

EDUCATION ASSESSMENT AND ACCOUNTABILITY REVIEW SUBCOMMITTEE

Minutes

October 5, 2021

Call to Order and Roll Call

A meeting of the Education Assessment and Accountability Review Subcommittee was held on Tuesday, October 5, 2021, at 3:00 p.m., in Room 129 of the Capitol Annex. Representative Brandon Reed, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Max Wise, Co-Chair; Representative Brandon Reed, Co-Chair; Senators Gerald A. Neal, and Mike Wilson; Representatives Tina Bojanowski, and Steve Riley.

Guests: Bart Liguori, Research Division Manager, OEA; Sabrina Cummins, Research Analyst, OEA; Allison Stevens, Research Analyst, OEA; and Marcia Seiler, Interim Deputy Director, OEA.

LRC Staff: Lauren Busch, Joshua Collins, and Maurya Allen.

Approval of August 3, 2021 Minutes

Senator Wilson made a motion, seconded by Representative Bojanowski, to approve the minutes of the August 3, 2021, meeting. The motion passed by voice vote.

OEA Report on SEEK Funding (Part 1)

Dr. Bart Liguori, Research Division Manager, Office of Education Accountability (OEA), was present with Sabrina Cummins and Allison Stevens, Research Analysts, OEA, to present their research into the Support Education Excellence in Kentucky (SEEK) school funding formula.

The purpose of the OEA study was to analyze proposed changes to the current SEEK funding formula to improve equity without increasing state funding. Additionally, the report reviews other states' funding formulas and the difference between rural and non-rural districts in Kentucky. For better clarity, the presentation was made in two parts, the first discussing the existing formula and hypothetical changes, and the second focusing on problems discovered during OEA's audit of the data and recommendations found in the report.

Data for the report was compiled from meetings with Kentucky Department of Education (KDE) staff, school year 2020 state and local revenues by district, student demographic data recorded in Infinite Campus, attendance data submitted in the Superintendents' Annual Attendance Report, and national sources including Fund Ed: State Policy Analysis and Common Core data submitted to the National Center for Education Statistics. In comparison to other states, 21 states use average daily membership when counting students for funding purposes, and approximately one-third have a higher district local share than Kentucky. Ms. Cummins said the written report distributed to members and available on the LRC website provides 44 hypothetical changes to the SEEK funding formula, several of which would increase equity when looking at state and local revenue. When comparing rural districts to non-rural districts, it was found that rural districts on average had more people living in poverty and more students requiring special education. Over time, it was also apparent that enrollments have been declining in rural districts, and they are projected to lose even more students in the years to come.

Ms. Stevens explained that the SEEK funding formula was designed to equalize local revenue with state funds to ensure that students living in property poor districts receive the same base funding as students living in property wealthy districts. In school year 2020, the guaranteed base funding per pupil, as set by the General Assembly, was \$4,000. The SEEK funding formula, however, includes additional funding for students with greater need, referred to as "add-ons." There are five add-on adjustments for at-risk students, exceptional children, students receiving home & hospital instruction, students with limited English proficiency, and for student transportation. To receive state funding, districts must generate local effort through tax revenue by levying a minimum equivalent tax rate of 30 cents per \$100 in taxed property through any combination of property tax, motor vehicle tax, and permissive taxes.

Regarding the add-on adjustments, each has an associated weight used to determine the additional amount of funding per student. The at-risk add-on amount for students eligible for free lunch is 15 percent of the guaranteed base, or \$600 per student. The limited English proficiency add-on has a weight of 0.096 or an additional \$385 per student. The exceptional child add-on has three categories, based on the severity of the students' exceptionality and home and hospital students receive the guaranteed base, less \$100 for capital outlay. Lastly, Kentucky funds students transported to and from school over one mile. Exceptional children receive five times the base funding if they require special transportation.

Ms. Stevens presented a table displaying three common types of funding used by surrounding states. Kentucky and three surrounding states use a student-based funding model, and Kentucky's, at \$4,000 per pupil, is the lowest. She also shared a table illustrating how states count students for education funding purposes. The most common method, utilized by 21 states, is average daily membership, followed by single count date and multiple count date (both used by 9 states). Kentucky and six other states use average

daily attendance. This method has a primary disadvantage in that student absences (including excused absences), can bring down the average daily attendance causing districts to lose funding. Schools with higher numbers of students living in poverty feel this effect more strongly because students living in poverty are more likely to miss school.

Regarding add-on funding, other surrounding states also supplement base funding for students on both free and reduced price lunch programs, while Kentucky only provides extra funds for those students in the free lunch program. Kentucky and Ohio use multiple weights for the exceptional child add-on, while others use one multiplier or a flat amount per student regardless of the severity of the exceptionality, or they utilize the cost of delivery for special education services or a hybrid method. All surrounding states provide extra funding for limited English proficiency students. Kentucky and Tennessee provide funding for rural, remote, or small districts through their transportation funding formula. Missouri and West Virginia provide funding for districts with a certain number of students, while the other surrounding states do not provide additional funding for rural districts.

Kentucky and three surrounding states have multiple formulas for funding specific categories of student transportation. Many states specify that students must live in a minimum number of miles from school before being transported at public expense. Six surrounding states specify that this distance be measured by route, and states generally may transport students living within these set mile minimums under certain circumstances, such as to avoid hazardous routes or when excluding such transportation from funding. Additionally, Kentucky includes bus depreciation in school transportation funding, while other surrounding states use depreciation rates or replacement schedules. Indiana and Tennessee include school buses in other funds, and Ohio allows buses to be purchased through competitive bidding.

In order to compare districts and assess equity, districts were divided into quintiles ranked by per pupil property assessments and divided so that each group represented approximately one-fifth of the state's students. Quintile 1 contains districts with the lowest per pupil property assessments and Quintile 5 contains those with the highest property assessments. Equity was measured using the gap between the funding received by Quintile 5 and the funding received by lower wealth quintiles, particularly Quintile 1. Based on this model, however, individual districts within quintiles may experience different outcomes, meaning that while overall equity for schools within Quintile 1 may increase, individual districts within the quintile may experience a decrease. Ms. Stevens displayed a map shading the states' districts based on their quintile assignment for this study. There were 68 districts in Quintile 1, primarily in eastern Kentucky, and only five districts in Quintile 5: Anchorage Independent, Jefferson, Fayette, Livingston, and Lyon Counties.

Ms. Stevens briefly illustrated how characteristics of the quintiles had changed over time by looking at pre-Kentucky Education Reform Act (KERA) data compared to the most recent years for which data was available. Compared to 1991, the number and percent

of at-risk students and exceptional children has increased, with the largest increase in at-risk children being in Quintile 5, although the percentage remained lower than in Quintile 1. Additionally, the percent of exceptional children increased the most in Quintile 1. Property wealth has increased in each quintile, and the percentage of total property wealth in less wealthy districts came closer to the percentage in wealthier districts. The equivalent tax rate has increased correspondingly. Local and state revenue increased in each quintile, with greater increases in lower quintiles, with the difference between Quintile 1 and 5 being \$115 more equitable in 2020.

Ms. Cummins briefly defined the terms metropolitan, micropolitan, and rural as used in the context of this study and their relationship with the previously discussed quintiles.

Ms. Cummins presented the hypothetical SEEK changes, starting with a rural district add-on weight. By reducing the base and including a rural district add-on of 0.239, equity increased by \$629 per pupil in Quintile 1, by \$290 in Quintile 2, by \$110 in Quintile 3, and by \$25 in Quintile 4. Correspondingly, the per-pupil average amount in Quintile 5 was reduced by \$208. Because OEA was asked to not increase state revenue to fund any proposed modifications, the SEEK guaranteed base was reduced by this change from \$4,000 to \$3,830.95. If the General Assembly wanted to fund any of the models instead of reducing the SEEK guaranteed base amount, OEA did include the amount necessary in all of its calculations in the report. For the proposed rural add-on discussed above, it would cost \$140.6 million. Other hypothetical adjustments presented included a micropolitan add-on, changing Average Daily Attendance to a three-year average of attendance (to account for rapidly declining enrollment), changing student count to membership, creating a foster care add-on, increasing the at-risk add-on to 60 percent (as recommended in an audit performed by Augenblick, Palaich, and Associates), and categorizing districts by percentage of students in poverty. The full report has several other ways of adjusting the SEEK formula, including ways of addressing the at-risk add-on factor.

OEA staff also presented a hypothetical increase to the SEEK base amount to account for inflation. Using the Bureau of Labor Statistics CPI Inflation Calculator, the 2021 buying power of the guaranteed base per pupil funding amount in 1991 was determined to be almost \$4,769. To adjust the SEEK guaranteed base for inflation would cost an additional \$613.8 million, and would improve equity in Quintile 1 by \$156. However, equity would decrease for Quintile 4. In addition, a proposal to increase the local contribution to 35 cents per \$100 assessed property value would not cause any district to increase their local tax rate, and the state share of SEEK funds would decrease. This model included the same state SEEK appropriations as 2020, and allowed for the guaranteed base amount to increase to \$4,218 with no additional state funding required. If this change were made, equity would increase in quintiles 1 through 4. Again, staff informed members that there were several other models included in the full report, some of which increased equity and some did not. The report also included transportation funding changes, however, due

to KDE calculation errors discovered during research, an equity analysis was not performed on transportation funding suggestions.

Major conclusions from the study were reviewed. First, rural districts have more students living in poverty, more special education students, student with lower ACT reading and math scores, and lower teacher salaries. Rural districts receive less per-pupil funding than metropolitan districts, but more than micropolitan districts. Second, there are many possible changes to the SEEK formula that can be made to improve equity, including calculating the exceptional child add-on using a percentage rather than counts, adding rural and micropolitan district add-ons, and increasing the local effort amount allowing the guaranteed base to increase to \$4,219 with no new state funding. Third, increasing local effort and the base adjusted for inflation increases equity in Quintile 1 by \$465 and changing student count from average daily attendance to membership increases equity in Quintile 1 by \$364. Finally, changes which had no impact or decreased equity included changing the limited English proficiency add-on to a test score, including students who qualify for reduced-price lunch to the at-risk add-on, and including teacher retirement or state grants in the SEEK guaranteed base funding.

Dr. Liguori briefly demonstrated an interactive SEEK tool available online at: <https://bit.ly/OEASEEK-2020>. This tool allows legislators and others to visualize the amount of SEEK funding distributed for the 2020 school year according to existing SEEK formula percentages and add-ons. It also gives the opportunity to manipulate the data and approximate what the costs of various changes to base SEEK funding or add-on funding would be for districts based on their percentile.

Election of Senate Co-Chair

While staff prepared for part two of their presentation on SEEK funding, members took the opportunity to elect a Senate Co-Chair. Senator Wilson nominated Senator Wise for the position. Senator Neal seconded the motion. Seeing no other nominations, the chair closed the floor. Senator Wise was elected by voice vote.

OEA Report on SEEK Funding (Part 2)

The second part of the OEA Report on SEEK funding was an examination of the SEEK formula as it is currently implemented by KDE. OEA made 16 recommendations based on this examination. Staff began by presenting the major findings from the transportation calculation. First, KDE calculated square mileage incorrectly for county districts with independent districts within their borders, did not correctly audit districts' transportation codes for students transported more than a mile, and grouped districts into seven groups instead of nine as required by statute for the transportation graph adjustment. In creating seven cost groups, rather than density groups, KDE did not use an objective methodology. KDE was also multiplying the number of handicapped students by a 2.0 multiplier rather than the required 5.0 multiplier mentioned earlier.

While reviewing the 2019 annual financial reports, OEA staff also found districts with transportation expenses to and from schools that did not transport students. Also, as mentioned earlier, district activity funds are not currently required to be recorded in MUNIS, making accurate assessments of district funding difficult. Districts were also found to be receiving the exceptional child add-on for preschool students, who are not included in other exceptional child counts. Full day kindergarten was added for fiscal year 2021-2022 but the equalization level did not change correspondingly.

Regarding SEEK transportation funding, districts are reimbursed for transporting students to and from school. Most school districts transport students for school, but the SEEK transportation formula does not include funding for field trips or sports. There is a complex formula associated with transportation that is currently not being correctly implemented by KDE. Kentucky has not fully reimbursed schools for their transportation costs since 2004. In school year 2020, the total cost for pupil transportation was \$392 million. In that same year, districts received a prorated amount of 54.8 percent of their total cost for pupil transportation. Also, statute requires that the area of independent districts be subtracted from the county district of the county they are in. In discussions with KDE staff, OEA determined that this calculation was not being made. Additionally, statute requires that the average daily attendance of transported pupils include all public school pupils transported at public expense who live beyond a one-mile radius of the school. KDE staff currently calculated students' distance from school based on road miles, rather than a one-mile radius, which may be including students who should not be included in the calculation. Based on these issues, OEA recommended that KDE correct these errors by subtracting the square mileage of independent districts from the square mileage of county districts in accordance with KRS 157.370(4) and ensure students listed as being transported more than one mile, live beyond a one-mile radius in accordance with KRS 157.370(3).

Also set out in KRS 157.370 are the requirements for calculating transportation reimbursements. The major requirements are the creation of nine density groups, a smooth graph, county and independent districts to be calculated separately, no independent district should receive more per pupil day than a county district, and attendance of students with disabilities should be multiplied by 5. To calculate transportation costs, KDE uses two variables as inputs, the gross transported pupil density per square mile and the cost per pupil day. In looking at the data, OEA found the number of students with disabilities was being multiplied by 2 instead of 5 as required by statute. Also, the gross average daily attendance plus disability amount was used in determining the cost per pupil day. Because this number is the denominator, each student with a disability was lowering the cost per pupil day resulting in a penalty being applied to districts with more disabled students.

Staff illustrated the grouping and charting errors through use of a scatterplot. The gross pupil density was plotted on the x-axis and the cost per pupil day was plotted on the y-axis. KDE staff uses professional judgement to exclude districts from the graph that they view as outliers. In the 2020 school year, districts with transportation costs per pupil day

above \$9 or below \$3 were excluded from the graph. Based on these assumptions, there were seven density groups. According to statute, the transportation calculation should have nine density groups to determine the graph-adjusted cost per pupil day. In addition to only having seven groups, they are not similar in density. KDE chose to group districts using this subjective methodology rather than the objective method set out in statute, which OEA recommends they use in the future. Also, OEA discovered that the correct factor was not being used for students with disabilities and recommends they correct that going forward. OEA further recommended that calculating the cost per pupil day, KDE not combine the number of students with disabilities with total student count in the denominator of the calculation. Staff illustrated the impact that these corrections would have on the graph adjusted costs calculations.

For several years, KDE has made an error in transcribing districts' graph adjusted costs with one district consistently receiving too much money. This was due to a mistake in the computer program. Due to this error, that district has received more than \$100,000 more than they should have been reimbursed in fiscal year 2020. KDE has been made aware of this error and will correct it in future years. The three county districts that were not included in the graph calculations received \$5.78 per pupil day, equivalent with Jefferson County's adjusted cost per pupil day. However, it would make more sense, according to the analysts, to bring the two districts that had the greatest costs down to the highest county that was included in the graph, resulting in a \$7.21 per pupil day amount. There were five independent districts not included in the graphs because they had gross costs less than \$3 per pupil day. Their costs were shown and again, it would have made more sense to bring them up to the same level as the lowest independent districts on the graph rather than equalizing them with Jefferson County's per pupil day amount. OEA made a recommendation to address these concerns.

Another concern of OEA staff was the indication from KDE officials that no one in the Division of School Finance understood the program code used to calculate the SEEK transportation formula, a concern also noted in a 2002 LRC report. Therefore, in addition to improving the validity of the data used in the calculation OEA recommended that KDE improve the process and staff's understanding of the process. Without expertise in the program code, KDE will be unaware of any mistakes that are made in calculating the graph-adjusted transportation costs. Many instances were also discovered where the calculations performed in the program did not match what was posted on the KDE website. Regulations should be amended to more accurately describe the statistical report submitted by superintendents and to ensure accurate data is posted to the website for inclusion in calculations.

Regarding the depreciation of school buses, the General Assembly passed House Bill 208 in the 2021 Regular Session to allow school districts to use 2018-2019 attendance data to calculate SEEK funding amounts. While KDE is calculating SEEK attendance correctly, they are also using the 2018-2019 bus depreciation in the SEEK calculation

which is not expressly allowed in the bill. Vehicle depreciation should have been updated in calculating transportation costs. Statute requires KDE to regulate the depreciation of school transportation vehicles. The regulation states that district vehicles depreciate by 124 percent over a period of 14 years. This was initially instituted to incentivize districts to purchase more fuel efficient vehicles. All districts have now transitioned to more fuel efficient buses, and OEA staff recommended that if buses were depreciated at 100 percent for 10 years, the non-prorated transportation cost would decrease from \$392 million to \$387 million and transportation would be funded at 55.4 percent.

Systemic issues in data collection were also identified and included the shortchanging of county districts in transportation funding the first year following a merger with an independent district, districts overstating school transportation expenses when transportation of nonpublic school students is reimbursed, and districts not transporting any students still reporting transportation expenses. Based on those issues, OEA staff recommended allowing county districts merging with independent districts to include the independent districts' prior year transportation costs (including depreciation) during the first year of the merger, requiring school districts to record fiscal court revenue received for transporting private school students as a negative expenditure on annual financial reports, and ensuring that transportation costs are accurately recorded in MUNIS, especially for districts not transporting students.

OEA staff addressed concerns with the reporting of district and school activity funds. School activity funds are currently recorded in MUNIS, and represent those funds collected and spent by student clubs and groups. District activity funds are not currently required to be reported in MUNIS. These funds include fees to join sports, general enrollment fees, textbook fees, and parking fees. Expenditures of these fees are approved by the local school board and are generally spent on instructional supplies. A 2009 OEA study on fees included information on the amount of fees charged in schools annually. There is a wide discrepancy in the amount of additional fees collected by schools in Kentucky, for example two schools with similar average daily attendance for whom data was available in MUNIS were illustrated. A school in Quintile 4 collects approximately \$295 in fees while a school in Quintile 1 collects approximately \$6.10 per student in district activity fees. Because KDE does not currently require districts to record activity funds in MUNIS, it is difficult to know the impact these funds have on equity. OEA recommends that KDE require districts to report this data in their annual financial reports so that a full understanding of the impact of these fees on equity can be assessed.

Finally, the presentation addressed the impact of preschool and kindergarten funding on SEEK appropriations. While preschool programs are funded by grants from the General Assembly to local school districts, preschool students are not included in the SEEK base funding and the grant funding is considered separate from SEEK. However, there are districts receiving the SEEK exceptional child add-on for preschool children. In fiscal year 2020, there were 2,571 preschool students counted for exceptional children add-on funding

resulting in a cost of almost \$8.2 million. OEA recommends that KDE discontinue using preschool students in calculating the exceptional child add-on in the SEEK formula. Also, in each biennium, the General Assembly determines the equalization level for kindergarten. This level is currently set at 150 percent of average per pupil assessments. When funding full-day kindergarten in House Bill 382 of the 2021 Regular Session, the budget included kindergarten students in districts' per pupil assessments. This had the effect of increasing the denominator but not the numerator of the SEEK formula, and lowering the districts' per pupil assessments. By not changing the equalization level, this impacted calculations for Tier 1 and facilities nickel equalizations as well. To address this, OEA recommended that if full-day kindergarten is funded in the future, the General Assembly should consider changing the statewide equalization level in order to accurately reflect 150 percent of per pupil assessments.

In response to questions from Representative Bojanowski, Dr. Liguori said preschool children counted in the exceptional child counts were included when calculating schools' exceptional child add-on, but not included in the base funding calculations.

In response to questions from Senator Wilson, Ms. Cummins said student activity funds and district activity funds should be recorded in the system to see what the actual funding levels for schools are. However, currently district funds, such as fees charged for parking, school fees, textbooks, and sporting events are recorded, but KDE only requires that student activity fees (such as band or club fees) are reported in addition. OEA is recommending that district activity funds be included, and the 2021-2022 school year will be the first year to have that data available.

With no other questions regarding the report, Representative Bojanowski made a motion to accept the report, seconded by Senator Wilson. The motion passed by voice vote.

Other Business

Chair Reed reminded members that the OEA research agenda for the 2022 interim will be approved at the next meeting. He asked members to submit any suggestions before the Tuesday, November 12, 2021, deadline for consideration.

KRS 7.410 requires the Office of Education Accountability (OEA) to submit to EAARS, for each regular meeting, a report that summarizes the OEA's investigative activity. The report and the consideration of the report by the subcommittee are exempt from the open records and open meetings requirements contained in KRS Chapter 61. The report may be considered in closed session at the meeting if there are items that members wish to discuss. Representative Bojanowski made a motion to go into executive session for the purpose of considering the confidential investigative report. The motion was seconded by Senator Wilson, and passed by voice vote.

Following discussion of the report, Senator Wilson made a motion to return to open meeting, seconded by Representative Bojanowski. The motion passed by voice vote.

There being no other business to come before the committee, the meeting adjourned at 4:50 p.m.