

## EXECUTIVE SUMMARY

This report is the product of a seven month effort by Augenblick & Myers, Inc. (A&M) to study the adequacy of school funding in Kansas for the Legislative Coordinating Council, which delegated the responsibility of monitoring the work to the Legislative Education Planning Committee (LEPC). The primary purpose of the study was to determine the funding level necessary for school districts to meet the objectives of a "suitable" education. A&M agreed to undertake several tasks as part of its work, including: (1) meeting with 60 or so people to discuss the strengths and weaknesses of the school finance system; (2) using two methodologies to calculate a base cost figure; (3) estimating adjustment factors to the base cost for school district size, special education, at-risk students, and bilingual students; (4) reviewing the structure of the school finance system and examining several ancillary issues (the approach to allocating state aid for transportation, the use of a regional cost factor, a procedure to make annual changes in school finance formula parameters, the way the state supports vocational education, and the provision of state aid for newly opened schools); and (5) making recommendations to improve the structure of the school finance system and to set the levels of the parameters used in the system's formulas.

A&M formed a team to do complete the work, which included the National Conference of State Legislatures (NCSL) and the Education Commission of the States (ECS). John Augenblick, John Myers, Justin Silverstein, and Anne Barkis participated in the team from A&M, David Shreve, Steve Smith, and Josiah Pettersen represented NCSL, and Michael Griffith participated from ECS.

During the course of the project, the team spent a considerable amount of time in Kansas. We conducted interviews on November 13, 2001 in Topeka, on December 4, 2001 in Hays, and on January 8, 2002 in Wichita. We met with people involved in estimating resources in Salina on December 4-5, 2001, in Wichita on January 8-9, 2002, and in Topeka on March 13, 2002. In all, we interviewed 59 people (out of 97 who were invited to participate) and met with 47 others in developing cost estimates.

Based on our discussions with people around the state, we concluded that there is strong support for the foundation program concept (the fundamental basis of allocating state aid in Kansas), as well as for the use of pupil weights to recognize the high costs of serving students with special needs. However, interviewees felt that the foundation level (\$3,820 in 2000-01) was too low; they also thought that the existing pupil weights were somewhat low. People also felt that the expected local contribution to the foundation program (currently the yield of a 20 mill property tax) should be increased. Interviewees generally supported the concept of the Local Option Budget (LOB) as it was originally designed to operate – as a way for districts to generate revenue above an adequate base. Their view is that the only way for districts to obtain adequate funding currently is to use the LOB to its full extent.

The underlying rationale for a study of school finance adequacy (or suitability) is to link education accountability to finance. Kansas, like many other states and the federal government, is implementing a “standards-based” approach as part of an effort to improve student performance. The standards-based approach requires a state to do three things: (1) specify its expectations for student performance; (2) develop procedures to measure how well students are meeting those expectations; and (3) hold providers of education services (school districts, schools, teachers, and so on) accountable for student performance. The logic of the standards-based approach to education improvement implies that a state will assure that sufficient resources are available so that school districts can reasonably be expected to meet state standards.

Kansas, like most states, uses the foundation program concept as the basis for allocating the majority of state aid to school districts. The foundation level, or base cost, is the primary determinant of the level of support, along with adjustments for students with special needs or other uncontrollable factors that affect the cost of providing services. In order to link the accountability system, and state standards, to the finance system, the foundation level needs to have some “meaning” – it should reflect the amount of money that should be spent on a student with no special needs, attending school in a district with no special circumstances, if that student is going to meet state standards. In the past few years, some states have begun to develop new approaches to calculating the base cost that are designed to reflect the cost of fulfilling a particular set of services or a particular level of performance, or both, so that the base cost has a meaning beyond simply reflecting available revenue. Several methodologies have been developing to help estimate the cost of meeting state standards. The two most popular methodologies are the “professional judgement” approach and the “successful school district” approach. Several states have used the professional judgement approach, including Oregon, South Carolina, Wisconsin, and Wyoming. Some states, such as Illinois, Mississippi, New Hampshire, and Ohio, have used the successful school district approach. One state, Maryland, enacted a new school finance system this year that incorporates the results of using both approaches.

In order to use these approaches in Kansas, we worked with the LEPC to develop a definition of a suitable education, which included numerous “input” components (such as course offerings) and indicators of student performance. The standard was built on the school district evaluation process that is part of the Quality Performance Act (QPA) as well as on the statewide performance tests that students take.

The professional judgement approach is based on the assumption that experienced educators can specify the resources prototype schools need in order to assure that school districts can meet state expectations. In order to implement the professional judgement approach, A&M created four prototype school panels, two prototype district panels, and a single expert panel to identify the resources school districts would need to have in place to meet the state’s definition of education suitability. The panels, each composed of 6-8 people, focused their attention on schools and districts of different enrollment levels. In doing their work, the panels

were asked to separate the resource needs of students without special needs from those of students in special education programs, at-risk students (based on the numbers of students from low income families), and bilingual students. Once the district panels had reviewed the work of the school panels and the expert panel had examined the work of the district panels, A&M estimated the cost of the resources that had been identified. In making its cost estimates, A&M relied heavily on salary figures and benefit rates, using statewide average figures adjusted by school district size. Although people suggested that it might be necessary to raise salary levels in order to attract and retain highly qualified personnel, A&M could not find evidence to support raising the average salary of all teachers.

Our cost estimates for 2000-01 show that per student base costs rise from \$5,811 to \$8,581 as enrollment decreases from over 11,000 students to under 500 students and that the cost of special education adds over \$7,000 per special education student while the cost of education services for at-risk students adds over \$2,000 per at-risk student and the cost of bilingual education adds between \$1,200 and \$6,000 per bilingual student, with all such added costs becoming proportionally higher as district size increases.

Using the successful school district approach, A&M identified 85 districts that met the student performance standard the LEPC adopted while also meeting QPA requirements. The average basic spending of those districts was \$4,547. The spending of successful school districts is about six percent higher than other districts.

Almost all of the difference between the base cost figures produced by the two approaches (\$4,547 and \$5,811) can be explained by the higher numbers of personnel associated with the professional judgement approach. The remaining difference is attributable to added costs for professional development and for certain programs, such as full-day kindergarten, that were recommended by the professional judgement panels.

A&M used these figures, our findings concerning the strengths and weaknesses of the current school finance system, and our review of other issues as the basis of making several recommendations to improve the way Kansas distributes state aid for public schools.

Kansas should continue to use a foundation program in combination with the LOB as the primary basis for distributing public school support.

The foundation level (base cost) should be raised in the future to a level that would be equivalent to \$4,650 in 2000-01.

The foundation level should be adjusted by a regional cost factor using figures from the National Center for Education Statistics until such time as the state conducts its own study.

The foundation level should be adjusted in recognition of the higher costs associated with: (1) the operation of moderate size and small school districts;

(2) the needs of students in special education programs; (3) the needs of at-risk students (based on the number of students participating in the free lunch program); and (4) the needs of bilingual students. The adjustments should be based on formulas that are sensitive to the enrollment level of school districts.

There should be no pupil weight specifically for vocational education; rather, the cost of vocational education should be included in the base cost figure.

The weight for students in newly opened schools should continue to be used although it should be used for three years, not two years, and the weight should decrease each year.

School districts should be expected to contribute to the foundation program based on a property tax rate of 25 mills.

The second tier (Local Option Budget) should permit districts to raise up to 25 percent more than the revenue generated by the foundation program (based on the foundation level and the adjustments for size, special education, at-risk students, and bilingual students). The state should continue to equalize the second tier in the same manner as it does currently.

The foundation level should be restudied every 4-6 years or when there is either a significant change in state student performance expectations or a significant change in the way education services are provided. In intervening years, the foundation level should be increased based on the work of a committee designated by the legislature to determine an annual rate of increase, which should consider annual changes in the consumer price index (CPI) in Kansas.

The state should continue to use its density-based formula for transportation support but include the full cost of serving students living 1.25 miles from school as part of the analysis.

We estimate that if this set of decisions had been made in 2000-01 (excluding the use of a regional cost differential and the modification of the transportation formula), the cost of the foundation program, including adjustments, would have been about \$3.066 billion. As best we can tell, school districts spent \$2.837 billion for comparable purposes (that is, excluding capital spending, transportation, food services, community services, and adult education) in 2000-01. Therefore, we are suggesting that total spending needs to increase by \$229 million, or about \$512 per student (an increase of about 8.1 percent).

In terms of revenue, assuming that local revenue (estimated to have been \$420 million for non-capital purposes) and federal revenue (estimated to have been \$247 million) could have been used to offset the total cost, state support would have needed to increase from \$2.122 billion to \$2.399 billion, an increase of \$277 million, or 13.1 percent. This figure, however, assumes that the local property tax effort required in the foundation program would remain at 20 mills. Given that the

foundation level we suggest is nearly 22 percent higher than the one actually used in 2000-01 (\$4,650 vs. \$3,820) and given the increase in the adjustments for students with special needs, we recommend raising the required tax effort to 25 mills which would have generated an estimated additional \$94 million in local revenue (assuming assessed valuation of \$18.9 billion), reducing the increase in state aid to \$183 million.

These figures assume that all LOB funds are rolled into the foundation program; in fact, the second tier could permit additional expenditures of between \$520 million and \$773 million depending on whether the second tier is based on 25 percent of the base expenditure (\$4,650) or 25 percent of the adjusted base cost per student (\$6,918, on average, including expenditures based on school district size, special education, at-risk students, and bilingual students).