

# **SCHOOL FUNDING TASK FORCE**

## **Minutes of the 2nd Meeting of the 2021 Interim**

**July 19, 2021**

### **Call to Order and Roll Call**

The 2nd meeting of the School Funding Task Force was held on Monday, July 19, 2021, at 10:00 AM, in Room 149 of the Capitol Annex. Representative James Tipton, 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 David P. Givens, Reginald Thomas, and Mike Wilson; Representatives Kim Banta, Tina Bojanowski, and DJ Johnson.

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

On a motion by Senator Wise and a second by Representative Johnson, the minutes of the June 14, 2021 meeting were adopted by voice vote.

### **Non-SEEK School Funding**

Kentucky Department of Education (KDE) Associate Commissioner Robin Kenney and Karen Wirth, Budget Director, gave a presentation on non-SEEK state-funded items.

KDE distributes funding to local school districts through three different budget units: SEEK, Bureau of Support and Services (BOSS), and Learning and Results Services (LARS). The methods of distribution include formula or allocation, competitive processes, line items, “on behalf” payments for local districts, and other funding mechanisms outside of these categories.

Non-SEEK budget items include extended school services at \$23.9 million; gifted and talented at \$13 million; school safety at \$6.2 million; preschool at \$84 million; and Kentucky Education Technology System (KETS) at \$15.4 million. Statutes and regulations designate a formula for flexibility in using grant funds. School safety and KETS funds are distributed based on an average annual daily attendance and preschool is based on a December 1 count.

As determined by the Kentucky Center for School Safety and in partnership with the State School Marshal, \$7.4 Million is distributed for mental health support. Districts receive equal distribution regardless of population. The national board-certified teacher stipend budget of \$2.75 million is distributed to districts and divided among qualified teachers for a supplement of \$2,000.

Vocational transportation is a non-SEEK item but is included in the SEEK appropriation unit and is distributed based on the number of students, driver time and cost, and other factors such as how many miles a student rides and if bus services are utilized once or twice per day. The blind and deaf travel budget of \$492,300 is allocated by the number of students transported and miles travelled to those facilities.

Distributions for available federal and state grants include: \$5 million for math achievement; Read to Achieve at \$25.7 million; and community education at \$1.85 million.

Family Resource Youth Services Centers (FRYSCs) are a \$48.9 million budgeted line item. The money is distributed by KDE to the Cabinet for Health and Family Services (CHFS), which in turn allocates the funds to school districts based on free and reduced price lunch (FRPL) numbers.

Additional grant funding goes to the Kentucky Facilities Inventory and Classification System (KFICS) as part of the BOSS appropriation. KFICS is the

mechanism that school districts use to rank facility needs. The KFICS budget appropriation is \$600,000.

KDE budgets \$12 million for assessment and accountability. KDE receives \$3.6 million for Advanced Placement and International Baccalaureate testing. One million dollars is reserved for testing for FRPL students. The remaining \$2.6 million is distributed on a first come-first serves basis. The Kentucky Educational Network receives \$17.2 million for network and internet connectivity, paid directly to the provider for district services.

The LARS appropriation includes \$754 million for district employer-paid health and life insurance costs. In the SEEK appropriation, KDE also pays \$435 million to the Teacher Retirement System (TRS) for the employer match for employees participating in TRS.

In response to a question from Representative Bojanowski, Ms. Wirth said TRS is in the SEEK appropriation but is part of a non-SEEK second-line item. In a follow-up explanation, Representative Tipton said local school districts pay for the employer portion of the pension fund but KDE pays directly to TRS on behalf of the local school districts from the general fund.

Responding to a question from Representative Tipton, Mr. Truesdell said LARS funds cover current employee health and life insurance and 39 percent of SEEK goes to both pension and medical. In a following up question, Ms. Wirth said that applies to both certified and classified employees. Representative Tipton clarified that the classified portion of the retirement contribution is solely on the local district. Ms. Wirth said KDE does not receive any appropriation to pay toward the County Employee Retirement System.

Less than 1 percent, or \$33.2 million, of KDE general funds are appropriated for KDE personnel and operating costs. As of 2021, KDE has 1085 permanent full-time employees: 386 Frankfort-based employees; 65 employees at the Kentucky School for the Blind (KSB); 101 employees at Kentucky School for the Deaf (KSD); and 533 personnel at the Area Technology Centers (ATCs).

KSB and KSD receive a separate appropriation within the LARS lines that covers personnel and operating costs. KSB is allocated \$7,853,100 and KSD receives \$10,580,600. 2021 House Bill 192 budgets additional funds for these two state-operated facilities. Appropriations for Local Area Vocational Education Centers (LAVECs) are \$12 million and \$1.9 million for Estill County's operating and industry certification program.

Responding to a question to Representative Johnson, Ms. Kinney said mental health provider grant program funds were appropriated as a result of 2019 Senate Bill 1. The General Assembly made funding available for other safety issues before COVID-19. Each district was appropriated funding to support additional mental health professionals and mental health professionals were hired to support schools throughout the district. Senator Wise said with telehealth and telecounseling, districts can work with off-site psychologists or social workers. Responding to a follow-up question, Ms. Kinney said Medicaid billing comes through KDE's Budget Office which in turn works with the CHFS Medicaid office to ensure professionals are identified, qualified, and have the required certifications for billing purposes. In response to another follow-up question, Ms. Kinney confirmed that reimbursed Medicaid funds are in addition to the appropriated \$7.4 million.

In response to a question by Representative Bojanowski, Ms. Kinney said ATCs are state-operated and managed by KDE. LAVECs are managed by local school districts. Ms. Kinney said the 2019 CTE Task Force previously studied that funding.

Responding to a question from Senator Wilson, Ms. Wirth said 533 of KDE's staff work at the 51 ATCs and the \$33.2 million budget supports all employees for the centers including teachers, principals, secretarial support, and janitorial staff. Senator Wilson said ACTs have significantly more funding than LAVECs and said manufacturing facilities are requesting more Career and Technology Centers to address needs.

In response to a question from Representative Banta regarding the difference between testimony of \$21 million in assessment and accountability funding in a previous presentation, Ms. Wirth said \$12 million in general funds are budgeted for personal service contracts and \$3 million for staffing needs. She explained the \$6 million difference is received in federal funding.

Responding to a question from Representative Tipton, Ms. Wirth said KDE attempted to capture items not addressed during the SEEK-based presentation. Relating to a follow-up question, the National Board Certified Teachers (NBCT) stipend in statute is \$2,000. The state budget provides \$1,200 and \$800 comes from local districts. Ms. Kinney said although recent legislation does not require districts to make up the difference, most schools provide the additional \$800. Responding to follow-up question, Ms. Wirth said teachers transferring to a non-teaching or administrative position are ineligible to receive the stipend. Ms. Wirth said she will provide the committee with NBCT growth numbers.

Continuing with a follow-up question from Representative Tipton, Ms. Wirth said the preschool budget of \$84.5 million is for children under 160 percent of poverty level.

Responding to a question from Senator Thomas, Ms. Wirth said she would review enrollment numbers and other factors to provide possible costs of universal Pre-K for all 3 and 4 year olds.

Responding to a question from Representative Tipton, Ms. Wirth said \$800,000 was appropriated for the Dolly Parton Imagination Library. The Office of Special Education and Early Learning is working on a contract for disbursement of books across the state.

Representative Tipton said he received a response from State Budget Director Hicks on the FRYSC question asked during the last meeting. The \$43 million allocation to KDE is about half of the FRYSC budget and has been included in the budget since the passage of KERA. He said the total for FRYSCs is about \$91 million. Ms. Wirth said another appropriation recently granted COVID relief funding.

In a follow-up comment, Ms. Wirth said KFICS identifies buildings in need and helps in developing the list. Ms. Wirth said an outside vendor partners with KDE. KDE encourages local school districts to perform inventories and enter their information into the system. Sixty percent of schools are included on the inventory list.

### **Presentation of School Facilities Construction Commission Funding and Operations**

Presenting for the School Facilities Construction Commission (SFCC) were Chelsey Bizzle Couch, Executive Director, and Kristi Russell, Senior Financial Analyst.

The SFCC provides Kentucky's 171 school districts with an equitable distribution of funds for capital construction and renovation projects based upon unmet facility needs and for the purchase of new technology under the KETS program.

Eligibility for SFCC support includes a KBE approved facility plan on file with KDE; a commitment of an equivalent tax rate of \$0.05 or more dedicated to facilities; and, in July of odd-numbered years, the restricting of all available local revenue to be used in accordance with the district's approved facility plan.

In FY 2020, Ms. Couch said SFCC issued \$473 million in bonds, amounting to \$90 million of the state's debt portion. The SFCC participated in nearly 2,500 school bond issues totaling \$12 billion. Of the total amount, \$3.8 billion was supported by SFCC debt service payments and \$8.2 billion was supported by resources of local school districts.

Additional funding was provided in 2021 House Bill 405 through the State of Emergency Assistance Fund with \$10 million; in 2021 House Bill 556 with \$127 million in the Coronavirus Capital Projects Fund; and \$75 million in the Local Area Vocational Education Center Fund.

Responding to a question by Representative Johnson, Ms. Couch said SFCC offers of assistance may be held for eight years, letting smaller districts accumulate enough money to pay for debt service. She explained bonding is similar to a home mortgage. SFCC pays a piece of the bond every six months. On average, SFCC supports between 25 and 30 percent of all debt service on all bonds for state schools.

On a follow-up question, the limit of the bonding amount is based on the total budget. Currently, SFCC is paying on an outstanding debt of \$1.3 billion in debt issued and paid over a 20-year term. The budget covers not only that portion of the debt but allows payment of a new portion of debt. Ms. Russell said funding pools will pay for some projects in cash. Renovation projects are typically bonded due to cost.

Responding to a question from Senator Wise, Ms. Russell recognized that superintendents inquire about the legislative control over the list for new facilities and often question the exclusion of funding new athletic facilities. Ms. Russell said if a new school is built, SFCC allows state dollars to be applied for connected athletic facilities and the bond is rolled into one bond issues. She said regulation prohibits state funding for an athletic facility on an existing site. Ms. Russell is unaware if funds could be made available for a greenhouse or agro-tech operation but will investigate and advise the committee. On a follow-up question from Senator Wise, a school's status on the list may or may not be in the same position when school begins. Ms. Russell said the KFICS report, which establishes the list, is a product of KDE.

Referring to a question from Ms. Page, Ms. Couch said the district facility needs on file with KDE are subtracted from incoming local revenues to calculate unmet need. The base revenue multiplied by the district percentage calculates the total bonding, the amount paid over 20 years and that amount is broken down into payments for the district's offer.

Representative Tipton said counties losing or gaining in population or assessment affects the tax base. On a follow-up comment, Ms. Couch said she will study state regulations and federal guidelines and report back to the committee. Bonding capacity is essentially restricted funds minus all current debt-service payments and the bond eligibility if funds are not available.

On a motion by Representative Johnson and a second by Senator Wise, the task force agreed by voice vote to recess until the hour of 1 PM.

### **Discussion of Add-on Weight Funding in SEEK**

At 1 PM, the Chair called the meeting back to order.



A group of Superintendents from across the state shared their perspectives on the cost of educating different student groups and the weights they receive in the funding model. In addition to invitees Superintendents Fletcher, Borchers, and Mullins, the task force was joined by Superintendents David Gilliam, Madison County Schools; Kyle Lively, Somerset Independent Schools; and Nick Carter, Breckinridge County Schools.

Representative Tipton said at the first meeting members discussed weighted add-ons to the SEEK funding model, how long the base and weights have been in place without review, and the perspectives of stakeholders in Kentucky.

Mr. Gilliam said SEEK add-ons began in 1990 with the enactment of KERA. Other than Title 1 funding, the addition of Limited English Proficiency (LEP) is the only weight that has been adopted or changed in recent years.

Mr. Gilliam reviewed the current state add-ons for students and their weights. He said several regulations require additional staffing for these groups at a 10:1 student-teacher ratio whereas regular classrooms have a 30:1 ratio. A \$100 deduction is made from the base rate for home hospital student rates, because they are not present in person. But this also impacts the daily capital outlay each school receives for every person in attendance. Transportation is a unique formula based on population density and size of county to get a factor and multiply the number of students times that factor to get expected cost to transport. That amount for the past few years has been funded by the state at 55 percent.

Mr. Gilliam said the SEEK formula has a built-in inflationary component for local funds whereas state funds requires legislative action to address inflation. The base SEEK

amount assigned in 1990 would total around \$4,750 with inflation. The current formulas appear to be in line with a base increase, with the exception of the LEP formula.

Mr. Lively said although there was a decrease in transportation miles in 2020 due to COVID, state funding was lower than 2019, because the base rate was lowered by higher assessments in property values.

In response to a question from Representative Tipton, Mr. Lively and Mr. Gilliam said when students receive an IEP after the federal timeline of December 1, a mechanism to pro-rate state funding for the remainder of the school year is needed. Ms. Page suggested Infinite Campus is a good way for districts to track the students to determine the pro-rated amount.

In response to a question from Representative Johnson, Mr. Lively said add-on fluctuations impact other items in the KDE or SEEK budgets as funds are shifted.

In response to a question from Senator Thomas regarding the impacts of transportation in the SEEK funding, Mr. Gilliam gave a brief explanation of transportation funding. Mr. Fletcher suggested KDE staff could give a more precise answer. Representative Tipton said transportation funding could be a potential topic for a future meeting.

Responding to a question from Senator Wise, Mr. Lively said Somerset has seen a lot of growth in property assessment increases last year that caused a \$10 million dollars loss in state funds. Revenue increases can create a decrease in state funds. Mr. Gilliam said as Richmond property values increased and local tax rates are unchanged, the offset in SEEK provided less state revenue. After add-ons, higher property assessments with fewer students receive less than lower property assessments with more students.

Mr. Truesdell, responding in part to Representative Johnson's previous question, said because the SEEK budget is based on a forecast of historical data, methods are continually being refined. In response to a question from Mr. Truesdell, superintendents said cohorts worth considering as add-ons in the future are students with unique circumstances and needs such as foster care, homeless, and transient students, gifted and talented, and reduced price lunch students. Suggestions were made to include a formulary piece to track the transient students.

Mr. Carter said transportation is a key issue of great concern in his district. Property assessments continue to increase by two to three percent and SEEK dollars decrease. Funding is affected when lower student population decreased and assessment grows at the same time. The opportunities for gifted and talented are incredible and much needed in rural areas.

Mr. Mullins said the importance of full funding of kindergarten and transportation are key issues in his area, in addition to those mentioned by Mr. Carter.

Mr. Borchers said additions to the SEEK formula could include new students onboarding and assessments. Other items mentioned were the formula should be based on enrollment instead of attendance and transient population. Line item budgets for construction resources as add-ons based on pupils should be taken out of the construction formula to make budgeting easier.

Mr. Fletcher said changes to the SEEK distribution formula may create unintended consequences. The SEEK formula has not kept up with inflation and more funding is crucial to provide a world-class education for Kentucky's students.

In response to a question by Senator Wise regarding attendance and virtual learning academies, Madison County had 800 students who preferred virtual learning last year and 80 students have requested virtual learning this year. Somerset is not offering virtual learning due to lack of participation last year. Breckinridge County will offer an on-line academy with less than 100 students. Many previously home-schooled students will be returning to public schools in these programs. Lawrence County will offer virtual academy for grades 6-12. K-5 will be offered virtually and separate educators will be hired to deliver on-line instruction. The Logan County program mirrors both Breckinridge and Lawrence Counties and includes grades K-12.

Representative Bojanowski said students struggling with attendance are also typically students with significant educational needs. Because student attendance affects add-ons, the use of attendance for funding can be counter-intuitive. Absent students require more attention with remedial services and the opportunity to identify the student as special needs is delayed. Additionally, other fixed, recurring expenses such as payroll, teacher contracts, and other expenditures are there regardless of attendance.

Representative Tipton raised the issue of a 3 percent enrollment decrease in public schools and a decreasing birthrate affecting student enrollment and projection. Mr. Gilliam said growth has slowed in Madison County in the last two to three years but has experienced an increase in migration population. Mr. Carter said Breckinridge has been flat or decreasing in population. In Lawrence County, Mr. Fletcher said his district is one of the few districts that grew in 2014-2017 but has experienced a recent mass exodus. Mr. Mullins said his district's numbers are flat with a slight decrease trend in projections over the next 4 years. Mr. Borchers's district experienced a drop in student attendance as the housing market shifted from apartments back to single-family homes. He reported the market is stable and the district is beginning to see uptick in growth with the completion of a subdivision in a year and a half.

In response to a question from Representative Tipton, Mr. Gilliam said local effort has outpaced inflation, and the solution is problematic. The planning and building of a school from start to finish takes five years. Counties have declining numbers of students but have continued fixed costs.

Mr. Fletcher said the nickel tax is a requirement to receive matching funds but bonding capacity is not available. Mr. Borchers recommended an equitable tax rate with a ceiling and that research on giving districts more flexibility could help with budgeting on the state level. Mr. Carter agreed that a study is needed to develop a plan. He said the last study was completed by the Council for Better Education in 2014.

Representative Tipton said superintendents have expressed concern with specific intent line item budgeting and would prefer more local control. Mr. Lively said having the ability and flexibility to spend funds on district and student needs would be advantageous. Mr. Gilliam said specific line item budgets may represent a lack of trust in local districts. Construction funding and designation of taxes creates a huge discrepancy among districts that has not created a fair and equitable system. Mr. Borchers said SEEK funding based on population can make planning difficult versus a line item that may be funded for a couple of years and then removed. Representative Tipton suggested accountability may be a more appropriate term than the lack of trust but agrees a good balance is needed.

### **Presentation by Southern Regional Education Board**

Southern Regional Education Board (SREB) President Dr. Stephen Pruitt provided an overview of funding formulas in other SREB states. The funding formulas are the sum of many factors, including each state's unique priorities and are designed to serve the specific needs of each state to create a more viable education system. Changing

formulas requires consideration of educational goals, workforce availability, winners and losers in funding changes, unintended consequences, and a smooth transition over time.

Dr. Pruitt discussed resource-based formulas and compared them with student-based formulas. He identified hybrid formulas that combine aspects of both.

Selected formula weighting factors for low-income students typically includes students who qualify for free and reduced price lunches. A few states use district poverty as a formula weighting factor. Some states use students with disabilities as a weight formula factor. Others use district tax effort as a factor.

Recent legislative action within the region includes Texas 2019 House Bill 3 which established a Commission on Public School Finance. HB 3 focused on the purpose of the financing system; the relationship between state and local funding; appropriate levels of local effort that comply with the state's constitution; and policy changes adjusting to student demographic and geographic diversity. Changes affected by HB 3 were the reduction of property taxes to the foundation fund; limiting local property tax increases; eliminating the Cost of Education Index; increasing state funds to economically disadvantaged schools; creating new allotments for fast-growing districts; increasing allotments for transportation, dual credit, and work-based learning; and requiring statewide full day pre-kindergarten. HB 3 also included an increased statewide teacher salary schedule; a minimum percentage of year-over-year per student allotment for teacher salary increases; creating a teacher incentive allotment for teachers to earn six-figure salaries; and establishing a statewide teacher mentoring program with dedicated funding allotment.

In Maryland, the Kirwan Commission reviewed and recommended needed changes to update the education funding formula and to make policy recommendations. The state focused on early support and interventions for young children and their families. This included full-day pre-kindergarten for low income three to four year olds

and services and supports for birth to two years old. Also, the changes focused on promoting high-quality educators through compensation, career ladders, rigorous preparation and certification standards. Funding also targeted supporting college and career readiness; students in schools with a high concentration of poverty; and a strong accountability system. Dr. Pruitt said Maryland's blueprint is similar to KERA.

Some other states have taken smaller steps in reviewing education funding.

Representative Johnson said moving forward with caution is critical to ensure the issues at hand are improved and not made worse.

Responding to a question from Ms. Page, Dr. Pruitt said some states have built-in review structures and mechanisms for add-ons to keep up with inflation and achieve the set priorities.

In response to a question by Representative Bojanowski, Dr. Pruitt said he did not know the origin of Kentucky's base funding amount. The base used by the state is an attempt to assign the value in a current budget structure.

Responding to a question by Mr. Truesdell, Dr. Pruitt said Texas and Maryland did the best job identifying priorities but did not take the future workforce into consideration. He said states should observe needed skills and civic objectives and then back map to arrive at the needs of the state. In response to a question by Mr. Truesdell, Dr. Pruitt stressed the importance of comparing funding models from other states and developing a methodology to measure expectations.

The next meeting of the task force will be Monday, August 9, 2021 at 10 AM.

With no further business before the task force, the meeting adjourned at 3:30 PM.

