

SCHOOL FUNDING TASK FORCE

Minutes of the 1st Meeting of the 2021 Interim

June 14, 2021

Call to Order and Roll Call

The 1st meeting of the School Funding Task Force was held on Monday, June 14, 2021, at 10:00 AM, in Room 131 of the Capitol Annex. Senator Max Wise, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Max Wise, Co-Chair; Representative James Tipton, Co-Chair; Senators Reginald Thomas and Mike Wilson; Representatives Kim Banta, Tina Bojanowski, and DJ Johnson.

LRC Staff: Joshua Collins, Cynthia Brown, Lauren Busch, and Christal White.

Guests: Dr. Bart Ligouri, Sabrina Cummins, and Allison Stevens, Office of Education Accountability (OEA); Robin Kinney, Chay Ritter, and Chuck Truesdell, Kentucky Department of Education (KDE) staff; Superintendents Mike Borchers, Ludlow Independence; Robbie Fletcher, Letcher County; Paul Mullins, Logan County; and local school board members, Brenda Jackson, Shelby County; Tom Haggard, Covington Independent; and Davonna Page, Russellville Independent.

Chairman Wise introduced participants invited to assist on the School Funding Task Force (SFTF): Independent Davonna Page, Russellville Independent Board Member; Brenda Jackson, Superintendent, Shelby County; Tom Haggard, Covington Independent Board Member; Paul Mullins, Superintendent, Logan County; Robbie Fletcher, Superintendent, Lawrence County; Mike Borchers, Superintendent, Ludlow Independence, and Chuck Truesdell, KDE staff.

A preview of the OEA Report on School Funding was presented by Dr. Bart Liguori, OEA Research Division Manager; Sabrina Cummins, OEA Research Analyst; and Allison Stevens, OEA Research Analyst. Dr. Liguori gave a brief summary of the Support Education Excellence in Kentucky (SEEK) report to be presented to the SFTF in October 2021.

The study will examine how SEEK transportation funding is distributed among districts; equitable funding between districts, regions, and rural versus urban areas; district contributions; and funding in other states.

The report will provide an overview of education formulas in surrounding states including: base-funding models and local share contributions (property taxes, taxes levied by districts and other allowable taxes); funding for specific classifications of students including students of poverty, Limited English Proficiency (LEP) and students with exceptional needs; funding for districts that are small, isolated, and rural and remote districts; and student transportation funding. The report will consider possible alterations to the SEEK funding formula to determine how changes may impact equity. For each specific element change, any associated state cost increase will be offset based on the 2020 SEEK guaranteed base of \$4,000. Increases or decreases in district costs will be included in a comparison study of equity between poor and wealthy districts before and after SEEK alterations.

Co-Chair Tipton said Kentucky's population shift affected school districts in rural parts of Kentucky, resulting in lower property assessments. Dr. Ligouri indicated adjusted assessments may be considered in recommendations.

Staff from KDE Office of Finance and Operations, Robin Kinney, Associate Commissioner, and Chay Ritter, Director, Division of District Support, presented an overview of the SEEK funding model.

In the 1989 Kentucky Supreme Court case of *Rose v. Council for Better Education*, the court ruled the school system was unconstitutional and failed to provide an efficient, equal, and adequately-funded public school system. As part of the Kentucky Education Reform Act (KERA), Ms. Kinney said SEEK was thoughtfully developed at the time. However, components of any formula must align change with current needs. To qualify for and receive SEEK funding local school districts must have minimal requirements, as outlined in KRS 157.350.

Because of the changing need for various instruction modes during the pandemic, districts were allowed to use attendance data from School Year (SY) 2018-2019 or SY 2019-2020 for funding purposes. In 2021-2022, districts will use actual attendance for SEEK formula funding purposes.

The attendance-driven model is set by the General Assembly and becomes an important component as add-ons are calculated into the equation. Free lunch or at risk students increase the formula by 15 percent, roughly amounting to \$600 per student. Exceptional students are divided into severe, moderate, and high incidences can range from .24 percent to 2.35 percent, and can provide add-ons from \$960 - \$9,400 per student. Home and hospital students provide \$3,900 per student in adds-on and LEP students encompass 9.6 percent of the add-ons and provide an additional \$384 per student. Mr. Ritter said a large portion of the \$2 Billion SEEK budget is funded for exceptional children.

Responding to a question from Representative Bojanowski, Mr. Ritter clarified that the free lunch students in the SEEK formula do not include reduced-cost lunch students.

District assessments and taxes impact the budget's trajectory as an increase in the school's district funding and a reduction in SEEK funds. An increase of a million dollars in assessments roughly equates to a \$3,000 reduction in SEEK funding. Small communities are sensitive to assessment fluctuations. Mr. Ritter said the Department of Revenue (DOR) and Property Valuation Administrator (PVA) offices certify the assessments and provide the information to help KDE determine school district tax rates.

Responding to a question from Mr. Truesdell, Mr. Ritter said 30 cents for every \$100 of assessment value goes toward local effort. SEEK participation requires local districts to tax 30 cents per \$100 of assessed property value. No less than a nickel per \$100 of assessed property value is mandated to participate in the Facilities Support Program of Kentucky (FSPK). Tiers I and Tier II are authorized but not required and provide 15 and 30 percent add-ons, respectively. As tax-levying authorities, county and independent districts tax real estate, tangible property, and motor vehicles. Districts may also levy taxes on utility gross receipts and occupational, excise, aircraft, and watercraft taxes.

In response to a question from Representative Johnson, Mr. Ritter explained SEEK funding decreases as property wealth increases. Communities with decreasing assessments may have an increase in SEEK funding. Increases in per-pupil funding will increase spending as long as assessments remain stagnant.

Ms. Kinney noted the important difference between tax collections and tax assessments. In that nonpayment of taxes shifts the funding.

In response to a question by Representative Bojanowski, Mr. Ritter said the nickel tax is an annual tax versus a one-time tax.

Responding to a question from Senator Wilson, Mr. Ritter said legislation creating SEEK ensured the state provided equal funding in both rural, less wealthy districts and wealthy districts. Local boards of education are responsible for implementing taxes and funding for districts.

In response to a question by Senator Thomas, Mr. Ritter said SEEK funding is reduced roughly \$3,000 for per every \$1 Million increase in property assessment.

Responding to a question from Representative Tipton, Mr. Truesdell said a \$1 increase in SEEK aggregate average daily attendance (AADA) would cost the State Treasury approximately \$800,000.

In response to a question from Mr. Borchers, Mr. Ritter said the SEEK formula does not change regardless of actions taken by the board. Fewer at-risk students or drastic increases in property assessment may cause a district to experience a loss in state funding. Local funding may increase due to the cost of insurance, utilities, and salaries. Mr. Ritter said swift reactions to budget decreases must be addressed in a timely manner.

Mr. Ritter said property assessment determines the 30 cent local effort and the amount restricted for facilities maintenance includes real estate, tangible property, and motor vehicle assessments. While districts tax real estate, tangible property, and motor vehicles, districts have the option to levy utility taxes, occupational taxes, and additional district taxes.

Mr. Ritter compared two counties and explained how SEEK input, nickel calculations, local SEEK calculation and state SEEK calculation variables affect the total SEEK dollars and how local efforts and adjustments play into the SEEK state amount for each school.

Inputs that affect the SEEK formula are property assessment, per pupil property assessment, un-prorated transportation, levied equivalent rate, current year's 2nd month growth percentage, prior end-of-year AADA, growth, at-risk students, previous year December 1st child count; at-home and hospital students; LEP students, and early graduation.

Responding to a question from Representative Tipton, Mr. Ritter said huge real estate increases of more than 4 percent require a sub-calculation of the local effort but not on a dollar for dollar basis. Local efforts grow as assessed value increases. However, because appeals are a timely process, a district's assessed value does not equate to immediate revenue until taxes are paid by property owners.

Responding to a follow-up question from Representative Tipton, Mr. Ritter said a large percentage of communities have government-owned buildings. Exempt properties include religious and post-secondary institutions; city, state, and county government-owned properties; federal wildlife areas and national forests; army bases, and other entities. Mr. Ritter said the DOR details may not go far enough to determine these properties in each community and may be a possible recommendation by the task force.

In response to a question from Senator Thomas, Mr. Ritter said per pupil assessment value is determined by dividing assessed property value by the AADA. On a follow-up question, Mr. Ritter said tax-exempt entities in the community affect economic impact. While industrial revenue bonds may impact a community where a factory is exempt, it is important to remain competitive against other states, towns, communities, or other countries in bringing jobs to a community.

In response to a question by Ms. Page, Mr. Ritter said PVA offices are challenged to ensure the accuracy and reassessment of properties remain valid over an extended period of time.

Responding to a question from Senator Wise, Mr. Ritter said taxing watercraft has been controlled by local districts but tax implications in the manner in which watercraft is registered has been deferred to the DOR. Representative Tipton said larger watercraft registered as a coastguard vehicle can be exempt from taxation at the local level and although tangible taxes are required, a collection method has not been established. He said this impacts school boards within the community significantly.

Mr. Ritter said school bus transportation budgets are a complex formula. Some of the issues are that only to and from school are considered; field trips are not included; a depreciation formula has fallen short for the last 10 years; there is no growth adjustment; additional funding for deaf, blind, and vocational; and a significant budget decrease in 2021.

In response to a question by Representative Bojanowski, Mr. Ritter explained how local effort is subtracted in the SEEK calculation. Each district receives 15 percent times \$4,000 for free-lunch students. In a follow-up question by Senator Thomas, Mr. Ritter said at-risk or free lunch students are included in add-ons before local effort is subtracted. Superintendent Fletcher stressed the importance for schools to determine the number of exceptional students or students receiving free lunches to reach an accurate computation for add-ons. Ms. Kinney said feedback from districts suggests that there is a varying level of need from English Language Learner students based on the degree of their English proficiency.

Responding to a question from Representative Bojanowski, Mr. Ritter deferred the question as to what extent the federal government funds cover special education costs. Superintendent Borchers said federal dollars must be matched by local dollars. Because there are no call backs for SEEK funds, a school to which a student transfers after December 1, must carry the weight of a student for a period of time before funding will kick in.

Mr. Ritter said the nickel tax is the mechanism for which districts either construct new buildings or renovate existing structures. In 1990, the General Assembly introduced growth nickels for districts that meet certain criteria. The equalized facility funding (EFF) nickel can be directed to one facility or open for all facilities. The recallable nickel is the only available nickel legislated for districts although some districts adopted two nickel taxes to meet facility needs. With enough signatures, the recallable nickel is subject to a public vote.

In response to a question by Mr. Truesdell, Mr. Ritter explained the difference between nickel equivalent versus nickel gap in collections, specifically in areas where jobs are lost. The “hold harmless” rule applies when a district’s per pupil percentage is lower and the state will give that district additional funds. Tier I is an additional source of money that contributes 15 percent of the adjusted revenue from SEEK based funding. He said KDE works closely with the Governor’s Office of Policy Management and the LRC Budget Office to map estimates to determine budgetary needs for the following two-year cycle. The General Assembly works to compute the per-pupil amount and the amount for each line item in the budget. Without an accurate budget, a SEEK shortfall creates an issue where districts may not receive the allocated funds. On the other hand, excess funds are directed by the budget bill for specific purposes such as transportation costs.

Responding to a question from Senator Wilson, Ms. Kinney said it is possible for districts to have varied amounts in per pupil funding due to more aggressive districts raising local taxes to meet educational needs. She said all local taxes go directly to the district. In response to a follow-up question, Ms. Kinney said the CARES ACT emergency funds have come through KDE and are appropriated to local school districts. She said at least 90 percent must go out to local school districts and the remaining 10 percent is reserved at the state level for statewide efforts. Responding to another follow-up question, she told Senator Wilson that SR 1 provided \$193 Million; SR 2 provided \$928 Million; ARP-ESSR funding, provided \$2 Billion; public local school districts received \$30 Million and were appropriated elsewhere as administered from the Governor’s office to FRYSCs; and \$8 Million was received from the Virus Relief Fund and also administered by the Governor’s office and provided some broadband connectivity relief initiatives.

In response to a question from Representative Tipton, Ms. Kinney said on June 1, the USDE produced a document to answer questions regarding the rules and regulations for disbursement of the AARP money. Generally AARP/ESSR funds can be used similar to the first two rounds of ESSR funding. Local school districts must reserve 20 percent of those funds to address learning loss issues for students. The state provides guidelines on how those dollars can be expended. Ms. Kinney said it is challenging and confusing for KDE to attempt to get more clarification on the use of funds for school facilities, renovations, or new construction. The use of federal funds requires specific guidelines and reporting.

Representative Tipton said the General Assembly appropriated \$127 Million for facility construction. Ms. Kinney said those funds came from Capital Construction and the funds are governed by the US Treasury. KDE is seeking more clarification on the use of wiring in buildings and connectivity for broadband purposes.

Mr. Truesdell said the original passage of KERA directed a study to determine the original weights based on the relative costs of educating students at that time and said he will provide additional information to the committee. He said the budget cycle and property

increases by district level will add an extra burden on each PVA office during the next budget cycle. Additionally, HB 563 allows students to transfer to non-resident districts on a much wider scale than in the past. He asked the budget committee to extend a great amount of grace to the KDE staff as they calculate projections for next year.

Mr. Fletcher commended KDE for their work. He said of the \$127 Million facility construction from Capital Construction, some districts were not eligible due to not implementing the recallable nickel tax. Ms. Kinney said the appropriation of these funds was for the School Facilities Construction Commission and eligibility requirements were crafted by the commission in accordance with standard and customary practices.

In response to a question by Representative Johnson for requirements for state compensating teachers on the basis of a single salary schedule, Mr. Ritter said every district publishes a salary schedule containing a sliding scale as teachers achieve additional degrees. He confirmed the disparity among teacher salaries across the state.

Responding to Representative Banta's question with increases in inflation, Mr. Ritter said the SEEK per pupil amount has increased over time and will provide the committee with the information to determine if the factors are still applicable.

Responding to a question by Representative Tipton, Mr. Ritter said a significant portion each year of state expenditures is for employer match for the Teacher's Retirement System. The amount does not flow through SEEK and is a separate line item.

In response to a question from Representative Bojanowski, Mr. Ritter said the levied equivalent rate is a good resource for the tax level in your community. SEEK looks behind the graphic data provided by the districts to determine student count and ADA in the prior year while at the same time factoring in economic growth calculation to offset the cost of hiring additional staff for the current year. On a follow-up question, the local effort rate and capital outlay are subtracted from the total guaranteed base including the at-risk amounts. Computing free-lunch students is the same amount for each district, 15 percent times \$4,000.

Mr. Fletcher said parents must provide districts with updated information for at-risk student population for the formula to be calculated correctly.

Ms. Kinney said KDE will require additional funding for an improved system or calculate funding for a new system with updated changes.

A large portion of Mr. Ritter's presentation was previously addressed through questions from task force members and participants throughout the course of the meeting. KDE's presentation provided links to resources and can be found on the LRC website.

Senator Wise discussed the directives of the SFTF and announced scheduled meeting dates. He seeks recommendations, possible changes, and a road map ahead for the task force to review.

Senator Thomas said he would like to explore more deeply Mr. Ritter's findings that the number of students has decreased over the years while the number of exceptional students has increased.

Representative Banta suggested the task force look at unfunded and under-funded mandates on schools.

Senator Wise announced the next meeting will be Monday, July 19, 2021, at 10 a.m. Representative Tipton said learning how the funding formula works was informative and welcomed input from the superintendents and school board members to gather perspectives from the local level.

There being no further business before the task force, the meeting adjourned at 11:50 a.m.