

SCHOOL FUNDING TASK FORCE

Minutes of the 4th Meeting of the 2021 Interim

October 11, 2021

Call to Order and Roll Call

The 4th meeting of the School Funding Task Force was held on Monday, October 11, 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; Senator Reginald Thomas, and Mike Wilson; Representatives Kim Banta and Tina Bojanowski.

Guests: Dr. Bart Liguori, Research Division Manager, Sabrina Cummins, Education Accountability Research Analyst, and Allison Stevens, Education Accountability Research Analyst, Office of Education Accountability; Chuck Truesdell, Kentucky Department of Education (KDE); Superintendent Mike Borchers, Ludlow; and Davonna Page, Russellville.

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

Approval of Minutes

On a motion by Senator Wise and a second by Senator Wilson, the minutes of the August 9, 2021, meeting were approved by voice vote.

Funding Kentucky Public Education: An Analysis of Kentucky Funding Through the SEEK Formula

Allison Stevens, Office of Education Accountability (OEA), said the SEEK funding formula was designed to equalize local revenue with state funds to ensure students living in property-poor districts received the same base funding as students living in property-wealthy districts. In FY 2020, the General Assembly set the SEEK guaranteed base per pupil at \$4,000. The SEEK funding components include a guaranteed base amount per-pupil, SEEK add-on adjustments, required local effort, and Tier 1 and 2 funding. SEEK includes funding for students with additional needs, referred to as add-ons, to the guaranteed base funding formula. The five add-on adjustments for state SEEK funding districts include at-risk students, exceptional children, home and hospital instruction, limited English proficiency (LEP), and transportation.

Ms. Stevens explained that one type of school funding model is resource-based funding, delivering education based on the cost of resources, staff salaries, and course materials. Student-based funding assigns a cost to educating specific categories of students. Hybrid models use a mixture of student-based and resource-based models. Kentucky and three surrounding states use the student-based model. About one third of the states compared have a higher district local share than Kentucky.

Twenty-one states use average daily membership (ADM) when counting students to fund education. Nine states use a single-count or multiple-count date. Kentucky and six other states used average daily attendance (ADA). The loss of funding through excused and unexcused absences is a disadvantage associated with using ADA. When comparing rural and non-rural districts, OEA determined rural districts experience higher poverty rates; more students requiring special education; and many students failing to meet ACT, reading, and math benchmarks. Rural enrollment has declined over the years and projections indicate a further decline in student enrollment.

All surrounding states have an expected local share for funding education except Indiana. Three states use multiple data points to calculate local share and Kentucky requires \$3 for every \$1,000 in assessed local property wealth. Virginia does not require local effort but districts may impose taxes to generate supplemental revenue.

Kentucky and some states include funding for students qualifying for free lunch and other states include free and reduced lunch, a flat amount, a multiplier of the base funding, or base the funding on the concentration of at-risk students. Kentucky and Ohio use multiple weights for the exceptional child add-on depending on the severity of the exceptionality. Some states use one multiplier or a flat amount per student regardless of the disability. Some states use the cost of delivering special education and services while others use a hybrid system. Kentucky and all surrounding states provide extra funding for Limited English Proficiency (LEP) students. Various funding methods are used for LEP students by using a multiplier to the base funding, required staffing needs, or a flat allocation per student.

Some districts provide funding for rural, remote, small, or isolated districts through their transportation funding formula; other states provide funding for districts with a set number of students, and the remaining surrounding states do not provide additional funding for student transportation. Kentucky and six surrounding states, calculate student transportation separately from general education funding. Bus depreciations vary among states.

Responding to a question from Representative Tipton, Ms. Cummins said the \$100 funding deduction for students receiving home and hospital instruction is for the

limited amount of time. Responding to follow-up question, Ms. Cummins said schools with virtual settings receive full per pupil allocations. Those students not transported by bus are coded differently in the Infinite Campus tracking system and are not included in the transportation funding. Students with excused absences are not counted in the ADA totals.

Responding to a question from Ms. Page, Ms. Cummins said that in the year 2020, all districts except one, Wolfe County, were above the maximum Tier 1. Districts above 150 percent do not receive Tier 1 funding.

In response to a question from Representative Bojanowski, Dr. Liguori said school funding is pro-rated for the time students require home and hospital instruction.

Responding to a question from Mr. Truesdell, Ms. Cummins said states using resource-based funding, use projections to determine the cost of providing education including materials, instructional aides, and other associated costs.

Responding to a question by Mr. Borchers, Dr. Liguori said a chart in the OEA's District Data Profiles report provides the state's and individual districts' total student membership and average daily attendance numbers. Representative Tipton indicated that the state averages at about a 95 percent attendance rate.

Ms. Stevens explained that the report divided districts into quintiles to compare low-property-wealth districts with high-property-wealth districts. Districts were ranked by per-pupil property assessments and divided into five groups, each with about one-fifth of the state's student population.

Ms. Stevens provided a review of the analysis within the report of how the quintiles have changed over time, comparing pre-Kentucky Education Reform Act (KERA) and early KERA to the most recent available data. The analysis provided demographic and financial details of the quintiles.

Responding to a question from Senator Thomas, Ms. Stevens said pay equity has kept up with inflation. Senator Thomas requested an analysis of the 7 contiguous states. Responding to a follow-up question from Representative Tipton, Dr. Liguori said that OEA's District Data Profiles report provides the average salary and the online tool could identify the highest and lowest average pay districts. Representative Tipton said the property wealth per pupil provides an understanding that certain districts have more financial capability than others.

Representative Bojanowski inquired why poverty levels were not included in addition to property values in developing quintiles and how the analysis could be impacted. Ms. Cummins said the method quintile analysis used in the study has been

used since the beginning of KERA, when an analysis was done by a firm using the property value assessments. In order to be able to compare with the data from that time, the same method needed to be used for a valid comparison. Representative Bojanowski asked for a comparison between the lowest and highest poverty districts and plugging the differences into the models to reflect the impact on these groups. Dr. Liguori referenced the appendices of poverty rankings by district. He said OEA could compare the percentage of students receiving free and reduced price lunches as a proxy for poverty but cautioned that the comparisons could be very different.

Responding to a question from Mr. Truesdell, Ms. Stevens said quintiles are calculated by taking the property wealth per pupil and dividing it by the total students to come up with a weighted average. Mr. Truesdell said the change in risk percentages over the last 30 years is a broader complex of both educational and societal issues.

In response to a question from Ms. Page, Dr. Liguori confirmed that districts in Quintile 1 have increased their property tax rates and have also increased the most in need.

Ms. Cummins discussed rural versus non-rural districts and the definitions used to determine which counties are classified as metropolitan, micropolitan, and rural, based on the 2010 census data. Population in rural districts is currently 23 percent of the state's population and is expected to decrease to 18 percent by 2050. Metropolitan districts encompass 58 percent of the total population and projections indicate an increase to 65 percent. Micropolitan districts are projected to gain student population but experience a 2 percent decrease in the total population.

Twenty-eight and a half percent of the rural district populations do not have a high school diploma compared to 22 percent in micropolitan and 14 in metropolitan areas. Additionally, only 11 percent of the people living in rural districts have a bachelor's degree or higher compared to 17 percent in micropolitan and 25 percent in metropolitan areas. The weighted average school attendance rates in rural districts are lower than micropolitan and metropolitan districts. Rural districts also included more special education needs and homeless students. Rural districts have fewer minority students and lower averages in teacher salaries. Rural districts have a much lower rate in meeting ACT, math, and reading benchmarks than the other two. Rural district per-pupil property assessments are near half of metropolitan district revenues and rural districts fare a little better than micropolitan districts.

Ms. Cummins provided various hypothetical changes to the SEEK funding formula which are detailed in OEA's written report. She also provided analysis on how the hypothetical change would impact equity between the various quintiles. Some changes would increase equity of state and local revenue while others had little to no impact on equity. The presentation and the written report providing detailed information on the

hypothetical models can be found on the task force's committee meetings' page, <https://apps.legislature.ky.gov/CommitteeDocuments/351>.

Responding to a question by Representative Bojanowski, Ms. Cummins explained the report's model calculations reduced the base SEEK to cover any change in the funding formula. For calculating a model's full funding, the base amount was brought back up to \$4,000 and the adjustment was made.

Mr. Truesdell questioned the methodology used to classify districts as rural versus metropolitan or micropolitan areas. He expressed concern that under a funding add-on for rural districts some districts could lose funding due to being incorrectly classified. Ms. Cummins said the census determination was the only methodology used in this calculation.

In response to a question from Representative Tipton, Ms. Cummins agreed the loss of population in rural counties by 2050 will exasperate the differences between the quintiles.

Responding to a question from Mr. Borchers, Ms. Cummins said the models do not consider possible changes in a district's local tax rate in response to the model.

Representative Tipton said if the SEEK formula is changed to ADM, the new average per pupil is lower in each quintile but with more students being counted, the total dollar amount remains the same. Representative Tipton said if the new model was used and the SEEK amount remained at \$4,000, an additional \$285.5 million would be needed to fund the difference due to counting all students. Responding to Representative Tipton's question, Ms. Cummins said the cost of services to the school does not necessarily decrease when students are quarantined because facility costs and staffing amount to 80-85 percent of a district's budget.

Responding to a question from Representative Bojanowski, Ms. Cummins said the federal dollars are not included in equity analyses because the General Assembly only has control. Ms. Cummins said significant federal funding is provided to districts in Quintile 1. In response to a follow-up question, Ms. Cummins said there are various federal funds available such as Title 1 funding which is divided to districts on the number of students living in poverty. Other funding comes through funding for special education, which is divided into funding specifically for preschool-aged students and another for K-12 students. Representative Bojanowski suggested the funding be included in the analysis of data for special education and at-risk students.

Responding to a question by Mr. Truesdell, Ms. Cummins said the at-risk add-on is only for students who receive free lunch but an analysis in the written report includes reduced lunch students, but it did not increase equity.

Responding to a question from Ms. Page, Ms. Cummins said OEA looked at updating the exceptional child add-on factor but followed the recommendations from the Augenblick and Associates study. Other factors were based on what other states have done or other studies have recommended in the past.

In response to a question by Representative Tipton about increasing the minimum SEEK local effort from 30 cents to 35 cents, Ms. Cummins said the lowest local effort was 42.4 cents per \$100 in 2020. Because of the higher local effort, the state portion of SEEK would be less and the total SEEK base per student would increase.

Responding to a question by Representative Bojanowski, Mr. Liguori said Tier 1 funding is equalized by the state. Tier 1 amounts to 15 percent of the SEEK base plus add-ons and requires a maximized equivalent rate by district. Tier 2 is not equalized. Tier 2 allows for up to 30 percent of SEEK in addition to the 15 percent of Tier 1. Responding to a follow-up question regarding the difference in equalizing local effort, Ms. Stevens said OEA determined that 36 districts exceeded Tier 2 by a total of nearly \$366.6 million. Ms. Cummins said other issues arise when taxes are levied. In the beginning of KERA, a district could determine the mix of taxes to combine to achieve a tax rate. Most districts used a utility tax. Later on, districts not already using the utility tax adopted the tax and received additional funds. Responding to another follow-up question, Ms. Cummins said there are records of funds raised at the local level for public education, but those funds and records are not used in the SEEK funding formula.

Responding to a question by Mr. Truesdell, Ms. Cummins confirmed that most districts would not need to raise their tax rate when moving the minimum local effort from 30 to 35 cents per \$100 property assessment. Responding to a follow-up question, Dr. Liguori said a few districts with low tax rates could lose out on Tier 1 equalization funding if they did not raise the tax rate to 35 cents. Responding to a following up question, Ms. Cummins said the model did not retain the saved money so as to not reduce the SEEK appropriations by the General Assembly, raising the SEEK guaranteed base amount to \$4,219. Ms. Stevens said the amount would be \$170 million less if the funding the SEEK base was kept at \$4,000.

In summary, Ms. Cummins said the models that improved equity among the quintiles included: calculating the exceptional child add-on using percentage of students with an exceptionality in each district; adding rural and micropolitan district add-ons; increasing local effort from 30 cents to 35 cents; increasing the local effort and base adjustments for inflation; and changing student count from ADA to ADM. The remaining models had little or no impact on equity between the quintiles or made equity worse.

Responding to a question by Representative Bojanowski, Ms. Cummins said many of the changes in the models had little or no impact on Livingston and Lyon counties because they are hold harmless districts, guaranteed to receive the same amount of SEEK funding as when KERA was implemented. In a follow-up comment, Representative Bojanowski said for the model changing the weight of high incidence rates from .24 to 3.88 may be more than needed. Responding to a follow-up question, Dr. Liguori said OEA did not look at projecting the impact if Kentucky had fewer than 171 districts.

Mr. Truesdell said in discussing equity it is important to recognize that if total funding remains the same, these changes move dollars into Quintiles 1 and 2 and take away funds from Quintile 5. His concern is the property-wealthy districts will raise property taxes to replace deductions to keep funding level to meet student needs, which could ultimately hurt businesses. He told the committee that helping property-poor districts improves equity but noted that many disadvantaged students live in larger districts. He said that data shows an alarming increase of students at risk in larger counties.

Mr. Borchers said the possible changes presented, when keeping total funding the same, creates winners and losers. He said the lowest local tax rate is about 42 cents and the highest is 118 cents per \$100 valuation and wondered whether raising the floor in the local amount would help with equity. Dr. Liguori said they discussed raising the floor to 35 cents but nothing above that. Mr. Borchers said that some of the districts that are behind on equity are behind on raising their tax rates. In response, Ms. Cummins said some districts do not take the allowed maximum of 4 percent each year. She said a study done by OEA several years ago looked at districts that raised the 4 percent and those that took the compensating rate, which is calculated to generate the same amount of funds as the previous year. However, OEA did not look at what the impact would be of requiring the districts to take the 4 percent every year since that is decided by local school boards.

Representative Tipton said it is important to remember that if a district takes the compensating rate, large growth in property assessments could actually decrease the rate.

Mr. Fletcher said without additional funds, funding changes can shift burden of educating students back to local districts in the form of increasing tax rates.

Dr. Liguori presented an OEA-created interactive tool allowing the current SEEK formula to be altered by changing certain variables or add-ons and displaying the impact of those changes. The interactive tool can be found at: <https://apps.legislature.ky.gov/lrc/publications/interactive/SEEK2020test.html>.

In response to a question by Mr. Fletcher, Dr. Liguori said budget increases or decreases for each situation are shown when entered into the interactive tool.

Dr. Liguori gave a presentation on the current distribution of funding through the SEEK formula. After a thorough analysis and examination of the SEEK formula as currently implemented by KDE, OEA made 16 recommendations. The data used for the analysis was a culmination of several meetings with KDE staff, several pieces of data that districts submit to KDE, the SAS code, and output used to calculate transportation funding.

Dr. Liguori said the OEA analysis revealed incorrect calculation for square mileage of independent districts within the borders of county districts; failure to audit district transportation codes for students transported more than one mile; and incorrectly cost-grouped districts using only seven instead of nine groups. Additionally, when creating the seven cost groups, KDE did not use an objective methodology of grouping districts but grouped districts by calculated cost per pupil day instead of density groups. KDE also multiplied the number of handicapped students by 2.0 instead of 5.0 as required by statute. Other major findings OEA discovered were annual financial reports with transportation expenses to and from school with no students being transported; no requirements for district activity funds to be recorded in MUNIS; and districts receiving the exceptional child add-on for preschool students. Full-day Kindergarten was added for FY 2021-2022, however the equalization level did not change.

Districts are reimbursed for transporting students to and from school but SEEK transportation does not include transportation for field trips or sports. OEA found a complex formula associated with transportation was not implemented correctly by KDE.

Dr. Liguori said the transportation calculation should have nine density groups in determining the graph-adjusted cost per pupil per day. The KDE calculation included only seven groups and instead of using similar density groups as required by statute, KDE grouped school districts by calculated cost per pupil day. KDE chose to group these districts using subjective professional judgement rather than having an objective methodology. OEA recommends they use an objective methodology in the future.

Statute requires disabled students' ADA be multiplied by 5.0. The handicapped factor was correct on the website but in calculating the graph adjusted costs, KDE erred in multiplying the costs by 2.0 instead of 5.0. OEA reported KDE lacked expertise in the program used to calculate the graph adjustment. Although the error was mitigated in part by the previous KDE error, it had a sizable impact in the Tier 1 funding.

For several years up until 2021, a computer program error computed districts graphs and adjusted costs incorrectly. KDE should consider giving independent districts that were below the threshold for inclusion in the graph calculation the same amount as the independent district with the lowest graph-adjusted cost per pupil day, instead of the

highest. Likewise, KDE should consider giving county districts that were above the threshold for inclusion in the graph calculation the same amount as the county district with the highest graph-adjusted cost per pupil day, instead of the lowest.

Dr. Liguori said that regulation 702 KAR 5:020 requires that the net ADA for a county district's pupils transported one mile or more to school shall be determined from the local district's annual statistical report for the district. KDE should consider changing the language in this regulation to more accurately describe which statistical report it is referencing and KDE should consider posting the data from the report to its website.

During the 2021 Regular Session, the General Assembly passed House Bill 208, allowing school districts to use 2018-2019 attendance data in calculating SEEK, pursuant to Senate Bill 177 of the 2020 Regular Session. While KDE calculated the SEEK attendance correctly, the use of 2018-2019 bus depreciation was not allowed in this bill. KDE should have updated the district vehicle depreciation in calculating transportation costs. OEA also recommends the depreciation of school transportation vehicles for 10 years and at 100 percent instead of 14 years at 124 percent.

Other issues in recording transportation costs include systemic issues in data collection. KRS 158.115 allows county governments to spend money from their general funds to provide transportation for pupils attending non-public schools. Several local boards of education contract with their local fiscal court to provide such transportation. These expenses are reimbursed each year. These students are not being counted in the transportation calculation. However, there is no consistency in the manner in which these transactions are recorded in the MUNIS finance system. KDE does not provide districts guidance on how to include the information in MUNIS. Reimbursements were reported incorrectly and the district overstated its school transportation expenses by over a half million dollars. Of seven districts contacted about this issue, only one independent district recorded the revenue correctly.

While reviewing FY 2019 annual financial reports, there were two independent districts that had no students transported, but reported transportation expenses. Based on these issues, OEA also found that during the first year of a county and independent merger; the county is not getting the independent district's transportation expenses or depreciation included in funding determinations.

KRS 157.3175(3) requires preschool programs to be funded by a grant from the General Assembly to local school districts. Recommendation 4.16 suggests if full-day kindergarten is funded in the future, OEA recommends KDE consider changing the statewide equalization level in order to accurately reflect 150 percent of per pupil assessments.

The next meeting of the committee will be Monday, October 18th, 2021 at 10 AM.

With no further business before the committee, the meeting adjourned at 12:10 p.m.