below but a simplified example may clarify what this means.

Districts with the same density of transported students receive the same amount per pupil per day, regardless of actual costs.

Assume that county districts A, B, and C each transport 1000 students and that each district has the same density of 50 transported students per square mile of area served. It costs District A $3.50 per day to transport each student. Costs per day are $2.50 for District B and $1.50 for District C. Based on a graph plotting cost per pupil per day by students per square mile, the typical district with 50 transported students per square mile has costs of $2.50 per day per student. Under SEEK, Districts A, B, and C would be funded for $2.50 per eligible transported student. This means that all of District B's reported costs—$2.50—are funded through SEEK. Because District A's costs are above that of a typical district of similar density, only $2.50 of its daily reported cost of $3.50 may be funded through SEEK. District C also gets a SEEK allocation of $2.50 per day, though its reported costs per day are a dollar less.

The transportation calculation is designed to encourage efficiency in transportation.

The logic behind this method of distributing SEEK money is to provide an incentive for each district to provide transportation more efficiently. The more efficient the district, the more of its transportation costs may be funded through SEEK. The district might receive more SEEK transportation funding than it spends.

Only transported students living more than one mile from school are counted. Disabled students with special transportation needs receive a weight of five.

For the purposes of SEEK funding, the number of transported students in a district is the number of transported students who live one mile or more from school. As with the number of total students, this number is based on the average daily attendance figure for transported students for the previous year, plus any growth as measured by the average daily attendance in the first two months of this school year. Qualified disabled students with special transportation needs receive a weight of five.

The smoothed graph plots cost per pupil per day by the district's geographic density of transported students. Independent and county school districts are graphed separately. The density used is the average daily attendance of all transported pupils in the district, regardless of whether they live more than one mile from school, divided by the number of square miles served by the school district (called the "gross density").

The number of square miles for a county district is calculated by subtracting the area of any independent district within the county and the area of the district more than one mile from a transportation route. If a county district of 250 square miles contained an independent district of 20 square miles, and 30 square miles more than one mile from a transportation route (forest land, for example), then the county school district's area served would be 200 square miles (250 minus 20 minus 30).

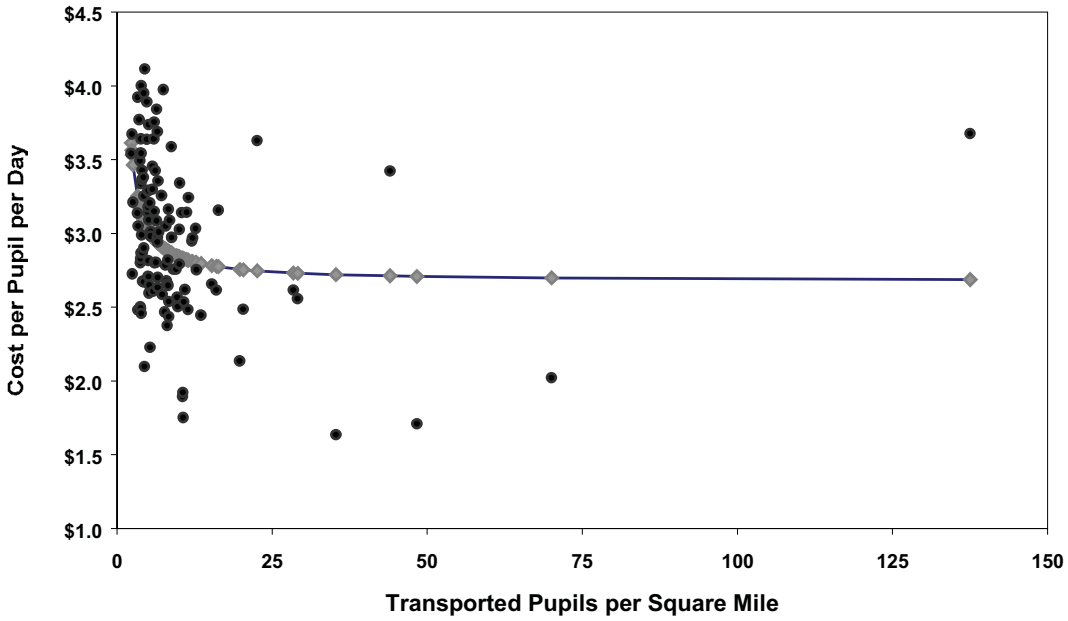
For independent districts, the area served is the total area of the district minus the area more than one mile from a transportation route.

If the district transported 2,000 students—1,800 who live more than a mile from school and 200 who live within one mile—the district's gross transported pupil density would be 10 students per square mile (2,000 students divided by 200 square miles). This density is what would be included in the graph of all county districts' densities. Note, however, that the SEEK formula provides funding only for students living more than one mile from school, except for disabled students, so this district would be funded for the transportation of 1,800 students.

The statewide aggregate of SEEK calculated transportation is generally just over 90% of actual district costs.

Figure **1.B** shows the plotted line and positions on the graph of county districts for 2002. As stated, districts receive per-pupil-per-day funding based on their transported pupils per square mile. Counties that are plotted below the line will be reimbursed at the amount on the line, so they will receive more funding than they actually spend. Counties above the line will receive less funding than they spend. The statewide aggregate of SEEK calculated transportation is generally slightly over 90 percent of actual district costs.

Figure 1.B
Pupil Density and Transportation Costs
County Districts, 2002



Total Calculated Base SEEK is the minimum amount funded for a district.

To this point, the elements of the Total Calculated Base SEEK have been described, as shown in the "Total Adjusted Base SEEK" box in **Table 1.1**. This is the minimum amount of money funded through the SEEK formula for a school district. The next step is to determine how much of that funding will come from state government and how much from the local school district.

Required Local Effort

Districts with greater property wealth bear a greater portion of Adjusted Base SEEK through the required local 30-cent effort.

The local share of base SEEK is the required 30-cent effort: 30 cents per $100 of current property assessments. Each district's local assessment includes real estate, equipment or inventory used in the operation of a business, and motor vehicles owned by residents and corporations.

The effect of this component is for districts with greater property wealth to bear a greater portion of Adjusted Base SEEK. While this is one of the simplest calculations of the SEEK formula, it has the greatest effect on per-pupil state funds received by the district. It is also one of the inputs to the SEEK formula that varies significantly from year to year.

Additional Local Effort

Each district has the option of exceeding the required minimum level of local effort. These additional revenues are divided into two tiers. The first, Tier I, cannot exceed 15 percent of Adjusted Base SEEK and is partially matched by the state to adjust for the district's per-pupil assessment relative to the statewide average. The second, Tier II, cannot exceed 30 percent of Adjusted Base SEEK plus Tier I and is not matched by the state.

Tier I was implemented to provide an incentive for poorer districts to increase their tax effort.

Tier I. Tier I represents the portion of local revenues that exceed the required local effort of 30 cents and the local five-cent taxation for facility construction, but are no greater than 15 percent of the district's Adjusted Base SEEK. The state will match these local revenues up to 150% of the projected average statewide assessment per pupil, a figure specified in the Biennial Budget. Holding all else constant, districts with lower per-pupil assessments receive higher State Tier I equalization. Tier I was implemented to provide an incentive for poorer districts to increase their tax effort. The incentive is referred to as Tier I equalization.

A district may receive full, partial, or no Tier I equalization.

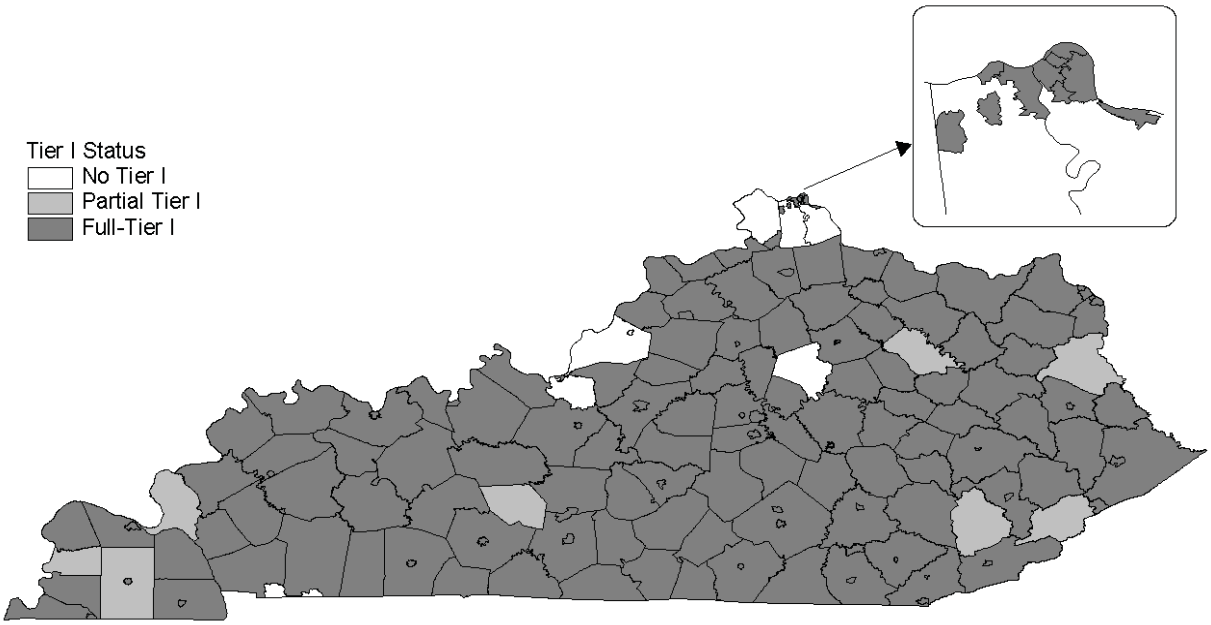
A district can fall into one of three categories related to Tier I:

- no Tier I equalization due to assessment per pupil being higher than 150% of statewide average (six districts in 2002);
- partial-Tier I equalization because the levied equivalent rate minus 35 cents is less than the maximum Tier I rate. In other words, a district could receive additional state dollars if its tax rate was higher (eight districts in 2002); and

- full-Tier I equalization because the higher levied equivalent rate has moved the district into Tier II (162 districts in 2002).

Figure 1.C displays the Tier I status of each of Kentucky's 176 school districts.

Figure 1.C
Tier I Status
Based on 2002 SEEK Current Year Levied Equivalent Rate



Source: LRC staff compilation of KDE SEEK Bulletins.

The levied equivalent rate is tax revenues, including permissive taxes, divided by assessments.

Tier I equalization is based on local tax effort, not just local property taxes. A school district's tax effort is measured by the *levied equivalent rate*, which in simple terms is total tax revenues divided by assessments. One way to think of this rate is as an indicator of what the local property tax rate would be if it produced the same revenue. If a district's revenues came only from property taxes, its levied equivalent rate would be the same as its property tax rate. If the district received revenue from other tax sources, its levied equivalent rate would be higher than its property tax rate.

Permissive taxes provide the tax revenues beyond local property taxes that are included in the levied equivalent rate. Permissive taxes may include taxes on utility receipts, an occupational tax (income tax), and an excise tax on residents' state income tax liabili-

ties. The revenues provided through permissive taxes are included in the levied equivalent rate and are thus matched by the state if the district is in Tier I. The ratio at which the state equalizes Tier I funding, however, is based on property assessments.

Comments from the SEEK Survey of Superintendents: Permissive Taxes

"Unless they are being used to establish the $0.30 minimum equivalent tax rate, permissive taxes become a very disequalizing source of revenue since they are not otherwise included in the SEEK formula."

"Permissive taxes should be considered; it is not fair or equitable that some districts get much more in permissive taxes."

Any local revenues above Tier I are referred to as Tier II.

Tier II. Any local revenues above the Tier I amount are referred to as Tier II. These revenues receive no state equalization and therefore have no effect on state funding. They are, however, subject to a cap that is equal to 30 percent of fully funded Adjusted Base SEEK plus Tier I.

House Bill 44 (KRS 160.470) allows districts to levy rates in excess of the Tier II cap.

When the SEEK formula was implemented, one district (Anchorage) had a rate that would generate revenues in excess of the Tier II cap, so it was allowed to keep the rate. Five more districts have since exceeded the Tier II cap through the "House Bill 44 rate" used in the tax rate certification process. KRS 160.470 allows a district to levy a rate that is not subject to recall as long as it does not generate more than a four percent increase in revenues on current year assessments excluding new property.

The four percent increase rate may lead to reduced state and local SEEK dollars if reassessed property increases by more than four percent in one year.

Tax Rate Certification and Reassessments. The tax rate certification process is implemented by the same office within KDE that performs the SEEK calculation. The process is data-intensive and involves multiple calculations to provide each district with the different rates that they can levy on their current assessments. The process itself is beyond the scope of this study, but a basic presentation of the different rates calculated is offered here because it does affect the levied equivalent rate used in the SEEK calculation. It also can affect the ability of a district to cover reductions in state SEEK when reassessments on existing property increase by more than four percent.

In general terms, the three key tax rates are:

Compensating Rate (KRS 132.010): A rate that when applied to the current year's assessments excluding new property produces revenue that is approximately equal to that produced in the preceding year. Any rate up to this rate may be levied without hearing and is not subject to recall.

4% Increase Tax Rate (KRS 160.470): The tax rate that when applied to the current year's assessments excluding new property produces four percent more revenue than the preceding year. Rates over the compensating rate and up to this rate may be levied with a hearing and are not subject to recall. Rates cannot exceed the Subsection 1 rate, which is the maximum rate from the prior year.

Tier I Tax Rate (KRS 157.440): The equivalent tax rate (total taxes divided by assessments) that will yield an amount that is 15 percent greater than the district's fully funded adjusted base SEEK. Any rate up to this amount may be levied without hearing or recall (supercedes KRS 160.470).

Three important points regarding these rates are:

- Districts were provided the Tier I tax rate option to encourage increased local effort through the state Tier I equalization.
- The four percent increase rate has moved some districts beyond the Tier II cap.
- Most districts are now levying above the Tier I tax rate and are therefore subject to the four percent increase rate, which may lead to reduced state and local SEEK dollars if districts' reassessments increase by more than four percent.

The amount of increase in reassessments may be affected by the assessment schedule chosen by the PVA.

The possibility of reassessments increasing by more than four percent in any given year is affected by the assessment schedule of the Property Valuation Administrator (PVA). Each PVA is required by law to reassess all property in the district at least once every four years. The PVAs' plans are documented in a Four-Year Assessment Plan submitted to the Revenue Cabinet. A Revenue Cabinet official indicated that these plans generally fall into one of three categories:

- Assessments are spread over four years by dividing them geographically;

- Assessments are spread over four years by dividing them up by type of property (e.g., commercial, residential); or

- All property is reassessed in one of the four years (a small number of districts).

The few districts that reassess all property in one year may be more likely to have more than a four percent increase in reassessments.

Hold Harmless

The hold harmless provision guarantees that a district will not receive less state funding per pupil than before SEEK was implemented.

At a minimum, school districts must receive the same per pupil state funding as in 1991-1992. If a district's calculated state SEEK funding per pupil is less than this amount, then under the hold harmless provision the district would receive the 1991-1992 amount. Since the hold harmless figure is per student, a qualifying district could receive less total state SEEK funding if it had fewer students than in 1991-1992.

Exceptions to the Formula

The Kentucky Education Reform Act established the SEEK formula as a means to "assure substantially equal public school educational opportunities" for public school students in Kentucky. The SEEK funding formula established a basic level of per-pupil funding, required a certain level of local tax effort, increased support to school districts, and distributed state funds on a more equitable basis. This chapter has reviewed the basics of how this is accomplished by working through the major components of the SEEK formula such as the state guaranteed base and equalization level, adjustments for students with special needs, and local tax effort.

In some years, there have been adjustments to the funding provided through SEEK.

It should be noted that this is how funding of local school districts works ideally. In SEEK's brief history, there have been many adjustments depending on the circumstances at the time. These adjustments and revisions to the SEEK formula are summarized in **Appendix C**. Many changes have occurred because the amount appropriated by the General Assembly was more than was needed to fully fund the formula. For example, in fiscal year 1996 extra money was redistributed through the guaranteed base, and language in the Budget based state funding on districts' prior-year property tax assessments, which had the effect of increasing the state share of SEEK funding.

CHAPTER 2

THE COMPONENTS OF SEEK: DESCRIPTION AND TRENDS

This chapter describes six components of the SEEK formula: the state guaranteed base and equalization level; average daily attendance; exceptional and at-risk students; transportation costs; local taxes; and the hold harmless provision.

The previous chapter went into some detail about the structure of the SEEK formula because it is difficult to understand what the formula produces without knowing what goes into it. That information is necessary but not sufficient for understanding SEEK, however. Understanding the effects of the SEEK formula also requires knowing something about the context of its different parts. For example, knowing that average daily attendance (ADA) is a measure of how many students are in a district tells one nothing about how the number has changed over time or varies across districts. The purpose of this chapter is to provide some context for components of the SEEK formula. To make the information easier for the reader to follow, tables and figures are used to present information whenever feasible.

This chapter begins with a brief overview of Kentucky's 176 school districts and concludes with a brief summary of the regional distribution of education funding in Kentucky, but the bulk of the chapter covers six components of SEEK:

- state guaranteed base and equalization level,
- funded average daily attendance,
- exceptional and at-risk students,
- transportation costs,
- local taxes, and
- the hold harmless provision.

This report is not a study of how SEEK affects equity of education funding in Kentucky; that topic would require its own report. Staff did explore how the components of the SEEK formula are related to equality—or inequality—of per pupil funding. **Appendix D** presents a framework for doing so and reviews how various parts of the SEEK formula have affected the distribution of funding in selected years.

Kentucky's School Districts

As noted above, one of the ways in which this chapter provides context for understanding the different parts of the SEEK formula is by focusing on the district level when feasible. There are about half a million public school students in Kentucky in 120 county and 56 independent districts.[1] The map in **Figure 2.A** identifies the boundaries of each district, with independent districts shaded in gray.

As part of this study, superintendents or finance officers from 130 districts completed surveys made up of questions about many aspects of the SEEK program. Many of the questions were closed-ended, meaning that the person completing the questionnaire had to choose from a list of possible responses. Almost every question, however, provided an opportunity for anyone who wished to do so to provide comments. When relevant to topics covered in this and other chapters, comments from those who responded to the survey are included in boxes.

Districts range in size from West Point Independent, which has 146 students, to Jefferson County, which has over 80,000 students—fifteen percent of the state total. As indicated in **Table 2.1**, the median number of students per district is around 2,000.[2] The typical county district, with a median of over 2,500 students, is much larger than the typical independent district, which has a median value of less than 900.

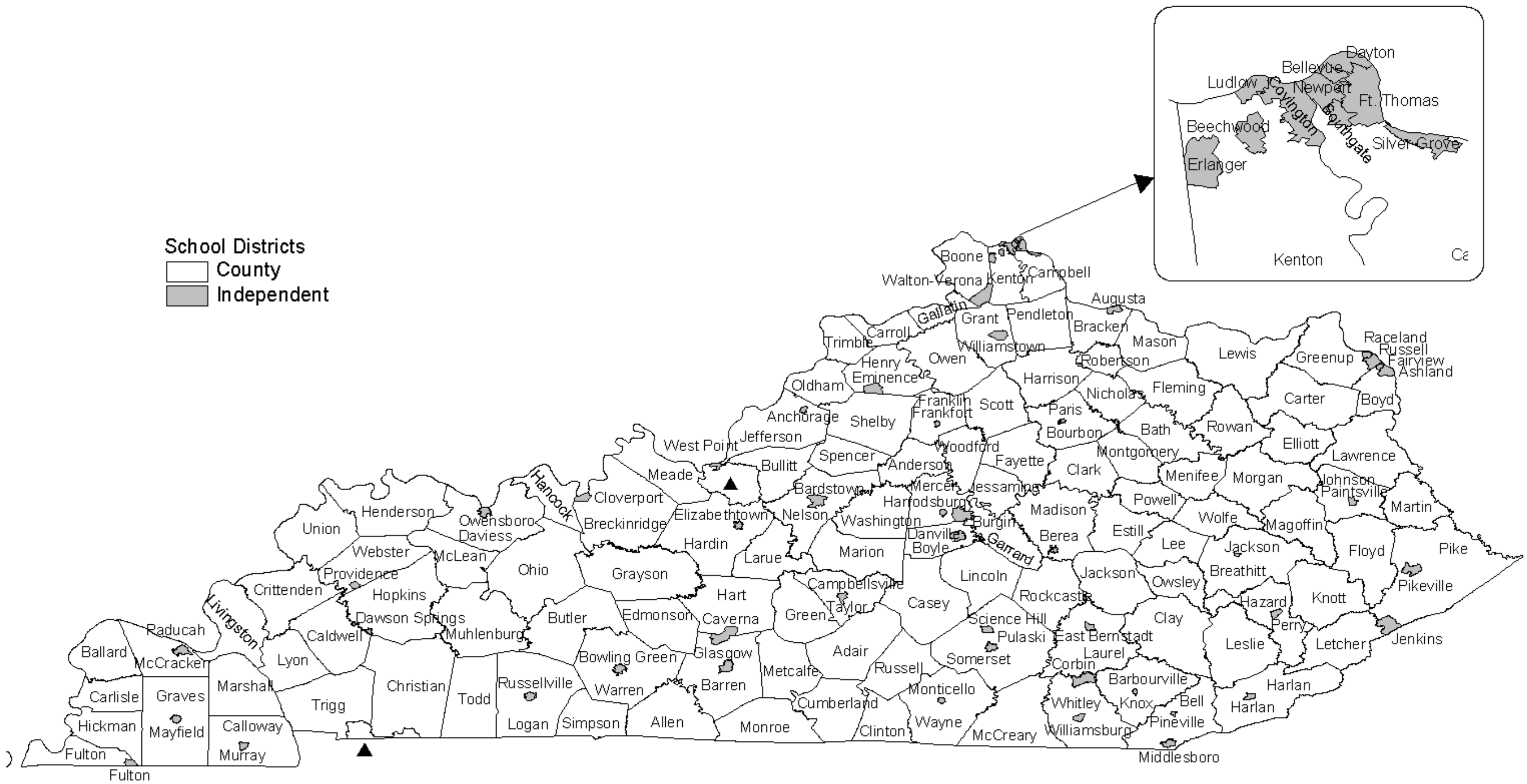
Table 2.1
Students by Type of District
(As Measured by 2001 Funded ADA)

	Counties (120)	Independents (56)	Statewide (176)
Total	503,648	65,418	569,067
Minimum	357	147	147
Maximum	80,159	4,325	80,159
Median	2,511	879	2,084

Source: LRC staff compilation of KDE SEEK Bulletins.

[1] Two federal installation districts (Fort Knox and Fort Campbell) are not included as part of this study.
[2] If the districts are put in order based on the number of students in each district, the median is the middle district.

Figure 2.A
Kentucky's 176 School Districts



▲ Denotes federal installation districts.

Source: Boundary files downloaded from U.S. Bureau of the Census web site.

State Guaranteed Base and Equalization Level

The guaranteed base has grown about 3% in almost every year since FY 1991. When adjusted for inflation, the guaranteed base is 0.4% lower than it was in FY 1991.

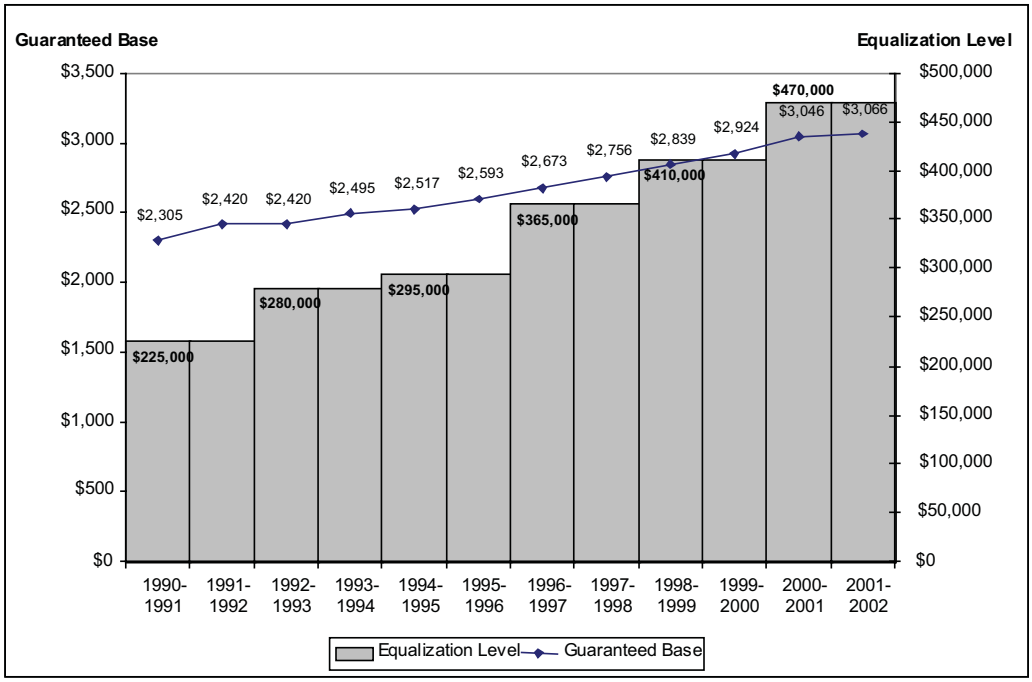
Figure 2.B shows the trend for the guaranteed base (indicated by the line) and equalization level since Fiscal Year (FY) 1991. In nominal dollars (not adjusted for inflation), the guaranteed base grew in every fiscal year except FY 1993, usually by around three percent, and was one-third higher in FY 2002 than in FY 1991. Adjusted for inflation using the U.S. Bureau of Economic Analysis' price deflator for State and Local Government Expenditures, the guaranteed base in FY 2002 was 0.4 percent *lower* than it was in FY 1991.[3]

The equalization level of 2000-2002 of $470,000 was more than twice as high as it was in 1990-1992.

On a percentage basis, the equalization level has grown more than the guaranteed base. The reason is that the equalization level is specified in the biennial budget based on a projection of 150 percent of the average statewide assessment per pupil, averaged over the two years of the biennium. Since the average statewide assessment per pupil has grown significantly during this period, the equalization level has increased. In nominal dollars, the 2000-2002 annual equalization level of $470,000 was more than twice as high as the 1990-1992 figure. Adjusted for inflation using the State and Local Government deflator, the increase was 56 percent.

[3] Using the U.S. Consumer Price Index for adjustment, the FY 2002 guaranteed base was 1.8 percent lower than in FY 1991.

Figure 2.B
Guaranteed Base and Equalization Level
FY 1991 through FY 2002



Source: LRC staff compilation of KDE SEEK Bulletins.

Funded ADA

Funded ADA consists of the prior-year average daily attendance plus a growth factor representing any additional students in the district this year.

In any given year, the number of students funded through the SEEK formula consists of the prior-year average daily attendance (ADA) plus a growth factor representing any additional students in the district this year. This amount is referred to as the *Funded ADA*. In FY 2002, if a district's prior year ADA was 5,000 and its growth factor was 100 students, then its Funded ADA for FY 2002 is 5,100 students.

The number of students at the state level has remained relatively stable, although there have been significant increases or decreases in many school districts.

The number of funded students in FY 2002 was just less than 570,000. Eleven years earlier, there were just over 570,000 students, for an overall decline of less than 4,000 students statewide, or 0.63 percent. The difference in the numbers of students between the years with the highest and lowest attendance is also relatively small. The number of pupils in the lowest year (569,067 students in FY 2001) is only 2.3 percent less than in the highest year (582,303 in FY 1994). In other words, the number of students funded through SEEK at the state level has been relatively stable.

This relative stability, however, masks significant changes at the district level. In half of Kentucky's school districts, attendance as

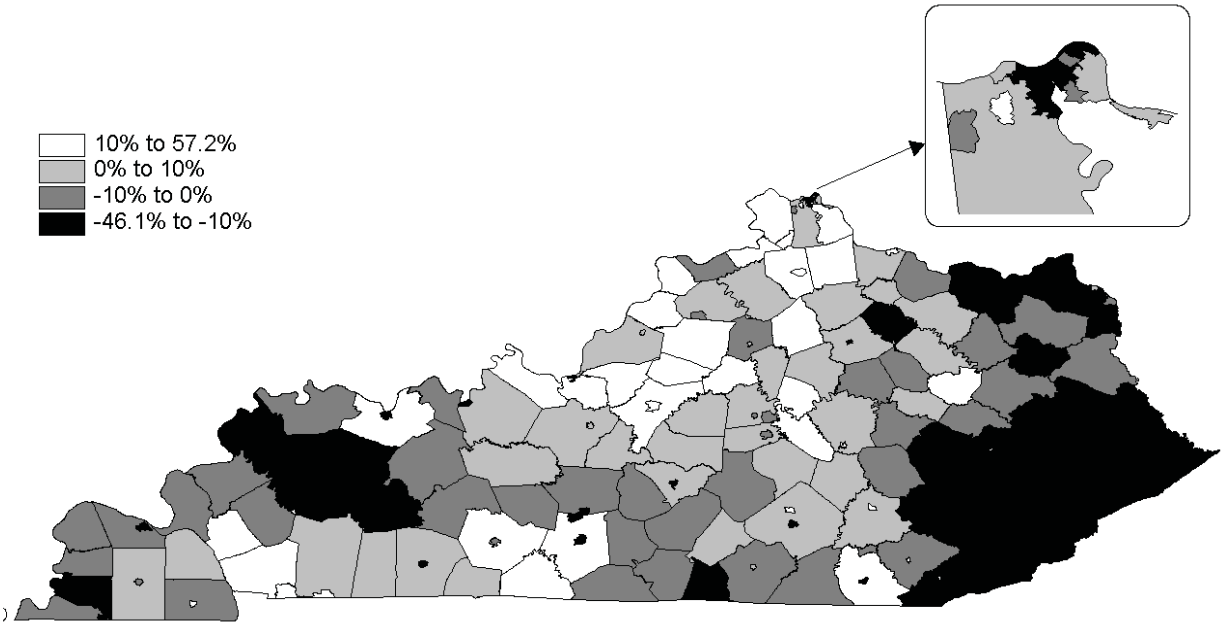
measured by Funded ADA changed by at least 10 percent from FY 1991 to FY 2002. In 37 districts, the number of students increased by at least 10 percent; total attendance in these districts was up by over 20,000 students. In 51 districts, the number of students declined by at least 10 percent for a total loss of over 26,000 students.

Most of the county systems districts with declining numbers of students are in the eastern and western parts of the state. The fastest growing county systems are in the northern and central parts of the state and the counties around Jefferson. The typical independent district lost students over the 1991 to 2002 period.

The geographic pattern to the distribution of declining and growing districts is shown in **Figure 2.C**. Most of the county districts with the largest percentage decrease in students over the 1991 to 2002 period are in eastern Kentucky or the Western Coal Field regions of the state. In eastern Kentucky, there was no county east of Menifee County in which the student population increased. Most of the fastest growing county systems are located in northern Kentucky, central Kentucky, and counties surrounding Jefferson County.

Some independent districts are growing, but the typical independent district lost students over this period of time. Independent districts make up less than a third of school districts but comprise 43 percent (24 districts) of the districts that declined in attendance by over 10 percent.

Figure 2.C
Percent Change in Funded ADA from 1991 to 2002



Source: KDE Final SEEK Bulletins for 1991 and 2002.

Comments from the Survey of Superintendents: Measuring the Number of Students in a District

[Membership means the number of students who are assigned to a school.]

"It needs to take in account membership as well as ADA. We have to have the teachers available whether the child attends or not. Unfortunately, we do not control the court system and cannot make the child attend."

"Basis for calculation should be on Average Daily Membership and not Average Daily Attendance. Fixed Charges and Salaries for teachers, custodians, bus drivers, principals, cooks, etc. are constant throughout the year whether a student is absent."

"Funding should be on Membership, not ADA."

"Using Average Daily Membership would be better than Average Daily Attendance because fixed charges and salaries are there regardless of whether a student is absent."

Add-on Populations

Although overall attendance has declined over the past decade, the numbers of students classified as at-risk or exceptional have grown.

Although districts vary in their growth or decline in attendance over the past decade or so and total attendance increased last year, the number of students statewide is down slightly since the early 1990s. During the same period, the number of students classified as at-risk or exceptional has increased.[4] Compared to FY 1992, the number of students reported as at-risk has increased 21 percent to over 250,000. The number of exceptional students has increased 18 percent to over 85,000. **Figure 2.D** shows the percentages of Kentucky students who were classified as at-risk and exceptional for the years FY 1992 to FY 2003.

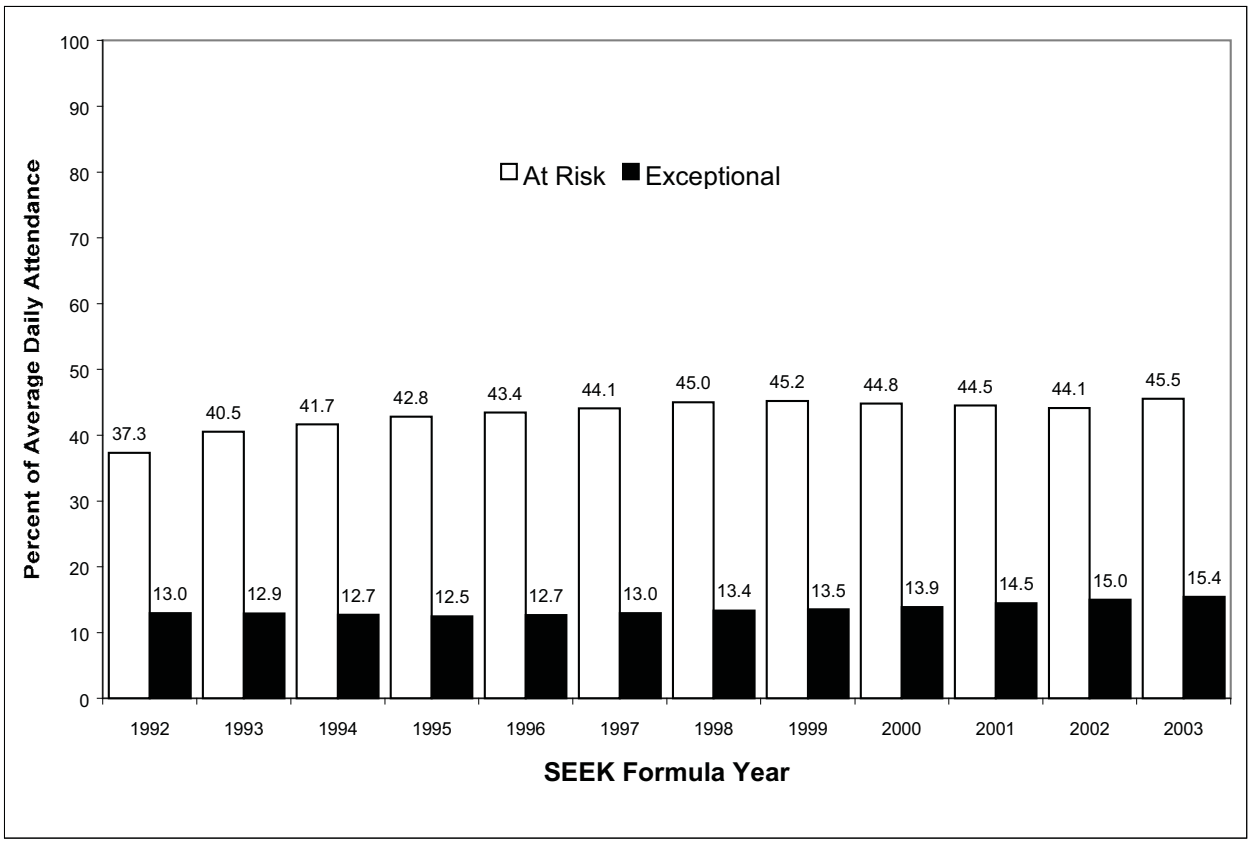
Students with communication disorders have declined 14%, students classified as moderately disabled have increased 29%, and students with the most severe disabilities have increased 74%.

The percentage of at-risk students increased steadily until FY 1998, but has remained relatively stable since then at around 45 percent. The pattern is the opposite for exceptional students. The percentages of students who were exceptional declined in many years in the early 1990s, but began an upward trend in FY 1998. By FY 2003, 15.4 percent of students were classified as exceptional, compared to 13 percent in FY 1992. The trends in exceptional children differ by level of exceptionality. The percentage of

[4] See chapter 4 for a discussion of the accuracy of the at-risk and exceptional student classifications.

students with a communication disorder declined 14 percent, to around 22,000. The number of moderately disabled students increased 29 percent, to over 51,000. The biggest change was for students with more severe disabilities, up 74 percent, to almost 14,000.

Figure 2.D
At-Risk and Exceptional Children Counts
as a Percent of Average Daily Attendance



Source: LRC staff compilation of KDE SEEK Bulletins.

It should be noted that although the percentages of students who are measured as at-risk or exceptional are high, 60 percent of the state's students are not in these categories as **Figure 2.D** would seem to indicate. First, the same student can be classified as at-risk and exceptional, meaning that the two numbers cannot simply be added together. Second, the number of at-risk students in a district is based on an eight-month average of the number of students who qualify for the federal free lunch program. The number of exceptional students is measured by their attendance on one day (December 1). These counts are not based on average daily attendance.

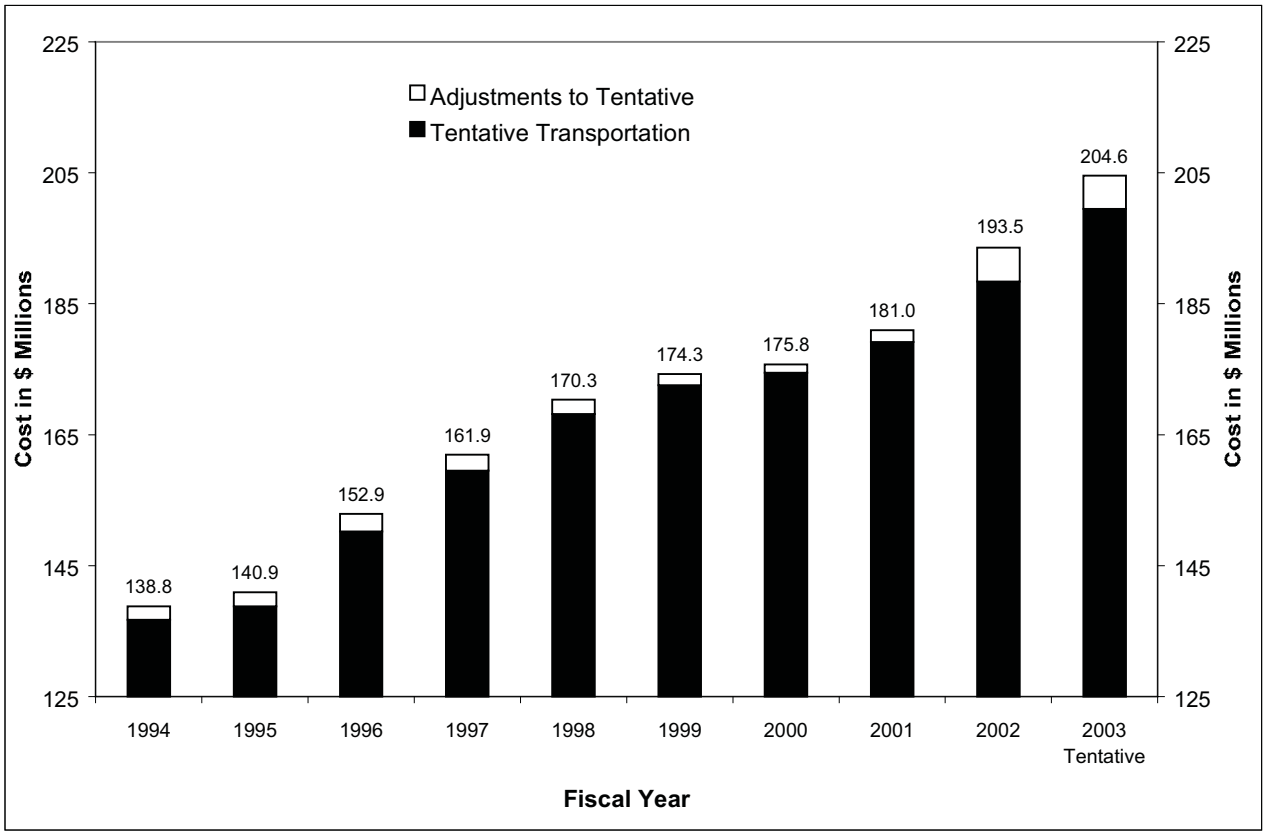
If a district has 500 at-risk students, it has 500 at-risk students whether all those students attend school every day, or only 400 do. This means that the counts of these students as shares of ADA will be greater if they attend school less than students who are not at-risk or exceptional.

Transportation

SEEK transportation costs are up 12% beyond the rate of inflation since FY 1994.

From FY 1998 to FY 2001, SEEK transportation costs were relatively stable, increasing approximately $10 million over four years, as shown in **Figure 2.E**. Before and after this period, transportation costs increased more rapidly. For example, in FY 2002 transportation costs increased as much as in the entire FY 1997 to 2001 period. Annual SEEK transportation costs are now over $200 million per year and have increased significantly. After making adjustments using the State and Local Government Consumption Expenditures price deflator, since FY 1994 transportation was up 12 percent beyond the rate of inflation as of FY 2001, the last year for which the deflator was available.

Figure 2.E
SEEK Calculated Transportation Costs
($ millions)



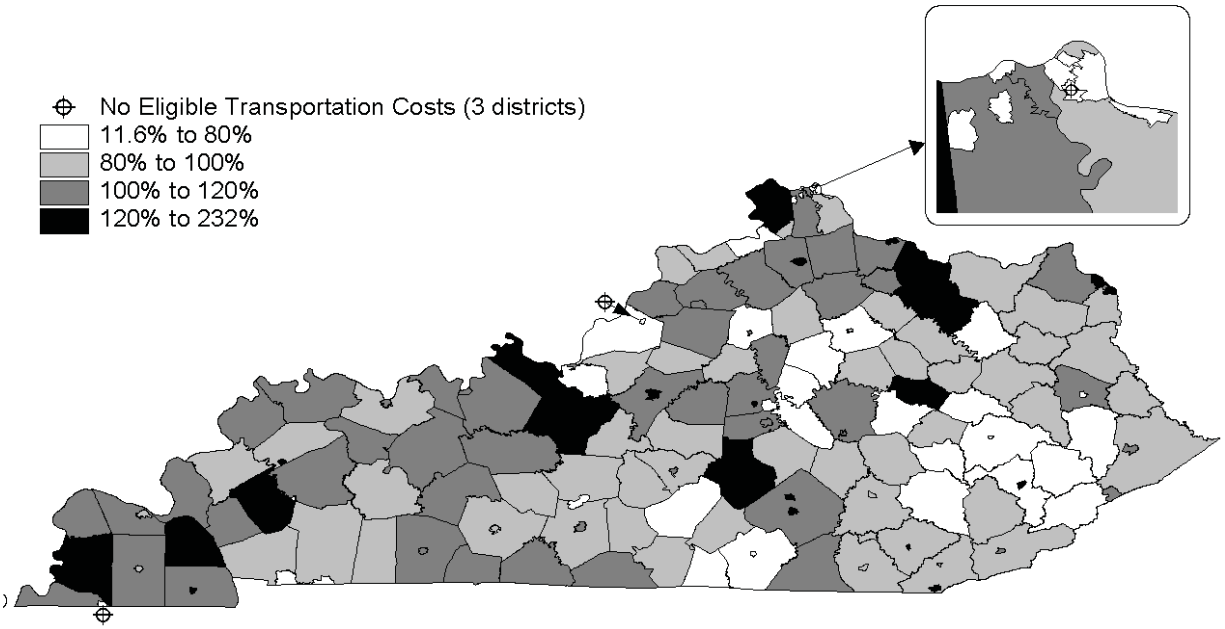
Source: LRC staff compilation of KDE SEEK Bulletins.

If controlling for the density of districts' transported students means that districts' costs will vary depending on their efficiency, then reimbursement rates should be distributed randomly across the state. They are not.

In **Figure 2.F**, districts are grouped according to the degree to which funding based on each year's tentative SEEK calculation provides reimbursement for SEEK-eligible transportation costs. As noted earlier, districts are not reimbursed for their total transportation costs but get a percentage based on how their costs per-pupil compare to costs of other districts of similar geographic density of transported students. Districts with reimbursement rates below 100 percent are "above the line" in the smoothed graph based on costs and pupil density (see Figure 1.B in Chapter 1). Those above 100 percent are "below the line."

Key information from the map is the distribution of districts from the different categories. If controlling for the density of districts' transported students means that districts will have different costs because some districts are more efficient than others, then each type of district should be spread randomly across the state. In one sense, this is the case. The districts that have the highest reimbursement rates are distributed across the state, except there is no such county-level district in eastern Kentucky.

Figure 2.F
Transportation Funds Reimbursed
as a Percent of Eligible Transportation Costs
(Tentative 2003)



Source: Compiled from transportation cost files provided by KDE.

It seems plausible that transportation costs are affected by factors other than density, such as terrain.

Several contiguous blocks of districts have similar reimbursement rates, however. For example, a group of counties in eastern Kentucky qualifies for relatively low reimbursement rates. Groups of counties in northern and western Kentucky are funded at rates greater than 100 percent of their transportation costs. While it is possible that districts' capacity to transport students efficiently varies by region, it seems plausible that costs are affected by factors other than density, such as the terrain of the district. Superintendents from several districts who responded to the survey echoed this reasoning.

Comments from the Survey of Superintendents: How Transportation Costs Are Reimbursed through SEEK

"No provision for accessibility of routes. 'Hollows' present problems."

"It is more expensive to run transportation in a rural, hilly district."

"No consideration for geographic size and road conditions."

Local Taxes

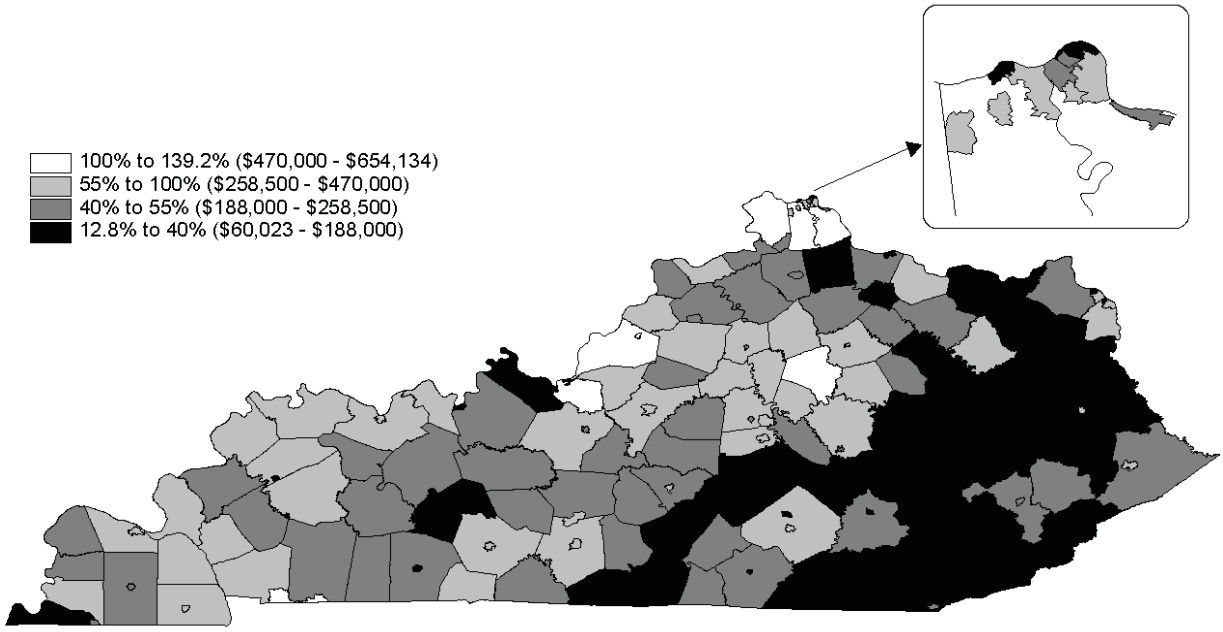
Assessments

A major rationale for KERA was the difference in property values among school districts.

A major rationale for the Kentucky Education Reform Act was the difference in property values among school districts. If two districts have the same property tax rates, the district with higher valued property will reap more money to fund schools than the poorer district. **Figure 2.G** shows the differences in per-pupil assessments in FY 2001.

To provide a basis for comparison, each district's assessment per pupil is shown as a percentage of the state SEEK equalization level for that year. The equalization level of $470,000 for 2001 was set by the General Assembly to equal 150 percent of the average statewide assessment per pupil. Six districts—Fayette County, Jefferson County, and four northern Kentucky counties—have an assessed value per pupil of at least $470,000, more than 150 percent of the state average. Districts at 55 percent to 100 percent of $470,000 are located primarily in central and western Kentucky. Most of the districts with the lowest assessments per pupil are located in eastern Kentucky.

Figure 2.G
2001 Assessment per Pupil
as Percent of Equalization Level ($470,000)



Source: KDE Final SEEK Bulletin for 2001.

As the value of a district's assessed property increases, its share of SEEK funding per pupil goes up and the state's share declines.

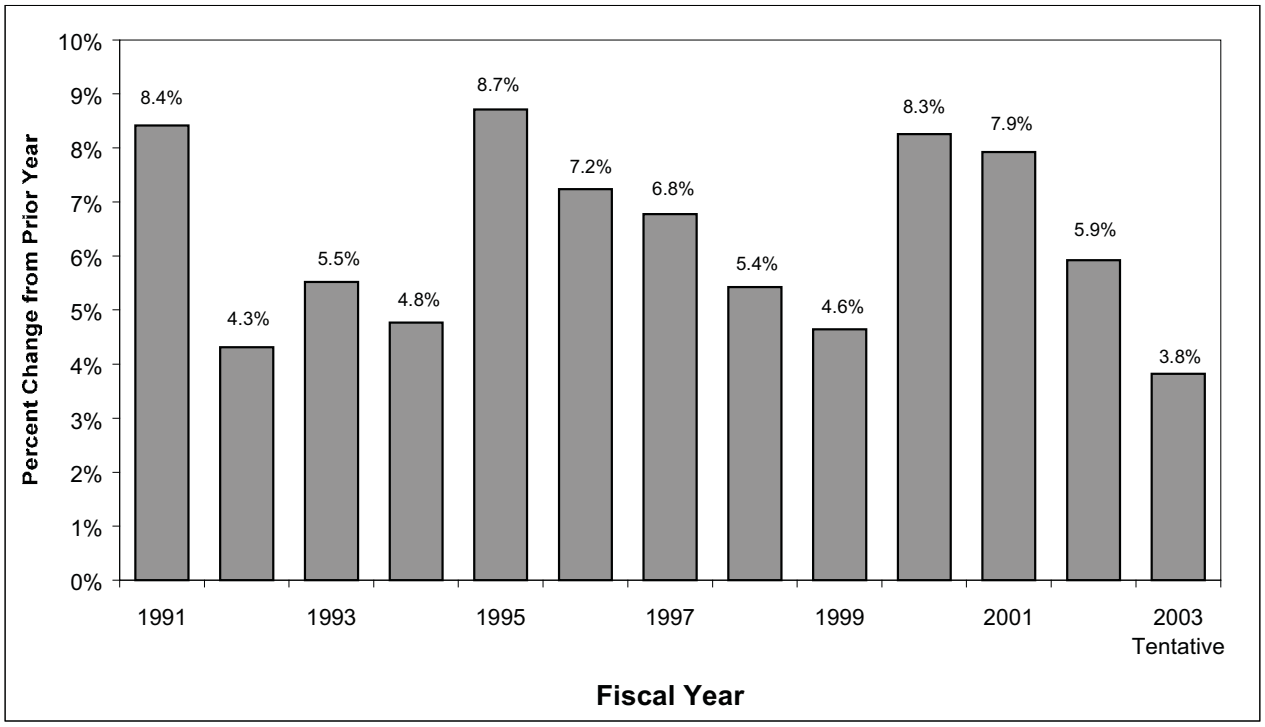
The requirement that local school districts contribute 30 cents per $100 of property assessment means that variability of assessments across time and across districts affects the share of SEEK funding provided by localities and the state. Comparing districts at a single point in time, those with higher assessments will contribute larger shares of SEEK funding per pupil than districts with lower assessed property value. As a district's assessment increases, its share of the SEEK funding per pupil increases and the state's share decreases. Using FY 2002 fully-funded final SEEK figures, for each one percent increase in total state assessments, the state SEEK contribution declines $6.6 million.

Statewide assessments have not declined in the FY 1991 to 2002 period. This means that the share of total funding provided by local districts has increased over time.

Figure 2.H shows the annual percentage change in total local assessments for the fiscal years 1991 to 2002. Two aspects of the trend stand out. First, statewide assessments did not decline in any year, growing by more than four percent each year. This means that all else equal, the share of SEEK funding provided by local school districts would have also increased over time. Second, the annual percentage change in total assessed property value varies significantly.

The increases of over eight percent in FY 1991 and FY 1995 can be partially explained as unique events. The Kentucky Education Reform Act reaffirmed that local property was to be assessed at 100 percent of value, and districts were given up to five years to achieve that. Some districts did so immediately, partly explaining the large increase in FY 1991. Other districts took the full time period, providing a partial explanation for the large jump in FY 1995. Even allowing for the unusual circumstances for these two years, the rates of change are quite diverse, ranging from less than five percent to over eight percent. The pattern from one year to the next does not seem very stable either. The large increase in assessments in FY 1995 was followed by years of gradually declining rates of growth. The high percentage change in FY 2000 was followed by another year of assessment change of almost eight percent.

Figure 2.H
Total Statewide Assessments
Percent Change from Prior Year



Source: LRC staff compilation of KDE SEEK Bulletins.

Looking at changes in aggregate assessments may mask significant change at the district level.

As variable as the diversity of total assessments per year is, this measure significantly understates the different rates of annual change at the local level. For example, consider two districts that begin with the same assessed values. District X's assessment increases 10 percent the next year; District Y's goes up 2 percent. The average change in total assessments for the two districts would

be 6 percent. The next year, the rates of change are reversed; X increases 2 percent, Y increases 10 percent. The change in total assessments would be approximately 6 percent again. In other words, looking at changes in the aggregate assessment may mask significant changes at the district level.

Three out of four times, local assessments increased by less than 10%. In the remaining cases, assessments declined or increased more than 10%.

In fact, large changes in local assessments from one year to the next are not unusual, as illustrated in **Table 2.2**. The table summarizes 2,112 annual changes in local assessments from fiscal years 1991 to 2002 (176 districts times 12 years). Declines in assessed value occur over eight percent of the time. In over a third of the cases, assessments increased less than five percent. In over 38 percent of the cases, assessments increased from 5 to 10 percent. *Over 17 percent of the time, assessments went up over 10 percent.* In about 1 case in 20 (4.9 percent), assessments grew by over 15 percent. To summarize, about three-quarters of the time, local assessments increased by less than 10 percent. In the remaining cases, assessments declined or increased more than 10 percent. This matters because a large change in a district's assessment would have a significant effect on its share of SEEK funding. A large assessment increase would mean that the state's share of SEEK funding for the district is likely to decrease significantly.

Table 2.2
Annual Percentage Change in Local Property Assessment FY 1991 to FY 2002

0 or less	178	8.4%
0 to 5%	750	35.5%
5 to 10%	815	38.6%
10 to 15%	265	12.5%
15 to 20%	65	3.1%
Over 20%	39	1.8%
Total	2112*	100.0%

*176 districts x 12 years

Source: LRC staff compilation of KDE SEEK Bulletins.

Although over half of all respondents did not agree that property assessment is the best available measure of wealth, few offered alternative measures.

On the questionnaire provided to superintendents, they were asked if they agreed or disagreed that property assessment was an accurate measurement of a district's wealth. Although over half of the superintendents did not agree that property assessment is the best available measure of wealth, few offered alternatives. The most frequent responses were criticisms of the current measure, as detailed in the box below. Some measures were suggested in addition to property taxes rather than as a replacement, such as "in

lieu of" money (payments by governments or companies that are not required to pay property taxes) and permissive taxes.

Comments from the Survey of Superintendents: Property Assessments as a Measure of a District's Wealth

[Note: PVA means Property Valuation Administrator]

"The lack of consistency among PVAs compromises property tax as a measure."

"PVAs may not be consistent throughout the state."

"Accurate assessment would be a good start."

"Problem we have is what property is assessed at is not what the property would sell for."

"Could be debatable due to possible inconsistencies in assessments from county to county."

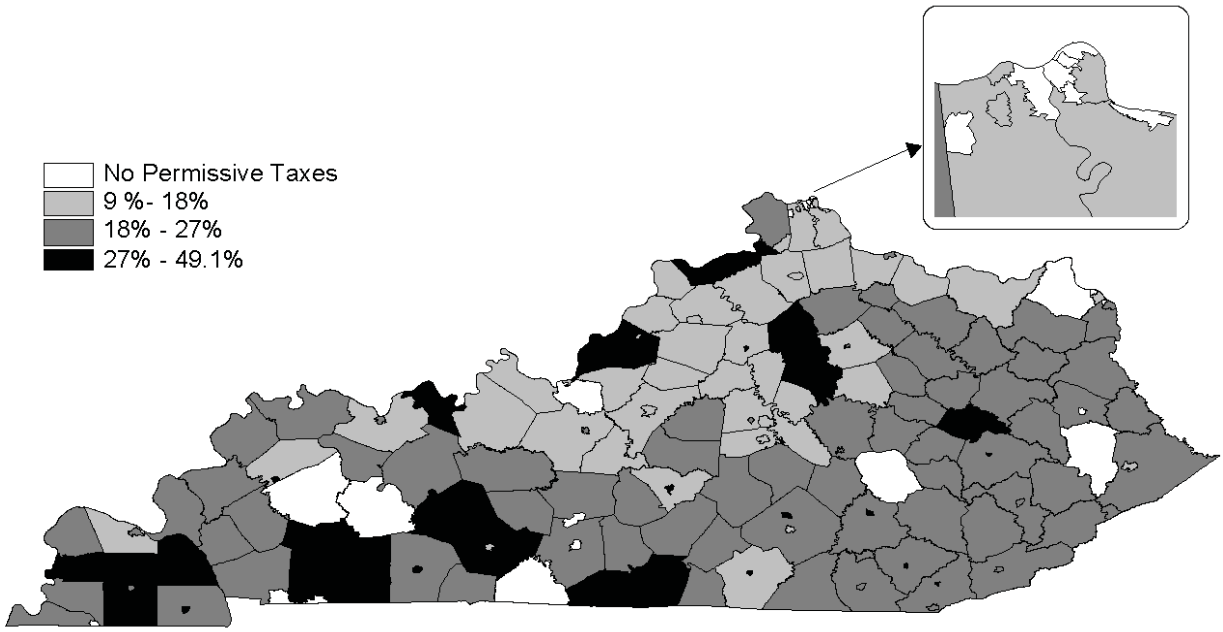
"Different areas have different property values for similar pieces of property."

Permissive Taxes

School districts may levy permissive taxes on income and utility receipts. Statewide, permissive taxes provide 23 percent of local tax revenue.

Local property taxes comprise a majority of local funding for education; permissive taxes contribute most of the remainder. Permissive tax revenues may come from an occupational tax (income tax); taxes on utility receipts such as electric power, natural gas, and water; or an excise tax on an individual's state income tax liability (no districts impose the latter tax). Statewide, permissive taxes provide 23 percent of local tax revenue, but, as usual, local school districts vary in their usage of permissive taxes. **Figure 2.I** maps districts into four groups, ranging from districts with no permissive taxes to those with over 27 percent of their tax revenues coming from permissive taxes.

Figure 2.I
FY 2000 Permissive Taxes as a Percent of Local Tax Revenue



Source: Extracts from KDE Tax Certification System.

Thirteen of the 19 districts that have no permissive taxes are independent districts. Twelve of the 28 districts that rely on permissive taxes the most are also independents.

Nineteen districts have no permissive taxes. Of these, 13 are independent districts, including 7 northern Kentucky independent school districts. Independent districts are also over-represented among the districts that use permissive taxes the most. Twelve of the 28 districts in which over 27 percent of local tax revenues come from permissive taxes are independent districts. With the notable exceptions of Fayette County and Jefferson County—the state's two largest school districts—the majority of counties most reliant on permissive taxes are in the western part of the state. Except for Fayette and Jefferson, most of the county districts stretching across the northern portion of the state raise about 9 to 18 percent of tax revenues from permissive taxes. Permissive taxes comprise 18 to 27 percent of local tax revenues in most of the counties in the eastern and southern regions of Kentucky.

Hold Harmless

As the state guaranteed base has increased, the number of districts receiving hold harmless funding has decreased from 21 in FY 1994 to 3 in FY 2002.

As noted earlier, districts cannot receive less state funding per student than they received in 1991-1992. As the state guaranteed base has increased over time, the number of districts receiving hold harmless funding has decreased significantly. In 1993-1994, there were 21 such districts, including the two largest districts in the state—Fayette County and Jefferson County. Hold harmless funding was over $11 million that year. Most districts in that group, including Jefferson County, no longer qualify for hold harmless, and total funding has plummeted to less than $1 million in most years. In 2001, there were only two hold harmless districts, and only three in 2002.

Comments from the Survey of Superintendents: Hold Harmless Provision

Superintendents were asked to indicate their level of satisfaction with the hold harmless provision. Over half of those responding answered "neutral." One superintendent commented that "This was a good safety net, but should have included an inflationary feature."

The Distribution of Funding to Kentucky School Districts

SEEK funding is shown by Area Development District (ADD).

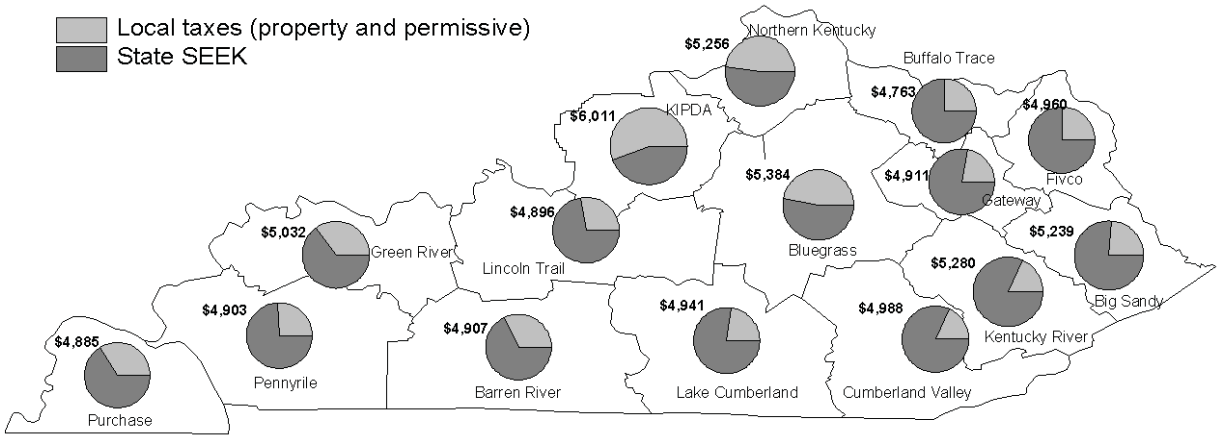
This chapter has shown the trend and distribution among school districts for the major components of the SEEK formula. The chapter concludes by showing how these components fit together to produce the per-pupil funding by school districts. This information will not be presented at the school district level, however. That level of detail is already available in annual reports from the Office of Education Accountability. Instead, per-pupil funding will be presented in graphs for each of Kentucky's Area Development Districts (ADDs). Such an approach shows regional variation, but hopefully does so in a manner that is easy to follow.

In each of the figures below, the funding is per pupil for Fiscal Year 2001. The number of pupils is the end-of-year average daily attendance for FY 2001, not the Funded ADA for FY 2001. This measure was used as the best indicator of the actual number of students who were in attendance in each school district for the year.

The state share of SEEK funding is about half or less in three ADDs, about two-thirds in three ADDs, and about 75 percent or more in nine ADDs.

Figure 2.J shows the amount and composition of funding through the SEEK formula for each Area Development District. The size of the pie chart for each ADD reflects the amount of per-pupil funding—the more funding, the bigger the pie. The darker gray pie slice indicates the share of funding provided by the state; the lighter gray is funding from local property and permissive taxes. Per-pupil spending ranges from $4,763 in Buffalo Trace to $6,011 in KIPDA. There are three patterns of the share of funds provided by the state through the SEEK formula. In the Pennyrile district and in the eastern part of the state, ranging from Buffalo Trace to Lake Cumberland, state funds comprise about 75 percent or more of per-pupil SEEK funding. In three ADDs in western Kentucky (Purchase, Green River, and Barren River), state funds are about two-thirds of the total. In the remaining three districts (Bluegrass, KIPDA, and Northern Kentucky), the state share of SEEK is around half or less.

Figure 2.J
State SEEK and Local Tax Revenues per Pupil
by Area Development District
FY 2001



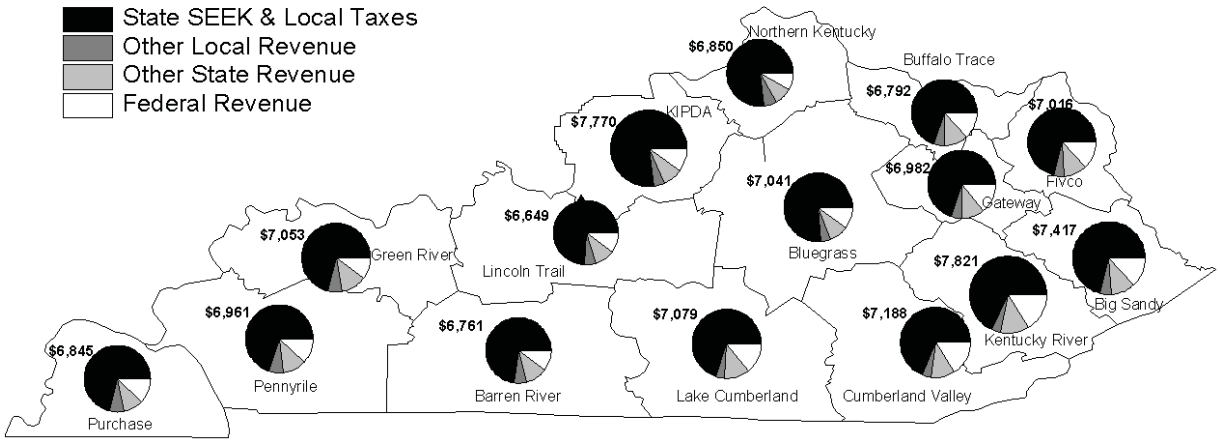
Note: State SEEK excludes $100 per pupil capital outlay and FSPK.
Source: Compiled from KDE 2001 Receipts and Expenditures spreadsheet.

If funding outside the SEEK formula is included, the ranking of districts by revenues per pupil changes.

This report is about SEEK, but SEEK funding is not the only money provided by governments for primary and secondary education in Kentucky. SEEK comprises the largest share, but the state and localities provide other revenue and the federal government provides funding as well. **Figure 2.K** shows total funding per pupil from all these sources and the share of the total funding from each.

It should be stressed that unlike revenues provided through the SEEK formula, other state funding and federal funding usually must be spent in specified ways. The figures for total funding are shown to illustrate that the bulk of education funding is provided through the SEEK formula and that the ranking of districts is different than when only SEEK funding is considered. For example, Big Sandy and Northern Kentucky differed by only $17 per pupil in state and local SEEK funding. Total revenues for Big Sandy are over $500 higher per pupil, however.

Figure 2.K
Total Revenues per Pupil
State SEEK and Local Taxes Plus Other Revenues from Local, State, and Federal Sources
by Area Development District
FY 2001



Note: State SEEK excludes capital outlay and FSPK (included in "Other State Revenue"), and fund transfers and sales of bonds at fixed assets (MUNIS codes 5000-5999).
Source: Compiled from KDE 2001 Receipts and Expenditures spreadsheet.

CHAPTER 3

FLAWED DATA AND PROCEDURES RESULT IN SEEK CALCULATION ERRORS

This chapter describes the validity of the underlying data and the process used to calculate the SEEK funding formula. Numerous data errors and procedural problems have resulted in SEEK calculation errors. Unless changes are made to the processes of validating information and using it in calculations, these errors are likely to continue. The SEEK formula distributes over 25 percent of the General Fund budget, so even small errors can have a multi-million dollar impact. As a result, SEEK deserves the best system that can be designed for its administration. This chapter presents six recommendations for improving and verifying the accuracy of information used in the SEEK calculations. Two recommendations for improving and verifying the accuracy of the calculation process are also provided.

Administering Agency

Seven people in the Reporting Branch perform the SEEK calculations.

The SEEK formula is administered by the Division of School Finance within the Kentucky Department of Education (KDE). The division's place within the department's overall organization structure is highlighted in **Figure 3.A**. The division has three branches: Administrative Support, Audit, and Reporting, as illustrated in **Figure 3.B**. The SEEK formula is calculated within the Reporting Branch (gray box). The branch has a staff of seven individuals with a number of duties and responsibilities in addition to SEEK calculations.

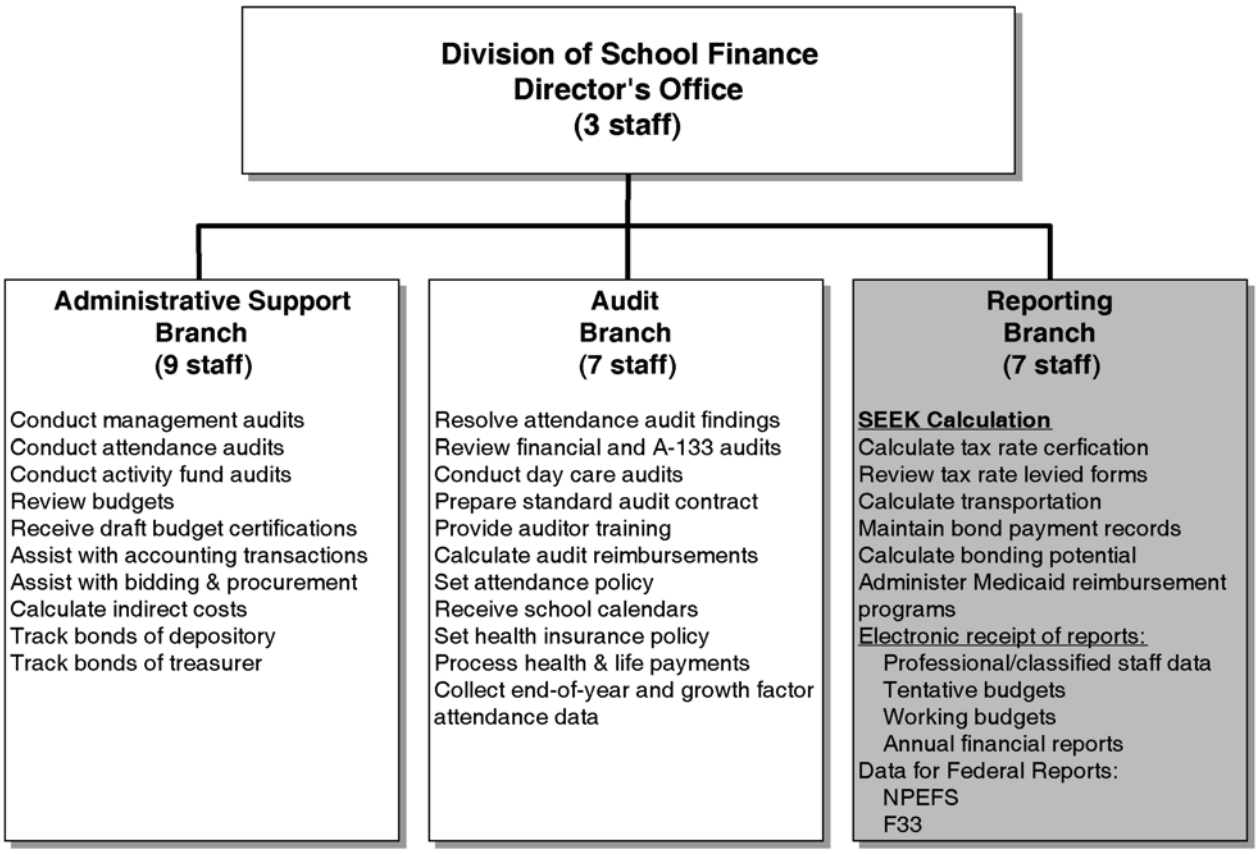
It seems reasonable that SEEK would be administered at a higher level in the organization.

In calculating the SEEK funding formula, the Reporting Branch uses information from the other branches in the division, from other divisions within the Office of District Support Services, and from other offices in the Bureau of Learning and Results Services. Organizational authority and responsibility are depicted in Figures 3.A and 3.B. Since SEEK represents over 25 percent of the General Fund budget, it seems reasonable that SEEK would be administered at a higher organizational level within KDE.

Figure 3.A
Organization Chart for Department of Education
Division of School Finance Highlighted

Source: Adapted from chart provided at KDE website.

Figure 3.B
Organization within the Division of School Finance



Source: Compiled by Program Review staff based on KDE documents and interviews.

As can be seen from Figure 3.B, the three branches in the division have only 23 employees, and they have numerous responsibilities. Implementation of the recommendations in this chapter may require KDE to increase technical expertise and resources.

Calculations that involve attendance statistics may be incorrect because the underlying attendance data may be incorrect.

Many of the SEEK calculations depend on the validity of average daily attendance and a growth factor for attendance, which are reported by school districts. KDE obtains limited verification of the validity of reported attendance statistics. Thus, the calculations that involve attendance statistics may be incorrect because the underlying attendance data may be incorrect.

The remainder of this chapter describes the validity of data used by the Reporting Branch and the accuracy of the SEEK calculation process. The three major categories of data needed for the SEEK calculation are as follows:

- Local tax information,
- Pupil attendance statistics, and
- Transportation attendance and cost information.

Local Tax Information

Information used by KDE in calculating the SEEK funding formula comes from four sources: local school districts, local taxing authorities, the Kentucky Revenue Cabinet, and the state budget.

The Kentucky Department of Education receives information from various external sources that it uses to calculate SEEK and to certify tax rates to school districts. 702 KAR 3:275 prescribes the regulations for calculating the tax rates. Information used by KDE in calculating the SEEK funding formula comes from four sources: local school districts, local taxing authorities, the Kentucky Revenue Cabinet, and the state budget. The information obtained from each source is summarized in **Table 3.1**.

Table 3.1
Sources of SEEK Local Tax Information

Information obtained from school districts:
Tax rates levied
Reconciliation of taxes collected
Information obtained from local taxing authorities:
Tax collector's report (sent to KDE by school district)
Information obtained from Kentucky Revenue Cabinet:
Annual certification of property tax roll for each district
Real and personal property tax assessments
Information obtained from the state budget:
State equalization level

Source: Compiled by Program Review staff based on KDE documents and interviews.

Importance of Accurate Local Tax Information to the SEEK Formula

This chapter focuses on the validity of tax information obtained directly from school district records and verified only by KDE.

The KDE Division of School Finance performs a number of calculations involving taxes to derive the final SEEK distribution to a school district. Some information used in the tax calculations comes from the state budget. Other information used in the tax calculations depends on the accuracy of information received from school districts, local taxing authorities, and the Kentucky Revenue Cabinet. Verifying the accuracy of information received from local taxing authorities and the Revenue Cabinet is outside the scope of this study. In addition, other entities review the accuracy of this information in the financial audit process. Therefore, this chapter

focuses on the validity of tax information obtained directly from school district records and verified only by KDE. One area of concern is the tax information received from school districts.

Internal reviews have led to the discovery of errors and have resulted in adjustments to SEEK payments.

Internal reviews by the Division of School Finance have discovered errors in tax information submitted by school districts. Correction of these errors led to adjustments in SEEK payments. For example, Division officials discovered that one school district reported an incorrect tax rate, which resulted in SEEK overpayments to the district. When the error was discovered in a subsequent year, KDE treated the error as a prior-year adjustment, and the school district was permitted to repay the overpayment in annual installments. This error had no effect on SEEK payments to other districts.

School districts are required to explain differences between tax collections on the tax collector's report and on the district's Annual Financial Report.

The Division of School Finance receives each school district's reconciliation of taxes collected. This reconciliation is supposed to disclose any differences between reported tax collections in the tax collector's report, which is prepared by the sheriff or special tax collector, and the district's Annual Financial Report (AFR). The Division of School Finance requires a school district to explain significant differences between the two reports. If the tax collector's report is not readily available, the Division may use information from the district's AFR as a proxy.

Attendance Statistics

KDE does not adequately verify the accuracy of districts' attendance statistics.

Accurate attendance statistics are critical to correctly calculating the SEEK funding formula. Nevertheless, school districts make errors in reporting attendance statistics, and KDE does not adequately verify the accuracy of the reported statistics on a regular basis.

The daily responsibility for recording attendance falls primarily on classroom teachers and attendance clerks.

The daily responsibility for recording attendance falls primarily on classroom teachers and attendance clerks. KRS 161.200 requires teachers to keep attendance records, and 702 KAR 7:125 establishes a uniform method of recording pupil attendance. According to 702 KAR 7:125 Section 16 (1), "The school's records of daily attendance and teacher's monthly attendance reports, daily and class period absentee lists, and student entry and exit logs shall be the original source of attendance data for all pupils enrolled in the public common schools."

Sources of Attendance Statistics

The SEEK funding formula provides a school district an amount equal to the base funding level for each pupil in average daily attendance the previous year plus the current-year growth factor. The district's base funding level is then adjusted for the number of at-risk students, the number and types of exceptional children, home and hospital instructed students, and transportation costs.

The attendance growth factor report is a record of a district's growth or reduction in ADA for the first two months of the current school year compared to the first two months of the prior year. Districts with ADA growth receive additional SEEK funding. Districts with declining ADA do not receive a cut in funding.

KDE uses several types of attendance statistics to calculate base SEEK funding.

To calculate base SEEK for a school district, the Division of School Finance uses several types of attendance statistics. The sources of attendance statistics are summarized in **Table 3.2**.

Table 3.2
Sources of SEEK Attendance Statistics

Statistics obtained from school district attendance reports:
Average daily attendance (ADA)
Transported students
Students with special transportation needs
Students receiving home and hospital instruction
At-risk students
Exceptional students and their levels of exceptionality
Growth factor
Statistics obtained from the Safe Schools Report:
Suspended and expelled students

Source: Compiled by Program Review staff based on KDE documents and interviews.

Average daily attendance (ADA) is calculated from the Superintendent's Annual Attendance Report (SAAR the Safe Schools Report.

Average daily attendance (ADA) is, in essence, the full-time equivalent (FTE) number of eligible students attending during the year. Overage and underage students and certain others are not eligible for SEEK funding. Students who attend half days are eligible for one-half FTE per day of attendance. The Division of School Finance receives a Superintendent's Annual Attendance Report (SAAR) from each district, which provides most of the information needed to calculate average daily attendance. Information on the SAAR is combined with suspension and expulsion data submitted on the Safe Schools Data Report to calculate a district's average

daily attendance. The Division of School Finance gets this information from the Division of Family, Student, and Community Support.

ADA of transported students and home and hospital students is obtained from the SAAR.

Classroom teachers generally identify the ADA of students transported and those with special transportation needs. The classroom teacher assigns a transportation code to a student and periodically checks the validity of code by, for example, asking the students if they ride the bus. The information is entered into the school's attendance system, and it is combined with information from other schools when the district prepares the SAAR. The Division of School Finance gets this information from the SAAR.

Home and hospital students are those who have short-term conditions that prevent them from attending school in the classroom. The teachers providing the home or hospital instruction record the sessions on standardized forms. The Division of School Finance gets this information from the SAAR.

The number of at-risk students is obtained from the Division of School and Community Nutrition.

The Division of School Finance obtains the number of at-risk students (those who are eligible for free lunch) from the Division of School and Community Nutrition, Office of District Support Services. The information is reported electronically each month by school districts. The Division of School and Community Nutrition prepares an annual eight-month average report at the end of the school year that is used by the Division of School Finance in the following year's SEEK calculations. However, the number of at-risk students may be overstated. According to a recent news article in the September 2002 *Single Audit Information Service*, based on a review of audit reports, " . . . USDA officials concluded that from 18 percent to 29 percent of children certified to receive free meals through the program may be ineligible." Some of the respondents to the Survey of Kentucky School Superintendents wrote that they would like to see children eligible for reduced lunch, in addition to those eligible for free lunch, included in the definition of at-risk students.

The number of exceptional children is obtained from the Division of Exceptional Children Services.

The Division of School Finance obtains the number of exceptional children and their levels of disability from the Division of Exceptional Children Services, Office of Special Instructional Services. A child's disability is determined by an Admission and Release Committee, which is also known as the Individual Education Program (IEP) Team, upon the initial placement of the student. The placement is reevaluated at least every three years. The committee consists of the parent, a teacher of exceptional children, the child's regular education teacher, a person knowledgeable in special edu-

cation evaluations, a chairperson (typically the building principal), and others, depending on the unique needs of the student. According to an official in the Division of Exceptional Children Services, a child's disability classification does not typically change dramatically from year to year. The count of students by disability is conducted on December 1 of each year and is used by the Division of School Finance in the following year's SEEK calculations.

Importance of Accurate Attendance Statistics in the SEEK Funding Formula

The Division of School Finance is responsible for verifying the validity of the attendance statistics used in the SEEK calculation.

The Division of School Finance calculates the SEEK distribution to school districts and the additional transportation component. Thus, the Division of School Finance is responsible for verifying the validity of the data underlying the calculations. The division uses a number of procedures designed to obtain assurance that the attendance statistics used in the formulas are complete and accurate. Among the procedures are requiring school districts to use standardized attendance software, reviewing reports received from school districts, and performing attendance audits. However, these procedures provide insufficient verification of the accuracy of data that has a significant impact on the SEEK calculations.

The use of standardized software cannot ensure that attendance information is entered correctly into the computer system. For example, recording a student's time of late arrival is a human responsibility and is necessary for the computer system to calculate accurate statistics. Reviewing reports received from school districts will only help identify changes in reported statistics; such a review will not verify the accuracy of the reported statistics. Finally, flaws in the attendance audit process call into question the usefulness of the results in relation to the amount of effort expended. This chapter provides recommendations for improving the accuracy of attendance statistics used in the SEEK funding formula. Some recommendations are based on a review of KDE attendance audits. As described in more detail later in this chapter, staff selected a sample of 47 attendance audit reports covering a four-year period.

Districts' Use of Standardized Attendance Software

As of August 2002, all school districts except Jefferson County were using the same software to record attendance.

As of August 2002, all school districts except Jefferson County had implemented the latest version of the Software Technology, Inc. (STI) attendance system. In the STI system, the daily school calendar can be used to help calculate ADA. For each student, the school defines the length of the school day, and the percentages of the school day corresponding to full-day absence (84%), half-day

absence (35%), and tardy (0.01%) are entered. When a student checks in or out of school, the time is supposed to be entered in the computer from the school's entry/exit log. The computer calculates whether the student was tardy, absent for one-half day, or absent for a full day. Division of School Information Technology officials indicate that all schools using STI initialize their computers at the beginning of the school year and let the system calculate tardies and absences thereafter. These officials indicate that the percentages were verified when the program was initially installed in each school and are emphasized in training sessions sponsored by KDE and STI.

The most prevalent error reported in school attendance audits in the sample was incorrect determination of half-day and full-day absences. Omitted time of late arrival or early departure on the entry/exit log is a major cause of these errors.

In prior years, school districts have used various software packages, and many have calculated tardies and absences by hand. The most prevalent error reported in school attendance audits in the sample was incorrect determination of half-day and full-day absences. In future years, the consistency offered by having the same software in each school could help eliminate the human error in calculating fractions of days. However, consistency can only be achieved when school personnel include the correct time of late arrival or early departure on the entry/exit log. Omitted time of late arrival or early departure on the entry/exit log is a major cause of incorrect determination of half-day and full-day absences.

KDE Review of Attendance Reports Received from School Districts

Each school district submits its Superintendent's Annual Attendance Report (SAAR) to the Division of School Finance upon completion of the school year, prior to June 30. Attendance information is reported by school, grade level, and transportation code. The SAAR provides attendance information for the district and is used to calculate, among other things, the district's percentage of attendance. Information from this report is combined with suspension and expulsion data from the Safe Schools Data Report for calculating the district's average daily attendance (ADA).

The Division of School Finance reviews each SAAR and follows up on significant differences from the prior year.

The SAAR is electronically submitted to KDE. The Reporting Branch, Division of School Finance, reviews each submitted SAAR and follows up on significant differences in reported attendance from the prior year before the final SEEK calculation is made. Any adjustments received after the final SEEK calculation are treated as prior-year adjustments in the next year's calculation.

KDE Attendance Audits

Attendance audits are supposed to identify problems in a school district's system of accumulating and reporting accurate ADA statistics.

Attendance audits are supposed to identify problems in a school district's system of accumulating and reporting accurate ADA statistics. However, the audits do not provide adequate validation of data. The Administrative Support Branch, Division of School Finance, conducts the audits. Eight field auditors, each working in a different region of the state, conduct the audit work. In addition, the field auditors have other responsibilities, such as providing technical assistance to the school districts in their respective regions.

Timing and Frequency

Attendance audits are performed early in the school year after at least one month of attendance statistics can be generated. The audits are designed to identify problems in the school district's system of accumulating and reporting accurate ADA statistics so the problems can be corrected early in the school year. The audits are not designed to produce a before-and-after-the-audit count of attendance.

The audits are supposed to be performed at each school district approximately every four years.

Attendance audits are supposed to be performed at each school district approximately every four years. As a result, all districts should be audited in a four-year period. Division of School Finance officials state that this audit approach was developed from a recommendation made by the Auditor of Public Accounts. However, the Division has not strictly adhered to a four-year schedule. Some districts have been audited within one, two, or three years of the previous audit, whereas others have not been audited for five years. The attendance audit schedule has been disrupted by such factors as school districts requesting a special audit, audit staff reduction from nine auditors to eight, and audit staff turnover. For example, according to a Division of School Finance official, two auditors terminated their employment with the Division early in calendar year 2001. Only one of the vacant auditor positions was subsequently filled, the audit regions were reconfigured, and the 2002 attendance audit schedule was revised.

Data validation procedures were sacrificed for the convenience of KDE employees.

Data validation procedures were sacrificed for the convenience of KDE employees. The division revised the original 2002 audit schedule because field auditors were not located in or near some districts on the original schedule. The new schedule was largely based on the physical proximity of available auditors rather than where the risk of significant error may have existed in the districts' attendance reports.

Division auditors began performing attendance audits in their current form in Fiscal Year (FY) 1996. However, beginning in FY 2001, some procedures were omitted in attendance audits of certain schools. Prior to FY 1996, Division officials indicate that some audit procedures were performed, but no documentation is available on the procedures or the results of performing them.

Basic Procedures That Should Be Performed

Attendance audits include procedures performed at the district's central office and procedures performed at individual schools.

The Division of School Finance has developed a standardized set of procedures, or an audit program, that the auditors are supposed to follow in conducting an attendance audit. The audit program consists of two basic parts: (1) procedures to be applied at the district's central office, and (2) procedures to be applied at individual schools. At both the central office level and the school level, the auditor is supposed to obtain information about whether the district is performing its duties in accordance with law and regulation. A copy of the audit program is provided in **Appendix E**.

Extent of Procedures Included in the Audit Program

The procedures included in the audit program do not consider the risk of significant error in the per-pupil funding amount. The audit approach does not ensure that the usefulness of the results is commensurate with the audit effort expended.

The procedures included in the audit program do not consider the risk of significant error in the per-pupil funding amount. A risk-based approach to conducting attendance audits would tailor the nature and extent of audit procedures to the significance of the effect of an error on the SEEK funding formula. This approach would also ensure that the usefulness of the results of the audits is commensurate with the audit effort expended.

For example, the audit program requires the auditor to determine whether all students receiving home and hospital services have met the minimum criteria specified in regulation. As a result, the auditor is instructed to test 100 percent of this student population even though these students represent less than one percent of ADA, and the add-on funding factor for these students represents less than one percent of per-pupil SEEK funding statewide. A risk-based approach to the audit would indicate that this population should be sampled rather than being tested 100 percent. Errors in statistics for this population would not result in significant errors in overall per-pupil SEEK funding.

The auditor is not required to verify the accuracy of attendance statistics for exceptional children even though they represent over 15% of per-pupil SEEK funding statewide.

Conversely, the audit program does not require the auditor to determine whether exceptional children are correctly reported. Using a risk-based approach, this population should be sampled to verify the students' exceptionality and their respective levels of exceptionality. These students represent over 9 percent of ADA and over 15 percent of per-pupil SEEK funding statewide. Errors in statistics for this population could result in significant errors in per-pupil SEEK funding.

A risk-based audit approach would consider the risk of significant error in the per-pupil funding amount and tailor the audit procedures accordingly.

KDE should implement a risk-based approach to auditing school districts' reported attendance statistics. This approach should consider the effect of significant error in each type of data on the per-pupil funding amount, and should tailor the audit procedures accordingly. A risk-based approach to auditing would indicate that the auditor should test a sample of items on the school's entry/exit log to determine whether the required time of late arrival or early departure is recorded on the log. The individual school audit program requires the auditor to determine whether the attendance clerk enters actual times for arrival and departure for students arriving late or leaving early. The audit program includes a form for the auditor to complete that should document 25 items tested from the entry/exit log. However, the audit program does not require the auditor to test a specified number or percentage of items from the entry/exit log at each school. Therefore, testing is inconsistent from school to school and from district to district.

If FY 2002 statewide ADA were overstated or understated by just one percent, the effect on SEEK funding to school districts would have been $19.5 million.

As explained in the section of this chapter on staff's review of the attendance audit process, in over half the audited schools, full day and half-day absences were not recorded correctly. In many instances, the errors were caused by omission of the time of the student's late arrival or early departure on the entry/exit log. Errors in attendance statistics for half-day and full-day absences can result in significant errors in reported ADA and statewide funding. For example, *if* FY 2002 statewide ADA were overstated or understated by just one percent, the effect on SEEK funding to school districts would have been $19.5 million.

If Jefferson County's FY 2002 ADA were overstated by one percent, the effect on the General Fund would be an overpayment of $2 million to this district.

Finally, an audit approach focused on the risk of significant error in the per-pupil funding amount would increase the audit emphasis on school districts with high levels of attendance. For example, in the FY 2002 SEEK calculation, five school districts accounted for over 25 percent of statewide ADA adjusted for growth: Boone County, Fayette County, Hardin County, Jefferson County, and Kenton County. With an ADA of over 80,000 students, Jefferson County alone accounted for over 14 percent of total statewide at-

tendance. The General Fund's FY 2002 SEEK contribution to Jefferson County was over $200 million. *If* Jefferson County's ADA were overstated by just one percent (800 students), the effect on the General Fund would be an overpayment of $2 million to this district. A risk-based audit approach would recognize that errors in attendance statistics for some districts could have a significant effect on the state budget.

RECOMMENDATION 3.1

KDE should implement a risk-based approach to auditing school districts' reported attendance statistics. This approach should consider the risk of significant error in the per-pupil funding amount and should tailor the audit procedures accordingly. School districts with large attendance statistics should be audited more frequently than those with small attendance statistics.

The central office audit program covers broad attendance issues, which are summarized in **Table 3.3**. The individual school audit program covers specific attendance issues, which are summarized in **Table 3.4**. The audit program for individual schools also includes standardized forms for the auditors to use in testing the school's entry/exit log, absentee list, and student withdrawals. However, the auditors do not perform all the procedures in accordance with the audit program. In addition, the procedures are not performed at all the schools in a district.

Audit Procedures May Be Omitted

Schools that achieve high CATS scores are not subjected to all procedures designed to test the accuracy of reported attendance data.

Not all procedures are performed in every school attendance audit. Beginning in FY 2001, the factor that determines whether certain procedures will be performed is a school's Commonwealth Accountability Testing System (CATS) scores. In schools identified in the audit program as "low performing schools," which are those that receive low CATS scores, all the audit procedures are performed. In schools that receive high CATS scores, some critical procedures are omitted.

A school's CATS scores are not necessarily related to the accuracy of its attendance reports.

Thus, schools with high CATS scores do not have to demonstrate the same level of accountability for attendance statistics as schools with low CATS scores. For schools that receive high CATS scores, the auditors do not perform procedures to determine whether the entry/exit log is being used correctly in calculating ADA and do not verify other factors that could affect reported statistics. A school's CATS scores are not necessarily related to the accuracy of

its attendance reports. Attendance statistics measure whether a student was in the classroom, while CATS scores measure how well a student did in the classroom. Omitting these audit procedures could compromise the accuracy of SEEK calculations.

Table 3.3
Summary of District Office Audit Procedures
That Should Be Performed

- Reports and records retention
- School calendars (SEEK funding is adjusted proportionatelfor districts not providing the minimum instructional time.)
- Nonresident pupils (These students are included in ADA when a district has a written agreement with the district of the student's legal residence. Out-of-state residents are not included in ADA.)
- Attendance policy and truancy (Students absent less than one-half day are classified as tardy, which does not affect ADA but is considered a truancy issue.)
- Board policies on such issues as expelled students, weather days, and dropout questionnaires (For example, a school district may receive funding for up to 175 days that a student is expelled and up to 10 days that a student is suspended.)
- Home and hospital students (Students receiving home and hospital instruction are included in ADA. A district gets additional SEEK funding for home-and-hospital-instructed students, funded at the base SEEK per-pupil amount less $100 capital outlay.)
- Overage and underage students (These students are not included in ADA.)
- Released time students (These students have alternative schedules in which they arrive late or leave early on a regular basis. The released time reduces ADA.)
- Shared time students (These nonpublic school students attend public school part of the day for specified services. The shared time increases ADA.)
- Transportation (Although not required by law or regulation, the KDE Division of Transportation recommends that transportation codes be verified at least once a semester.)
- Self audits and training (Although not required by law or regulation, the KDE Division of School Finance recommends that school districts perform self-audits of their attendance statistics.)

Source: KDE's Central Office Audit Program

Schools May Be Exempt from Audit

At the auditor's discretion, some schools in a district are exempt from the attendance audit.

Some schools in a district are exempt from the attendance audit. For example, if a district has a large number of elementary schools, only those considered by the auditor to have problems are tested. The determination of which schools to eliminate from testing is not guided by written KDE policy but is left to the auditors' discretion. Thus, KDE gets only a partial picture of the validity of attendance data reported by the district. Because a district may have an attendance audit only once every four years, the assurance of data validity is further diminished.

RECOMMENDATION 3.2

All procedures designed to test the validity of reported attendance statistics should be performed on every attendance audit and at all schools in the district.

Table 3.4
Summary of Individual School Audit Procedures That Should Be Performed

- Attendance system (including the entry/exit log)
- Master schedule (required length of school day)
- Instructional time
- Teacher's record of daily attendance (including how entry/exit times and suspended and expelled students are recorded)
- Released time students
- Shared time students
- Transportation codes (how codes are verified at the high school level, which can reduce ADA when students drive to school)
- State vocational facility students (documentation from the vocational school to substantiate attendance recorded at the middle school or high school)
- Alternative program/facility students (documentation from the alternative program or facility to substantiate attendance recorded at the middle school or high school, not including GED students)
- Attendance policy (including whether the attendance clerk has received training from the school district's Director of Pupil Personnel on attendance procedures and regulations)

Source: KDE's School Audit Program

Review of the Attendance Audit Process

In 56.9% of the schools, full-day and half-day absences were not recorded correctly. In many instances, these errors can distort reported ADA because they cannot be corrected after the fact.

In 56.9 percent of the schools audited by KDE and included in the Program Review sample, full-day and half-day absences were not recorded correctly. The errors noted by the auditors included both overstatements and understatements of time attended. In many instances, the errors were caused by omission of the time of the student's late arrival or early departure on the entry/exit log. The action required to correct the errors is monitoring the log to assure that all information mandated by regulation is reported on the entry/exit log. This type of error is significant to the SEEK calculation because the error cannot be corrected after the fact to calculate more accurate attendance statistics.

Errors in calculating full-day and half-day absences can only be corrected if the times are entered on the entry/exit log as students arrive late or leave early.

Another cause of the errors in full-day and half-day absences was incorrect calculations of the portion of the day the student was not at school. The action required to correct the errors is recalculation of the absences. In schools using the STI system, these errors can be corrected when the time of entry or exit is entered in the computer. However, these errors can only be corrected when the time of late arrival or early departure is entered on the entry/exit log at the time of late arrival or early departure, which is not done consistently in all schools.

RECOMMENDATION 3.3

When the time of late arrival or early departure is not entered on the school's entry/exit log, the student should be counted absent for the full day.

In 18% of the schools, special transportation codes were not being used correctly. This error is significant because the ADA of students with special transportation codes is multiplied by a weight of four to increase transported ADA.

In 18 percent of the audited schools, special transportation (T-5) codes were not being used correctly. In the majority of the errors, a student had a T-5 code that was not supported by the student's Individual Education Program (IEP). The action required to correct this error is review of students' IEPs and correction of the transportation codes. This error is significant to the SEEK transportation add-on factor because the number of students coded T-5 is multiplied by a weight of four to increase a school's ADA for the transportation component. In other words, if a district has an ADA of 100 students with a T-5 code, the district receives credit for 400 additional transported students in ADA for the SEEK transportation component. This problem can be corrected by reviewing students' records. However, since a district's records are only tested approximately every four years, and because all schools are not tested, accumulated errors over time can be significant.

Based on the sample, other problems of lesser magnitude were also noted. For example, in 13.2 percent of the audited schools, instructional time did not meet legal requirements; in 6.7 percent of the schools, there were errors in shared time, released time, and alternative student program attendance statistics; and in 4.6 percent of the schools, home and hospital students were not receiving the required instruction time. (See Tables 3.3 and 3.4 for a description of how these items affect ADA.) The errors noted in reviewing attendance audit reports are summarized in **Table 3.5**.

Table 3.5
Errors Noted in Reviewing Attendance Audit Reports

Type of Error	% of Schools
Full-day and half-day absences were not recorded correctly.	56.9%
Special transportation codes were not correctly used.	18.0%
Instructional time did not meet requirements.	13.2%
Errors were noted in shared time, released time, and alternative program attendance statistics.	6.7%
Home and hospital students were not receiving the required instruction time.	4.6%

Source: Program Review staff's review of KDE attendance audit reports.

Results of the Review of Audit Documentation Files

Program Review staff selected two reports from the FY 2002 audits for a review of the auditors' documentation files. In the audit documentation file for one school district, the audit program for the central office could not be located. As a result, staff were unable to determine whether the auditor had performed any of the required procedures at the central office on statistics that can be significant to reported ADA, including school calendars, and nonresident, overage, underage, released time, and shared time students.

For some schools, there was no documentation that the auditor had performed certain required procedures.

For this school district, the audit file contained documentation of work performed at seven schools: three high schools, one middle school, and three elementary schools. For some schools, there was no documentation that the auditor had performed certain required procedures. The audit program requires the auditor to test the accu-

racy of information reported on the school's entry/exit log, the absentee list, and withdrawal codes. However, there was little or no documentation in the file to show the number of items from which the auditor's sample was selected, the method used to select items for testing, or the criteria used to measure whether an item was recorded correctly. The method used to select items for testing is important because it determines whether the test results can be projected to estimate the overall error rate in the population from which the sample was selected. In a random sample, the auditor selects items in such a way that every item in the population has an equal chance of being selected; the auditor can project the results to the population in order to gain an understanding of the significance of errors. In a judgmental sample, the auditor selects items based on a certain characteristic, which allows only those items exhibiting that characteristic a chance to be selected; the auditor cannot project the results because the sample was not representative of the entire population. As a result, the auditor has no measure of the rate of error in the population, and the true extent of the problem remains unknown. Therefore, it is important for the auditor to document the sample selection method used, so a reviewer can understand if the sample results accurately portray the magnitude of any problems identified.

The file contained no documentation that the auditor had performed all of the required procedures at the schools.

In the file reviewed by Program Review staff for the other school district, audit documentation provided evidence that the auditor had performed the required tests at the central office and some of the required tests on site at eight schools: two high schools, three middle schools, and three elementary schools. However, at the school level, there was no documentation that the auditor had performed the required tests of the entry/exit log, the absentee list, or the withdrawal codes. A Division of School Finance official indicated that the auditor who performed the work did not document the results of the tests unless errors were found. In this instance, it is impossible to determine the extent of the auditor's testing of the entry/exit log, the absentee list, and the withdrawal codes. Based on the results of the review of audit documentation files, staff concludes that KDE gains an unreliable assessment of data validity from the attendance audits. The results of the review of audit documentation on both school districts are provided in **Table 3.6**. The numbers in Table 3.6 refer to the number of line items tested by the auditor. For example, in District A, High School 1, the auditor tested 24 late arrivals or early departures from the entry/exit log and no absences from the absentee list. Table 3.6 also discloses the number of schools in the district that were not audited.

Table 3.6
Results of Review of Audit Documentation File
(Documentation Included in the Audit File
of the Number of Line Items Tested from School Records)

	Central Office Tests	School Entry/ Exit Log	School Absentee List	School Withdrawal Codes	Signed/ Dated by Auditor
District A	No				
High School 1		24	0	6	No
High School 2		24	5	5	No
High School 3		25	0	7	No
Mid. School 1		24	0	4	No
Elem. School 1		18	15	3	Yes
Elem. School 2		14	15	0	Yes
Elem. School 3		17	15	4	No
Schools not audited = 6					
District B	Yes				
High School 1		0	0	0	
High School 2		0	0	0	
Mid. School 1		0	0	0	
Mid. School 2		0	0	0	
Mid. School 3		0	0	0	
Elem. School 1		0	0	0	
Elem. School 2		0	0	0	
Elem. School 3		0	0	0	
Schools not audited = 11					

Source: Program Review staff's review of KDE attendance audit documentation.

RECOMMENDATION 3.4

When sampling a school's attendance records, the auditor should be required to use a random selection technique so that the error rate in the overall population can be estimated. When documenting the results of testing, the auditor should fully describe the work performed to support significant judgments and conclusions in the report. The documentation should include the scope of work, the methodology followed, and any sampling criteria used. The auditor should sign and date all audit documentation and include the source of the documentation, such as a school's summary reports from its computer system.

Methodology Used in Reviewing the Audit Process

To test the effectiveness of the attendance audit process in verifying the accuracy of ADA statistics, Program Review staff selected for review a random sample of 46 attendance audit reports for the most recent four-year period: Fiscal Years 1999, 2000, 2001, and 2002. Staff also reviewed the Jefferson County FY 2001 report because of that district's large effect on the SEEK calculations. Thus, staff reviewed a total of 47 attendance audit reports for the four-year period, representing 26.7 percent of the 176 school districts. According to KDE records, these 47 district reports covered audits at 327 schools over the four-year period. Staff also selected two reports from FY 2002 for a review of the auditors' documentation files.

How KDE Uses the Attendance Audit Reports

At the completion of an attendance audit, the report is forwarded from the Administrative Support Branch to the Audit Branch in the Division of School Finance. Officials in the Audit Branch review the report and send it to the district with a request for a corrective action plan (CAP). The district submits a proposed CAP for review by Audit Branch personnel. Once the CAP is approved, Audit Branch personnel from the Division of School Finance central office perform follow-up procedures—on-site, if considered necessary—to determine whether the plan has been implemented. Once the central office is satisfied that the problems have been corrected, the attendance audit is closed. In some instances, school districts submit corrected attendance statistics.

Since the school district may not have another attendance audit for four years, uncorrected errors will distort the district's ADA statistics for years to come. If the district continues to make the same type of errors, ADA should be reduced.

A district's CAP may be accepted without a subsequent on-site review of records. As a result, KDE cannot know with certainty that significant errors in ADA statistics—such as omission of a student's time of late arrival or early departure—have been corrected. Since the school district may not have another attendance audit for four years, uncorrected errors will distort the district's ADA statistics, including the growth factor, for years to come. A follow-up on-site review of records would determine whether the CAP was implemented as designed. If the district continues to make the same type of errors, ADA should be reduced. An example of this alternative approach to using the results of attendance audits is provided in **Table 3.7**.

Table 3.7
Example of an Alternative Audit Approach

If the auditor initially selected a random sample of 25 from a population of 100 items on a school's entry/exit log and found that 10 of those items did not list the time of late arrival or early departure, the error rate on the school's entry/exit log would be projected to be 40 percent:

10 errors ÷ 25 sampled items = 40% error rate

The auditor would conclude that this school has a significant error rate in its reported attendance statistics for tardies, half-day absences, and full-day absences. Consistent with recommendation 3.3, each student for whom the time of late arrival or early departure was not listed should be counted absent for that day. Thus, the auditor's initial conclusion would be that the school's daily attendance for the initial test period would be reduced by 40 students:

100 items on the entry/exit log x 40% =
40 student reduction in the initial test period

After the school indicates that it has implemented the CAP, the auditor could go back to the school and select a follow-up random sample of 25 from items on the entry/exit log since the time the initial sample was drawn. Suppose the entry/exit log lists an additional 300 items since the auditor's first test. If the auditor's follow-up sample of 25 indicates that five items did not list the time of late arrival or early departure, the error rate in this sample is 20 percent:

5 errors ÷ 25 sampled items = 20% error rate

The auditor's conclusion would be that the school's daily attendance for the subsequent period should be reduced by 60 students:

300 items on the entry/exit log x 20% =
60 student reduction in the subsequent test period

In this example, the school's daily attendance is reduced by 100 students: 40 from the first test and 60 from the follow-up test. The same procedure should be performed at each school in the district that had significant errors in initial testing. The sum of the errors at the individual schools would reduce the district's ADA. School districts would have an incentive to make sure the attendance clerk at each school monitors completion of all items on the entry/exit log. KDE would gain more assurance about the accuracy of ADA statistics used in calculating the SEEK formula.

RECOMMENDATION 3.5

KDE should adjust a district's ADA for significant errors in reported statistics noted in the initial audit of school records. In addition, KDE should require a follow-up on-site review of the school's records to determine whether the corrective action plan was implemented in the year of audit. When follow-up testing indicates that a school continues to have significant errors in reported statistics, ADA should be further adjusted.

Errors in ADA can have a significant effect on both the basic SEEK calculation and the additional transportation calculation. As noted earlier in this chapter, if FY 2002 statewide ADA were overstated or understated by one percent, the effect on SEEK funding would have been $19.5 million.

Transportation Attendance and Cost Information

Accurate counts of transported students and the cost of transporting them are critical to correctly calculating the SEEK transportation add-on.

Accurate counts of transported students and the cost of transporting them are critical to correctly calculating the SEEK transportation add-on. Transportation makes up approximately 10 percent of the total SEEK funding to school districts. However, districts make errors, and KDE does not adequately verify the accuracy of information used in the calculation. KRS 157.370 requires that the SEEK funding formula reimburse school districts for transportation costs and 702 KAR 5:020 provides the calculation method.

Importance of Accurate Transportation Information to the SEEK Funding Formula

If a district has errors in its overall ADA, those errors are carried over to the transported student ADA and the transportation growth factor. Since attendance audits are conducted only about every four years at a district and not at every school in the district, the level of assurance KDE obtains from these audits is questionable.

If a district's special transportation ADA is inaccurate, the transported ADA for these students is wrong by a multiplier of four.

A district qualifies for transportation funding for its transported student ADA and for add-on funding of four times the ADA for special transportation students. As a result, if a district's special transportation ADA is inaccurate, the transported ADA for these students is wrong by a multiplier of four.

As noted in staff's review of attendance audit reports, 18 percent of schools in the sample had errors in their special transportation codes. By far, the most frequent error made by the schools was assigning children the special transportation code (T-5) without the need for

special transportation being specified in their individual education programs. The 18 percent of schools with incorrect T-5 codes was spread across 21 of the 47 districts tested, for a district-level error rate of 44.7 percent. In Jefferson County, 32.2 percent of the audited schools had incorrect T-5 codes.

ADA errors can be significant to the statewide transportation component.

ADA errors can be significant to the statewide transportation component of SEEK. Jefferson County, in particular, has a large impact on the transportation model. For example, in FY 2001, the year of Jefferson County's attendance audit, it was found that an overcount of 16,000 in the number of transported pupils resulted in $6.5 million in excess transportation payments to the district. However, because of Jefferson County's effect on the normalized costs for all districts, its overcount of transported students meant that all other county districts were paid approximately $0.5 million less in total than they otherwise would have been paid. This particular error has been corrected through a prior-year adjustment.

In FY 2002, the transportation growth factor was $4.8 million, based on a reported 2.5% increase in the number of transported students.

Errors in eligible transportation costs or in transported ADA statistics can have a significant impact on the state's budget. In FY 2002, the SEEK transportation component was $193.5 million, representing over 10 percent of total SEEK payments. The transportation growth factor alone was $4.8 million, based on a reported 2.5 percent increase in the number of transported students.

Sources of Transportation Information

The Division of School Finance is responsible for verifying the validity of the data underlying the transportation cost calculations.

The Division of School Finance calculates the transportation add-on component of the SEEK funding formula. Thus, the Division of School Finance is responsible for verifying the validity of the data underlying the calculations.

The information needed for calculating the SEEK transportation component is obtained from the school districts and from the KDE Division of Pupil Transportation. Information obtained from the school districts is as follows:

- The gross transported ADA (total ADA of students transported by the district's buses);
- The "handicapped factor" (ADA of special needs children who are transported);
- The non-SEEK ADA (ADA of transported students who do not qualify under SEEK, such as underage or overage students, students from another district that attend the district's schools and for whom the district of residence has not signed a con-

tract, and students attending non-public schools who are transported on the district's buses);
- Current gross transportation costs (total money spent by a district for student transportation); and
- Reimbursements of transportation costs (reimbursements from federal, state, and local sources, including rental of buses).

Information obtained from the KDE Division of Pupil Transportation is as follows:

- Bus purchases (amount spent for new buses to replace old buses taken out of service), and
- Depreciation (the expense related to the decline in the value of a bus over its useful life).

Average daily attendance statistics (including the handicapped factor and non-SEEK ADA) are obtained from the prior-year Superintendent's Annual Attendance Report. The growth factor is obtained from each district's current-year growth factor report.

A school district's gross transportation costs and reimbursements are reported in its Annual Financial Report.

School districts receive SEEK transportation payments that can be more or less than they actually spend, depending on whether their costs are less than or greater than the norm for similar districts. A school district's gross transportation costs and reimbursements received are reported in the district's Annual Financial Report (AFR). Eligible expenses included in current gross transportation costs include costs of supervision, bus driving, bus monitoring, vehicle service and maintenance (including fuel), and staff development.

Districts may pay cash for buses or may finance their bus purchases through the Kentucky Interlocal School Transportation Association (KISTA), which was formed in 1990 to help school districts collectively pool their efforts and arrange short-term, tax-exempt financing to purchase new school buses. Payments for bus purchases and bond payments to KISTA are recorded in the AFR but these costs are not included in current gross transportation costs when calculating the SEEK transportation component. Instead, the cost is depreciated (allocated to current cost) over the estimated useful lives of the buses in accordance with the requirements in 702 KAR 5:020. The regulation requires school buses to be depreciated over a period of 14 years at specified rates that result in districts being allowed to recover 124 percent of the cost of buses still in use through the fourteenth year. According to a KDE official, the method of allocating additional depreciation cost is designed to reward school districts that properly maintain their buses. However, the method may penalize school districts that have difficult driving conditions and whose buses wear out

more quickly as a result. The depreciation schedule is depicted in **Table 3.8**.

Table 3.8
School Bus Depreciation Schedule

Year of Depreciation	Pct. of Depreciation per Year
1 to 2	12%
3 to 8	10%
9 to 10	8%
11 to 14	6%
Total	124%

Source: 702 KAR 5:020.

The Division of Pupil Transportation maintains the bus inventory and calculates the total annual depreciation expense used in the SEEK transportation calculation.

The Division of Pupil Transportation maintains the bus inventory and calculates the total annual depreciation expense used in the SEEK transportation calculation. School districts purchase buses under a state price contract awarded by the Finance and Administration Cabinet. The KDE Division of Pupil Transportation sends the approved contract prices and bus specifications to the school superintendents.

Buses are purchased under state price contract. The Division of Pupil Transportation orders the buses from authorizing documentation submitted by school districts. Division personnel confirm with the districts all information received electronically from the seller on the vehicle identification numbers and the number, types, and prices of buses purchased. The information is entered into a KDE system that calculates depreciation on the buses as shown in Table 3.8. The depreciation amount is added to current transportation costs to calculate the total amount of transportation costs that may be reimbursed to school districts.

KDE's process for determining the accuracy of attendance statistics, and the problems noted in the process, have already been discussed and have been judged inadequate. This section of the report focuses on KDE's process for determining the accuracy of transportation costs. The procedures KDE uses to determine whether the cost information used in the formula is complete and accurate include requiring school districts to use standardized accounting software and reviewing audited financial statements received from school districts. However, these procedures provide insufficient assurance about the accuracy of information reported by the school districts.

Districts' Use of Standardized Accounting Software

All districts except Jefferson County have been using the standardized MUNIS accounting system for about five years.

A Division of School Finance official states that all districts except Jefferson County have been using the standardized MUNIS accounting system for about five years. This official states that Jefferson County will start using the MUNIS system in either FY 2004 or FY 2005. The MUNIS system provides a uniform chart of accounts and a detailed instructional manual to help ensure that school districts assign the correct code to each transaction. KDE has provided training to the school districts on using the MUNIS system.

The MUNIS system generates the Annual Financial Report (AFR), which is transmitted electronically to KDE. The AFR provides information on both current transportation costs and bus purchases, including payments to KISTA for financed bus purchases. Eligible transportation costs include current costs less bus purchases plus depreciation expense.

Ineligible transportation costs include the cost of field trips and the cost of salaries charged 100% to transportation when the school transportation officials have other unrelated duties.

School districts sometimes charge costs to the transportation accounts that are not eligible for SEEK reimbursement. Ineligible costs include the cost of field trips and the cost of salaries charged 100 percent to transportation when the school transportation officials have other unrelated duties that should be charged to other accounts. Since the FY 2002 transportation add-on was over 10 percent of total statewide SEEK funding, inaccurate coding of transportation costs can have a significant effect on the accuracy of KDE's calculations.

Review of Districts' Audited Financial Statements

The comparison of AFR costs to those in the financial statements provides no assurance that the AFR includes only eligible costs.

The Division of School Finance reviews each district's annual audited financial statements to identify and investigate significant differences from amounts reported in the AFR. The CPA firms performing these audits are not required by KDE to test specific charges to current transportation costs. A Division official states that such a requirement would increase the cost of the audit to a district. The audit of a district's financial statements is designed to determine whether those financial statements are accurate in their overall presentation. Such an audit would not be designed specifically to detect incorrect coding of transportation costs. As a result, the Division's comparison of AFR transportation costs to those in the audited financial statements provides little or no assurance that the AFR includes only eligible costs.

KDE should require its auditors to review charges to transportation accounts and reimbursements received by school districts.

To obtain an acceptable level of assurance that transportation costs are correctly reported, KDE should require its auditors to review charges to transportation accounts and reimbursements received by school districts. Consistent with recommendation 3.1, the audit approach should consider the effect of significant error in the per-pupil transportation funding amount and should tailor audit procedures accordingly. The approach should identify districts with high transportation costs that can have a significant effect on the statewide SEEK transportation component.

In FY 2002, five school districts accounted for 24% of statewide transportation funding. A risk-based audit approach would increase the emphasis on districts with high transportation costs.

An audit approach focused on the effect of significant error in the per-pupil transportation funding amount would increase the audit emphasis on school districts with high transportation costs. For example, in the FY 2002 SEEK calculation, the five school districts that accounted for over 25 percent of statewide adjusted ADA plus growth also accounted for 24 percent of the statewide transportation add-on funding: Boone County, Fayette County, Hardin County, Jefferson County, and Kenton County. With the addition of Daviess County, these six school districts accounted for 26 percent of the FY 2002 transportation add-on. Jefferson County alone accounted for over 13 percent of the total. A risk-based audit approach would consider the risk that errors in transportation attendance statistics and transportation costs for these districts could result in significant cumulative errors in the statewide funding amount.

RECOMMENDATION 3.6

KDE auditors should be required to review charges to transportation accounts and reimbursements received. Consistent with recommendation 3.1, the audit approach should consider the risk of significant error in the per-pupil transportation funding amount and should tailor audit procedures accordingly. The approach should identify districts with high transportation costs that can have a significant effect on the statewide SEEK transportation component.

Validity of Information Used in the SEEK Calculation

At almost any point in the process, human error can, and does, result in incorrect calculations.

KDE receives some information in paper form that must be entered into an electronic system by hand. Other information is received electronically, but must be converted to a form that the system can read and act upon. Information from some systems must be electronically copied and transferred to other systems for additional processing. At almost any point in the process, human error can,

and sometimes does, result in incorrect calculations that affect the published SEEK dollar amounts.

For example, in the tentative SEEK transportation calculation for FY 2003, bus purchase information was incorrectly copied and transferred from one source to another. This error resulted in a $7.4 million error.[5] When the error was used in the transportation model, the tentative SEEK transportation calculation was over-stated by $8.9 million.

Both the incorrect and correct calculations are illustrated in **Table 3.9**.

Table 3.9
Error in FY 2003 Tentative SEEK Transportation Calculation

Column 1 Total Reimburse-ment Received	Column 2 Bus Purchase Costs	Column 3 Bus Purchase Costs	Column 4 Payments to KISTA	Col. 1 + Col. 2 + Col. 3 Incorrect Calculation	Col. 2 + Col. 3 + Col. 4 Correct Calculation
$2.9 M	**$5.5 M**	**$20.1 M**	**$10.3 M**	**$28.5 M**	**$35.9 M**

Source: Calculation by Program Review staff using data supplied by KDE.

The error in the tentative transportation cost allocation for FY 2003 has since been corrected by KDE. Nevertheless, it illustrates the potential for significant errors in the calculations at many points in the system. This error might have been prevented if calculations were reviewed before being released.

RECOMMENDATION 3.7

KDE should assign a knowledgeable employee not involved in the SEEK calculations to review the work of employees who perform the calculations. Such a review could help identify and correct errors before the tentative and final calculations are released to school districts.

[5] Program Review staff discovered this error during the course of this study.

Pulling the Data Together

KDE should move swiftly to automate and integrate the processes used to calculate SEEK payments.

Recall that the three branches in the Division of School Finance have only 23 employees. The branch that calculates SEEK has only seven employees who are charged with numerous technical responsibilities, some of which are unrelated to SEEK. Regarding the SAS program used in calculating the transportation component of SEEK, KDE officials have indicated that no one in the Division of School Finance understands the SAS program codes. Given that SEEK distributes over 25 percent of the General Fund budget, more attention needs to be paid to the processes and the technical expertise of the people performing the calculations. In particular, KDE should move swiftly to automate and integrate the processes used to calculate SEEK payments.

A small error in SEEK can have multi-million dollar consequences for the state budget.

The remainder of this chapter shows how the various sources of information are used in KDE systems to produce the SEEK calculations. The number of data sources and the complexity of the process make it susceptible to error. A small error in SEEK can have multi-million dollar consequences for the state budget and local school districts.

Many data inputs to the SEEK formula require people to manually transfer inputs from one system to another.

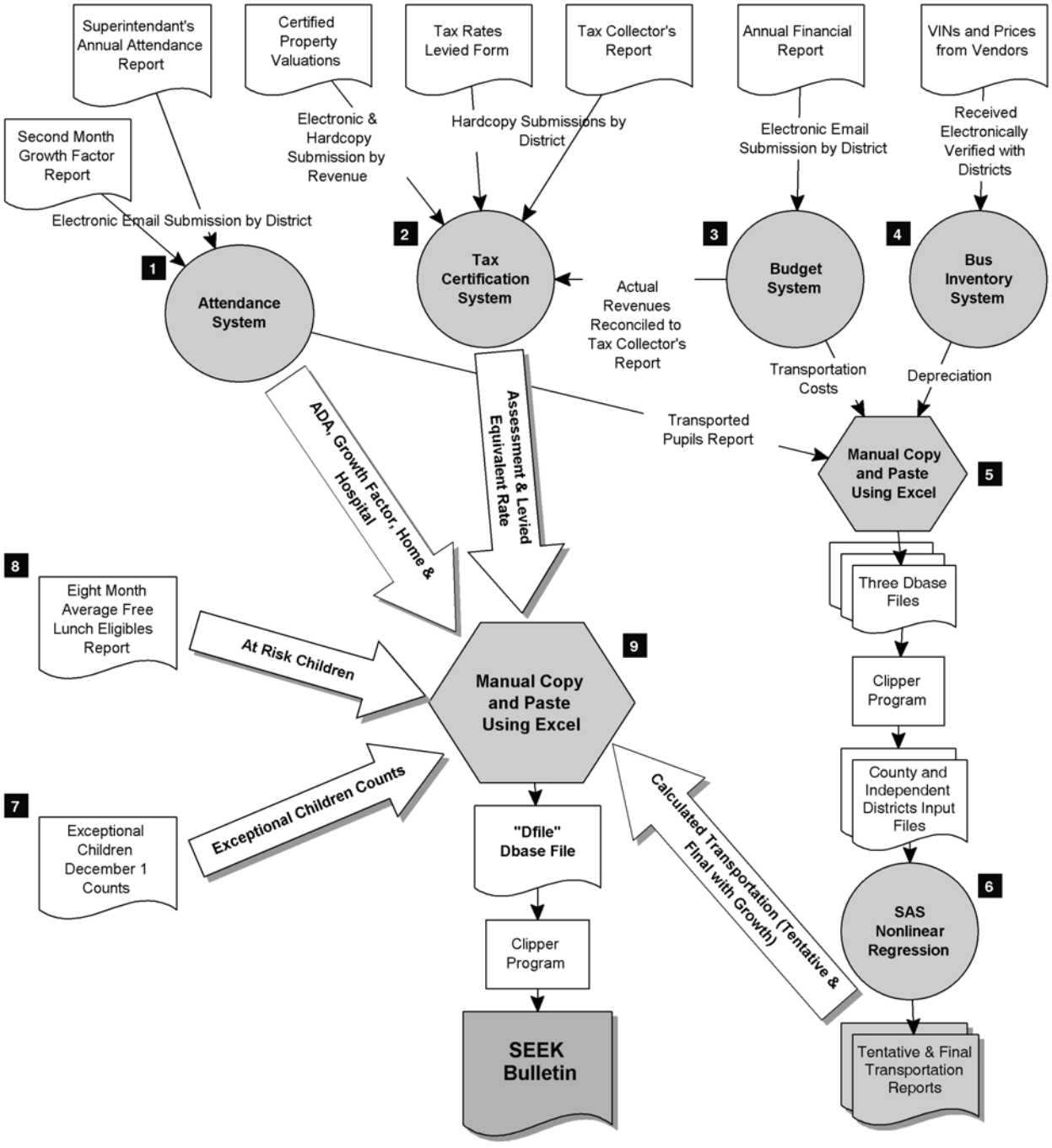
Many data inputs to the SEEK formula require manual intervention to transfer them from one system to another. Generally, the transfer is done through a desktop computer process referred to as "copy and paste" in which columns are copied from one file and then pasted (or transferred) into another file. The receiving file may then provide data inputs to another system. The drawback to this type of system is that each copy and paste operation is subject to human error, and a single error can be carried forward as calculations made in one step are used in the next.

People make mistakes. As a result, KDE should independently verify calculations in the SEEK system to identify mistakes.

Even the best people make mistakes. As noted previously in this chapter, in the tentative SEEK transportation calculation for FY 2003, bus purchase information was incorrectly copied and pasted from one source to another. This simple human error produced a $7.4 million data error, which ultimately resulted in an $8.9 million error in the tentative SEEK transportation calculation. The error has since been corrected. However, it demonstrates the reality of human error and the need for independent verification of calculations in such a complex system.

Figure 3.C provides a graphic overview of the many reports and systems behind the data that flow into the SEEK calculation. Given the complexity of the system, an attempt is made to briefly summarize the process.

Figure 3.C
Reports, Systems, and Processes Behind the SEEK Bulletin



Source: Compiled by Program Review staff based on KDE documents and interviews.

The Attendance System, 1 in the figure, provides SEEK with average daily attendance (ADA), home and hospital ADA, transported pupils ADA, and growth factor (overall and transportation). The data that flow into the Attendance System are submitted electronically by each district through a feature available in the district-level STI software module. Two distinct reports are submitted in this fashion—the Superintendent's Annual Attendance Report (SAAR) and the Second Month Growth Factor Report, which provides the percentage change in ADA for the first two months of the current year compared to the same period of the prior year.

The Tax Certification System, 2 in the figure, provides the value of current-year assessments and levied equivalent rate. The current-year assessment for the 2002 SEEK formula was the local assessment as of January 1, 2001. The data arrive in electronic form beginning in July from the Revenue Cabinet. The data behind the levied equivalent rate include assessment, prior-year revenues, and tax rates levied. The preliminary source of the data is each district's Annual Financial Report (AFR), subject to revisions based on financial audits that are performed by October.

The Annual Financial Report also provides data through the Budget System 3 on the expenditures by districts for transportation. This information, combined with data on transported students from the Attendance System 1 and depreciation from the state-maintained Bus Inventory System 4 , is used to calculate each district's transportation costs. The data from these three systems are extracted and saved into three separate database files. 5 This stage of manual data handling is where the $8.9 million error in tentative transportation costs, noted earlier in this chapter, was generated.

The transportation cost files are combined into two separate input files (one for county districts, one for independent districts), which are used in a SAS nonlinear regression model. 6 SAS is a statistical software program that has predefined procedures to facilitate advanced analysis, including fitting lines to observed data points. In this case, SAS is used to fit a curved line on a graph of transported students per square mile and transportation cost per transported student. This process is done separately for county and independent districts. The line that best fits the districts' values is used to determine the allowable transportation cost per transported student for each district.

The two add-ons other than transportation are for exceptional and at-risk students. The exceptional children numbers for the districts come from a December 1 headcount. 7 The December 1 count is a

federal reporting requirement; the SEEK count is based on the same number. The three major categories of exceptionality are based on 14 conditions. The Division of Exceptional Children provides the data. On the other hand, at-risk ADA is an eight-month average of those eligible for the free lunch program. (The month of December is excluded from the average.) [8] The data are provided by the Division of School and Community Nutrition.

RECOMMENDATION 3.8

KDE should give top priority to developing an automated and integrated system that provides for on-line, real-time updating of files. Staff should be able to produce ad hoc reports on demand, providing a current global view of SEEK that would help identify errors. Staff who perform calculations should receive training to ensure they understand how the overall system works.

CHAPTER 4

BUDGET REDUCTIONS, INCREASED STUDENT COUNTS, AND NOT INCORPORATING INCREASED TRANSPORTATION COSTS INTO PROJECTIONS LED TO RECENT UNDER-FUNDING OF SEEK

FY 2002 SEEK was originally over-funded, however, it was not fully funded after a budget reduction. The Governor's Spending Plan for FY 2003 also does not fully fund SEEK based on preliminary estimates.

This chapter examines the circumstances surrounding SEEK funding for fiscal year (FY) 2002 and FY 2003. In FY 2002, SEEK was originally over-funded. The first round of budget reductions, however, caused it to fall short of full funding once final calculations were made. In the current fiscal year (FY 2003), preliminary estimates indicate that the Governor's Spending Plan does not fully fund SEEK[6].

Understanding what happened requires a knowledge of the budget process used for SEEK as well as an understanding of why SEEK projections seem to be a moving target subject to revision. The first part of this chapter covers these issues, and the latter part presents specific information regarding FY 2002 and FY 2003.

After a review of the timing and composition of the different versions of SEEK estimates, the major conclusions are:

- Since the inception of SEEK, projecting assessments and student counts, both of which have a great impact on the SEEK calculation, has been difficult.
- The amount of funding distributed by the SEEK formula is large enough that small percentage errors in projections can equate to tens of millions of General Fund dollars.
- A ten-year trend of declining student counts has reversed slightly, leading to recent under-projections.
- A $50 million budget reduction in early FY 2002 was partially restored in December 2001 based on available cost

[6] The General Assembly has not enacted a budget for the Executive Branch for FY 2003 or FY 2004 at the time of this writing. The Governor implemented a Spending Plan for FY 2003 and information presented in this chapter for FY 2003 is from that plan.

estimates. The final calculation in February 2002, however, revealed SEEK to be under-funded by $12.9 million because of increased student counts.

- Executive Branch adjustments to KDE's FY 2003 budget projections for student counts and assessments contributed to the short-funding of SEEK in FY 2003.
- Updated information available from the FY 2002 Final SEEK calculation of February 2002 showed further increases in transportation costs and student counts, but was not incorporated into the versions of the budgets considered by the General Assembly or the subsequent Governor's Spending Plan.

Budgeting for SEEK

The SEEK formula is constrained by budget appropriation amounts. To ensure full-funding of SEEK, projections must be accurate or have a buffer built into them.

It should first be understood that although SEEK is funded through a formula, it is not an entitlement. In other words, if the formula determines a total amount that is greater than what has been appropriated for SEEK, each district's allotment has to be adjusted downward, unless the district is receiving hold harmless dollars. This does not mean that total state funding for SEEK is less. It does mean that average funding per pupil is less. To ensure that SEEK is fully-funded in the final calculation, either projections must be accurate or there must be enough of a cushion built into them to account for projection error.

The budget process discussed here involves three versions: Agency Request, Branch Recommendation, and Enacted or Spending Plan.

The formulation of the Budget of the Commonwealth begins with each cabinet's submission of its *Agency Budget Request* by November of the year preceding an even year regular session. For budgeting purposes, the Kentucky Department of Education has cabinet-level status. The requests are received by the Governor and General Assembly. The Governor and his or her staff use this information to produce a *Recommended Budget* that must fall within resource limitations set by the Concensus Revenue Forecast. The Recommendation is submitted to the General Assembly in late January of the even-year regular session. The General Assembly then works toward passage of a Budget which, when signed by the governor, becomes the *Enacted Budget*. In the 2002 regular session, a budget was not passed by the General Assembly, so FY 2003 dollars are being expended as specified in the *Governor's Spending Plan*.

The input variables that determine each district's SEEK funding must be projected as part of the state budget process.

In order to provide specific dollar amounts for SEEK in the biennial budget, the Kentucky Department of Education (KDE), the Governor's Office of Policy and Management (GOPM), and the Revenue Cabinet project figures for the district-level input variables for each of the upcoming two years of the biennium. These projections, along with the statewide variables (Guaranteed Base per Pupil and Equalization Level), determine total SEEK dollars appropriated. As covered in Chapter 1, Guaranteed Base per Pupil is set in the budget and is the minimum amount of resources (both state and local) to be provided for each student. Equalization Level is calculated by taking 150 percent of the projected statewide average assessment divided by the total number of pupils projected in SEEK for each year of the biennium. The figure used in the budget is the average of the two years.

Generally, SEEK is fully funded based on projections made at the time of budget formulation.

Given that the amount distributed by the SEEK formula represents over 25 percent of the General Fund, constrained resources may become a factor. In times when the total funding based on the formula is more than what is available, the SEEK formula cannot be *fully funded*. The SEEK formula has been consistently fully funded based on projections made at the time of biennial budget formulation.

In addition to the calculations performed during the Biennial Budget process, three official SEEK calculations, or bulletins, are released at different times by KDE:

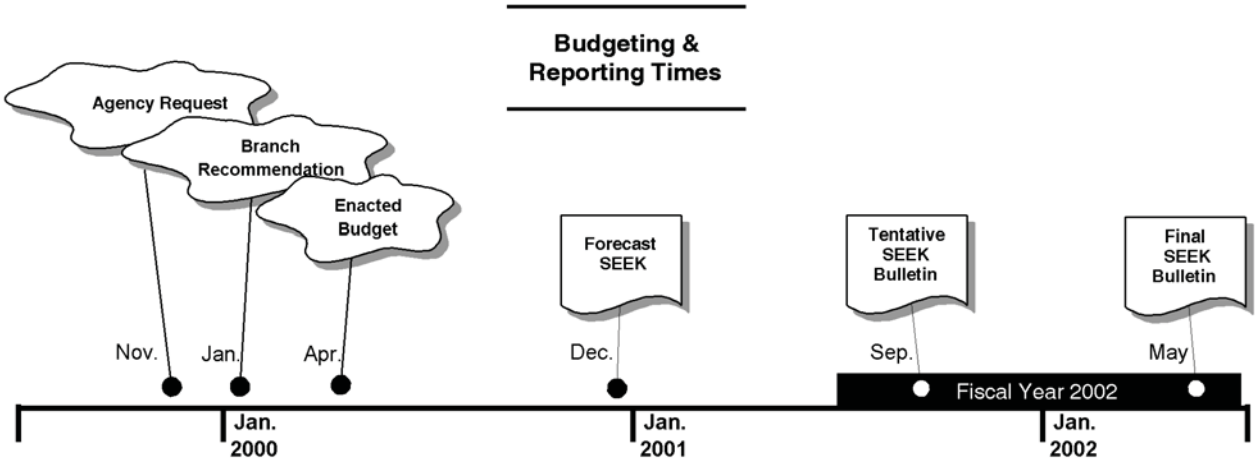
- **Forecast SEEK** is released to aid the districts in formulating their draft budgets;
- **Tentative SEEK** is released to incorporate actual district-level input data except for the actual growth factor variables; and
- **Final SEEK** is released once all figures are final.

Subsequent SEEK calculations based on actual formula inputs, when they become available, may reveal the appropriation to be more or less than the amount necessary to fully fund SEEK.

When the process is complete, it may be determined that the biennial budget appropriation that was originally categorized as fully funding SEEK may be more or less than the amount required to fully fund the Final SEEK calculation. If Final SEEK is over-funded, the extra amount may be directed to other areas as specified by the General Assembly. If Final SEEK is under-funded, KDE must reduce each district's allocation by the same percentage, so that total State SEEK dollars equal the amount appropriated.

Figure 4.A displays the sequence of budget formulation and official SEEK calculations, using an example of a hypothetical FY 2002. In this example, FY 2002 is referred to as the "out year" of the biennium in that it is the latter of the two years for which the budget is being formulated. For any year, SEEK calculations first appear as part of the Agency Biennial Budget Request issued prior to the even-year regular session. In this case, the request for FY 2002 was issued in November 1999.

Figure 4.A
Typical Time Line of Budgeting and Reporting
Hypothetical FY 2002 Time Frame



Source: Compiled by Program Review staff based on interviews with KDE, GOPM, and LRC Budget Review staff.

KDE Agency Request

KDE submits its budget request by the November prior to the even-year regular session. The SEEK funding request is based on projections of district-level variables.

All agencies submit their budget request by the November prior to the even-year regular session. The KDE request for SEEK funding is based on projections of district-level variables combined with two statewide variables.

Each of the projected *district-level* variables differ in the effect that they have on state SEEK funding. Table 4.1 shows the impact on State SEEK funding resulting from a one percent change in each of the key district-level input variables.

The most critical projected variables are Funded ADA and Assessments.

The most critical projected variables that affect State SEEK dollars are Funded ADA, which includes the Growth Factor, and Assessments. Slight changes in these equate to millions of dollars of changes to the General Fund.

Table 4.1
Sensitivity of State SEEK Dollars
to One Percent Increase in Input Variables
Using 2002 Fully Funded Final SEEK Figures

Input Variables	1% Increase Amount	Effect on State SEEK
Assessments	$1.9 billion	$6.6 million decline (0.3%)
Funded ADA	5,693	$19.5 million increase (1.0%)
At-risk	2,489	$1.2 million increase (0.1%)
Exceptional Students	847	$2.9 million increase (0.2%)
Home & Hospital	16	$48,000 increase (0.0%)
Transportation	$1.9 million	$1.9 million increase (0.1%)

Source: Program Review staff analysis of SEEK formula.

Three-year trend lines are commonly used to project each district's input variables, such as attendance, special-needs students, transportation costs, and assessments.

Table 4.2 lists each of the district-level input variables and their usual means of projection. For most district-level variables, a simple three-year trend is used to project the two years of the biennium. The agency may vary from this method if trends are known to be changing. For example, if a trend is known to be flattening or reversing, the agency may switch to carrying forward the current-year figure.

Table 4.2
Projection Method for District-level SEEK Input Variables

District-level Variable	Agency's method of projection *
Prior-year average daily attendance (ADA)	Three-year trend
Two-month ADA	Three-year trend
At-risk students	Three-year trend
Exceptional needs students	Three-year trend
Home & hospital students	Current-year number carried forward
Transportation costs	Three-year trend
Levied equivalent rate	Current-year number carried forward
Assessments	Three-year trend adjusted for unusual changes such as addition of unmined coal and exemption of inventory in transit. Resulting projection is pro-rata adjusted so the total matches Revenue Cabinet projections.

* "Three-year trend" means that a trend line is fit to the most recent actual three years of data using an Excel spreadsheet function. The line is used to project the two years of the biennium.

Source: Compiled by Program Review staff from interviews with KDE staff.

Note that current-year figures are carried forward for home and hospital student counts, and for levied equivalent rate. Home and hospital counts are fairly flat and do not represent a significant share of SEEK dollars. The projected levied equivalent rate affects SEEK dollars only if it is less than the full Tier I rate. Currently, only eight districts fall below full Tier I.

Each district's projected assessments are adjusted so that total statewide assessments match Revenue Cabinet projections.

Assessments represent a key part of the projection. They too are projected using a three-year trend; however, the resulting total is forced to match Revenue Cabinet projections of assessments. This is done using a pro-rata adjustment. For example, if the Revenue Cabinet projection is 0.5 percent less than the KDE three-year trend projection, KDE will reduce the projected value of each district by 0.5 percent to yield the same total.

The equalization level is derived from the district-level projections of Assessments and Funded ADA.

Once the district-level variables are projected, the two statewide variables, equalization level and guaranteed base per pupil, can be determined. The equalization level, which affects state Tier I and Facilities Support Program of Kentucky (FSPK) dollars, is derived from statewide totals of projected assessments and projected students. The equalization level is 150 percent of the statewide total assessments divided by number of pupils (Funded ADA).

Guaranteed base per pupil is set so that SEEK totals fall within given constraints.

The remaining variable, statewide guaranteed base per pupil, is the figure that the agency must set in order for the SEEK formula to provide totals that fall within constraints set by the budget instructions approved by the Legislative Research Commission. If the resulting aggregate request is greater than guidelines set in the budget instructions, the agency identifies the additional amount as an Additional Budget Request item.

The percent change in guaranteed base per pupil may determine the pay raises received by teachers. Beginning in FY 2005, teachers' pay raises will be at least equal to that of state government employees and will set a lower bound for Base SEEK funding.

It should be noted that the guaranteed base per pupil may affect the pay raises that teachers receive. Prior to the 2002 Regular Session, KRS 157.420 specified that the percent change in teacher pay for any given year is the lesser of the percent change in the Consumer Price Index or the percent change in guaranteed base per pupil. House Bill 402 of the 2002 Regular Session, enacted and signed into law, specifies that beginning with the 2004-2006 biennium (FY 2005), teachers will receive a raise at least equal to state government workers, *and* that Base SEEK dollars shall be increased by the statewide dollar value of the annual required cost-of-living percentage increase applied to the sum of the previous year's statewide teachers' salaries. With this change, teachers' pay raises will be determined outside of the SEEK formula and the selected percentage increase for salaries will set a lower bound for increases in SEEK funding.

Governor's Recommendation

The Governor's Recommended Budget is submitted to the General Assembly in the latter part of January of the even-year regular session.

After the submission of the KDE Agency Request, the Governor formulates the Recommended Budget for the entire branch, which is submitted to the General Assembly in the latter part of January of the even-year regular session. In the case of FY 2002, this submission was in January 2000.

The cabinets submit budgets individually under the guidelines of the Budget Instructions. The Executive Branch has the benefit of a more comprehensive allocation of resources across agencies, but is subject to restrictions imposed by the official revenue estimates, as opposed to the Budget Instructions. In the process of allocating General Fund resources, the Governor's Recommendation may change the amount of SEEK funding.

Prior to the current biennium, the Executive Branch has used KDE's district-level projections in formulating its recommended budget.

Prior to the current biennium, the Governor's Recommendation has almost always used the district-level projections from KDE's Agency Request, with any change in SEEK funding reflected in the guaranteed base per pupil. In fiscal biennium (FB) 1998-2000, the recommendation did increase assessments slightly over the amount in the Agency Request due to the availability of more current information.

The FB 2002-2004 recommendation modified Funded ADA and assessments. Language in the recommendation reflected this change in approach.

The FB 2002-2004 Budget Recommendation submitted to the General Assembly in the 2002 Regular Session represented the first time that changes were made to KDE's Agency Request projections for Funded ADA and assessments. Standard language in prior budget recommendations was:

> The proposed budget is sufficient to accommodate the Department of Education's projected number of pupils in average daily attendance . . . .

The effect of changing projections was to reduce the state cost for any given guaranteed base amount.

The language in the most recent recommendation (FB 2002-2004) was:

> The proposed budget incorporates a consensus estimate reached by the Kentucky Department of Education and the Office of State Budget Director as to the number of pupils in average daily attendance . . ..

Because the Governor's Recommendation adjusted Funded ADA downward and assessments upward, the effect was to reduce the state cost for any given guaranteed base amount. The projections call for funding per student and the higher assessments increase the thirty cent required local effort, which reduces the state's share of adjusted base guarantee.

Enacted Budget

Typically, the district-level projections underlying the Governor's Recommendation are not adjusted during the General Assembly's markup of the budget. However, in FB 2000-2002, a technical amendment subsequent to submission of the Governor's Recommendation increased projected assessments, which lowered state SEEK dollars. The technical amendment also increased projected ADA upward by approximately 1,000 students in each year of the biennium.

Typically, the General Assembly adjusts only the statewide guaranteed base per pupil.

The statewide guaranteed base per pupil is usually the one figure that might be changed during the General Assembly's markup of the budget. Usually an upward adjustment is made when additional resources are identified. For example, in the 2002 Regular Session, the Governor's Recommended Budget had a guaranteed base per pupil of $3,066, unchanged from the prior year, as requested by KDE. During the General Assembly's deliberation of the budget, one scenario included a 2.7 percent increase in guaranteed base per pupil to $3,149. This version, with the 2.7 percent increase, was introduced as House Bill 1 in the 2002 1st Extraordinary Session and is the basis for the Governor's Spending Plan.

The Budget Bill specifies the guaranteed base per pupil and the equalization level.

All versions of the budget bill explicitly state the guaranteed base per pupil for each year of the biennium, the equalization level for the biennium, and the dollars appropriated for SEEK in each year of the biennium.

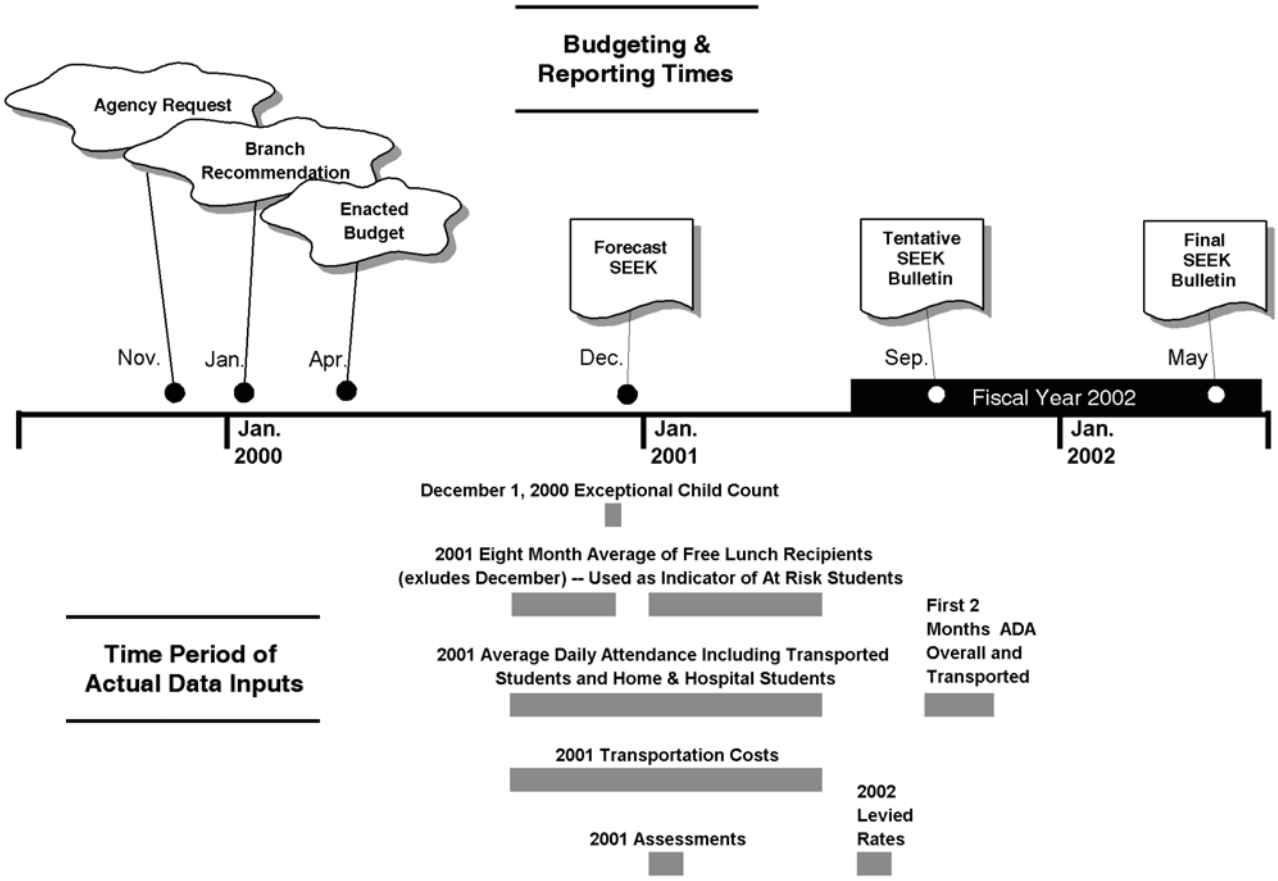
Time Frames of Actual SEEK Inputs

The amount that each district receives depends on the actual values of its SEEK input variables such as ADA and assessments.

Once the guaranteed base and equalization level are set in the budget, the amount that each district receives is entirely dependent on the actual values of the district-level variables. **Figure 4.B** augments the previous **Figure 4.A** by adding gray bars at the bottom to indicate the time periods of the actual inputs to the FY 2002 SEEK formula. Note that the actual data related to a given input cannot be available until some point after the end of the given gray bar (the time period it covers).

As can be seen in **Figure 4.B**, at the time that Forecast SEEK is released in December 2000, little or no actual data is available. The input values used represent projections made in the same fashion as that used for the Agency Request, although with more updated figures when available. Also, prior to release of Forecast SEEK, KDE sends each district the historical and projected values used in its calculation and asks for any revisions that the district views as warranted. When all input is received, the Forecast is run and provided to the districts to use in formulating their Draft Budgets.

Figure 4.B
Time Frame of Actual Data Inputs
Relative to Budgeting and Reporting Times
Hypothetical FY 2002 Time Frame



Source: Compiled by Program Review staff based on interviews with KDE, GOPM, and LRC Budget Review staff.

The next official SEEK calculation is the Tentative SEEK Bulletin released in late August or September 2001. This is the first released calculation that includes actual, or real, input data. This data includes prior year ADA (overall and transported students), exceptional child counts, at-risk counts, transportation costs, and current

year assessments for a majority of districts. Tentative SEEK does not include any actual growth factor adjustments, either overall or for transported pupils.

Levied equivalent rates are also not actual values, but the overall effect is not significant because this calculation only affects the eight districts that are not full Tier I. Also, the amount used for Tier I calculation is the lower of base year and current year levied equivalent rate, and since levied equivalent rates generally go up if they change at all, the base year rate will usually apply.

Tentative SEEK is released in late August or September.

Tentative SEEK is released in late August or September. The black bar in **Figure 4.B**, representing a hypothetical FY 2002, illustrates that the school year is already underway before the earliest date that Tentative SEEK could be released. Monthly SEEK payments to districts for July and August are always based on the Forecast SEEK amount divided by 12.

After the Tentative SEEK Bulletin is released, the payments already made are subtracted from the newly calculated amount, and the remainder is divided by the number of remaining months to determine the new monthly payment.

There may be other Tentative SEEK calculations subsequent to the release of the Tentative SEEK Bulletin. These are not officially published, but may be shared with individuals involved with preparation of the budget in order to have available the most current information.

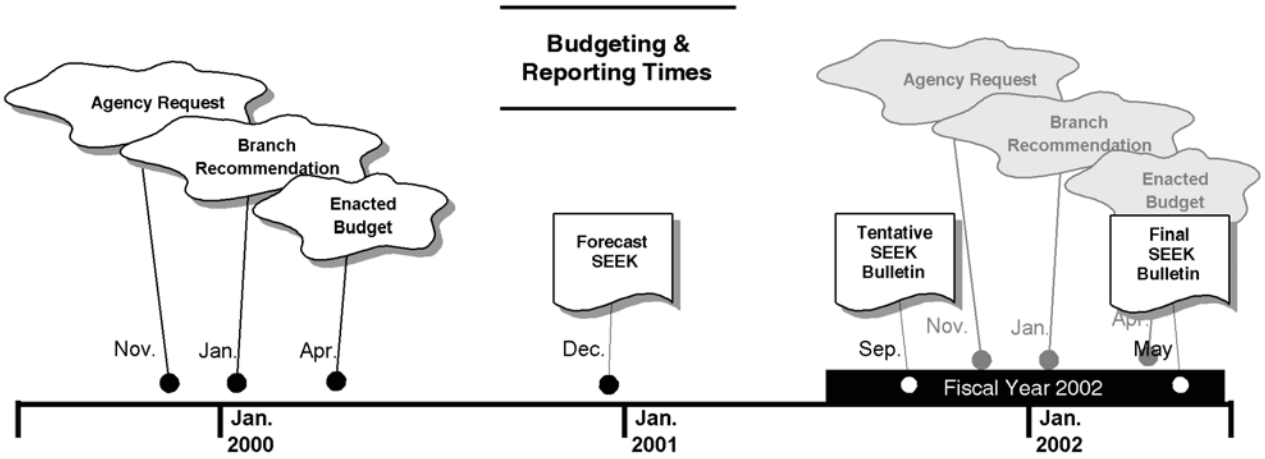
Final SEEK is generally done around May, before the end of the fiscal year.

Final SEEK is generally done around May, before the end of the fiscal year. It includes Funded ADA, which reflects prior year ADA plus actual Growth Factor. Calculated transportation is also adjusted to provide growing districts with additional funding. The data also reflects any corrections to prior inputs and it includes a nearly complete set of current year assessments. Some counties consistently miss the deadline for assessments. Districts that submit assessments after the release of the Final SEEK Bulletin are adjusted in the following year.

It should be noted that the different SEEK calculations presented are for *only one year* (2002) spread over several years. At the same time that some of these versions are being done, the same area within KDE is certifying tax rates and calculating SEEK for another year. For instance, Forecast SEEK for 2002 that goes out in December 2000 is done soon after Tentative SEEK has been distributed for 2001. Tentative SEEK for 2002 may be released shortly after the completion of the tax rate certification process,

which is also very data intensive. As noted in **Figure 4.C**, Tentative SEEK for 2002 may be due about the same time that the next biennial budget formulation cycle is beginning.

Figure 4.C
Time Frame of Actual Data Inputs
Relative to Budgeting and Reporting Times Regular Sessions 2000 and 2002
Hypothetical FY 2002 Time Frame



Source: Compiled by Program Review staff based on interviews with KDE, GOPM, and LRC Budget Review staff.

Issues Related to SEEK Funding for FY 2002 and FY 2003

The SEEK formula allocates over 25 percent of the General Fund, so signifcant revenue shortfalls are likely to affect the formula.

Since the SEEK formula allocates over 25 percent of the General Fund, it is to be expected that significant revenue shortfalls may have an impact on SEEK funding. In FY 2002, SEEK was originally over-funded but the first round of budget reductions resulted in less than full funding once final calculations were made. In FY 2003, preliminary estimates indicate that the Governor's Spending Plan does not fully fund SEEK. A detailed discussion follows.

The following presents a synopsis of events related to recent problems and confusion regarding the funding of SEEK.

- SEEK had been over-funded in the three years prior to FY 2002. This means that the Final SEEK calculation required fewer dollars than what had been appropriated originally.
- The amount of SEEK Base Funding was increased in FY 2001 because the original appropriation was found to be over-funding the formula by $37 million.
- KDE calculated Tentative SEEK for FY 2002 on August 31, 2001.

- In early September 2001, the SEEK FY 2002 budget was reduced by $50 million in the first Budget Reduction Order issued by the Governor for that fiscal year. Tentative SEEK was under-funded by $8 million.
- Figures underlying the Agency Requested Budget for FY 2003, prepared in November 2001, do not fully reflect increased transportation costs observed in the Tentative SEEK calculation.
- $15.9 million dollars was restored to the SEEK budget in late December 2001, which would over-fund SEEK by $8 million relative to the Tentative calculation.
- In late February 2002, final calculations revealed SEEK to be $20.9 million higher than the Tentative SEEK calculation. This was mostly due to Growth Factor that was higher than expected, which caused SEEK to be under-funded by $12.9 million. This issue led to the initiation of this study.
- The Governor's Recommendation adjusted projected pupil counts and assessments in a manner that reduced projected state costs by approximately $9.5 million.
- Updated information available in the FY 2002 Final SEEK calculation of February 2002 showing further increases in transportation costs was not incorporated into the versions of the budget considered by the General Assembly or the subsequent Governor's Spending Plan.

Historical Over-Funding of SEEK

SEEK had been over-funded in the three years preceding FY 2002. The greatest amount was $61.7 million in FY 2000, representing 3.4 percent of the Final SEEK total.

At the time of the first Budget Reduction Order in FY 2002, recent experience had shown SEEK to be consistently over-funded. **Table 4.3** shows the four fiscal years prior to FY 2002 relative to original appropriations. The prior three years had overages, some of which were directed to full-day kindergarten, some directed into the formula by adjusting guaranteed base, and others allowed to lapse. In the context of the total SEEK formula, the greatest over-funding, in FY 2000 ($61.7 million), represented 3.4 percent of the Final SEEK total for that year.

Table 4.3
SEEK Over-Funding by Original Appropriations

Fiscal Year	Over-Funding ($ million)	Resolution
1998	$0.3	To full day kindergarten and preschool
1999	$16.6	$1.1 million reduction to appropriation; $10.2 million to full-day kindergarten; $5.4 million lapse
2000	$61.7	$1.1 million reduction to appropriation; $37.8 million to full-day kindergarten; $22.8 million lapse
2001	$37.0	Increase guaranteed base in Final SEEK from $2,994 to $3,046.33 to distribute over-funded amount

Source: Compiled from data provided by LRC Budget Review staff.

FY 2002 Budget Reduction

In the first round of budget reductions, early in FY 2002, $50 million was reduced from the enacted SEEK appropriation.

Given the historical context of over-funding of SEEK noted in **Table 4.3**, the original SEEK appropriation for FY 2002 was reduced by $50 million early in FY 2002 (September 2001) in the first round of budget reductions. This reduction occurred about the same time as the calculation of the Tentative SEEK Bulletin. Some of this reduction was restored in December 2001 to bring the net reduction to $34.1 million. Subsequently, when Final SEEK was calculated, it was found to be under-funded by $12.9 million.

Table 4.4 provides detail behind the FY 2002 SEEK calculations. The gray cells highlight items with substantial contribution to differences between the different versions of SEEK. Note that the Enacted version had a greater Funded ADA than the Final version and a lower required local effort. These items contributed to over-funding of SEEK. Transportation was also over-funded in the Enacted projection, although dollars for Exceptional Children had been under-projected.

Tentative SEEK underestimated the Growth Factor for both prior year ADA and for transportation, making Tentative SEEK lower than the Final SEEK calculation.

Tentative SEEK underestimated the Growth Factor for both prior year ADA and for transportation, making Tentative SEEK lower than the Final SEEK calculation. The Tentative SEEK Bulletin projected $1,872.7 million in SEEK requirements, which, after the $50 million reduction, would be under-funded by $7.9 million. In late December 2001, $15.9 million was restored to SEEK. This adjustment was not enough, however, to fully fund the Final SEEK formula.

Table 4.4
Components of 2002 SEEK Calculations
Enacted, Tentative, and Final

	Enacted (Apr 2000)	2002 SEEK Tentative (Aug 31, 2001)	Final (Feb 28, 2002)
Guaranteed Base per Pupil	$3,066.00	$3,066.00	$3,066.00
Funded ADA	571,807.0	565,566.4	569,258.4
Growth Factor Included	N/A	1,449.6	4,979.7
Millions of Dollars			
Base Guarantee	$1,753.2	$1,734.0	$1,745.3
At-Risk	$116.9	$114.5	$114.5
Exceptional	$271.8	$289.7	$289.7
Home & Hospital	$5.3	$4.6	$4.6
Transportation	$198.9	$185.8	$193.5
Adjusted Base	$2,346.0	$2,328.6	$2,347.7
Less Required Local Effort	-$552.8	-$573.0	-$572.8
State Tier I Equalization	$121.1	$115.1	$117.6
Hold Harmless	$0.4	$2.0	$1.0
Prior Year Adjustments	$0.0	$0.0	$0.0
Total Adjusted State SEEK	$1,914.7	$1,872.7	$1,893.6
Budget Reduction & Restoration			
LESS $50 million (Sep 7, 2001)	$1,864.7		
PLUS $15.9 million (Dec 26, 2001)	$1,880.6		

Note: Figures provided in this and subsequent tables exclude the FSPK component.

Source: Compiled from data provided by LRC Budget Review staff.

Generally the Tentative Growth Factor is under-projected. In FY 2002, the magnitude of the under-projection was much greater.

The general trend in prior years has been for the Tentative Growth Factor to be lower than the Final. The magnitude of the difference in FY 2002 and FY 2001 was greater than usual. Any growth factor that appears in Tentative SEEK is a projection that comes from the Forecast SEEK process that incorporates input from the districts.

KDE indicates that Forecast SEEK, from which Tentative Growth is built, generally reflects conservative projections from the districts that underestimate their SEEK revenues.

KDE indicates that districts are generally conservative in their estimates for Forecast SEEK. For budgeting purposes, the districts would rather have estimates that underestimate their SEEK dollars so that at the end of the year they will be in a position of having extra money rather than being short.

The pattern exhibited in FY 2002 for Funded ADA, Transportation, and Required Local Effort between Enacted, Tentative, and Final SEEK was similar to that observed in FY 2001. These three components will be examined in greater detail later in this chapter.

FY 2002 under-funding of SEEK occurred because the estimation buffer had been decreased in a Budget Reduction Order.

The FY 2002 Final SEEK calculation (right column of **Table 4.4**) became available in February 2002. At the time, the revelation that FY 2002 was going to be under-funded was perceived as being a late discovery. Actually, as indicated in the previous **Figure 4.C**, this particular Final SEEK calculation was earlier than usual, but according to GOPM staff, was still too late to be incorporated. Also, the degree of revision to Tentative SEEK was not abnormal relative to prior years. What was at issue was that the buffer of over-funding that had existed in the past had already been decreased in a prior Budget Reduction. The prospect of under-funding SEEK, along with questions surrounding the validity of KDE's numbers, provided the impetus for this study.

If the original enacted appropriation had been left intact, SEEK would have been over-funded by $21.1 million.

It should be noted that had the original enacted appropriation been left standing, the Final SEEK calculation would have been $21.1 million over-funded, mostly due to required local effort being $20 million greater than projected in the Enacted Budget. In other words, assessments had been under-projected in the enacted budget, as they had been in 2001. Other than this, the earlier projections of the Enacted SEEK were much closer to Final SEEK than was Tentative SEEK, particularly for Funded ADA and Transportation.

Short-Funding of SEEK in the FY 2003 Spending Plan

The pressures of the revenue shortfall continued into FY 2003. Although a budget was not passed by the General Assembly, the Spending Plan implemented by the Governor used the underlying figures projected in House Bill 1 of the special session immediately following the regular session.

Table 4.5 presents the SEEK components for the different projections of FY 2003: the Agency Request, the Spending Plan, and two Tentative SEEK Bulletins (with and without growth) released in September 2002.

Tentative calculations indicate FY 2003 SEEK is under-funded by $23 to $46 million.

Whereas the Tentative calculations for 2001 and 2002 indicated over-funding of SEEK, both versions of the 2003 Tentative calculations indicate short-funding of SEEK by the Governor's Spending Plan. Note, however, that Transportation is overstated by $8.9 million in the official Tentative calculations due to a data handling error. Taking this into account, the range of short-funded amounts would be restated at $23.2 and $46.3 million.

Table 4.5
Components of 2003 SEEK Calculations
Agency Request, Spending Plan, & Tentative (No Growth & Growth)

	2003 SEEK			
	Agency Request (Nov 2001)	Spending Plan (Jun 26, 2002)	No Growth Tentative (Sep 4, 2002)	Growth Tentative (Sep 4, 2002)
Guaranteed Base per Pupil	$ 3,041.00	$3,149.00	$3,149.00	$3,149.00
Funded ADA	567,370.7	566,537.8	566,299.6	571,387.3
Growth Factor Included	N/A	N/A	-	5,087.7
Millions of Dollars				
Base Guarantee	$1,725.4	$1,784.0	$1,783.3	$1,799.3
At-Risk	$113.8	$117.9	$121.8	$121.8
Exceptional	$299.9	$310.3	$308.5	$308.5
Home & Hospital	$4.6	$4.8	$4.5	$4.5
Transportation	$186.1	$186.1	$208.4	$213.5
Adjusted Base	$2,329.8	$2,403.1	$2,426.5	$2,447.7
Less Required Local Effort	-$595.6	-$601.2	-$594.7	-$594.7
State Tier I Equalization	$132.1	$135.4	$137.3	$139.8
Hold Harmless	$6.3	$0.6	$0.7	$0.2
Prior Year Adjustments	$0.0	$0.0	$0.0	$0.0
Total Adjusted State SEEK	$1,872.5	$1,937.8	$1,969.9	$1,992.9
Short-Funded			$32.1	$55.2

Note: Tentative Transportation as released by KDE is known to be overstated by $8.9 million due to an error in data handling. This would have a slight effect on Tier I also, since Maximum Tier I falls when adjusted base falls.

Source: Compiled from data provided by LRC Budget Review staff.

The Agency Requested Budget for FY 2003 had a guaranteed base per pupil of $3,041, 0.8 percent lower than in FY 2002. The Governor's Recommendation (not shown) maintained the FY 2002 guaranteed base per pupil. The Governor's Recommendation, however, adjusted Funded ADA downward from the Agency Request and adjusted required local effort (based on assessments) upward from the Agency Request. As noted earlier in this chapter, this was a departure from normal practice and had the effect of reducing the state costs for any given guaranteed base per pupil. In this case, state SEEK formula costs were reduced by approximately $9.5 million using the guaranteed base per pupil of $3,066. These revised projections continued through the remaining versions of the proposed budget. The FY 2003 Tentative SEEK Bulletins released in September 2002 showed the Agency Request projections for Funded ADA and assessments to be more accurate.

As noted in **Table 4.5**, the Governor's Spending Plan increased the guaranteed base per pupil for FY 2003 by 2.7% to $3,149, at an additional cost of around $58 million over the Governor's Recommended Budget that was submitted in the 2002 Regular Session. However, projected transportation costs for FY 2003 remained unchanged at $186.1 million even though the FY 2002 Final SEEK calculation of February 2002 revealed transportation costs for that year to be $193.5 million.

Projections vs. Actual Amounts for Three Key Variables

The following is a closer examination of three key input values that have been a large factor in the difficulty of projecting total state SEEK dollars.

Funded ADA

Figure 4.D provides a complete history of Funded ADA since the implementation of SEEK, dividing the total between prior year ADA (dark) and Growth Factor ADA (light). The figure also appeared in Chapter 2, but this version adds information regarding the projections used in the enacted budget or spending plan (2003) as overlaid circles, when data were available.

Funded ADA has proven difficult to project.

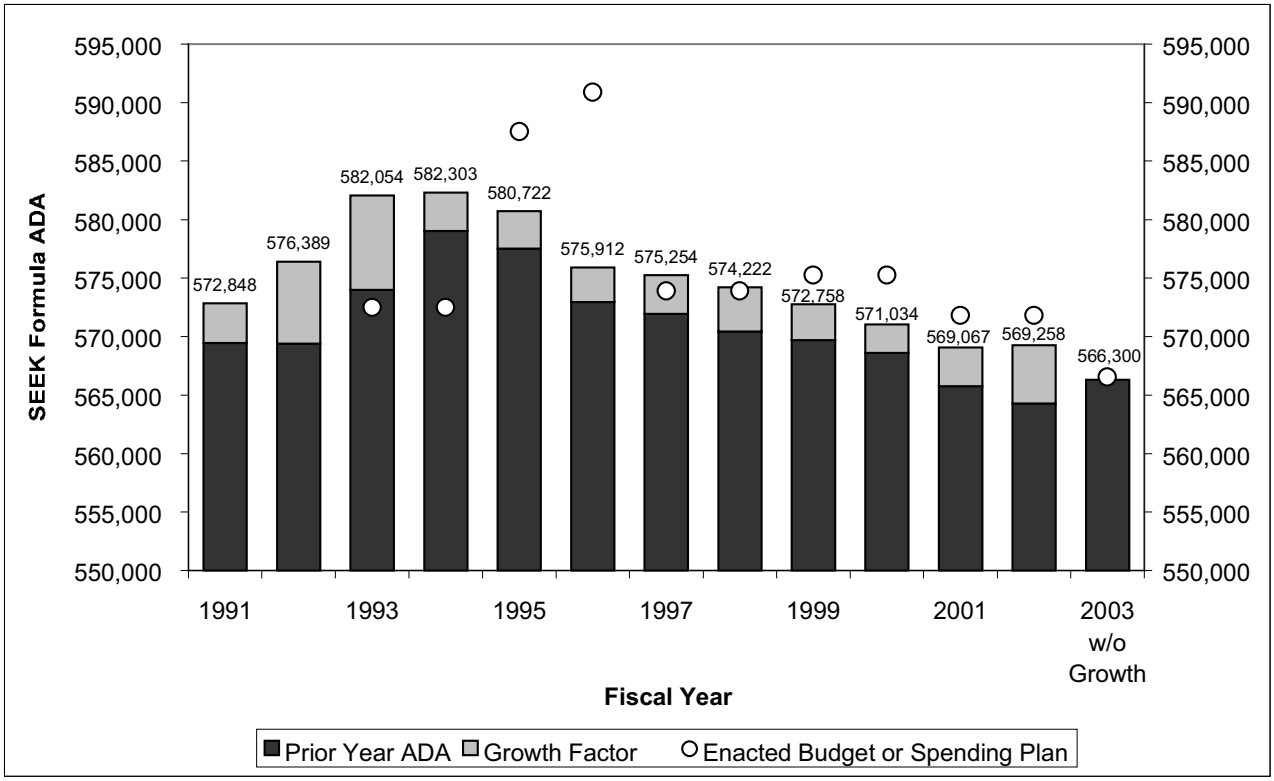
As can be seen, Funded ADA has been a difficult target to project. Most notably, in the Regular Session of 1992, the projected Funded ADA for FY 1993 and 1994 represented a flat-line projected from 1991 (at the time of the Agency Request, the growth factor for 1992 would not have been known). Staff who are familiar with the history indicate that KDE came to the General Assem-

bly late in the session to inform legislators of the additional student counts. Money was not available, so SEEK was under-funded.

Funded ADA has been declining for the last ten years.

In the following biennium (FB 1994-1996), the newly encountered "trend" was carried forward in the projections. However, as can be seen in **Figure 4.D**, the actual Funded ADA came in much lower and SEEK was over-funded in 1995 and 1996. The following biennium (FB 1996-1998) was projected very close to actual. The following two bienniums were somewhat over-projected because the counts were flat-lined out for the biennium, but Funded ADA was trending down.

Figure 4.D
Actual Funded ADA Compared to Enacted Budget Projections
Fiscal Years 1991 to 2003 (Tentative)



Source: Compiled from data provided by KDE and LRC Budget Review staff.

FY 2003 appears to reverse the trend of declining Funded ADA.

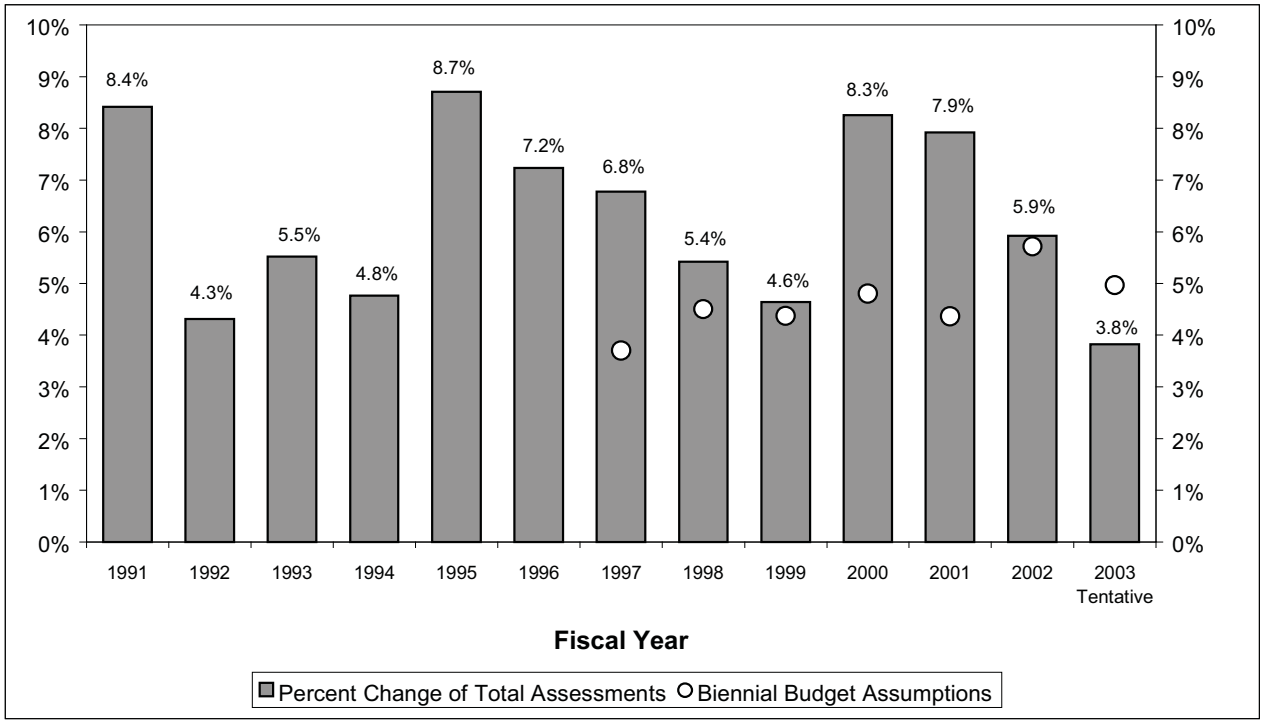
Tentative Funded ADA (without growth) for 2003 appears to represent a moderate reversal of trend. It is not clear what has caused this but without growth factor added, the prior year ADA is nearly the amount projected for Funded ADA. This contributed to short-funding of SEEK for 2003, particularly when any Growth Factor is added.

Assessments

Figure 4.E portrays the percent change in total assessments from the prior year for each year since the implementation of the SEEK formula. A similar figure is also discussed in Chapter 2, the additional circles overlaid in this figure provide the comparative projected increases that were in the enacted budget, when available.

The budgeted percent changes are calculated differently depending on whether it is for the first or second year of the biennium. For the first year of the biennium (odd numbered years), the percent change represented by the circle is the percent change from the prior year's actual figure. For the second year or "out year" of the biennium, the circle represents the percent change from the projected amount for the first year in the budget. This is common practice when presenting percent changes in budgeted figures.

Figure 4.E
Percent Change in Total Assessments
Fiscal Years 1991 to 2003 (Tentative)



Source: Compiled from data provided by KDE and LRC Budget Review staff.

In all years but 2003, the percent change in assessments in the budget assumptions falls below what actually occurs.

In all years but 2003, the percent change of assessments in the budget assumptions falls below what actually occurs. This pattern of under-projecting growth in assessments leads to consistent over-funding of SEEK because actual local-effort comes in higher than projected and the state's share of adjusted base is therefore lower. However, as can be seen, assessments for any single year are hard to project. Historically, the error has been on the side of over-funding. It should be mentioned that the 2003 projected assessments as contained in the original Agency Request represented a four percent increase over the prior year, rather than the five percent in the adjusted Governor's Recommendation.

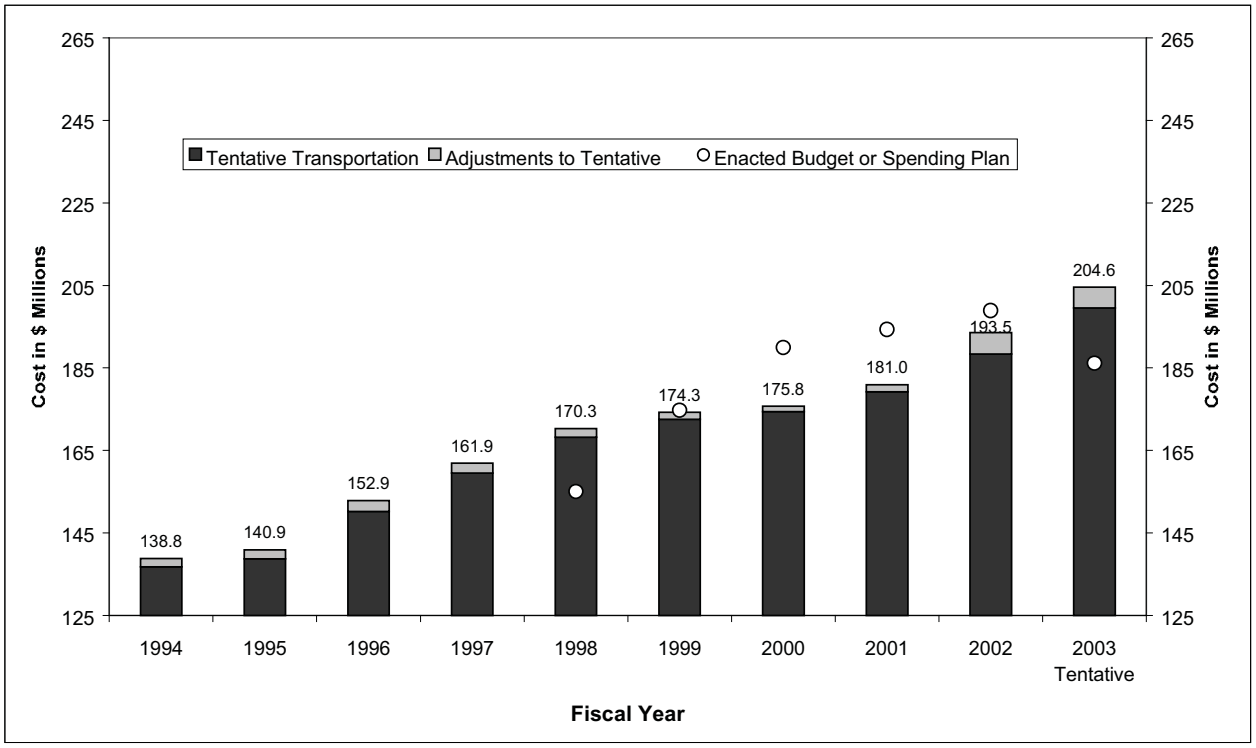
Transportation Costs

Figure 4.F provides SEEK calculated transportation costs for FY 1994 through FY 2003 tentative. The lighter gray section of the bar presents the transportation growth factor component. Note that the figures presented here for 2003 tentative are revised downward by $8.9 million from the official Tentative SEEK Bulletin due to a data handling error discovered during this review, as noted in Chapter 3.

Transportation costs increased in FY 2002 and FY 2003.

The overlaid circles provide the figures that underlie the enacted budget or spending plan (2003). Two things become apparent when examining this chart. First, there was an uptick in transportation costs in FY 2002 and, to a lesser extent, FY 2003. Second, the figure in the FY 2003 spending plan is considerably lower than the Tentative amount of $204.6 million. KDE officials have indicated that difference occurred because the budgeted figure was first derived in the Agency Request of November 2001 (see **Figure 4.C**). They state that the 2002 transportation figures were not known at the time, so the $186.1 million carries forward the trend that was known through 2001. The trend can be observed on the graph. If a line is plotted through the tops of the bars from 1999 through 2001, it intersects the overlaid circle in 2003.

Figure 4.F
Calculated SEEK Transportation Costs
Fiscal Years 1994 to 2003 (Tentative)
($ millions)



Source: Compiled from data provided by KDE and LRC Budget Review staff.

Two issues of note regarding this explanation are:

- At the time of the Agency Request in November of 2001, Tentative SEEK estimates showed transportation costs to be $185.8 million for 2002 (**Table 4.4**), without the actual growth factor included. Therefore, $186.1 million seems to be a low projection for FY 2003.

- Ample time existed subsequent to the Agency Request to make revisions to the transportation figure, particularly with the resubmission of the proposed budget in the special session. By this time, Final SEEK for 2002 was known to have calculated transportation costs of $193.5 million, but the calculated transportation costs underlying the 2003 proposed budget ($186.1 million) were not revised upward.

Conclusion

In summary, the following items appear to have played a significant role in what occurred in FY 2002 and FY 2003:

- Since the inception of SEEK, it has proven difficult to project assessments and student counts, both of which have a great impact on state SEEK dollars.
- In the recent past, the projection errors have often led to over-funding of SEEK.
- Revenue shortfalls have increased pressures to remove any over-funding of the SEEK formula.
- The Agency Requested Budget of November 2001 appears to have underprojected transportation costs for FY 2003 relative to estimates for FY 2002 that were available at the time.
- A $50 million budget reduction in early FY 2002 was partially restored in December 2001 based on available cost estimates. The final calculation in February 2002, however, revealed SEEK to be under-funded by $12.9 million because of increased student counts.
- Tentative SEEK often underestimates what Final SEEK will be, in part because of districts' tendency to estimate their SEEK revenue conservatively. In FY 2002, a substantial increase in Growth Factor somewhat magnified this difference.
- A ten-year trend of declining student counts has reversed slightly, leading to recent under-projections.
- Executive Branch adjustments to KDE's FY 2003 budget projections for student counts and assessments contributed to the short-funding of SEEK in FY 2003.
- Updated information available from the FY 2002 Final SEEK calculation of February 2002 showed further increases in transportation costs and student counts but was not incorporated into the versions of the budgets considered by the General Assembly or the subsequent Governor's Spending Plan.

It appears that the difficulty of projecting ADA and Assessments is not a new phenomenon. In the past, however, projection errors were offset by the regular, if not necessarily intended, pattern of SEEK over-funding. The under-funding of

SEEK in FY 2002 appears to be due to the fact that budget reduction orders removed the traditional cushion provided by over-funding before newly available data was incorporated into revised estimates. A reversal in the ten-year trend of declining student counts added to the magnitude of the error. The short-funding for FY 2003 is the result of adjustments to student counts and assessments made in the Governor's Recommendation, along with increased transportation costs that were not incorporated into projections.

CHAPTER 5

SURVEY OF KENTUCKY SCHOOL SUPERINTENDENTS

Staff surveyed school superintendents to elicit their opinions about aspects of SEEK.

The Program Review and Investigations Committee instructed staff to survey school superintendents to elicit their opinions about aspects of SEEK. A web-based survey was emailed to all 176 superintendents during August 2002. The survey elicited superintendents' views on:

- Funding in their districts compared to funding before SEEK;
- Current funding compared to other districts;
- The weights of the formula add-ons, such as at-risk children, exceptional children, home and hospital, and transportation costs;
- Their overall satisfaction with SEEK;
- The amount of funding provided through the SEEK formula; and
- Other aspects of the program.

Seventy-four percent of superintendents completed surveys.

A detailed description of the methods, the representativeness of the sample, a copy of the questionnaire, and frequency tables of the responses to all of the questions are included in **Appendix F**. The survey yielded a high response rate, with completed surveys from 130 districts (74 percent). As discussed in Appendix F, the districts for which questionnaires were returned seem representative of all districts in the state.

The survey responses provide information about how different types of districts perceive their funding through SEEK, as well as how the components of SEEK are viewed. The major conclusions from the survey are as follows:

- A large majority (74 percent) of superintendents are more satisfied with their funding through the SEEK program than

they were with previous funding, but superintendents from the wealthiest districts are not.

- A large number of superintendents express dissatisfaction with particular aspects of the formula. The major areas of dissatisfaction are with the add-on amounts, permissive taxes, and the complexity of the formula.
- The wealthiest districts rate their funding as worse in comparison to others. The majority of the poorest districts rate their funding as about the same or better than other districts.
- A common theme throughout the survey responses is that the SEEK program itself is not a hindrance to providing a quality education; superintendents feel that the issue is that SEEK needs to be better funded.

Superintendents' Perceptions of Funding

Of the districts that responded to the survey, 74.4 percent indicated that their current funding is better than it was before SEEK.

Most superintendents perceive that funding for their districts is *better* than it was before.[7] **Table 5.1** shows that of the responding superintendents, three-fourths indicate that their districts' current funding is *better* than it was before SEEK. When asked to rate their funding compared to other districts, 37.2 percent rate their funding as *worse*, while only 21percent rate their funding as *better*, and less than half said their district's funding was *about the same* as others. One would expect that the majority of superintendents would rate their district's funding as *about the same* since SEEK is supposed to make school funding more equal across school districts. Interestingly, many more superintendents (48) rate their districts' funding as *worse* than rate it *better* (27). If both groups accurately perceived the relative position of their districts, those numbers should be about equal.

[7] Surveys were sent directly to superintendents, who could have someone else complete them. Superintendents (81.5%) completed most of the surveys, so this chapter will refer to respondents in this way.

Table 5.1
Perceptions of SEEK Funding

	1. Compared to the period before SEEK, how would you rate your district's current funding?	2. Compared to other districts, how would you rate your district's current funding?
Much Worse	5.4% (7)	8.5% (11)
Somewhat Worse	15.5% (20)	28.7% (37)
About the Same	4.7% (6)	41.9% (54)
Somewhat Better	37.2% (48)	17.1% (22)
Much better	37.2% (48)	3.9% (5)
Total	100.0% (129)	100.0% (129)

Source: Survey of Kentucky School Superintendents

So far the chapter has summarized the views of all superintendents. It seems reasonable to assume that superintendents' views will differ depending on the characteristics of their districts. The next sections of the report assess whether superintendents perceive SEEK differently depending on the wealth of their district or the number of students in their districts.

Wealth

To determine if wealth impacts superintendents' views and/or accounts for differences among independent and county districts, districts whose superintendents responded were divided into approximately four equal categories—or quartiles—based on wealth, as measured by assessment per pupil. Districts were ranked from lowest to highest wealth, with the lowest 25 percent placed in the first quartile and the highest 25 percent placed in the fourth quartile. This process was also completed for all school districts, whether their superintendents responded to the survey or not. **Table 5.2** displays the average and median assessment per pupil for each group. Due to similarity between the two, the wealth quartiles for the respondents were utilized so that each would have approximately the same number of districts.

Table 5.2
2002 Wealth Quartiles

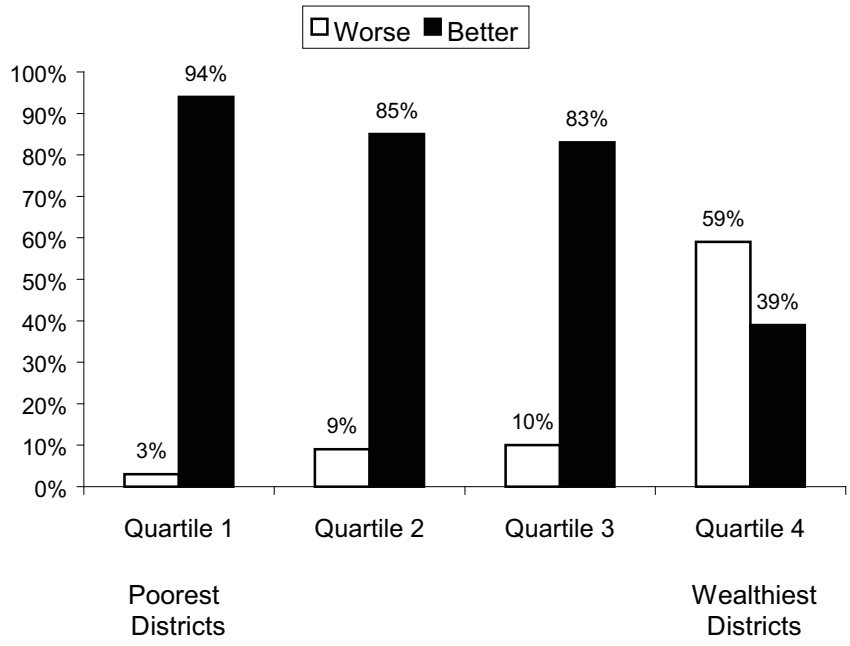
Assessment-per-Pupil Quartiles:		1	2	3	4
All Districts	Average	$136,067	$208,774	$271,173	$394,129
	Median	$138,868	$208,363	$270,077	$368,082
Districts Returning Questionnaires	Average	$129,384	$206,853	$263,548	$377,982
	Median	$130,925	$207,078	$261,988	$333,640

Source: Survey of Kentucky School Superintendents

Districts with the lowest assessment per pupil rate current funding most favorable. Districts with the highest assessment per pupil rate current funding worse than funding before SEEK.

As depicted in **Figure 5.A**, large majorities of superintendents in the first three quartiles say that their districts' funding is *better* than it was before SEEK. Almost 94 percent of superintendents from the poorest quarter of districts feel that funding has improved. Almost 60 percent of superintendents from the wealthiest fourth of districts report that their current funding is *worse* than before SEEK.

Figure 5.A
District's Current Funding Compared to Period Before SEEK
Response by Assessment Quartile

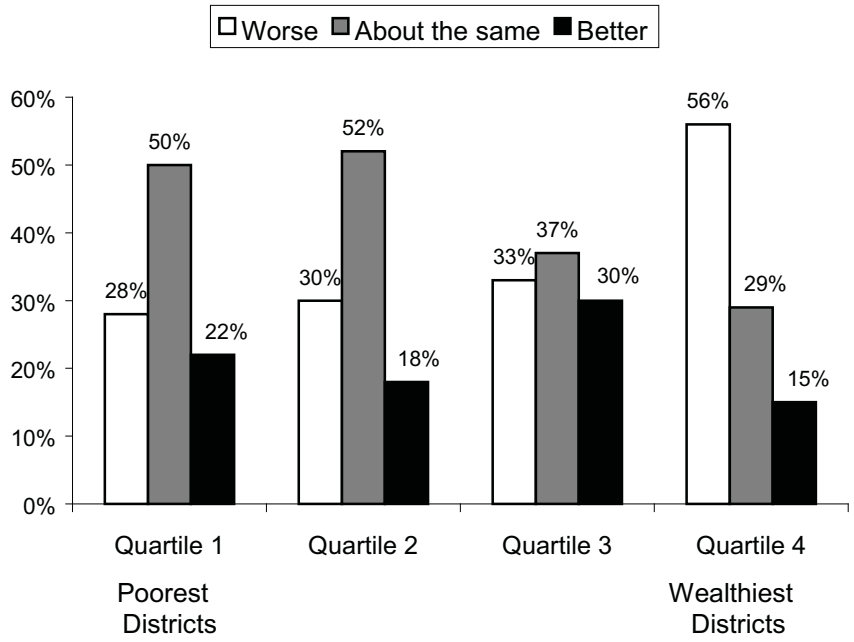


*Note that the *about the same* response category was omitted from this figure
Source: Survey of Kentucky School Superintendents

Superintendents' views of how their districts' funding compares to others vary by the wealth of their districts.

Figure 5.B shows that about half of the superintendents from districts in the lower two wealth quartiles rate their funding as the same as other districts. About a third of superintendents from the second wealthiest group of districts say their districts' funding is better than others. Over half (56 percent) of the superintendents from the wealthiest districts say their funding is *worse* than others.

Figure 5.B
District's Current Funding Compared to Other Districts
Response by Assessment Quartile



Source: Survey of Kentucky School Superintendents

Number of Students

For the most part, the number of students in a district does not affect the perception of funding compared to other districts.

In order to examine whether the number of students in a district and superintendents' perceptions of their funding are related, districts were ranked in order from lowest to highest number of pupils and divided into four approximately equal groups—or quartiles—with the lowest 25 percent placed in the first quartile and the highest 25 percent placed in the fourth quartile. **Table 5.3** depicts the average and the midpoint (median) number of students for each quartile for both the 130 completed surveys and all 176 districts. The responding districts are representative of all 176 districts.

Table 5.3
Statistics for Number of Students by Quartile

		2002 Funded ADA			
Quartiles:		1	2	3	4
All Districts	Average	629	1,577	2,563	8,631
	Median	652	1,640	2,451	5,767
Responding Districts	Average	657	1,593	2,567	8,121
	Median	705	1,630	2,477	4,753

Source: Survey of Kentucky School Superintendents

Based on number of students, there is little difference in perception of funding between districts.

Table 5.4 shows the percentage of each response category by number-of-students quartiles. Based on number of students, there is little difference in perception of funding between districts except those districts with the fewest number of students have fewer *much betters* and more *much worses* than the other districts. Unlike with wealth, it does not appear that the size of the district has a major impact on the perceptions of current funding.

Table 5.4
District's Current Funding Compared to Period Before SEEK
Response Based on Number of Students

Rating	Number of Students			
	< 1,040	**1,041-2,020**	**2,021-3,500**	**3,501-80,400**
Much Worse	9.4%	6.1%	3.2%	3.0%
Somewhat Worse	15.6%	12.1%	12.9%	21.2%
About the Same	0.0%	9.1%	3.2%	6.1%
Somewhat Better	46.9%	30.3%	41.9%	30.3%
Much better	28.1%	42.4%	38.7%	39.4%
Total	100% (32)	100% (33)	100% (31)	100% (33)

Source: Survey of Kentucky School Superintendents

Areas of Dissatisfaction

A large number of superintendents express dissatisfaction with aspects of the formula, in particular the add-on amounts, permissive taxes, and the complexity of the formula. The major areas of dissatisfaction are discussed below.

Add-ons

Most superintendents were dissatisfied with how resources are provided for add-ons.

As depicted in **Table 5.5**, most superintendents were dissatisfied with how resources are provided through the SEEK formula for at-risk children, exceptional children, home and hospital students, and transportation costs.

Table 5.5
Whether SEEK Add-ons Reflect
the Amount of Resources Needed

	Amount is:			
	Too low	**Too high**	**About right**	**Totals**
Pupils at-risk	71%	2%	27%	100% (128)
Exceptional children-Severe	83%	1%	16%	100% (129)
Exceptional children-Moderate	79%	2%	19%	100% (128)
Exceptional children-Speech	67%	2%	31%	100% (128)
Home and hospital	49%	2%	49%	100% (127)
Transportation	62%	1%	37%	100% (127)

Source: Survey of Kentucky School Superintendents

Districts reported that exceptional children require more funding than any other student.

Most superintendents report that the extra funding provided for exceptional children is too low: 83 percent of superintendents for severe, 79 percent for moderate, and 67 percent for speech. The themes of written responses were that the costs for exceptional children should be fully funded; that there has never been enough money for exceptional children; and that exceptional children require more funding than any other student.

Children classified as exceptional with severe disabilities increased the most, up 74 percent. This classification is also the one with the most agreement, 83 percent, that the calculated amount is too low.

Chapter 2 noted that despite the overall decline in average daily attendance since 1990, the numbers of students classified as at-risk or exceptional have grown, a 21 percent increase for at-risk and 18 percent for exceptional classifications. The number of children classified as exceptional with severe disabilities increased the most, up 74 percent. This classification is also the one with the most agreement (83 percent of superintendents) that the calculated amount is too low. A typical comment was that "Meeting the needs of this population of students requires more staff and funding per pupil than for any other student." Other respondents indicate that there is a high cost involved with the number of services needed, especially contracting with providers.

Superintendents reported that they spend money above the formula-calculated amount on programs for exceptional children.

Respondents were asked whether their records indicate the amount spent on "exceptional children." Of those that responded yes, 89 percent reported that their records indicate they spend money above the formula-calculated amount on programs for students defined as exceptional children. Of those districts responding that their records do not indicate the amount spent, 67 percent claimed they spend money above the formula calculated amount on programs for students defined as exceptional children.

Seventy-one percent of respondents reported that the calculated SEEK add-on amount is too low for the amount of resources needed for at-risk pupils.

Seventy-one percent of respondents reported that the calculated SEEK add-on amount is too low for the amount of resources needed for at-risk pupils. Although there is general agreement that the calculated amount for students defined as at-risk is too low, only 59 percent of those responding said their records indicate the amount spend on programs specifically for this population. Of those districts, almost all (93 percent) report that they spend money beyond the formula amount.

For the home and hospital add-on, almost half of the districts that responded report the calculated amount is too low and the other half report it as about right.

Respondents report that sparsely populated areas are disadvantaged in transportation costs.

When asked whether the transportation add-on reflected the amount of resources it requires, 62 percent of superintendents said that the weight is too low. Typical written responses included "sparsely populated areas are hurt the worst," "no provision for road conditions/accessibility," and "costs are increasing."

Over half (56%) of superintendents whose transportation costs were reimbursed 100% or more still thought SEEK transportation funding was too low.

As noted in a previous chapter, districts are not reimbursed directly for their transportation costs but get a percentage, which can be lesser or greater than 100 percent, based on how their costs compare to other districts of similar geographic density. Thirty-five percent of superintendents represent districts with reimbursement rates of at least 100 percent, 65 percent are reimbursed through SEEK for less than 100 percent of costs. Two-thirds of those who did not receive 100 percent of their costs thought transportation funding through the formula was too low. Over half (56%) of superintendents whose costs were reimbursed *100 percent or more* still thought SEEK transportation funding was too low.

Permissive Taxes

Superintendents report that districts that have permissive taxes fare better with SEEK. Several written responses characterized the effect of permissive taxes on SEEK funding as inequitable.

Permissive taxes were mentioned throughout the survey in written comments. Over 30 percent of responding superintendents were dissatisfied with the role of permissive taxes in the SEEK formula. When asked w*hich types of districts do better than others,* among the most common written responses was "districts that collect permissive taxes." Permissive taxes provide the tax revenues beyond local property taxes that are included in the levied equivalent rate. Several written responses characterized the effect of permissive taxes on SEEK funding as inequitable.

Complexity of the Formula

Respondents indicated through written comments that SEEK is too difficult to explain to the public.

As should be clear by now, the complexity of the SEEK formula should not be underestimated. Thirty-five percent of superintendents were dissatisfied with *the ease of understanding the formula*. Superintendents indicated through written comments that SEEK is too difficult to explain to the public.

Comments from the SEEK Survey of Superintendents: Ease of Understanding the Formula

"Because the SEEK formula is so hard to understand for the average person, KDE has been able to hide serious problems with the formula."

"Formula is hard to explain to non-school related individuals."

Superintendents Feel That SEEK Does Not Provide Sufficient Resources

The majority of superintendents report that SEEK does not supply sufficient resources to provide students with a quality education.

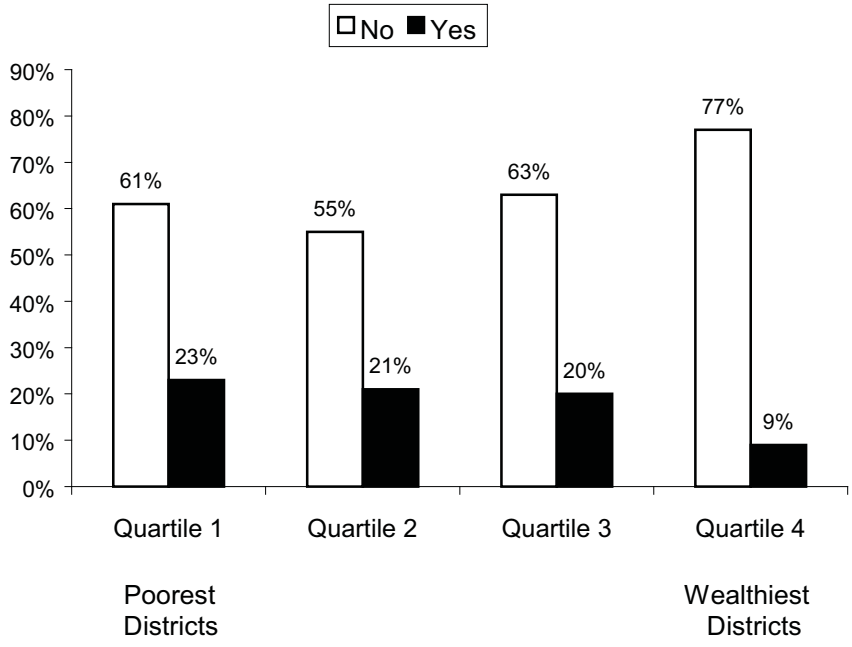
Superintendents were asked if SEEK supplies sufficient resources to provide students with a quality education. The majority of superintendents report that SEEK does not provide sufficient resources to provide students with a quality education (64 percent), while only 18 percent agreed that it did.

The most frequent written explanations by superintendents indicate that the SEEK program itself is not the hindrance to providing a

quality education. The issues identified related more to the overall funding for SEEK. Superintendents' most frequent written answers included: "SEEK is under funded," "unfunded mandates deplete resources," and "increases in funding are not keeping up with increases in program costs."

For some other survey questions, there has been a substantial difference in responses based on the wealth of districts as defined by assessments per pupil. **Figure 5.C** shows the wealth quartiles, ranging from the poorest districts in Quartile 1 to the wealthiest districts in Quartile 4. The majority of superintendents from each quartile do not think that SEEK provides sufficient resources. It should be noted, however, that superintendents from the wealthiest quartile were the most likely to report inadequate funding; less than a tenth said resources were adequate.

Figure 5.C
Whether SEEK Provides Sufficient Resources for a Quality Education
Response by Assessment Quartile



*****Note that the *unsure* response category was omitted from this figure.
Source: Survey of Kentucky School Superintendents

When superintendents were asked what changes they would make to SEEK, the most frequent response was that more funding was needed.

The responses to the last question are characteristic of the entire survey. Similar survey responses to the open-ended question, *What changes would you make to the SEEK formula?,* were coded together into categories. More than one-fourth of all written responses were categorized as *SEEK needs to be adequately funded.* One superintendent wrote, "The formula is OK—it just needs to be adequately funded each biennium." The other frequently written responses were categorized as *increase transportation costs*, *increase "at risk" and "exceptional children" add-ons*, and *use average daily membership rather than average daily attendance*.

Conclusion

School superintendents were surveyed to elicit their opinions about the SEEK formula. The majority of superintendents report that their districts' current funding is better than it was before SEEK, but less than half feel their districts' funding is about the same as other districts. Clear differences emerged based on the wealth of districts as measured by the value of property tax assessments. Majorities of superintendents in the wealthiest districts feel that funding is worse under SEEK than it was before and that their districts' funding is worse than in other districts.

Majorities of superintendents are dissatisfied with particular aspects of the SEEK formula, particularly the amount of money provided for special needs students and transportation costs. When given the opportunity to explain what they would like to see changed, however, the most frequent response by superintendents was that more resources are needed for the program.

APPENDIX A
PRELIMINARY REVIEW OF SEEK FUNDING FORMULA

MEMORANDUM

TO: Members, Program Review and Investigations Committee
Senator Richie Sanders
Representative Harry Moberly

FROM: Ginny Wilson, Committee Staff Administrator
Program Review and Investigations Committee

SUBJECT: Preliminary Review of SEEK Funding Formula

DATE: March 22, 2002

This memo presents a preliminary staff assessment of the SEEK formula components that accounted for the unexpected increase in funding requirements in FY 2002, and which resulted in unexpected increases in the FY 2003 and FY 2004 budgets. These components are district total transportation costs, district transportation growth factors, and overall district SEEK growth factors. The four preliminary questions staff attempted to address regarding these SEEK formula components and the initial conclusions are summarized below. A more detailed discussion of particular issues in the preliminary analysis is presented in the second section of the memo. The more comprehensive review of the SEEK formula and related data components authorized by the Committee will be completed during the coming Interim. All data reported in this memo were obtained from the Kentucky Department of Education (KDE), and Program Review staff would like to acknowledge the considerable assistance provided by staff of KDE in this effort.

Question 1: Why was there a $12.9 million adjustment required in the cost of SEEK funding between the Governor's recommended budget and the revised estimated provided to the House Appropriations and Revenue Committee in late February 2002?

Preliminary conclusion: According to staff of KDE, the estimate built into the Governor's recommended budget was based on a tentative SEEK calculation using preliminary estimates of expected growth and transportation costs. The February figures are the final SEEK calculations incorporating the actual current year growth factors and prior year transportation costs reported by districts. As detailed below, that data showed increases in transportation costs, transportation growth factors, and regular SEEK growth factors that were above those in recent years and above those projected for the Governor's recommended budget.

Question 2: How are these particular components of the SEEK formula calculated and were the calculations done correctly in the February revision?

Preliminary Conclusion: Program Review staff obtained copies of the calculation model for the transportation component. Using the data supplied by KDE, staff were able to independently verify the calculated estimates for the transportation components of the formula presented by KDE in February. Districts submit regular and transportation average daily attendance for the first two months of the current school year. KDE uses these to calculate the regular and transportation growth factors. Analysis by Program Review staff identified a calculation error in the FY 2002 transportation growth factor that caused the dollar amount associated with that factor to be overstated by $1.4 million in the February figures. KDE reports that, anytime a calculation error is identified, the error is corrected and district funding amounts are adjusted the following year. They do intend to make such a correction in this case.

Question 3: Why did districts report unusually large increases in transportation costs, transportation growth factors, and regular SEEK growth factors in FY 2002, and is it reasonable to expect that the same level of growth will continue in FY 2003 and FY 2004?

Preliminary Conclusion: In an attempt to understand whether the unusual level of growth in these three components of the SEEK formula reflected problems with data quality or real increases in costs and attendance, Program Review staff obtained detailed data on the particular accounts included in overall transportation costs. Staff also identified twelve districts which accounted for a large share of the increase in each of the three factors. Detailed data on transportation costs, transportation growth factors, and regular SEEK growth factors were requested for these districts. Preliminary analysis of the detailed data led to the following preliminary conclusions.

(1) Nearly all of the increases in eligible transportation costs in FY 2001 and FY 2002 are attributable to increases in salaries & benefits and energy costs. It is unknown at this time if districts will continue the increases in salaries and benefits . According to the March 2002 *Short-Term Energy Outlook* from the federal Energy Information Administration, gasoline and diesel fuel prices in 2002 and 2003 will be slightly lower than they were in 2001. Projections for 2004 have not yet been made.

(2) It is likely that a reduction of 16,000 in the number of transported pupils in Jefferson County in FY 2001 (as a result of a KDE audit) masked the growth in overall transportation costs in that year. That is one reason that KDE staff might have underestimated growth in transportation costs in FY 2002. An audit adjustment of this magnitude is not likely to reoccur in the next two years.
(3) Detailed data were not available within the timeframe of the preliminary assessment to allow Program Review staff to assess whether the unusual increases in regular and transportation growth factors reflect actual increases in pupil enrollments or whether they are an artifact of the data. Therefore, it is not possible at this time to offer an opinion about whether they are likely to maintain the current year rate of increase for the next two years, as is assumed in KDE's final SEEK calculations. However, an initial observation is that neither growth factor appears to be an especially good predictor of the change in average daily attendance of a district when it is measured for the whole school year.

Question 4: Is it feasible for KDE to produce the calculations for SEEK funding earlier in the budget cycle?

Preliminary Conclusion: It is feasible for KDE to produce the final SEEK calculations by November or December of each year. According to KDE staff, the final calculation was not available in December of this year because it had never been requested that early and normally scheduled data and calculation tasks had not been completed at that time.

Details of Particular Issues Identified by Staff in the Preliminary Analysis
This section presents details of the particular issues Program Review staff reviewed in the preliminary analysis. These include the growth in the transportation component of the SEEK formula, the transportation calculation model, the regular SEEK growth rate, and the timing of SEEK calculations.

Growth in the Transportation Component of the SEEK Formula
Table 1 displays the dollar amount of the transportation component of the SEEK formula from FY 1993 through FY 2002. The tentative estimate of the FY 2002 transportation component was based on an expectation of an overall increase of 3 percent. The tentative estimate was made without the final transportation calculations, and likely seemed reasonable given recent trends. However, final calculations based on actual data submitted by the districts yielded an increase of 7 percent.

Table 1
Fully-Funded Transportation Component of the SEEK Formula
[Amount the formula indicates should be distributed to districts]
(Millions of Dollars)

	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02 Tentative	FY 02 Final
$ Million	136.6	138.8	140.9	152.9	161.9	170.3	174.3	175.8	181.0	185.8	193.5
% Change	NA	2%	2%	9%	6%	5%	2%	1%	3%	3%	7%

It was determined that two particular data items in the transportation formula accounted for the larger than expected increase. These are eligible transportation costs and the transportation growth factor. SEEK eligible transportation costs increased more than in the recent past and the transportation growth factor showed its largest increase since FY 1996.

Transportation Costs
Table 2 displays the history of total SEEK eligible transportation costs. These costs are what districts report actually spending on transportation and are the costs used to develop the reimbursement model. Districts receive SEEK transportation payments that can be more, or less, than they actually spend, depending on whether their costs are less than, or greater than, the norm for all districts.

Two observations are noted. First, the 5.7 percent increase in FY 2002 was larger than that experienced in the three years from FY 1997 through FY 2000, but was not out of the norm for most of the last decade. Second, the 5.7 percent FY 2002 increase was similar to the 5.4 percent increase observed in FY 2001. However, this rate of increase did not result in a similar increase in SEEK transportation payments in FY 2001. The apparent reason is that, in FY 2001, a KDE attendance audit of Jefferson County resulted in a reduction of just over 16,000 in transported students. As a result, SEEK transportation payments to Jefferson County were $4 million lower in FY 2001 than in FY 2000. It appears that the reduced payments to Jefferson County may have offset the increase in eligible transportation costs when SEEK transportation payments were calculated in FY 2001. This might be the reason that the 5.7 percent increase was unexpected in FY 2002.

Table 2
SEEK Eligible Transportation Costs
[What districts spent on transportation]
(Millions of Dollars)

	FY 93	**FY 94**	**FY 95**	**FY 96**	**FY 97**	**FY 98**	**FY 99**	**FY 00**	**FY 01**	**FY 02**
$ Million	145.7	147.2	153.3	163.1	180.8	179.8	180.8	187.1	197.3	208.5
% Change	NA	1.0%	4.1%	6.4%	10.9%	-0.6%	0.6%	3.5%	5.4%	5.7%

Program Review staff requested an extract for all districts of the accounts that were included in eligible transportation cost totals for FY 1999 – FY 2001. Excluding bus purchases (which are not directly included in the SEEK calculations), well over 90 percent of the increases in transportation costs in FY 2000 and FY 2001 were attributable to increased expenditures on salaries & benefits, and energy. Salaries & benefits accounted for approximately 60% of the increase in each year, while energy accounted for most of the rest.

Transportation Growth Factor
Table 3 displays the history of the transportation growth factor, which is defined as the percentage increase in the average daily attendance of transported students in the first two months of the current school year compared to the corresponding two months in the previous year. Districts that report a decline in the number of transported students between

the two periods are assumed to have zero growth, so only reported increases are included in the calculations.

The transportation growth factor for FY 2002 was higher than for any other year for which KDE provided data to Program Review staff, and was significantly higher than in any of the past three years. The transportation growth factor accounts for $4.8 million of the SEEK transportation payments to districts in FY 2002. Ten districts account for 60 percent of that total dollar amount. (Table 4)

Table 3
Transportation Growth Factor, Growth Factor Dollars,
and Changes in Number of Transported Pupils

Change in # Pupils	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
Districts with Increases	7,295	6,417	5,153	3,627	2,470	3,216	9,041
Growth Factor	**1.7%**	**1.5%**	**1.2%**	**0.9%**	**0.6%**	**0.8%**	**2.5%**
Growth Factor Dollars	**$2.6 M**	**$2.3M**	**$2.1M**	**$1.5M**	**$1.1M**	**$1.6M**	**$4.8M**
Districts with Decreases	(7,192)	(7,831)	(9,889)	(14,761)	(31,683)	(22,600)	(8,319)
Net for All Districts	103	(1,415)	(4,736)	(11,135)	(29,213)	(19,385)	722

Table 4
Funding Associated with Transportation Growth Factor
FY 2002

District	Dollars	Percent of Total
Jefferson County	$752,704	15.7%
Daviess County	$553,213	11.6%
Fayette County	$453,783	9.5%
Boone County	$210,729	4.4%
Oldham County	$200,322	4.2%
Woodford County	$158,431	3.3%
McCreary County	$155,589	3.3%
Jessamine County	$145,120	3.0%
Bowling Green Ind.	$123,158	2.6%
Madison County	$118,381	2.5%
All other Districts	$1,910,174	40%
State Total	**$4,781,604**	**100%**

The key question, of course, is what accounts for the larger total in the districts with increases. A secondary question is why districts with decreases reported a declining rate of change. There are two possible explanations for reported changes in the number of transported pupils – either there has been an actual change in the number of transported students, or the data on student counts has changed for some other reason.

A review of the FY 2002 calculation does indicate that slightly less than half of the increase from FY 2001 to FY 2002 was the result of incorrect data for the previous year being used in the calculation. When the correct data are used, the total for districts with increases is 6,500 instead of 9,000. This reduces the transportation growth factor from 2.5 percent to 1.8 percent and reduces the resulting FY 2002 SEEK payment for the transportation growth factor from $4.8 million to $3.4 million, a reduction of $1.4 million.

Beyond that data error, it is clear that KDE audits of the average daily attendance at large schools have a significant impact on total estimates of the number of transported pupils from year to year. For example, audits of Fayette County in FY 1999 and FY 2000 resulted in a reduction of approximately 10,000 in the count of transported pupils. The FY 2001 audit in Jefferson County yielded a reduction of 16,000 transported pupils. These changes make up a large share of the declines in FY 1999-2001. There was no similar change in FY 2002.

Another possibility raised by KDE staff is that implementation of a standardized student data collection system in all districts—except Jefferson County—has caused districts to more accurately count previously unreported pupils. Staff has requested the date that each district implemented the new data collection system to see if there is a general increase in reported pupils subsequent to implementation. That data will not be available in time for consideration in this preliminary assessment.

Finally, there is the possibility that schools have experienced actual increases in the number of transported students. Preliminary review of detailed district data available from KDE on a small sample of districts with high transportation growth factors has not yielded a conclusion about this possibility. In order to assess this possible explanation, it will be necessary to complete a more in-depth review of the accuracy of district transportation growth factor data than is possible in this preliminary assessment.

SEEK Transportation Component Calculation Model

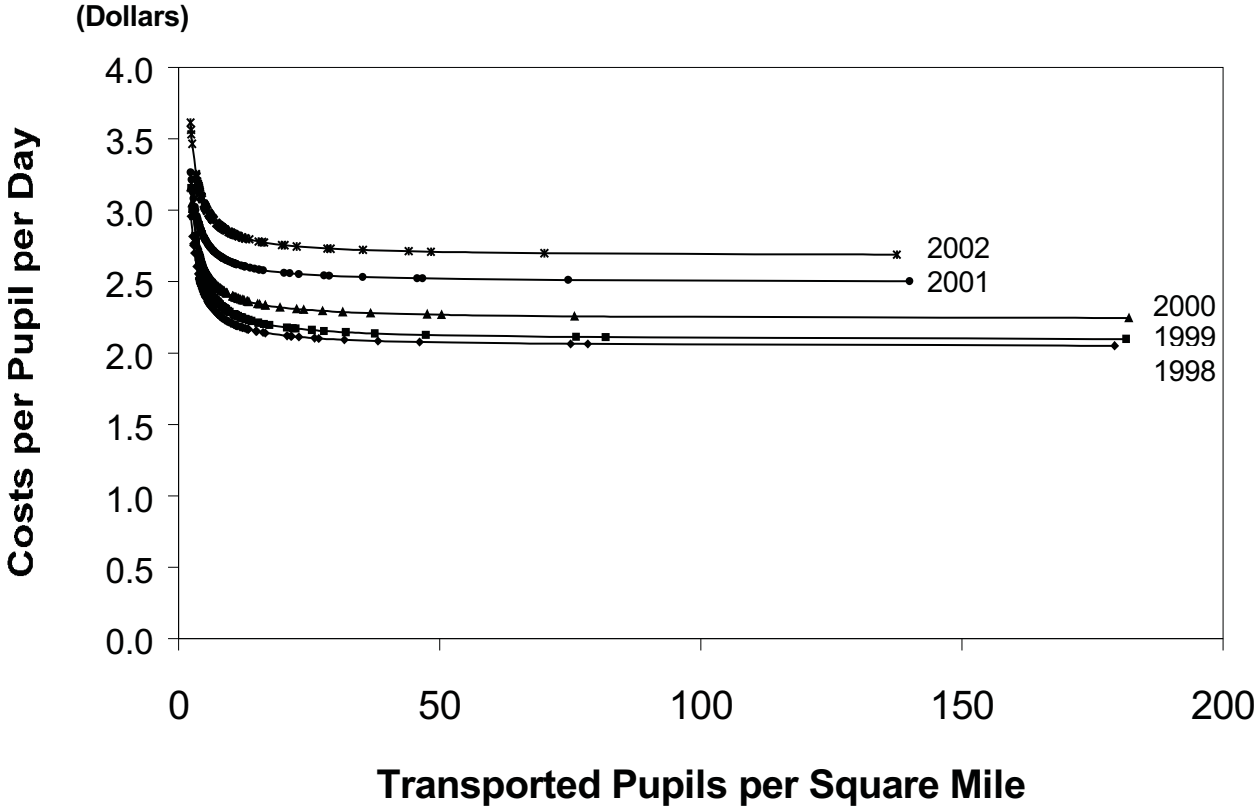
As noted above, districts are not reimbursed for their transportation costs on a dollar-for-dollar basis. Rather, districts are reimbursed on the basis of normalized costs which reflect the number of transported students per square mile (density) and transportation costs per pupil per day. Although not technically accurate, for districts with similar transportation density it might be helpful to think of the normalized costs as similar to average costs. If districts of similar density are reimbursed at the overall average cost, then those with above-average costs will get less than they actually spend, while those with below-average costs will get more.

Calculation of the normalized costs requires fairly sophisticated software because the actual relationship between district costs per pupil per day and density is not linear. Most widely available spreadsheet and database software (such as Microsoft Excel and Access) do not have the capability to generate the nonlinear normalized cost equation required to best fit actual district data. In order to complete the required transportation calculation, a program was written in 1991 for a statistical analysis program (SAS) often used in academic settings because of its expanded capabilities. KDE staff who now execute this program to complete the SEEK transportation component calculations have not written or amended SAS programming statements. They create the required data files and run those through the

existing SAS program without fully understanding exactly how the program operates on the data.

An LRC staff economist with considerable SAS programming experience obtained a copy of the transportation calculation model and was able to verify that the calculations for the

Figure A
Normalized Relationship between Transportation Cost and Transported Pupil Density



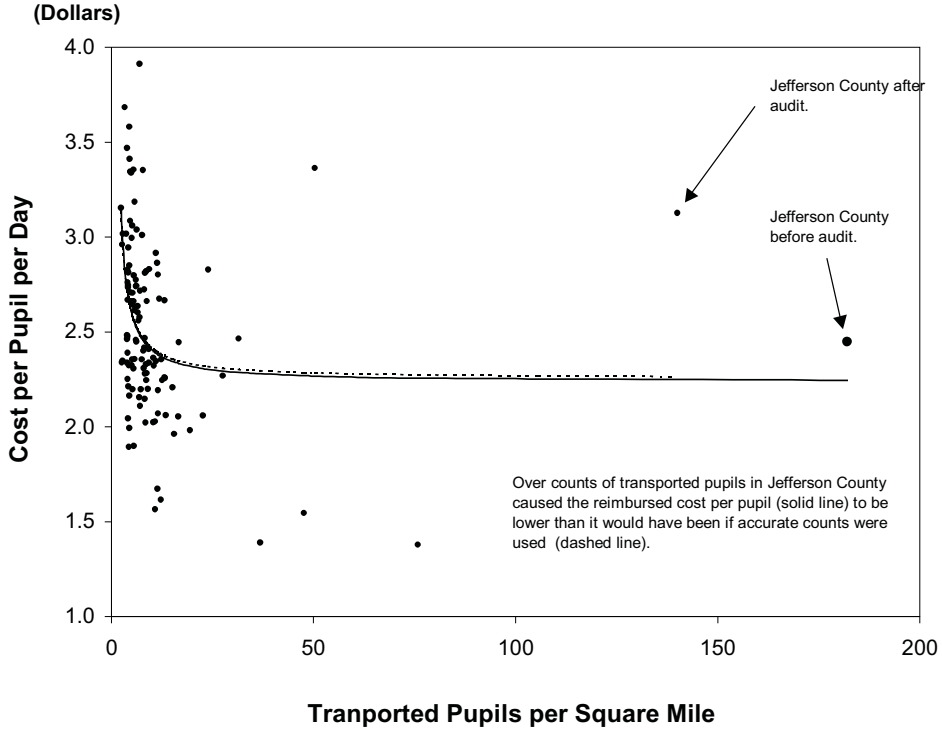
Note: Includes county districts only. Independent districts are computed separately.

past several years have been completed correctly, given the district data supplied by KDE. Figure A shows the normalized costs per pupil per day paid to districts for given density levels for FY 1998 through FY 2002. Like the numerical data presented above, this shows that transportation costs have been generally increasing, with larger increases in FY 2001 and FY 2002.

Another issue that became apparent in the assessment of the calculation model is the large impact Jefferson County has on the model. Because it is so much larger than the other county districts (normalized costs are calculated separately for county and independent districts), large changes in Jefferson County can affect all county districts because they can

change the magnitude of the normalized costs used to reimburse all districts. For example, the reduction of 16,000 in the number of transported pupils in Jefferson County in FY 2001 resulting from the KDE audit was large enough to slightly increase the line that reflects normalized costs (Figure B). Before the correction, Jefferson County received nearly $6.5 million in excess transportation payments. However, because of Jefferson County's effect on the normalized costs for all districts, the Jefferson County overcount meant that all other county districts were paid approximately $0.5 million less—in total—than they would have been had the Jefferson County overcount not occurred.

Figure B
Effect of Jefferson County Overcount on Relationship between Transportation Costs and Pupil Density



Note: Includes county districts only. Independent districts are computed separately.

The preliminary conclusions regarding the SEEK transportation model are as follows. First, staff of KDE indicated that there is a plan to use alternate software to complete the transportation calculations. Until that is accomplished, KDE should have all calculations verified by an individual who is experienced with using the SAS software. Such individuals are available in a few agencies in state government, and are readily available at the various universities. Second, given its noticeable effect on the calculation of normalized costs, data from Jefferson County should be regularly scrutinized by KDE staff. It is expected that this effort would be facilitated if Jefferson County were to adopt the standardized student data reporting system now in use in all other districts.

Regular SEEK Growth Factor

Table 5 displays the history of the SEEK growth factor for FY 2002 and the five previous school years. The regular SEEK growth factor is the increase in the average daily attendance (ADA) of students (not just transported students) in the first two months of the current school year compared to the corresponding two months in the previous year. Districts that report a decline in the number of students between the two periods are assumed to have zero growth.

Table 5
Regular SEEK Growth Factor

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
Change in pupils in districts with increases	3,321	3,791	3,065	2,431	3,315	4,980
Number of districts with increases	81	75	53	55	77	86

The first row shows the growth in two-month ADA for districts with increases. The FY 2002 figure is substantially higher than in previous years, and over 1600 students more than last year. FY 2002 is also notable for having the largest number of districts showing increases.

Each district with an increase in the number of students over the previous year's two-month ADA receives an increase in funding. To show the trend over time, Program Review staff multiplied the per pupil guaranteed base SEEK allocation by the increase in students for each district. If a district increased by ten students and its per pupil allocation was $3,000, it would receive an extra $30,000. The state total for SEEK-regular-growth-factor funding can be calculated by adding up the district totals. Districts with decreases in the number of students from the previous year's two-month ADA receive no decrease in funding so the totals reflect growing districts only. Table 6 shows the dollars associated with the guaranteed base SEEK growth factor totals over the past six years.

Table 6
State Guaranteed Base SEEK Growth Factor Funding
In millions of dollars

FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
$8.9	$10.5	$8.7	$7.1	$10.1	$15.3

As before, FY 2002 stands out. The guaranteed base SEEK growth factor increase this year was over $5 million higher than last year and significantly higher than funding for any of the years FY 1997 through FY 2001.

The growth in spending is somewhat less concentrated here than with the transportation growth factor. The ten districts that received the largest increases in funding due to the

regular SEEK growth factor account for about half of the state total. Twenty-seven districts each account for at least one percent of the total.

Table 7
FY 2002 Funding for Guaranteed Base SEEK Growth Factor
Top Ten Districts

District	Dollars	Percent of Total
Jefferson County	$1,478,732	9.7%
Oldham County	$1,158,948	7.6%
Boone County	$1,072,487	7.0%
Fayette County	$711,005	4.7%
Shelby County	$648,766	4.2%
Bullitt County	$620,252	4.1%
Kenton County	$540,536	3.5%
Spencer County	$464,806	3.0%
Scott County	$434,452	2.8%
Warren County	$362,095	2.4%
Subtotal	$7,492,078	49.1%
State Total	$15,267,760	**100%**

There were several districts for which the FY 2002 growth factor went against their previous pattern of having decreases in students every or almost every recent year. There were eighteen districts—including Jefferson County—in which attendance growth in FY 2002 was unusual. Each of these districts' ADA declined in FY 2001 and had increased for one year at most since FY 1997. Only five districts declined in FY 2002 after increasing in all or most previous years.

A critical question is why so many districts' SEEK growth factors increased in FY 2002, especially why so many districts had growth after years of decline. As with changes in transported students, the regular SEEK growth factor could represent changes in the actual number of students, how students are counted, or some combination of the two. At this point, Program Review staff have not been able to access data that might allow us to determine the answer. Based on some preliminary analysis, staff have been able to determine that a district's regular SEEK growth factor may not be an especially good predictor of the change in ADA of the district as measured for the whole school year.

Examination of the districts with large SEEK growth factors in FY 2002 indicates no obvious pattern to the changes. Jefferson County's growth was widespread across schools. One district's growth was concentrated in only one school, and another district's growth was disproportionally among middle school students. Assessment of the validity of these changes will require assessment of actual school-level attendance data, a task which is beyond the time available for this preliminary review.

Timing of SEEK Estimates

A final conclusion is that it is feasible for KDE to prepare final SEEK calculations prior to the end of each calendar year. The latest items available for the calculations are the transportation component and the regular SEEK growth factor.

The cost items included in the SEEK transportation calculation for each school district are as follows.

(1) gross transportation expenditures,
(2) transportation reimbursements,
(3) the cost of bus purchases, and
(4) depreciation expense.

Each district's annual financial report is obtained from MUNIS (the electronic system for school financial data) by KDE by July 25 of each year. From each district's annual financial report, KDE obtains gross expenditures for pupil transportation and reimbursements from federal, state, and local sources. The information on bus purchases and depreciation is maintained by KDE and is also available at the end of each fiscal year. KDE deducts reimbursements from each district's gross transportation expenditures, deducts the cost of bus purchases, and adds depreciation expense.

Reserving the months of July, August, and September to investigate any transportation costs that appear unreasonable, KDE could have the total basic SEEK cost for pupil transportation by September 30 each year. After calculating cost, the only remaining information needed to calculate SEEK transportation per school district is the growth factor.

Growth factors are calculated as the percentage change between the first two months of the current school year and the corresponding months of the previous school year. All schools should be able to submit data for this calculation no later than October 30 for both the transportation growth factor and the regular SEEK growth factor. Depending on the time needed to check the growth factor data and complete the final calculations, KDE should be able to provide final calculations in November or December of each year.

APPENDIX B

SUMMARY OF STATUTES REGARDING SEEK

KRS 157.310 This statute is a three-fold declaration of legislative intent regarding SEEK, which is

1. *"…to assure substantially equal public school educational opportunities for those in attendance in the public schools of the Commonwealth…,"* and to

2. *"…provide for an efficient system of public schools throughout the Commonwealth,"* and to prescribe

3. *"…the manner of distribution of the public school fund among the districts and its use for public school purposes…."*

KRS 157.3175 Requires that each local school district provide a developmentally appropriate half-day preschool education program for each child who is 4 years of age by Oct. 1, and at risk of educational failure (beginning with the 1990-91 school year).

There is also a provision that funds appropriated by the General Assembly for the preschool education programs are to be granted to local school districts according to a grant allotment system approved by the Kentucky Board of Education (KBE). At risk children are identified based on the Federal School Lunch Program eligibility criteria for free lunch. This appropriation is separate from all other funds appropriated to the Department of Education.

The chief state school officer reviews proposals from local school districts for grants to operate or oversee the operation of the preschool education programs. A minimum set of requirements for each program proposal is also set forth.

KRS 157.318 Establishes a network of regional training centers for preschool and early childhood education per Public Law 99-457, to provide peer to peer training, consultation, technical assistance, and materials to personnel from local school districts and to other agencies operating programs for disabled and at-risk preschool children. These centers receive federal funds from Public Law 99-457, Education of the Handicapped Act, Part B, and MAY receive state appropriations, gifts, and grants. No additional centers may be established unless the existing centers receive at least the same level of funding as in the 1988 fiscal year.

KRS 157.320 This is a definitional statute that defines the following terms:

"Average daily attendance"
"Base funding level,"
"Support Education Excellence in Kentucky,"
"Public school fund,"
"Single salary schedule,"
"Percentage of attendance,"
"National board certification salary supplement," and
"Weather-related low attendance day."

There are additional definitions in this statute but the terms listed above are the terms that are most relevant to this study.

KRS 157.330 Establishes a fund to support education excellence in Kentucky. The fund is solely for the purpose of aiding public schools in the Commonwealth as provided by statute. All money for the fund is paid to the State Treasury. Appropriations from the fund are required to be distributed to districts in accordance with the provisions of KRS 157.310 to 157.440.

KRS 157.350 Establishes the following eligibility requirements of districts for participation in the SEEK fund:

1. Employs and compensates all teachers for at least 185 days;
2. Operates all schools for a term, and if the term is less that 185 days for any reason not approved by the KBE, the eligibility of a district for participation in the fund will be in proportion to the length of term the schools actually operate;
3. Compensates all teachers on the basis of a single salary schedule and in conformity with KRS 157.310 to 157.440;
4. Includes no nonresident students in its average daily attendance except:
5. a. Students listed under a written agreement with the district of the student's legal residence; and
   b. Students who have been expelled for behavioral reasons who are to be counted in average daily attendance;
6. Any secondary school which maintains a basketball team for boys must maintain the same for girls; and
7. Any school district which fails to comply with #6. is prohibited from participating in varsity competition in any sport for 1 year.

KRS 157.360 This statute deals with the base funding level, adjustment to the base funding level, enforcement of maximum class size, and the allotment of program funds.

1. The statewide guaranteed base funding level is computed by dividing the amount appropriated by the prior year's statewide average daily attendance.

2. Each district receives an amount equal to the base funding level for each student in average daily attendance in the district in the previous year. Adjustments are made by the following factors:
   a. Number of at-risk students in the district (free lunch criteria) multiplied by a factor established by the General Assembly. These funds may be used for alternative programs for students who are at risk of dropping out of school, and for hazardous duty pay supplements to teachers who work in alternative programs with violent students;
   b. Number and types of exceptional students in a district, and specific weights for each category of exceptionality is used in the calculation of the add-on factor; and
   c. Transportation costs.

3. SEEK to be fully implemented by 1994-95 school year.

4. Maximum class sizes for all academic courses in all grades to be implemented with exceptions in vocal, instrumental music, and PE classes.

5. Maximum class size regarding grades 4 through 6 with combined grades.

6. Students with disabilities enrolled in private schools or agencies with the approval of the district, shall be counted in the average daily attendance of the district, with the approval of the chief state school officer.

7. Students attending a center for child learning and study, are considered as in attendance in the school district in which the child legally resides and which is party to the agreement.

8. Program funding is increased when the average daily attendance in any district for the first 2 months of the current school year is greater than the average daily attendance of the district for the first 2 months of the previous school year. The program funds are increased by the percent of such an increase.

9. If the average daily attendance for the current school year in any district decreases by 10% or more than the average daily attendance for the previous school year, the average daily attendance used to calculate program funding for the next school year is to be increased by 2/3 of the decrease in average daily attendance.

   If the average daily attendance remains the same or decreases in the next year, the average daily attendance used to calculate program funding for the following school year is to be increased by 1/3 of the decrease for the first year of decline.

10. If the percentage of attendance of any district is reduced more than 2% during the previous year, the funding allotted for the current year is to be increased by the difference in the percentage of attendance for the 2 years immediately prior to the current school year less 2%.

11. Regarding instructional salaries for vocational agriculture classes.

12. In allotting funds for home and hospital instruction, guaranteed base funding, excluding capital outlay, is allotted for each child in average daily attendance in the prior school year, and attendance is to be reported monthly on forms provided by the Department of Education.

    Local school districts are reimbursed for home and hospital instruction for pupils unable to attend regular school sessions because of short term health conditions.

13. Regarding kindergarten aides.

14. Effective July 1, 2001, no deduction applied against the base funding level for any student in average daily attendance who spends a portion of each school day in a program at a state-operated career and technical education or vocational facility.

KRS 157.370 Sets forth the allotment of transportation funds for school districts.

1. To calculate the cost of transportation of each district, the chief state school officer determines the average cost per student per day of transporting students in districts having a similar density of transported students per square mile of area served by not less than 9 different density groups.

2. Annual cost of transportation includes all current costs for each district plus annual depreciation of student transportation vehicles.

3. The aggregate and average daily attendance (transported students the prior year adjusted for current year increases) of transported students includes all public school students transported who live 1 mile or more from school.

   Children with disabilities may be included who live less than 1 mile from school.

4. Regarding the square miles of area served by transportation.

5. The density of transported students per square mile of area served for each district is determined by dividing the average daily attendance by the number of square miles of area served.

6. The chief state school officer determines the average cost per student per day of transporting pupils in districts having a similar density by constructing a smoothed graph of cost for the density groups.

   Costs are determined separately for county school districts and independent school districts. No independent school district will receive an average cost per student per day in excess of the minimum received by a county district.

7. These costs are recalculated each biennium (beginning July 1, 1990).

8. The costs of transporting students from the parent school to a state vocational-technical school or to a vocational education center is calculated separately from other transportation calculations. The amount calculated is paid separately to each district from program funds set aside for vocational student transportation as a reimbursement based on the district's cost for providing transportation.

   If the appropriation for vocational student transportation in the biennial budget is not adequate to meet the total calculated cost for all districts, the amount paid to each district is ratably reduced.

9. The KBE determines the type of student with a disability that qualifies for special transportation to and from school. Those students who qualify for special transportation have their aggregate days' attendance multiplied by 5 and added to that part of the district's aggregate days' attendance that is multiplied by the district's adjusted cost per student per day in determining the district's student transportation program cost.

KRS 157.390 Determines teachers' salaries and other required public school funding components.

1. Teachers' salaries are based on certification rank and years of experience.

2. Rank and experience are determined on Sept. 15 each year.

3. The amount to be included in the base funding level for capital outlay is found by multiplying the average daily attendance by the amount stated in the biennial budget.

4. The total amount of money distributable to each district from the fund includes:
   a. The base funding per student in average daily attendance;
   b. An amount for at-risk students;
   c. An amount for the types and numbers of students with disabilities;
   d. An amount for students served in home and hospital settings; and
   e. The allotments in capital outlay and transportation, less the amount of local tax revenues ($0.30).

5. Additional compensation is given for teachers and administrators serving as classroom mentors, teaching partners, or professional development leaders in core discipline areas.

KRS 157.395 A local board of education is required to provide a public school teacher who has attained the certification from the National Board for Professional Teaching Standards as of July 14, 2000, with an annual salary supplement of $2,000 for the life of the certificate. The supplement is to be added to the teacher's base salary on the local board's single salary schedule and is considered in the calculation for contributions to the Ky. Teachers' Retirement System. If such a teacher no longer works as a teacher or mentor in the field of his or her certification, the supplement ends.

KRS 157.410 Payment of funds to districts are paid in the following way. The Finance and Administration Cabinet draws warrants on the State Treasurer for the amount of the public school fund due each district, after the chief state school officer certifies the amounts. Checks are issued by the Treasurer and sent to the Dept. of Education or electronically transferred for distribution to the school districts.

The chief state school officer is to determine on or before August 15 the tentative allotment of school funds that will go to each district.

Beginning on July 1 of each fiscal year, 1/12 of the prior year's allotment minus the capital outlay is paid to each district until the final calculation is completed.

On or before May 1 of each year the chief state school officer is required to determine the exact amount of the public school fund to which each district is entitled and the remainder of the amount due each district for the year is distributed in equal installments.

KRS 157.420 Use of public school funds have the following restrictions:

1. Teachers' salaries are required to be at least equivalent to the amount stated in the biennial budget schedule;

2. The KBE is not allowed to approve any budget or salary schedule for local boards unless the 185 day salary schedule for certified staff has been adjusted over the previous year's salary schedules by the lesser of the percent increase in the average annual CPI between the 2 most recent calendar years, or the percent increase of the base funding level in the program for SEEK.

3. Allows districts that compensate employees for unused sick leave at the time of retirement to create an escrow account for such. Interest is calculated as part of the total amount and this money is not to be used for anything but for unused sick leave at the time of retirement and is not considered as part of the general fund balance in determining available local revenue.

4. Per student capital outlay allotments for each district from the school fund and from local sources are required to be kept in a separate account and may be used by the district only for capital outlay projects approved by the chief state school officer. These funds are required to be used as follows:
   a. Direct payment of construction costs;
   b. Debt service on voted and funding bonds;
   c. Payment or lease-rental agreements under which the board will acquire ownership of a school plant;
   d. Retirement or any deficit resulting from over-expenditure for capital construction, if the deficit resulted from emergency declared by KBE; and
   e. A reserve fund to be carried forward in ensuring budgets.

5. A district may contribute capital outlay funds for energy conservation measures under a guaranteed energy savings contract. Use of these funds are required to be based on the following:
   a. Such measurers include facility alteration;
   b. Such measures must be identified in the district's approved facility plan;
   c. The current facility systems are consuming excess maintenance and operation costs;
   d. The savings generated by such measures are guaranteed;
   e. The capital outlay funds contributed to the energy conservation measures are required to be defined as capital cost avoidance and subject to restrictions on usage; and
   f. The equipment that is replaced is required to have exceeded its useful life as determined by a life-cycle cost analysis.

6. If any district has a special levy for capital outlay or debt service that is equal to the capital outlay allotment or a proportionate fraction thereof, and spends the proceeds of that levy for such, the chief state school officer may authorize the district to use all or a proportionate fraction of its capital outlay allotment for current expenses. Districts that uses capital outlay funds for current expense are not eligible to participate in the School Facilities Construction Commission funds.

7. If a district has no capital outlay needs, upon approval of the chief state school officer, these funds may be used for school plant maintenance, repair, building insurance, replacement of equipment, school buses, and technological equipment.
8. The Dept. of Ed. is required to survey schools and to designated each facility as a permanent, functional, or transitional center.
9. Settlement schools authorized by January 1, 1994 may remain in their current facilities, and local boards and the settlement schools are required to enter into cooperative agreements that define the role, responsibilities, and financial obligations for each party.

KRS 157.430 If funds appropriated to the public school fund are insufficient to provide the required amount of money, the chief state school officer, is required to make a percentage reduction in the allotments to reduce the total of these allotments to funds available.

KRS 157.440 Tax rate levy.

1. After July 1, 1990, the board of each district may levy a tax rate which will produce up to 15% of those revenues guaranteed by SEEK. Revenue generated by this levy is required to be equalized at 150% of the statewide average per-student assessment.

    a. Participation in the Facilities Support Program, requires the districts' boards to commit at least an equivalent tax rate of 5 cents to debt service, new facilities, or a major renovation of existing facilities. The 5 cents is required in addition to the 30 cents required through a mandatory tax levy. The 5 cents is required to be equalized at 150% of the statewide average per student assessment. Any excess equalization funds not needed for debt service are required to be deposited to a restricted building fund account.
    b. Boards of each district may contribute the levy equivalent tax rate of 5 cents and equalization funds for energy conservation measures. Use of these funds is based on the following:

        1. Energy conservation must include facility alteration;
        2. Energy conservation is to be identified in the district's approved facility plan;
        3. The current facility systems must be consuming excess maintenance and operation costs;
        4. The savings generated by the energy conservation are guaranteed;
        5. The levy equivalent tax rate of 5 cents and equalization funds contributed to these measures are to be designed as capital cost avoidance and are subject to restrictions on usage;
        6. The equipment that is replaced must have exceeded its useful life.

2. A district may exceed the maximum provided by KRS 160.470 upon request of the board, the county board of election is required to submit to the voters the question whether a rate which would produce revenues in excess of the maximum in 160.470 shall be levied.

The rate may produce revenues up to more that 30% of the revenue guaranteed by SEEK, plus the revenue generated by the 5 cent tax. This revenue is not equalized with state money. If a majority of voters favor the increase, then the next tax rate will reflect such.

No tax rate shall be set lower that that necessary to provide funds necessary to meet principal and interest payments on outstanding bonded indebtedness and payments of rentals in connection with any outstanding school revenue bonds issued .

KRS 160.450 The fiscal year of all school districts begins on July 1 and ends on June 30.

KRS 160.455 "Tax-levying authority" means boards of education of county and independent school districts.

KRS 160.460 Boards of education are required to levy school taxes. This levy is required to be made no later than July 1. All school taxes are required to be levied on all property subject to local taxation in the jurisdiction of the tax-levying authority.

KRS 160.463 The board of each school system in any county having 300,000 or more inhabitants is required to direct the superintendent to annually publish in a newspaper, in full, the annual financial statements of the school system audited by a CPA, or an accountant approved by the Dept. of Ed.

KRS 160.470 This statute is about tax-rate limits, hearings, recalls, and minimum equivalent tax rate.

The board of each district is mandated to levy a <u>minimum</u> equivalent tax rate of 30 cents for general school purposes.

The equivalent tax rate is the rate that results when the income collected during the previous year from all taxes levied by the district for school purposes, is divided by the total assessed value of property plus the assessment for motor vehicles.

If a board fails to comply with the levy, its members are subject to removal from office for willful neglect of duty.

Property assessments are sent to the Commissioner of Education from the Revenue Cabinet, and the Commissioner is required to certify to each district board of education the following:

1. The general tax rate that the district board can levy and the amount of revenue expected to be generated;

2. The "compensating tax rate" (this is defined in KRS 132.010 & means that rate which rounded to the next higher 1/10 of 1 cent per $100 of assessed value & applied to the current year's assessment of the property, produces an amount of revenue approximately equal to that produced in the previous year from real property) for a district's general tax rate and the amount of revenue expected to be generated; and

3. The general tax rate which will produce, respectively, not more revenue from real property, exclusive of revenue from new property, than 4% over the amount of revenue produced by the compensating tax rate, and the amount of revenue to be generated.

Within 30 days after the district boards have received their assessment data, the rates levied are required to be forwarded to the KBE for approval or disapproval. Boards are required to adopt a tentative working budget with a minimum reserve of 2% of the total budget before May 30.

No later than Sept. 30, each district board is required to send to the KBE a working budget.

With the exception of the mandated tax funding, a board proposing to levy a general tax rate which exceeds the compensation tax rate, is required to hold a public hearing.

The portion of general tax rate, levied by a district board which will produce, respectively, revenue from real property, exclusive of revenue from new property, more than 4% over the amount of revenue produced, is subject to a recall vote or reconsideration by the district board.

KRS 160.472 The tax rate on motor vehicles and trailers for the previous year are required to be applied to the preceding year's total valuation of such motor vehicles and the resulting amount added to the revenue from other tangible personal property to determine the maximum permissible school district revenue under KRS 160.470.

KRS 160.473 When a general tax rate applicable to real property levied by a district board produces a percentage increase in revenue from personal property that is less than the percentage increase in revenue from real property, the board may levy a general tax rate applicable to personal property which will produce the same percentage increase in revenue from personal property as the percentage increase in revenue from real property. But the general tax rate levied by the board may never exceed the prior year's general tax rate applicable to personal property levied by the respective district boards.

This general tax rate is not subject to public hearing and recall provisions.

KRS 160.475 The ad valorem tax levy for school purposes, is prohibited from being more than $1.50 annually on each $100 of property subject to local taxation.

KRS 160.476 The board of any district may in addition to other taxes, levy not less than 4 cents nor more than 20 cents on each $100 valuation of property subject to local taxation, to provide a special fund for the purchase of sites for school buildings, PE and athletic facilities, for equipping schools, and for major alteration. Such tax must come within the maximum school tax levy.

This special fund is required to be kept in a separate account designated as "school building fund." The fund must be kept in depository or invested in bonds of the US, state, county or municipality, and all must be approved by the KBE.

An annual audit of the building fund is required, and no board may levy a tax at a rate which exceeds the compensating tax rate certified by the chief state school officer to the district board.

KRS 160.482 In counties having 300,000 or more inhabitants, occupational license fees are authorized to benefit the school in such counties.

KRS 160.483 Occupational license fees are limited to 0.5% of salaries, wages, and commissions earned within the county for work and services and the net profits of all businesses, trades and occupations for such conducted in the county. Exempted entities are public service companies, banks, trust companies, title companies, savings and loan associates, members of the National Guard for active duty training, etc, precinct workers for election work and training.

KRS 160.484 Fiscal courts in counties of 300,000 have discretion to impose or not impose the license fees at a percentage rate, not to exceed 0.5%.

KRS 160.485 Regarding occupational license fees, and referendum procedures for counties of 300,000 inhabitants.

KRS 160.486 Regarding occupational license fees, their collection, and distribution. The fees are to be used for any purpose for which other common school funds may be used.

KRS 160.487 Regarding action for refund of occupational license fees in counties of 300,000 inhabitants.

KRS 160.488 Regarding the effect of occupational license fees law on counties of 300,000 inhabitants.

KRS 160.500 Collectors of school taxes are entitled to a fee equal to their expenses but not less than 1.5% or more than 4%.

The clerk is allowed a fee not to exceed 3 cents for each separate school tax bill, to be paid by the independent district board of education.

The count clerk receives a commission of 4% of all money collected for any school district.

KRS 160.505 Certain taxes to be collected by person appointed by board of education.

KRS 160.510 Tax collectors are required on or before the 10^{th} day of each month to pay to the depository of the district board the amount of school tax collected up to and including the last day of the preceding month. A report is also required to be submitted to the treasurer of the board.

KRS 160.520 Regarding penalties for tax delinquency, general laws apply.

KRS 160.530 Use of school money collected by taxation is to be spent in accordance with the recommendation contained in the budget submitted to the KBE.

KRS 160.5540 Boards may borrow money on the credit of the board and issue notes in anticipation of revenues from school taxes and state revenue for the fiscal year in which the money is borrowed.

KRS 160.550 Except for a purpose for which bonds have been voted or in case of an emergency, votes for an expenditure in excess of the income and revenue of any year, as shown by the budget adopted by the board and approved by the KBE should not be cast by any board member.

If such expenditures are made "certification" of the expenditure may be made by the KBE and thereafter, no expenditures may be made without the written approval of the chief state school officer.

Liability also follows those who knowingly authorize or execute the expenditure of funds in violation of the law.

KRS 160.560 Each board elects a bonded treasurer who will have specified duties.

KRS 160.570 Each board appoints a bonded depository that has specified duties.

KRS 160.580 Regarding gifts, grants, or devises to school board.

KRS 160.593 The levy of occupational license tax, utility gross receipts license tax, or excise tax for schools is limited to the territory of the school district except 2 or more boards of education may agree in writing to levy identical school taxes. After the levying, the receipts from the tax are required to be held in a common fund and disbursed to each district on the basis of average daily attendance. This is called a "combined taxing district".

KRS 160.597 Regarding the levy recall procedure.

KRS 160.599 This statute creates "the emergency revolving school loan fund account, for the purpose of providing emergency loans to eligible public common school districts. The conditions of eligibility are also set forth.

KRS 160.601 Regarding how taxes are designated (occupational license tax for schools, utility gross receipts tax for schools, and excise tax for schools).

KRS 160.603 Regarding notice and hearing before levy.

KRS 160.605 Exempted entities are public service companies, banks, trust companies, title companies, savings and loan associates, members of the National Guard for active duty training, etc, precinct workers for election work and training.

KRS 160.607 The school tax authorized by KRS 160.482 to 160.488 and 160.605 shall be at a single uniform rate not to exceed 0.5%.

Any county having 300,000 or more inhabitants is authorized to increase the school tax rate to exceed the maximum of 0.5% by 0.25%.

KRS 160.613 This statute authorizes a utility gross receipts license tax for school not to exceed 3% of the gross receipts derived from the furnishing within the county, of telephonic and telegraphic communications services, electric power, water, and natural, artificial, and mixed gas.

"Gross receipts" includes all amounts received in money, credits, property, or other money's worth in any form. "Gross receipts" **does not** include amounts received for furnishing energy or energy-producing fuels used in the course of manufacturing, processing, mining, or refining to the extent that the cost of the

energy used exceeds 3% of the cost of production, and does not include amounts received for furnishing any of the above utilities which are to be resold.

KRS 160.614 Regarding tax on gross receipts for furnishing of cable television.

KRS 160.615 Utility gross receipts license tax is due and payable monthly and is required to be remitted on or before the 20th day of the next succeeding calendar month.

KRS 160.617 Any utility required to pay the utility gross receipts tax may increase its rates in any county in which it is required to pay the school tax by 3%.

KRS 160.611 No occupational license tax for school shall be collect from any individual who is not a resident of the school district imposing the school tax.

KRS 160.621 This statute authorizes an excise tax for schools not to exceed 20% on a county resident's state individual income tax liability . The tax year, for purposes of this school tax, is the same as the individual's tax year for state income tax purposes.

KRS 160.625 Regarding excise tax returns, payments and forms.

KRS 160.627 The Revenue Cabinet collects the state income tax liability of school district residents.

KRS 160.633 Excise tax proceeds are deposited in a special fund until distribution.

KRS 160.635 School taxes (occupational, utility gross receipts, excise, & cable) are in force until the board reduces the rate or sets a date for the tax to expire.

KRS 160.637 Regarding administrative cost of the Revenue Cabinet.

For school taxes (occupational, utility gross receipts, excise, & cable) the cabinet is reimbursed by the school district broads on a monthly basis or on the basis agreed upon by the boards and the cabinet. The costs is based proportionately to the revenue received by the districts.

When the cabinet is acting as tax collector for state income tax liability of school district residents, and is initially requested to collect the tax, the cabinet receives up to 10% of the estimated cost referred to as "start-up costs" within 30 days of notification. Subsequent requesting school districts are required to pay their pro rated share, or 10% (whichever is less) of the unpaid balance of the initial "start-up costs" until the cabinet has fully recovered the costs.

The cabinet is also reimbursed by each district for its proportionate share of the actual operational expenses incurred by the cabinet.

Funds received by the cabinet for collecting this tax is deposited into the "school tax fund account" and this account does not lapse.

The cabinet may also have a special account called the "school tax refund account" which is an account created within a restricted account that does not lapse. The purpose of this account is for refunds of school taxes when an overpayment was made or no payment was due.

KRS 160.640	Surety bonds are required for custodians of proceeds of the following school taxes, occupational, utility gross receipts, gross receipts of cable television services, excise tax on individual income for schools.
KRS 160.642	Any person having custody of the proceeds of occupational, utility gross receipts, gross receipts of cable television services taxes, and excise tax on individual income for schools, is required to be audited.
KRS 160.644	School taxes and penalties are required to be distributed to the treasurer of the board of education of the district. If more than 1 board within the county is participating in 1 of these tax levies, the funds collected are required to be distributed in proportion to the tax rate levied and the number of students in average daily attendance in the participating districts.
KRS 160.648	Regarding penalties for failure to make returns or pay tax.
KRS 160.699	Penalty provisions.

APPENDIX C

TIMELINE OF NOTABLE SEEK OCCURRENCES

Year	Change in SEEK
1990-1991	✓ Formula-derived state funding was adjusted to ensure that relative to the prior year (1989-1990) no district received less than an 8 percent increase or more than a 25 percent increase in its total State SEEK dollars.
1991-1992	✓ Formula-derived state funding was adjusted to ensure that relative to the prior year (1990-1991) no district received less than a 5 percent increase or more than a 25 percent increase in its total state SEEK dollars.
1992-1993	✓ Hold Harmless implemented to ensure that each district received no less than its 1991-1992 state SEEK dollars *per pupil*. ✓ Implemented Vocational Education Deduction. ✓ Adjustment to appropriation of $27.3 million.
1993-1994	✓ Reduced appropriation by $9 million.
1994-1995	✓ $13 million extra redistributed through the base, increasing it from $2,495 to $2,517. ✓ Balance used to help liquidate receivable in Kentucky Kare self-insured health care plan. ✓ First issue of Administrative Regulations effective 12-1-94, developed in response to State Auditor's finding.
1995-1996	✓ $13 million extra redistributed through the base, increasing it from $2,570 to $2,593. ✓ Prior-year assessment was used in the formula to increase state share of adjusted base and state Tier I equalization in order to distribute excess funds. ✓ Transportation funded at 93.8% ($9.5 million under-funded).
1996-1997	✓ Home & Hospital Calculation changed. Previously, the prior year guaranteed base less $100 was multiplied by 2nd semester H&H ADA and added to current year guaranteed base less $100 times 1st semester H&H ADA. Now, the current year guaranteed base less $100 is multiplied by the prior year H&H ADA. ✓ Three years of unmined coal bills issued in this Fiscal Year. ✓ More districts went to Full Tier I; from 129 in 1995-96 to 158 in 1996-1997. ✓ Transportation funded at 99.7% ($0.5 million short-funded).
1997-1998	✓ $0.3 million excess funds distributed to preschool and full-day kindergarten.
1998-1999	✓ $10.2 million excess funds distributed to full-day kindergarten. ✓ $5.4 million lapse.

1999-2000	✓	Districts could tax/exempt certain tangible property (aircraft, watercraft, and inventory in transit).
	✓	Assessments from tangible property are not in Tax System in 1999-2000; would be in SEEK database because Revenue Cabinet excluded amounts until KDE found out if districts were taxing/exempting.
	✓	Unmined coal was included in assessment used for SEEK for the first time. Unmined coal was included in tax rate calculation in 1998-1999, but KDE received permission from Judge Graham to exclude in SEEK the first year to allow districts time to adjust to the reduction in SEEK funds.
	✓	$37.8 million excess funds distributed to full-day kindergarten.
	✓	$22.8 million lapse.
2000-2001	✓	$37 million excess funds distributed in SEEK base, increasing it from $2,994 to $3,046.33.
	✓	Reduced Vocational Education Deduction from 30% to 15%.
	✓	SEEK payments to some districts were reduced due to the districts hiring teachers not properly certified in 1998-1999.
2001-2002	✓	Reduced appropriation by $12.9 million. Transportation and Growth were higher than expected
	✓	Vocational Education Deduction discontinued.

APPENDIX D

HOW COMPONENTS OF THE SEEK FORMULA AFFECT INEQUALITY IN FUNDING PER PUPIL

The purpose of this study is not to determine the degree to which the SEEK program serves to make revenues per pupil more equal across the state's 176 school districts. The Office of Education Accountability (OEA) already provides useful analyses in its annual reports of the impact of SEEK on equity. Given that SEEK exists to make school funding per student more equal, however, a description of SEEK that ignores the equity issue would be incomplete.

The approach taken by staff was to analyze equity in a different way and explain how each of the components of the SEEK formula (local property tax revenue and funding for exceptional students, for example) serves to make funding per student more or less equal. Specifically, staff calculated a measure of equality—the Gini coefficient—for each of the years 1994 to 2001. According to this statistic, funding per pupil has been relatively equal throughout this period and there has been no significant trend toward greater equality or inequality.

Looking at the elements of the SEEK formula, differences in local property tax revenues account for over half the inequality that existed in 2001. The other components of SEEK that most affected inequality were funding for at-risk and exceptional students, and local permissive taxes. It is important to note that the components included in this analysis are those that are recognized by the SEEK formula; specifically, non-tax revenues and federal revenues are not included in this analysis.

In OEA's annual review of equity in funding per pupil, districts are grouped into quintiles based on property wealth per pupil. Funding per pupil is calculated using financial system data for State and Local Revenues along with the Funded ADA from the given year's Final SEEK Bulletin. The coefficients of variation, which measure the variation in per-pupil revenues, are calculated for each quintile. **Table 1** excerpts selected data for 1998-1999 funding from Table 11 of the OEA's 2000 Annual Report.

Table 1
Revenue per Pupil per Wealth Quintile, 1998-99

Quintile	Funded ADA	Property Wealth Per Pupil	Average Local & State Revenue Per Pupil
1	114,990	$130,435	$5,656
2	112,953	$188,789	$5,590
3	112,285	$247,337	$5,683
4	111,182	$315,941	$5,451
5	121,348	$425,967	$6,850
Statewide	**572,758**	**$269,377**	**$6,515**

Source: OEA 2000 Annual Report, pg. 174

Districts are divided into quintiles by ordering students from lowest to highest based on property wealth per pupil. The first fifth of the students are allotted to the first quintile, the second fifth to quintile 2, and so on. The quintiles have slightly different numbers of students because a district's students are not split across quintiles. By grouping students into quintiles, it is possible to compare the distribution of local and state revenues to local property wealth (the latter being much more unequal) and to compare the quintiles to the distribution of funds in earlier years. The differences in average funding between quintiles are much smaller than before SEEK.

OEA also utilizes the coefficient of variation, the standard deviation of a distribution divided by the distribution's average value. This is a measure of how varied funding is across school districts, with lower numbers indicating more equality of funding. Based on this statistic, OEA demonstrates that local and state funding per pupil is more equal than before the implementation of SEEK because state funding has become more unequal, making up for much of the differences in local revenue per pupil.

These approaches are useful but this report uses a different approach, with the goal of isolating the effects of different components of SEEK on inequality of funding. Dollar values for each of the major components of SEEK in the Final Bulletins for each year forms the entirety of each district's state revenue portion. The thirty cent Required Local Effort is removed from the amount and identified separately as a component.

The local revenues were obtained from the Tax Certification System at KDE. This data proved to be a much cleaner source of information because it had already been adjusted for financial system timing irregularities as part of the tax rate certification process. Revenue information directly from the financial system is subject to some timing irregularities that may cause one year to be lacking receipts that fall into the next year. The use of the Tax Certification System data also allowed for easy identification of permissive vs. property taxes.

Finally this analysis differs in that actual ADA was used as the divisor used to calculate funds per pupil rather than Funded ADA. Actual ADA is not known until some period of time after completion of the school year, but it represents a more direct measure of the number of pupils in local school districts. As a means of illustrating how this approach differs, statistical results are also shown for Funded ADA.

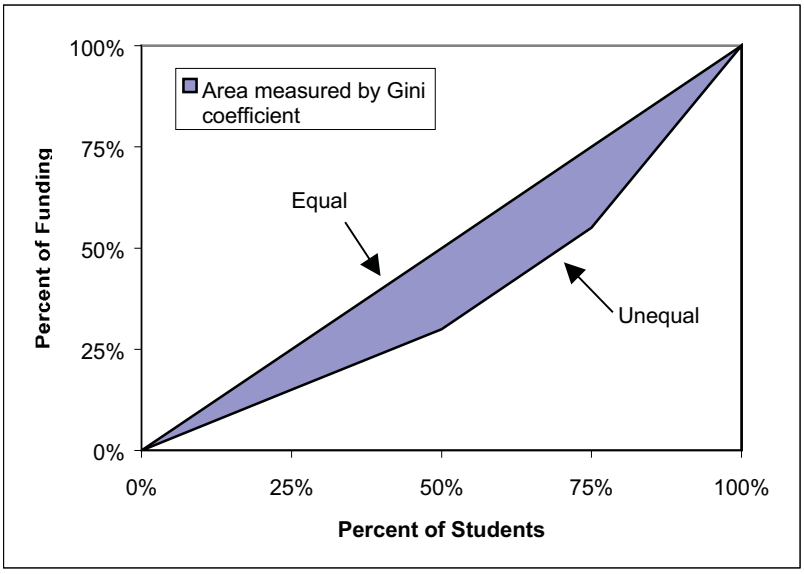
The following findings are based on per-pupil state and local funding, where the actual average daily attendance is used for per pupil calculations. Combined state and local funding is used because the other share of total funding—federal—is typically limited to specific purposes.

In order to gain insight into the various components of student funding and the possibility of inequality of funding, several statistical techniques are utilized. Throughout this analysis, individual student funding is the unit of measure and the data includes the funding for each student rather than funding per district. Thus, rather than 176 data points for a given year, there will be over 500,000 observations—students—each year. This approach is

chosen so that equal weighting is not given to school districts that are relatively larger or smaller than the rest of the districts. In other words, this approach allows the researcher to analyze more accurately the inequality of per pupil funding across all pupils without the influence of district size.

The first step in analyzing the potential inequality of funding across students was to look at state and local per pupil funding for the years 1994 to 2001 and generate a Gini coefficient for each year that indicates the degree of inequality in funding across the student population. The Gini coefficient measures the difference between perfectly equal contributions and actual contributions. As a way of understanding how this statistic is calculated, assume that there are only 100 students and that it is possible to provide different amounts of funding for each student. The students are then ordered from the student receiving the least funding to the one receiving the most. Now look at the percentage of total funds that the first student gets, the percentage the second gets, and so on up to the 100^{th} student. If each student received one percent of the total funding, then spending would be equal per student and the Gini coefficient would be zero. But to the degree that funding for any particular student is not one percent of the total, then inequality exists. As shown in **Figure A**, the amount that each student's funding is unequal can be graphed and the Gini coefficient is the size of the graphed area of inequality divided by the total potential inequality. The most unequal distribution of funding would be if one student received all the funding, in which case the Gini coefficient would equal one. So the closer the Gini coefficient is to one, the more inequality there is, or to put it another way, the closer the Gini coefficient is to zero, the more equality there is.

Figure A
Graphical Representation of a Hypothetical Gini Coefficient
(Lorenz Diagram)



The Gini coefficient for each of the school years from 1994 to 2001 reveals relatively little inequality. **Table 2** shows the Gini coefficient for each year, as well as the relative

difference between the student at the 90th percentile and the 10th percentile, and the 75th percentile and the 25th percentile, where per pupil funding is ranked from lowest to highest. The table also shows lowest and highest spending per pupil, the average spending per pupil, and the standard deviation, an indicator of how different districts are from the average. The 90/10 percentile column indicates the ratio of funding that a student who receives more funding than 90 percent of students receives compared to a student who receives more funding than a tenth of students. In 2001, the 90th percentile student received 1.156 times as much funding—or 15.6% more—than the 10th percentile student. The 75/25 percentile ratio is 1.085.

Table 2
Measures of Inequality of State and Local SEEK Funding per Pupil, 1994 to 2001

Year	Gini coeff.	90/10	75/25	Min. Funding	Max. Funding	Average	Standard Deviation
1994	0.034	1.130	1.068	$3,161	$7,161	$3,825	$272
1995	0.035	1.144	1.099	$3,372	$8,254	$4,056	$283
1996	0.032	1.143	1.069	$3,631	$8,052	$4,194	$272
1997	0.032	1.131	1.063	$3,740	$7,958	$4,433	$284
1998	0.034	1.151	1.065	$3,883	$8,045	$4,556	$302
1999	0.032	1.133	1.059	$4,064	$8,268	$4,757	$305
2000	0.033	1.150	1.060	$4,157	$9,006	$4,901	$332
2001	0.035	1.156	1.085	$4,453	$9,201	$5,240	$347

Source: State SEEK dollars from SEEK Bulletin, Local SEEK dollars from KDE Tax Certification System. Analysis performed by LRC Staff Economist.

The Gini coefficients are close to zero each year, indicating relatively equal spending per pupil. A Gini coefficient that indicates relative equality may appear to be inconsistent with the significant differences in minimum and maximum spending per pupil for each year. But note that the statistic is measuring the equality or inequality of spending *per pupil*, not per district. Since students in any given district get the same funding, this serves to decrease overall inequality. The fact that the minimums and maximums in any given year are different means that there is some inequality. If students in half the districts received the minimum and students in the other half received the maximum, the Gini coefficient would be considerably higher. A reason it is so low is that most students are not in districts in which students received close to the minimum or maximum funding.

An additional statistical technique, similar to the Gini, can be used to determine the effect that each component of SEEK funding has on the inequality of spending per pupil.* For

* For details, see A.F. Shorrocks (1982), "Inequality Decomposition by Factor Components," *Econometrics*, Vol. 50: 193-212. He proves that there is a unique decomposition rule for which inequality in total funding can be described as the sum of inequality contributions from each of the factor components. The decomposition rule is the "proportionate contribution of factor *f* to total inequality." This rule can be expressed as follows, where C_f is the contribution of funding source *f*, the Cov (*f*, *totalfunds*) is the covariance

the school years 1995, 1998, and 2001, **Table 3** shows for each source of funding per pupil its average amount, its share of total funding, and its contribution to total inequality. For example, in 1995, of the approximately $4,000 in state and local SEEK funding per pupil, $188 (4.63 percent) comes from the at-risk component of the formula. As indicated in the third column, this funding makes up 11.64 percent of the total inequality in funding per pupil. This may seem counterintuitive since at-risk funding goes to students from low-income households. The inequality that is being explained, however, is not income inequality but inequality in funding per pupil. If an at-risk student goes to school in a district in which funding is relatively high, the extra funding the district receives for at-risk students would increase inequality.

Because the inequality being explained is relatively small, changes in any one component in a given year may be due to the particular circumstances at that point in time and not indicative of any long-term trend. With that caveat, certain patterns are apparent. Of the components of state and local SEEK funding per pupil, the local property tax contributes the most by far to the inequality of funding per pupil—over half the inequality in 2001. Local permissive taxes have also contributed to inequality each year, around 10 percent of the total in each year. The other components that contribute more then 10 percent each to inequality per year are funding for at-risk and exceptional students.

Finally, this approach can be useful for thinking about how each component of SEEK funding works in practice, even if the component does not have a large impact on inequality. For example, according to **Table 3** the state guaranteed base contributes little to inequality of funding but it seems surprising that it contributes at all since the amount is the same for each student. The reason is that the state guaranteed base funding source as allocated by the General Assembly is computed using prior-year average daily attendance numbers plus an adjustment for current-year growth. Because there are changes from year to year, and since the actual current-year attendance numbers are used to determine funding for this analysis, the guaranteed base does have some impact on inequality. To illustrate, assume that funding for a district with relatively high revenues per pupil was based on 500 students. In the current year, attendance as measured by this year's end-of-year average daily attendance is 25 students less than the funded ADA. It would be expected that the number of students would be underestimated in districts, too, but it appears that this happens less frequently. Districts with declines in two-month ADA are not

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of fund source *f* and total funding, StD(*totalfunds*) is the standard deviation of total funding, and the total contribution of all sources, *f*(1….F) equal 1:

$$C_f = Cov(f, totalfunds) / StD(totalfunds)$$

and

$$\sum_{f=1}^{F} C_f = 1$$

Factor components with positive values for C_f make a disequalizing contribution to the inequality of total funding and factors with negative values for C_f make an equalizing contribution.

penalized for having fewer students, and the growth factor seems to overestimate the total increase in students in growing districts as well.

Table 3
Components of SEEK Formula and Inequality of State/Local SEEK Funding: 1995, 1998, 2001

1995 Source	Average Funding by source	Relative contribution	Relative contribution to total inequality
State Guaranteed Base	$2,556	63.03%	5.10%
At Risk	$188	4.63%	11.64%
Exceptional	$324	7.99%	14.55%
Home & Hospital	$11	0.27%	1.03%
Transportation	$238	5.87%	2.12%
.30 Local Effort	-$468	-11.54%	5.00%
State Tier 1	$233	5.74%	12.61%
Vocational Ed Deduction	-$7	-0.18%	-0.06%
Hold Harmless	$5	0.12%	4.06%
State FSPK	$71	1.76%	2.55%
Local Property Tax	$716	17.65%	31.96%
Local Permissive Tax	$189	4.65%	9.42%
Total Funds	$4,056	100.00%	100.00%
1998			
State Guaranteed Base	$2,790	61.25%	9.75%
At Risk	$215	4.72%	12.67%
Exceptional	$388	8.52%	15.39%
Home & Hospital	$10	0.21%	0.27%
Transportation	$288	6.33%	-0.78%
.30 Local Effort	-$568	-12.47%	1.07%
State Tier 1	$268	5.89%	8.67%
Vocational Ed Deduction	-$7	-0.15%	-0.03%
Hold Harmless	$2	0.05%	1.95%
State FSPK	$91	1.99%	1.47%
Local Property Tax	$863	18.95%	40.44%
Local Permissive Tax	$215	4.72%	9.07%
Total Funds	$4,556	100.00%	100.00%

Source: State SEEK dollars from SEEK Bulletin, Local SEEK dollars from KDE Tax Certification System. Analysis performed by LRC Staff Economist.

Table 3 continued on next page

Table 3 continued

2001 Source	Average Funding by source	Relative contribution	Relative contribution to total inequality
State Guaranteed Base	$3,097	59.11%	6.54%
At Risk	$236	4.50%	11.67%
Exceptional	$483	9.21%	14.63%
Home & Hospital	$10	0.19%	0.30%
Transportation	$330	6.30%	1.46%
.30 Local Effort	-$682	-13.02%	-6.92%
State Tier 1	$328	6.25%	3.59%
Vocational Ed Deduction	-$4	-0.08%	-0.08%
Hold Harmless	$0	0.01%	1.04%
State FSPK	$126	2.40%	0.10%
Local Property Tax	$1,053	20.09%	54.02%
Local Permissive Tax	$265	5.05%	13.70%
Total Funds	$5,240	100.00%	100.00%

Source: State SEEK dollars from SEEK Bulletin, Local SEEK dollars from KDE Tax Certification System. Analysis performed by LRC Staff Economist.

By way of comparison, **Table 4** shows the contribution of each component for SEEK to inequality of state and local funding per pupil, using funded ADA to indicate the number of pupils. (The year 1998 is shown simply because it was the middle year of those displayed in Table 3.) Funded ADA is how per pupil funds are allocated through SEEK. It consists of the previous year's end-of-year ADA plus the current year's two-month growth ADA. It is unlikely to equal the average daily attendance for the entire current year. For that reason, arguably it provides a less meaningful measure of how SEEK funding works in practice.

Using funded ADA, the state guaranteed base has zero impact on inequality because it is the same amount for each student. The 30 cent local effort and Tier I funding contribute to making spending per pupil more equal. As before, local property and permissive taxes contribute to inequality of per-pupil spending.

Table 4
Components of SEEK Formula and Inequality of State/Local SEEK Funding by Funded ADA: 1998

Source	Average Funding by source	Relative contribution	Relative contribution to total inequality
State Guaranteed Base	$2,756	58.52%	0.00%
At Risk	$185	3.93%	2.82%
Exceptional	$393	8.34%	6.79%
Home & Hospital	$8	0.17%	-0.07%
Transportation	$297	6.30%	0.98%
.30 Local Effort	-$770	-16.36%	-42.52%
State Tier 1	$180	3.81%	-13.39%
Vocational Ed Deduction	-$6	-0.12%	0.50%
Hold Harmless	$1	0.01%	0.38%
State FSPK	$61	1.30%	-4.88%
Local Property Tax	$1,234	26.21%	97.63%
Local Permissive Tax	$371	7.88%	51.76%
Total Funds	$4,709	100.00%	100.00%

Source: State SEEK dollars from SEEK Bulletin, Local SEEK dollars from KDE Tax Certification System. Analysis performed by LRC Staff Economist.

APPENDIX E
KENTUCKY DEPARTMENT OF EDUCATION ATTENDANCE AUDIT PROGRAM

Attendance Audit **01/03** **Central Office**		**Yes**	**No**
1.	Is the state student ID numbering system being properly used? [KRS 156.160(1)(d)]		
2.	Has the district implemented the state ethnic codes? [702 KAR 7:125, Section 20]		
REPORTS/RECORD RETENTION:			
3.	Is a continuous census of enrolled students including the name, date of birth and sex of each child; name, nationality and P.O. address of each parent/guardian; school district in which the child resides; and the school in which the child is enrolled, available? Schools must be noted by school code and name. [KRS 159.250]		
4.	Are reports stating the name, age, place of residence of all pupils in attendance at private/parochial and home schools available? [KRS 159.160]		
5.	Are entry/exit logs, daily and class absentee lists retained at least two (2) full school years? [702 KAR 7:125, Section 7]		
6.	Do second month and tenth month aggregates agree with information submitted on the Growth Factor or Superintendent's Annual Attendance Report, respectively? (Verify most recent report to KDE)		
CALENDAR:			
7.	Are master schedules for all schools available in the central office [LBE per approved calendar]? (Include schedules for shorten days)		
8.	Do all schools provide at least the minimum instructional time required? [KRS 158.060(3), 158.070, 702 KAR 7:125, Section 1(4)] **(In for low performing schools, out for high performing schools)**		
9.	Have any school days been canceled due to emergency or other reasons? [KRS 158.070(4), 702 KAR 7:125, Section 4]		
10.	If yes. for what reasons and how will time be made up?		
NONRESIDENT PUPILS:			
11.	Are any out of state students or residents of other Kentucky school districts attending school in the district? [702 KAR 7:125, Section 14]		
12.	If yes, are contracts on file for the students that are residents of other Kentucky school districts? [KRS 157.350(4)(a), 702 KAR 7:125, Section 14]		
13.	Have the aggregate days attendance been submitted to KDE as an adjustment to ADA for all out of state students and residents of other Kentucky districts for whom there is not a contract? [KRS 157.360]		

ATTENDANCE POLICY AND TRUANCY:			
14.	Does the board have a policy defining excused and unexcused absences and the number of absences allowed? **Attach policy** [702 KAR 7:125, Section 7(6)]		
15.	Does the district implement the three (3) month and one (1) year dropout follow-up? [KRS 159.010(4)		
BOARD POLICIES: (In for low performing schools out for high performing schools)			
16.	Does the board have a policy on cocurricular instructional activities? [702 KAR 7:125, Section 6(2)]		
17.	Does the board have a policy on student expulsions from school? Attach policy. [KRS 158.148(4), 158.150(2)]		
18.	How are expelled students (XP1, XP2, XE1, XE2) educated [KRS 158.150] and are they included in assessment testing? Yes____ No ___. If an expelled student is not being educated, is there language in the board minutes stating clear and convincing evidence that the student poses a threat and will not receive educational services? [KRS 158.150]. Yes _____ No _____.		
19.	Is proper documentation on file to support the district's request for weather days last year? [KRS 157.320, 702 KAR 7:125, Section 15]		
20.	Were dropout questionnaire results reported to the local board of education? [KRS 159.140 (7), 702 KAR 7:125, Section 22] **(Prior Year Report)** Board approval date: Board order number:		
HOME AND HOSPITAL			
21.	Have <u>all</u> students receiving home and hospital services met the minimum criteria: [704 KAR 7:120] a. The reason for enrolling into the home and hospital program; b. Signature of the home and hospital committee members; c. The date of enrollment into the home and hospital program; and d. A physician's chiropractor's, psychologist's or psychiatrist's signature? e. Verify that dates are reasonable and that signatures are before instruction begins.		
22.	Are students being properly withdrawn from school of origination and enrolled into the home and hospital program?		
23.	Are home and hospital students served a minimum of two (2) times per five (5) consecutive instructional days , one (1) hour per visit as indicated on the Teachers Monthly Reports? [KRS 157.270]		

24.	Do the Records of Daily Attendance (PA-2) agree with the teacher's home and hospital summary report?		
OVERAGE AND UNDERAGE STUDENTS;			
25.	Are there any students in the district that will not be five (5) years of age by October 1 for entry level, or six (6) years of age for P2 (Second Year Primary) or who will be 21 and over? [KRS 158.030, KRS 158.100]		
26.	Have the total aggregate days attendance for underage or overage students been submitted to KDE as an adjustment to ADA? [KRS 158.030, KRS 158.100, 702 KAR 7:125, Section 12(1)(3)]		
RELEASED TIME: (In for low performing schools, out for high performing schools)			
27.	What is the local board policy on released time for students? (For example, seniors with only one (1) credit left, etc.) [702 KAR 7:125, Section 9]		
28.	Are there any students in the district that leave school early or arrive late on a regular basis? [702 KAR 7:125, Section 9]		
29.	For what reasons? (For example, an exceptional child with a shortened school day.) [KRS 158.060, 702 KAR 7:125]		
30.	Have the aggregate days released been properly calculated and submitted to KDE as an adjustment to ADA? [702 KAR 7:125]		
SHARED TIME: (In for low performing schools, out for high performing schools)			
31.	What is the LBE policy on nonpublic students in the district that are served under shared time? [702 KAR 7:125 Section 10]		
32.	Are there any nonpublic students in the district that are served under shared time? [702 KAR 7:125, Section 10]		
33.	For what reasons? (For example, a private school child receiving Title I program services.)		
34.	Are the aggregate days the nonpublic school student is served by the public school district being properly recorded and submitted to KDE as an adjustment to ADA? [702 KAR 7:125, Section 10]		
TRANSPORTATION:			
35.	Does the school district's unduplicated bus count agree within 70% of the Principal's Report (PA-17)?		
AUDITS: (In for low performing schools, out for high performing schools)			
36.	Does the district conduct self-audits?		
37.	How often?		

38.	What method is used (e.g., on-site reviews, desk audits)?		
39.	Does the DPP provide regular training for school personnel? Attach agenda, etc.		

Source: Kentucky Department of Education, Division of School Finance - Revision Date: 06/01

Auditor: Date:

Attendance Audit **School Site**		**Yes**	**No**
ATTENDANCE SYSTEM: (In for low performing schools, out for high performing schools)			
1.	**Has a certified staff member been designated to audit and certify attendance records? [KRS 161.200(2)]**		
2.	**Is attendance checked at least twice each day (once in the morning and once in the afternoon if elementary, and by class period if middle/high)? [702 KAR 7:125, Section 7(1)]**		
3.	Does the entry/exit log include date, student name, time in, time out, grade/homeroom and parent/guardian signature? [702 KAR 7:125, Section 7(2,3)]		
4.	Is the entry/exit log properly used and maintained? [702 KAR 7:125, Section 6(3)]		
MASTER SCHEDULE: (In for low performing schools, out for high performing schools)			
5.	Is a schedule delineating instructional and noninstructional time available for review? [702 KAR 7:125, Section 6(3)]		
6.	Is the length of the instructional day at least three (3) hours or its equivalent for entry level, and six (6) or it's equivalent for P-12? [KRS 157.320(7), KRS 158.060(3)]		
7.	Is the daily instructional time the same for all students in the school?		
8.	If not, are schedules available for students with alternative length of days? (For example, three (3) hour entry level and six (6) hour P-12).		
INSTRUCTIONAL TIME: (In for low performing schools, out for high performing schools)			
9.	Has a class time been designated for students participating in a VHS class? [702 KAR 7:125 Section 7 (4,c)]		
10.	Is attendance for the VHS class properly recorded? [702 KAR 7:125 Section 7 (4,c)]		
11.	Does the school comply with the local board of education policy concerning instructional cocurricular activities? [702 KAR 7:125, Section 6(2)]		
TEACHER'S RECORD OF DAILY ATTENDANCE (PA-2):			
12.	Does the STI schedule(s) agree with the Board approved schedule?		
13.	Does the attendance clerk enter actual times for arrival and departure of students arriving late or leaving early? [702 KAR 7:125, Section 8(2,3,4)]		
14.	Are Opening, Closing, Professional Development, Planning Days and Holidays properly noted on PA-2s and PA-3s? [KRS 158.070]		
15.	Are all students coded for transportation: (NT, T1, T2, T3, T4 or T5)		
16.	Do students coded T5 have a special transportation need stated in their IEP?		
17.	Are PA-2s signed and dated by certified personnel?		
18.	Is proper documentation on file for all student withdrawals? (check codes and documentation) [702 KAR 7:125, Section 17]		

19.	Is a completed and signed drop out questionnaire on file for students that dropped out? [KRS 159.140(7), 702 KAR 7:125, Section 23]		
20.	Is documentation on file where students that have dropped out have been contacted within 3 months /1 year as applicable? [KRS159.010(4)]		
21.	Is documentation on file for students that have been suspended or expelled? [KRS 158.150]		
22.	Are expelled or suspended students being coded properly (XP1, XP2, XP3, XE1, XE2, XE3)? [702 KAR 7:125, Section 17]		
TEACHER'S MONTHLY REPORT (PA-3):			
23	Do PA-3s agree with PA-2s for presence, absence and membership figures?		
24.	Do monthly totals agree with PA-2s?		
25.	Are PA-3s signed and dated by certified staff member?		
ORIGINAL SOURCE DOCUMENT RETENTION:			
26.	Are entry/exit logs, absentee lists and original PA-2s (original PA-2s if applicable) retained at least two (2) full years (present year and two (2) prior years)? [702 KAR 7:125, Section 16(2)]		
RELEASED TIME: (In for low performing schools, out for high performing schools)			
27.	Do any students enrolled in the district leave school early or arrive late on a regular basis? [702 KAR 7:125, Section 9]		
28.	For what reasons? (For example, an exceptional child with a shortened school day.) [KRS 158.060, 702 KAR 7:125]		
29.	Is time released from school properly recorded?		
30.	Have the aggregate days released been submitted to KDE as an adjustment to ADA? [702 KAR 7:125]		
SHARED TIME: (In for low performing schools, out for high performing schools)			
31.	Are any nonpublic students attending the school as shared time students [702 KAR 7:125, Section 10]?		
32.	For what reasons? (For example, a private school child receiving Title I program services.)		
33.	If so, is attendance properly recorded?		
34.	Are the aggregate days the private school student is served by the public school district being properly recorded and submitted to KDE as an adjustment to ADA? [702 KAR 7:125, Section 10]		

TRANSPORTATION:			
35.	At the high school in what manner and how often are transportation codes for students verified?		
36.	How is verification accomplished?		
STATE VOCATIONAL FACILITY:			
37.	Is documentation from the vocational school available to substantiate attendance recorded at the middle/high school?		
ALTERNATIVE PROGRAM/FACILITY:			
38.	Does the school provide an alternative program?		
39.	Is it a regular alternative program or modified (i.e., night program, less than six (6) hours, for returning students over 18, etc.)		
40.	Is attendance being properly recorded for these students?		
41.	Are any students earning a GED?		
42.	If so, are their aggregate days attendance and absence being deducted in reports to KDE?		
ATTENDANCE POLICY: (In for low performing schools, out for high performing schools)			
43.	What is the school's attendance policy (district or SBDM specific)?		
44.	How does the school track and report poor attendance and truants to the director of pupil personnel?		
45.	Has the attendance clerk received training from the DPP on attendance procedures and regulations?		
OBSERVATION OF FACILITIES: (In for low performing schools, out for high performing schools)			
46.	Are restrooms clean?		
47.	Are halls clear of clutter and fully lit?		
48.	Are outside doors locked (secured from general public)?		
OBSERVATION OF FOODSERVICE: (In for low performing schools, out for high performing schools)			
49.	Is the cafeteria eating area clean with sufficient seating?		
50.	Is the kitchen clean?		
51.	Is the hot food hot and cold food cold?		

52.	Would you want your child to eat here?		
53.	Is the line length reasonable?		
54.	Do students appear to have sufficient time to eat?		
OBSERVATION OF TRANSPORTATION: (In for low performing schools, out for high performing schools)			
55.	Are drivers present at the bus as students load?		
56.	Is the school properly supervising the loading/unloading?		
57.	Are the bus and car traffic separate?		

Source: Kentucky Department of Education, Division of School Finance – Revision Date: 06/01

Auditor: Date:

ADDITIONAL NOTES:

REVIEW OF DAILY ATTENDANCE RECORDS

School District:

School:

Date	Name on ENTRY/EXIT LOG	Grade/ Hmroom	E/E Log Time Checked in or out	PA-2	Status

REVIEW OF DAILY ATTENDANCE RECORDS

School District:

School:

Date	Name on ABSENTEE LIST	Grade/ Hmroom	E/E Log?	PA-2	Status
Student Withdrawals:					
Date	**Student Name**	**W/D Code**	**Documentation**		

Attendance Audit - Preaudit Check List

Please have the following information organized and available in your central office and schools as noted below. It is important that all staff (central office and school) responsible for attendance have information ready and be available to talk with the auditors.

Central Office

- Census
- Current year Month 2 Teacher's Monthly Reports (PA-3)
- Prior year 10th month Teacher's Monthly Reports (PA-3)
- Non-resident student contracts
- Board policy for non-resident non-contract students (in and out of state)
- Board policy on suspensions
- Board policy on expulsions
- District attendance policy
- Board policy on excused and unexcused absences
- Home and Hospital records (applications, teacher's monthly reports, Records of Daily Attendance PA-2 and Teacher's Monthly Reports PA-3 to date)
- Board policy on cocurricular instructional activities
- Board policy on shared time
- Board policy on released time
- Copy of Master Calendar(s) and school schedules approved by local board of education.
- List of all suspended and expelled students by school
- Supporting documentation for weather days claimed on SAAR
- Local board of education program of studies and letter of assurance and compliance

Schools

- Check-in and check-out lists
- Daily absentee lists
- Absentees by class period
- Records of Daily Attendance (PA-2)
- Teacher's Monthly Reports (PA-3)
- List of withdrawals to date
- All withdrawal documentation
- Names and grades of students on released time
- Names and grades of shared time students
- List of names and grade of students born after 10/01/95 in entry level and after 10/1/94 in P2
- List of names and grade of students born prior to 06/30/80
- Vocational school attendance reports
- List of teacher names, grade taught, and homeroom number
- Master schedule(s) showing instructional and noninstructional times
- Bus transportation schedule(s) (arrival and departure) and count
- Legend of symbols used for tardy, one-half day and full day absence
- List of all students provided special transportation (T5)
- Bus load counts

11/00

APPENDIX F

SURVEY OF KENTUCKY SCHOOL SUPERINTENDENTS

This appendix details how the survey was developed and conducted. A copy of the questionnaire used and detailed frequency tables for districts' answers to questions are also included.

How the Survey Was Developed

Potential questions were developed from reviewing SEEK materials and from interviews with Kentucky Department of Education staff to identify the key issues and concerns regarding the program. Then several superintendents were interviewed via telephone to find out their concerns regarding SEEK. A draft survey was sent to these superintendents to ensure the inclusion of all important concepts and the ease of understanding the survey. These final comments were incorporated into the survey instrument.

How the Survey Was Conducted

A web-based survey was conducted to capture the opinions of school superintendents/districts regarding the SEEK program. An email distribution list was compiled of the school superintendents for all 176 Kentucky school districts. The superintendents were sent the following email:

> Representative Gippy Graham
> Chairman, Program Review and Investigations Committee
> August 21, 2002
>
> Dear Superintendent:
>
> As Chairman of the Kentucky General Assembly's Program Review and Investigations Committee, I am writing to request your assistance. The members of the Committee have directed staff to perform a study of the Support Educational Excellence in Kentucky (SEEK) program. We are gathering information on SEEK from many different sources, but none are more important than the views of superintendents such as yourself.
> I ask that you complete an on-line questionnaire that is available at
> http://www.lrc.state.ky.us/Statcomm/Progrev/surveys/SEEK_Super.htm
>
> It should only take a few minutes to complete. Although submitting the questionnaire is voluntary, I urge you to respond so that your district's voice is heard. Your responses are confidential; no one's name or district will be associated with answers in any report or public communication. Our goal is to get responses from 100% of superintendents to ensure that the results are representative of the impact of SEEK on all school districts.
>
> We would like to receive your completed questionnaire by August 30. Again, a full understanding of the strengths and weaknesses of SEEK as well as its impact statewide is only possible with your cooperation. If you have any questions or comments about the

questionnaire, please contact Stacie Otto at 502-564-8100; email: stacie.otto@lrc.state.ky.us. Thank you in advance for your time and cooperation.

Sincerely,
Representative Gippy Graham, Chairman
Program Review and Investigations Committee
Kentucky General Assembly

Superintendents who had not responded one week after the first email request were sent the following email:

> **I know this is a busy time for you. But I am writing to remind you to complete the SEEK survey. The questionnaire is short and should take only a few minutes. Your views are very important to us. The survey can be accessed at the link below:**
> http://www.lrc.state.ky.us/Statcomm/Progrev/surveys/SEEK_Super.htm

Superintendents who had not responded to the first or second email request were sent a third and final request.

Response Rate for Web-Based Survey of Superintendents

The survey yielded a high response rate. One hundred and thirty, or 73.9 percent, of school districts submitted completed surveys, representing 76.7 percent of all students in the state, based on 2002 SEEK funded Average Daily Attendance (ADA) figures. Among Kentucky's 176 school districts, 120 are county school districts and 56 are independent school districts. County districts comprise 68 percent of all districts, compared to 65 percent of the survey responses. Independent districts represent 32 percent of districts and 35 percent of responses. Superintendents (106) completed the majority of surveys; finance officers completed 20 surveys. As depicted in the table below, a detailed comparison of the population versus the sample shows that they are almost identical, from average assessment per pupil to ADA. Therefore, the results can be generalized to all districts with considerable confidence.

A Comparison of Districts That Responded to the Survey (Sample) to All Districts (Population)

Population versus Sample	Population	Sample
2002 average assessment per pupil	252,275	246,060
2000 average permissive tax revenue as percent of local tax revenue	20	20
2002 average of at-risk pupils as % of end-of-year ADA	49	49
2002 average of exceptional child counts as % of end-of-year ADA	16	17
2002 average SEEK funded ADA	3,234	3,330
% county districts	68%	65%
% independent districts	32%	35%

Survey of Kentucky School Districts
Support Educational Excellence in Kentucky (SEEK)
Responses to Questions

Question 1: Compared to the period before SEEK, how would you rate your district's current funding?

Much Worse	7	5.4%
Somewhat Worse	20	15.5%
About the Same	6	4.7%
Somewhat Better	48	37.2%
Much better	48	37.2%
Total	129	100.0%

Question 2: Compared to other districts, how would you rate your district's current funding?

Much Worse	11	8.5%
Somewhat Worse	37	28.7%
About the Same	54	41.9%
Somewhat Better	22	17.1%
Much better	5	3.9%
Total	129	100.0%

Question 2A: Do some types of districts do better than others?

No	20	16.4%
Yes	102	83.6%
Total	122	100.0%

Which types of districts do better than others?		
Large tax base	27	26.5%
High growth	15	14.7%
Large number of "at-risk" students	13	12.7%
More commercial/industrial development	11	10.8%
Steady growth in enrollment	10	9.8%
Poorer districts	10	9.8%
Collect permissive taxes	9	8.8%
Low property assessment	8	7.8%
High level of federal money/in-lieu-of money	6	5.9%
Large number of students	5	4.9%
High tax rate prior to SEEK	4	3.9%
Low growth	4	3.9%
Small geographic areas/less transportation costs	4	3.9%
Low tax rates	3	2.9%
County school districts	2	2.0%
Urban	2	2.0%
Districts without ESL students	2	2.0%
Declining assessment values	1	1.0%
All districts have a level playing field	1	1.0%
Hold harmless districts	1	1.0%
Districts with a low number of exceptional children	1	1.0%
Districts with less industry	1	1.0%

Coded from open-ended responses.
% based on the number of respondents who answered the question (102).
Respondents may be included in more than one category so % column may sum to over 100%.

Question 2B: Do some types of districts do worse than others?

No	25	20.5%
Yes	97	79.5%
Total	122	100.0%

Which types of districts do worse than others?		
Small tax base	25	27.5%
Increasing assessments	16	17.6%
Declining enrollment	10	11.0%
Little/zero growth	8	8.8%
Property assessment growth more than 4% per year	7	7.7%
Rural	6	6.6%
Poor districts	6	6.6%
Older facilities/high facilities cost	5	5.5%
Independent districts	4	4.4%
High tax rate prior to SEEK	3	3.3%
High "at-risk" population	3	3.3%
No federal impact aid/in-lieu-of money	3	3.3%
Little industry	3	3.3%
High transportation costs/sparsely populated	3	3.3%
Low permissive taxes	2	2.2%
Districts with ESL students	2	2.2%
Large districts	2	2.2%
Poor attendance	2	2.2%
Level assessments	1	1.1%
Small "at-risk" population	1	1.1%
High industry	1	1.1%
Property wealthy	1	1.1%

Coded from open-ended responses.
% based on the number of respondents who answered the question (91).
Respondents may be included in more than one category so % column may sum to over 100%.

Question 3: Does the SEEK formula provide sufficient resources to provide students with a quality education?

No	82	64.1%
Yes	23	18.0%
Not Sure	23	18.0%
Total	128	100.0%

Please explain.

SEEK is under-funded	26	26.3%
Unfunded mandates deplete resources	19	19.2%
Increases in funding are not keeping up with increases in program costs/inflation	16	16.2%
Funding for "at-risk" and "exceptional" children is not adequate	7	7.1%
Inequity in the formula makes it difficult	6	6.1%
Teachers are underpaid/hard to recruit quality teachers	7	7.1%
Building funds are inadequate	4	4.0%
Need funding for ESL students	2	2.0%
Should be funded for membership not attendance	2	2.0%
Smaller districts do not receive enough funding	2	2.0%
Kindergarten needs to be funded	2	2.0%
Equitable but not adequate	2	2.0%
Too many restrictions on funds	1	1.0%
Too much paperwork/drains resources	1	1.0%
Lacking in transportation funding	2	2.0%

Coded from open-ended responses.
% based on the number of respondents who answered the question (91).
Respondents may be included in more than one category so % column may sum to over 100%.

Question 4: For a **TYPICAL** year, what is your level of satisfaction with the following:

4a: Timeliness of the Property Valuation Administrator's (PVA) assessment?

Very Dissatisfied	3	2.3%
Dissatisfied	10	7.8%
Neutral	19	14.7%
Satisfied	75	58.1%
Very Satisfied	22	17.1%
Total	129	100.0%

4b: Accuracy of PVA assessments?

Very Dissatisfied	2	1.6%
Dissatisfied	8	6.3%
Neutral	32	25.0%
Satisfied	72	56.3%
Very Satisfied	14	10.9%
Total	128	100.0%

4c: Timeliness of SEEK-related information you receive from the Kentucky Department of Education (KDE)?

Very Dissatisfied	3	2.3%
Dissatisfied	21	16.3%
Neutral	18	14.0%
Satisfied	71	55.0%
Very Satisfied	16	12.4%
Total	129	100.0%

4d: Accuracy of SEEK-related information you receive from KDE?

Very Dissatisfied	5	3.9%
Dissatisfied	13	10.1%
Neutral	22	17.1%
Satisfied	74	57.4%
Very Satisfied	15	11.6%
Total	129	100.0%

4e: Timeliness of receiving SEEK payments?

Very Dissatisfied	2	1.6%
Dissatisfied	2	1.6%
Neutral	5	3.9%
Satisfied	81	63.3%
Very Satisfied	38	29.7%
Total	128	100.0%

Question 5: Typically, does SEEK affect your ability to plan?

No	5	3.9%
Yes, small impact	18	14.1%
Yes, large impact	105	82.0%
Total	128	100.0%

Please explain.

SEEK is major source of budget, have to know the amount in order to plan	37	38.9%
Uncertainty regarding SEEK funding levels impacts ability to plan	13	13.7%
This has been a difficult year in terms of planning with errors in projections and no budget	10	10.5%
Basis for all final personnel/staffing decisions	9	9.5%
Timeframe for making informed budget decisions does not coincide with when you receive accurate SEEK information	9	9.5%
Can't plan without adequate funding	4	4.2%
Errors in tentative calculations create planning problems	3	3.2%
Need to know resources in order to plan	3	3.2%
Difficult to plan with estimates	2	2.1%
Depending on assessment, could change drastically	2	2.1%
Mid-year reductions make planning difficult	2	2.1%
Local effort provides necessary cushion to allow for timely planning	1	1.1%

Coded from open-ended responses.
% based on the number of respondents who answered the question (95).
Respondents may be included in more than one category so % column may sum to over 100%.

Question 6: Do your records indicate the amount spent on programs for students defined as "at risk" by the SEEK formula?

No	41	31.8%
Yes	76	58.9%
Not Sure	12	9.3%
Total	129	100.0%

Question 7: If yes, do you spend money beyond the formula amount calculated for "at risk" students?

No	9	40.9%
Yes	4	18.2%
Not Sure	9	40.9%
Total	22	100.0%

Question 8: Do your records indicate the amount spent on programs for students defined as "exceptional children" by the SEEK formula?

No	9	7.0%
Yes	113	87.6%
Not Sure	7	5.4%
Total	129	100.0%

Question 9: If yes, do you spend money beyond the formula amounts calculated for "exceptional children"?

No	5	4.4%
Yes	101	89.4%
Not Sure	7	6.2%
Total	113	100.0%

Questions 6-9: Explanation

SEEK funds are not sufficient.	29	48.3%
Yes, spend money beyond what is calculated for "exceptional children"	15	25.0%
Personnel (one-on-one), space and transportation costs exceed budgeted amounts	8	13.3%
Do not track spending on at-risk students, not available on MUNIS	5	8.3%
Yes, tracked through MUNIS	3	5.0%
Track Special Education separately due to the Maintenance of Fiscal Effort Reports	2	3.3%
Yes, spend money beyond what is calculated for "at risk" students (from General Fund)	7	11.7%
Speech, instructional aids, occupational therapy, and physical therapy cause a need for more monies	2	3.3%
Safe schools and alternative schools not fully funded	2	3.3%
Depends on person completing the purchase order coding it correctly.	1	1.7%
An increase in federal IDEA money would greatly help.	1	1.7%
Difficult to plan	1	1.7%
Now have to cover cost of insurance for federal employees	1	1.7%
Legislators encouraged districts to use the at-risk/exceptional children adds to support teachers' salary increases.	1	1.7%

Coded from open-ended responses.
% based on the number of respondents who answered the question (60).
Respondents may be included in more than one category so % column may sum to over 100%.

Question 10: When did your district implement the STI district accumulator (DASI) software, the software system to monitor average daily attendance?

1995 or earlier	19	14.6%
1996	5	3.8%
1997	7	5.4%
1998	15	11.5%
1999	23	17.7%
2000	27	20.8%
2001	30	23.1%
2002	2	1.5%
2003	2	1.5%
Total	130	100.0%

Question 11: After your district implemented the software program, are your attendance counts:

Less Accurate?	3	2.4%
The Same?	56	44.8%
More Accurate?	66	52.8%
Total	125	100.0%

Question 12: Do you disagree or agree that property assessment is the best available measure of a district's wealth?

Strongly Disagree	9	7.0%
Disagree	20	15.5%
Not Sure	39	30.2%
Agree	53	41.1%
Strongly Agree	8	6.2%
Total	129	100.0%

Are there better measures than property assessment of a district's wealth?		
PVAs aren't consistent/compromises property tax as a measure of wealth	6	16.7%
Per capita income	5	13.9%
Not fair to poor districts	4	11.1%
In lieu of money (TVA) should be taken into consideration	3	8.3%
Sales tax	3	8.3%
Census/survey data	3	8.3%
Include permissive taxes	2	5.6%
Federal income tax	2	5.6%
Should be one of several measures	2	5.6%
Property assessment is the best measure	2	5.6%
Available jobs	1	2.8%
Fixed assets	1	2.8%
Occupational tax	1	2.8%
Natural resources	1	2.8%

Coded from open-ended responses.
% based on the number of respondents who answered the question (36).
Respondents may be included in more than one category so % column may sum to over 100%.

Question 13: Do the add-ons in the SEEK formula reflect the amount of resources needed for each? The weight is:

13a. Pupils at-risk
(Base X .15 X Free Lunch)

Too Low	91	71.1%
Too High	2	1.6%
About Right	35	27.3%
Total	128	100.0%

13a. Comments

High cost involved with the number of services needed and contracting with providers	5
Should be higher/at least .25	4
Do not have the data to support an increase	2
Takes all funds to provide basic education, there is none left for these programs	1
Add ESL/LEP to the definition	1
Total	13

Coded from open-ended responses.

13b1. Base X Severe X 2.35

Too Low	107	82.9%
Too High	1	0.8%
About Right	21	16.3%
Total	129	100.0%

13b2. Base X Moderate X 1.17

Too Low	101	78.9%
Too High	3	2.3%
About Right	24	18.8%
Total	128	100.0%

13b3. Base X Speech X .24

Too Low	86	67.2%
Too High	2	1.6%
About Right	40	31.3%
Total	128	100.0%

13b. Comments

Should be fully funded	7
There has never been enough money for exceptional children	6
Expenses increasing more rapidly than SEEK	6
Requires more funding than any other student	4
High cost for small population	3
The Federal Government doesn't fund its share	2
Total	28

Coded from open-ended responses.

13c. Home and hospital (Base -$100 X H & H ADA)

Too Low	62	48.8%
Too High	3	2.4%
About Right	62	48.8%
Total	127	100.0%

13c. Comments

Expenditures exceed revenues	5
Only temporary, shouldn't lose $100	2
Districts lose money when it is a special education student	1
Should approach full funding	1
In 2001-2002, my district spent twice as much as it received through SEEK for Home & Hospital	1
Totals	10

Coded from open-ended responses.

13d. Transportation

Too Low	79	62.2%
Too High	1	0.8%
About Right	47	37.0%
Total	127	100.0%

13d. Comments	
Sparsely populated areas are hurt worst	6
Costs (fuel, insurance, buses) are increasing	5
Formula too complicated	3
No provision for road conditions/accessibility	3
Should be fully funded	2
Should be reimbursed for students who live less than one mile/some children are being forced to walk in unsafe conditions	2
Formula for replacement of buses is too low	2
Should consider geographic size	2
Some districts need to be monitored closely for over reporting	1
Should include average for all children	1
Total	27

Coded from open-ended responses.

Question 14: Please indicate your level of satisfaction with the SEEK formula related to each of the following items.

14a. "Hold Harmless"

Very Dissatisfied	4	3.1%
Dissatisfied	11	8.7%
Neutral	66	52.0%
Satisfied	41	32.3%
Very Satisfied	5	3.9%
Total	127	100.0%

14a. Comments	
Should have been phased out	2
Should be adjusted for inflation	2
No one qualifies for this feature	1
The SEEK base should have increased enough so that no one qualifies for this.	1
Total	6

Coded from open-ended responses.

14b. Tier I Equalization

Very Dissatisfied	7	5.4%
Dissatisfied	28	21.7%
Neutral	28	21.7%
Satisfied	59	45.7%
Very Satisfied	7	5.4%
Total	129	100.0%

14b. Comments

Increase percentage of equalization above 150%.	2
Needs to be higher	1
This provision was intended to equalize tax revenues among districts that made an extra tax effort. As it is written in the SEEK formula, it not only provides extra state funding based on tax revenue, it also provides extra funding based on the amount.	1
Districts with small incomes can not possibly implement increases.	1
Should allow local districts to assess much more	1
Difficult to explain to public	1
Penalized for growth	1
Adequate Base funding increases are necessary.	1
Remove the HB 44 provisions and allow districts to levy appropriately	1
Should be much greater for the more poor districts.	1
Total	11

Coded from open-ended responses.

14c. Tier II

Very Dissatisfied	3	2.4%
Dissatisfied	26	21.1%
Neutral	62	50.4%
Satisfied	30	24.4%
Very Satisfied	2	1.6%
Total	123	100.0%

14c. Comments

Tier II was supposed to provide an opportunity for districts to levy higher taxes if they wished up to a certain level. The Tier II system is not equitable because the maximum Tier II tax rate differs for each district.
Consider allowing Boards to go to Tier II funding.
Adequate Base funding increases are necessary.
Would like to see some "reward" for being in Tier II to encourage districts to be aggressive in generating local funds.
Remove recall provision.
Most places voters will not allow it.

14d. Permissive Taxes

Very Dissatisfied	12	9.3%
Dissatisfied	27	20.9%
Neutral	37	28.7%
Satisfied	46	35.7%
Very Satisfied	7	5.4%
Total	129	100.0%

14d. Comments

Permissive tax revenues should be considered. It is not fair or equitable because some districts get much more in permissive tax revenue than other districts.	3
Inequitable	1
Maybe it's time for the Commonwealth to completely restructure the revenue sources. Residents are taxed from every angle and the Governor's budget obligations are still not met.	1
Remove the HB 44 provisions and allow districts to levy appropriately	1
Some districts do not ask its citizens to pay its fair share	1
Total	7

Coded from open-ended responses.

14e. Ease of understanding the SEEK formula

Very Dissatisfied	10	7.8%
Dissatisfied	35	27.1%
Neutral	28	21.7%
Satisfied	52	40.3%
Very Satisfied	4	3.1%
Total	129	100.0%

14e. Comments

Because the SEEK formula is so hard to understand for the average person, the KDE has been able to hide serious problems with the formula.
CERTIFIED 'FMI' graduates can't explain it.
Formula is hard to explain to non-school related individuals.
Free lunch is a good start. However, other areas such as diversity should be considered.
I guess by its very nature it would be rather complicated.
Unknown factors in the transportation portion make it difficult to calculate. Otherwise it is fairly easy to understand.

14f. Definition of "at risk"

Very Dissatisfied	7	5.5%
Dissatisfied	30	23.6%
Neutral	26	20.5%
Satisfied	59	46.5%
Very Satisfied	5	3.9%
Total	127	100.0%

14f. Comments

Should not be limited to income levels only, other indicators of need should be included, students performing below level in basic reading skills, unemployment.	3
I wouldn't be able to provide a better alternative.	2
Should include both free and reduced lunch counts.	2
Recent studies by the federal government have demonstrated that there are large numbers of students getting free or reduced price lunches that do not qualify for the program.	1
Total	8

Coded from open-ended responses.

14g. Definition of "exceptional children"

Very Dissatisfied	9	7.2%
Dissatisfied	16	12.8%
Neutral	34	27.2%
Satisfied	63	50.4%
Very Satisfied	3	2.4%
Total	125	100.0%

14g. Comments

Too many students being labeled as LD when they just simply need a strong Reading and/or Math teacher (especially reading) to teach them as used to be done with pull-out remediation programs. Many students caught up and did well.

Question 15: Should the SEEK formula include provisions for Limited English Proficiency Students?

No	11	8.5%
Yes	87	67.4%
Not Sure	31	24.0%
Total	129	100.0%

Question 16: What changes, if any, would you make to the SEEK formula?

Needs to be adequately funded	24	28.6%
Increase transportation costs/include all children who ride buses/consider population density	10	11.9%
Increase "at-risk" and exceptional add-ons	9	10.7%
Use average daily membership rather than ADA	6	7.1%
Provide equity among districts	5	6.0%
Stop unfunded mandates	4	4.8%
Allow districts to levy a tax increase beyond 4%	3	3.6%
Good formula/Serves us well	3	3.6%
Revise FSPK- equalize, allow a 2nd growth nickel	3	3.6%
State-wide teacher salary schedule	2	2.4%
Funds for preschool	2	2.4%
Add assistance for LEP students	2	2.4%
Simplify	2	2.4%
Funding for all-day kindergarten	2	2.4%
Funds for technology	1	1.2%
Funds for professional development	1	1.2%
Include permissive taxes	1	1.2%
Include federal "in lieu of" money	1	1.2%
Prorate add-ons for children who change districts	1	1.2%
Put all funds into one fund to be allocated by the district	1	1.2%
More correct measure of local effort	1	1.2%
Equalize all taxes collected (including permissive)	1	1.2%
Adjustments for growth districts	1	1.2%
Use prior year property assessment	1	1.2%
Better state budget planning	1	1.2%
Give a true base guarantee for small districts	1	1.2%
Superintendents should set tax rates	1	1.2%
Add alternative programs to the add-ons	1	1.2%
Add reduce lunch count to the at-risk	1	1.2%
Add funding for ESL	1	1.2%

Coded from open-ended responses.
% based on the number of respondents who answered the question (84).
Respondents may be included in more than one category so % column may sum to over 100%.

Survey of Kentucky School Districts
Support Educational Excellence in Kentucky (SEEK)

SEEK: EFFECT ON FUNDING

1. Compared to the period before SEEK, how would you rate your district's current funding?
- ❑ Much Worse
- ❑ Somewhat Worse
- ❑ About the Same
- ❑ Somewhat Better
- ❑ Much Better

2. Compared to other districts, how would you rate your district's current funding?
- ❑ Much Worse
- ❑ Somewhat Worse
- ❑ About the Same
- ❑ Somewhat Better
- ❑ Much Better

A. Do some types of districts do better than others?
- ❑ No
- ❑ Yes

If yes, which types of districts do better than others?

B. Do some types of districts do worse than others?
- ❑ No
- ❑ Yes

If yes, which types do worse than others?

3. Does the SEEK formula provide sufficient resources to provide students with a quality education?
- ❑ No
- ❑ Yes
- ❑ Not Sure

Please explain

SEEK: IMPLEMENTATION/OPERATION

4. For a TYPICAL year, what is your level of satisfaction with the following:

a. Timeliness of the Property Valuation Administrator's (PVA) assessment?
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

b. Accuracy of PVA assessments?
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

c. Timeliness of SEEK-related information you receive from the Kentucky Department of Education (KDE)?
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

d. Accuracy of SEEK-related information you receive from KDE?
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

e. Timeliness of receiving SEEK payments?
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

5. Typically, does SEEK affect your ability to plan?
- ❑ No
- ❑ Yes, Small Impact
- ❑ Yes, Large Impact

Please Explain.

6. Do your records indicate the amount spent on programs for students defined as "at risk" by the SEEK formula?
- ❑ No
- ❑ Yes
- ❑ Not Sure

7. If yes, do you spend money beyond the formula amount calculated for "at risk" students?
- ❑ No
- ❑ Yes
- ❑ Not Sure

8. Do your records indicate the amount spent on programs for students defined as "exceptional children" by the SEEK formula?
- ❑ No
- ❑ Yes
- ❑ Not Sure

9. If yes, do you spend money beyond the formula amounts calculated for "exceptional children"?
- ❑ No
- ❑ Yes
- ❑ Not Sure

Explanation:

10. When did your district implement the STI district accumulator (DAISI) software, the software system to monitor average daily attendance? Month _____ Year _____

11. After your district implemented the software program, are your attendance counts:
- ❑ Less Accurate?
- ❑ The Same?
- ❑ More Accurate?

SEEK: THE FORMULA

12. Do you disagree or agree that property assessment is the best available measure of a district's wealth?
- ❑ Strongly Disagree
- ❑ Disagree
- ❑ Not sure
- ❑ Agree
- ❑ Strongly Agree

Are there better measures? Explain

13. Do the add-ons in the SEEK formula reflect the amount of resources needed for each?
The weight is:

a. Pupils at-risk
(Base X .15 X Free Lunch)
- ❑ Too Low
- ❑ Too High
- ❑ About Right

Comments

b. Exceptional children
Base X Severe X 2.35
- ❑ Too Low
- ❑ Too High
- ❑ About Right

Base X Moderate X 1.17
- ❑ Too Low
- ❑ Too High
- ❑ About Right

Base X Speech X .24
- ❑ Too Low
- ❑ Too High
- ❑ About Right

c. Home and hospital
(Base -$100 X H & H ADA)
- ❑ Too Low
- ❑ Too High
- ❑ About Right

d. Transportation
- ❑ Too Low
- ❑ Too High
- ❑ About Right

14. Please indicate your level of satisfaction with the SEEK formula related to each of the following items.

a. "Hold Harmless"
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

Comments

b. Tier I Equalization
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

Comments

c. Tier II
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

Comments

d. Permissive Taxes
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

Comments

e. Ease of understanding the SEEK formula
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

Comments

f. Definition of "at risk"
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

Comments

g. Definition of "exceptional children"
- ❑ Very Dissatisfied
- ❑ Dissatisfied
- ❑ Neutral
- ❑ Satisfied
- ❑ Very Satisfied

Comments

15. Should the SEEK formula include provisions for Limited English Proficiency Students?
- ❑ No
- ❑ Yes
- ❑ Not Sure

16. What changes, if any, would you make to the SEEK formula?

Please Enter your School District Number: (required to ensure no duplicate responses)

Please Enter your School District Name:
Person Completing this form If other, please specify

Thank you for taking the time to complete this survey!

APPENDIX G

RESPONSE FROM KENTUCKY DEPARTMENT OF EDUCATION

Department of Education Response to:
The SEEK Formula for Funding Kentucky's School Districts: An Evaluation of Data, Procedures and Budgeting
Program Review and Investigations Committee
December 4, 2002

3.1 KDE should implement a risk-based approach to auditing school districts' reported attendance statistics. This approach should consider the risk of significant error in the per-pupil funding amount and should tailor the audit procedures accordingly. School district with large attendance statistics should be audited more frequently than those with small attendance statistics.

We agree in principle with the risk-based approach to conducting the audit and will implement the recommendations to further improve our audit procedures. However, KDE has already begun to take steps to address the quality of data issues. First, a new division will assume responsibility for data quality issues, running the SEEK calculation and certifying tax rates to local school districts. Staff will receive training in data quality assurance and desk audits will be conducted on all data elements with any relevance to the SEEK calculation. Problems identified in the desk audits will be followed up with on-site reviews. Though the proposed practice of adjusting the audit process between low-performing and high-performing schools recognizes that high-performing schools generally have better attendance accounting procedures than low-performing schools, that distinction will not be implemented. Some districts will continue to receive audits more frequently than every four years if management audits are conducted, a district requests an attendance audit, or there is reason to suspect problems identified through the desk audit process or any other mechanism.

To fully implement this recommendation, we would need to spread out the attendance audit cycle further (which means districts will be audited less than once every four years) or increase staff, which would require additional resources from the General Assembly. We project it would take a minimum of five additional full-time employees to implement the more frequent audits of larger districts and to include all schools. See 3.2 response. We also believe some consideration should be given to the disruption in schools the implementation of this recommendation would cause. Taken literally, the recommendation would make one conclude that every school in Jefferson County should be audited ***at least*** *every two years, if not every year. The attendance audit process is very time consuming for district and school level staff. The use of staff time should be weighed against the potential benefit provided by the audit process.*

3.2 All procedures designed to test the validity of reported attendance statistics should be performed on every attendance audit – and at all schools in the district.

We agree all procedures to test the validity of reported attendance statistics should be performed on every attendance audit. The audit of a sample rather than all elementary schools in a district is a risk-based approach. Elementary schools have less room for errors in attendance accounting. To audit every school in the district would require us to spread out the attendance audit cycle further (which means districts will be audited less than once every four years) or increase staff, which would require additional resources from the General Assembly. We project it would take a minimum of five additional full-time employees to implement the recommendation. See 3.1 response.

3.3 When the time of late arrival or early departure is not entered on the school's entry/exit log, the student should be counted absent for the full day.

We disagree with the recommendation. If a student shows up on the entry/exit log, the student was obviously present for some amount of time. With the use of the classroom module of STI, the teacher enters attendance each period. It can be determined when the student arrived or left without the time being on the sign-in/sign-out sheet by looking at the periods the student was present/absent. Counting a student absent raises other issues such as whether or not the absence was excused. If the student was, indeed, tardy, the absence could affect "perfect attendance" and other attendance incentives offered by schools. Particularly at the elementary level, one could, in fact, be penalizing a child for the action of an adult. Additional training is needed for local district staff to stress the importance of accurate reporting.

3.4 When sampling a school's attendance records, the auditor should be required to use a random selection technique so that the error rate in the overall population can be estimated. When documenting the results of testing, the auditor should fully describe the work performed to support significant judgments and conclusions in the report. The documentation should include the scope of work, the methodology followed, and any sampling criteria used. The auditor should sign and date all audit documentation and include the source of documentation, such as a school's summary reports from its computer system.

We currently use a random selection technique, and have an established scope of work and methodology. However, the random selection is not such that the error rate in the overall population can be estimated. That will be corrected immediately. We will identify ways to better document the process used during the audit.

3.5 KDE should adjust a district's ADA for significant errors in reported statistics noted in the initial audit of school records. In addition, KDE should require a follow-up on-site review of the school's records to determine whether the corrective action plan was implemented in the year of audit. When follow-up testing indicates that a school continues to have significant errors in reported statistics, ADA should be further adjusted.

Our audit is proactive and corrects any current year attendance errors affecting ADA. The district is advised to correct the problem throughout the district and on-site follow-up to the district's Corrective Action Plan has always been conducted. We will revisit a sample of schools to determine whether the additional visit to the school site is a cost effective use of staff time. It should be noted, however, that if problems are found with the district follow-up, school follow-up visits are already conducted.

3.6 KDE auditors should be required to review charges to transportation accounts and reimbursements received. Consistent with recommendation 3.1, the audit approach should consider the risk of significant error in the per-pupil transportation funding amount and should tailor audit procedures accordingly. The approach should identify districts with high transportation costs that can have a significant effect on the statewide SEEK transportation component.

We agree, but this will require additional staff or less time on other technical assistance functions. The staff who currently conduct the attendance audits are also the same staff who assist districts with budget and accounting issues, including support for the statewide accounting system. They also conduct management and activity fund audits as required. These support responsibilities are essential to local school districts.

3.7 KDE should assign a knowledgeable employee not involved in the SEEK calculations to review the work of employees who perform the calculations. Such a review could help identify and correct errors before the tentative and final calculations are released to school districts.

We have just put in place a quality control function. The staff is hired, but other vacancies need to be filled before it is fully implemented.

3.8 KDE should give top priority to developing an automated and integrated system that provides for on-line real-time updating files. Staff should be able to produce ad hoc reports on demand, providing a current global view of SEEK that would help identify errors. Staff who perform calculations should receive training to ensure they understand how the overall system works.

Staff has been hired to work on developing an automated, integrated system. This will take time, but we are committed to its success. We agree that reports should be available using the most up-to-date information available.