



MEMORANDUM

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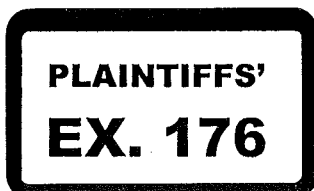
TO: Members, 2010 Commission
FROM: Scott Frank, Manager, School Audits
DATE: August 14, 2008
SUBJECT: Comparing the State's foundation-level funding to the LPA outcomes-based estimates

At the July 10 meeting of the 2010 Commission, Representative Storm requested that we provide the Commission with information comparing the amount of funding the State has put into K-12 education over the last several years to the amount we estimated was needed based on the outcomes-based approach of the January 2006 cost study, *Elementary and Secondary Education in Kansas: Estimating the Costs of K-12 Education Using Two Approaches*. The information you requested is included as part of this memo.

In the January 2006 cost study, we used statistical techniques to estimate the operating costs associated with meeting different student outcome targets, taking into account important demographic factors for each school district. We've used the results of this analysis to estimate the Statewide cost of meeting the State's student outcomes targets from 2006-07 to 2013-14. The school finance formula is currently spelled out through the 2009-10 school year. While it's likely the Legislature will make changes to the formula in the future, we don't know what those will be. Therefore, we've used the provisions for 2009-10 for the remaining years.

We've compared our estimate of the *operating costs required to the operating funding districts have available to them* through the school finance formula. Historically, it was the State Supreme Court's interpretation (and therefore our interpretation at the time of the cost study) that districts' general fund budgets were intended to cover the operating costs of meeting the State's outcomes targets. While the school finance formula allowed districts to raise additional funds through a local option budget—some of which is paid for by the State—these additional funds were intended to enhance local programs.

When the Legislature passed SB 549 during the 2006 session, it added a provision to State law making it clear that State equalization aid paid to school districts should be included in any calculation of State funding for educational and support services for school districts (K.S.A. 72-6434(f)). This interpretation later was accepted by the Court. Therefore, we've included both school district general fund budgets and State equalization aid in this comparison. (NOTE: Because the State's payment into KPERS was excluded from the original cost study analysis to determine adequate funding, we've also excluded it



from this comparison. Had it been included in the original analysis, our estimates of the amount of funding needed would have been higher.)

Finally, it's important to note that we've actually prepared two sets of comparisons. That's because of differing provisions in State law. K.S.A. 72-64c04 calls for the Legislature to increase general State aid in 2009-10 by an amount equal to the percentage increase in the Consumer Price Index (CPI-U) for the previous year. The Department of Education estimates this will require an \$80 increase in the BSAPP. Currently, the BSAPP is scheduled to increase by only \$59 (K.S.A. 72-6410(b)(1)). As a result, we prepared one comparison based on a \$59 increase for 2009-10 (Attachment A), and another comparison based on an \$80 increase (Attachment B).

Both attachments show that the total amount of general fund authority and State equalization aid available to districts essentially covered the estimated amount needed for 2006-07. For 2007-08, the total amount available was almost \$86 million less than the estimated amount needed to meet the State's outcome targets for that year. The amount available for 2008-09 is almost \$200 million less than the estimated amount needed.

The following is a list of the key assumptions we used in developing these comparisons:

- The outcomes-based estimates that aren't adjusted for inflation are based on the findings from our outcomes-based approach in our January 2006 cost study. These are estimates of the increasing cost of meeting State outcome standards, as those standards are raised over time.

There are a couple of important things to keep in mind about these estimates:

- *The outcomes-based approach in the cost study relied on student outcomes data from 1999-00 to 2003-04. Beginning in 2005-06, the State began using new assessments for reading and math that were created to meet the requirements of No Child Left Behind. Department of Education officials have told us the new assessments aren't comparable to the old assessments, which could affect the reliability of our cost estimates.*
- *The estimates shown in the two figures were calculated using 2005-06 enrollments. Overall, student enrollment in Kansas has remained about the same since then, but there has been a steady increase in the number of students who are eligible for free lunches. Because the number of free-lunch students is an important factor in our estimates, the overall outcomes-based estimates likely are understated.*
- We adjusted outcomes-based estimates for inflation based on the following assumptions:
 - *Inflation from 2006-07 to 2007-08 was 3.71%. This is the average monthly change in the Consumer Price Index (CPI-U) for fiscal year 2008, and is the same amount the Department has used in its estimates.*
 - *For future years, we estimated inflation at 3.28% per year. This is the average annual change in the CPI-U from 1913 to 2005.*
- Under the current formula, Statewide general fund authority was determined in the following ways:
 - *2006-07 and 2007-08 reflect the actual general fund authority, as determined by the Department.*
 - *2008-09 assumes an \$82.7 million increase in non-special education aid, as indicated in the conference committee report for 2006 SB 549, and a total of \$427.6 million in special education aid (based on the consensus revenue estimating group's most recent estimate).*
 - *2009-10 assumes a \$25.5 million increase in special education aid, and either a \$34.6 million increase in non-special education aid (if the BSAPP is increased by \$59) or a \$47.0 million increase in non-special education aid (if the BSAPP is increased by \$80). The increases in non-special education aid are based on the number of weighted FTE for 2007-08 in categories affected by BSAPP.*

- 2010-11 through 2013-14 assume no changes to the funding formula, but a \$25.5 million increase each year in special education aid (because of increases to special education excess costs).
- Under the current formula, the total amount of State equalization aid for local option budgets was determined in the following ways:
 - 2006-07 is based on the actual amount of equalization aid given to districts, as reflected on the Department's State aid reports.
 - 2007-08 is estimated based on the budget data districts submitted to the Department for 2007-08.
 - 2008-09 assumes a \$15.0 million increase, as indicated in the conference committee report for 2006 SB 549.
 - 2009-10 assumes a \$16.6 million (if the BSAPP is increased by \$80), as estimated by the Department. If the BSAPP is increased by \$59, we estimate a \$15.9 million increase, based on the historical relationship between total general fund authority and State equalization aid (equalization aid typically represents about 10% of total general fund authority).
 - We estimated the increases for 2010-11 through 2013-14 based on the historical relationship between total general fund authority and State equalization aid.

ATTACHMENT A (\$59 Version)
Comparison of Foundation-Level Funding
Current Law vs. Estimated Cost of Meeting Future Performance Standards
2006-07 to 2013-14 School Years
(all dollar amounts are in millions)

	SCHOOL YEAR							
	2006-07 (actual)	2007-08 (actual)	2008-09 (estimated)	2009-10 (estimated)	2010-11 (estimated)	2011-12 (estimated)	2012-13 (estimated)	2013-14 (estimated)
FOUNDATION LEVEL								
Outcomes-Based Estimate:								
Not Adjusted for Inflation	\$3,151.3	\$3,349.4	\$3,477.0	\$3,604.5	\$3,732.7	\$3,860.2	\$3,983.4	\$4,108.5
Inflation Index (compounded)	1.0000	1.0371	1.0711	1.1062	1.1425	1.1800	1.2187	1.2586
Outcomes-Based Foundation Level (adjusted for inflation)	\$3,151.3	\$3,473.7	\$3,724.2	\$3,987.4	\$4,264.6	\$4,554.9	\$4,854.4	\$5,171.0
FOUNDATION LEVEL (Current Funding Formula)								
General Fund Authority	\$2,883.8	\$3,079.9	\$3,201.2	\$3,261.4	\$3,288.9	\$3,312.4	\$3,337.9	\$3,363.4
State Equalization Aid for LOB (a)	\$266.9	\$308.2	\$323.2	\$339.2	\$341.8	\$344.5	\$347.1	\$349.8
Current Formula Foundation Level	\$3,150.5	\$3,388.1	\$3,524.4	\$3,600.6	\$3,628.7	\$3,656.9	\$3,685.0	\$3,713.2
Difference in Foundation Level (Current Formula vs. Outcomes-Based Estimate)	(\$0.8)	(\$85.6)	(\$199.8)	(\$386.8)	(\$635.9)	(\$898.0)	(\$1,169.4)	(\$1,457.8)
ACCREDITATION STANDARDS								
Math								
K-8	67%	73%	78%	82%	87%	91%	96%	100%
High School	56%	65%	70%	76%	82%	88%	94%	100%
Reading								
K-8	70%	76%	80%	84%	88%	92%	96%	100%
High School	65%	72%	77%	81%	86%	91%	95%	100%
Graduation Rate								
	75%	75%	75%	75%	75%	75%	75%	75%

(a) State equalization aid for 2007-08 was estimated using school district budget data.

Source: LPA cost study results, KSDE State aid reports, school district budget data, KSDE and KLRD funding estimates for 2008-09 and 2009-10, and State accreditation standards.

See pages 2-3 of this memo for a list of the assumptions used for this analysis.

ATTACHMENT B (S80 Version)
Comparison of Foundation-Level Funding
Current Law vs. Estimated Cost of Meeting Future Performance Standards
 2006-07 to 2013-14 School Years
 (all dollar amounts are in millions)

	SCHOOL YEAR							
	2006-07 actual	2007-08 (actual)	2008-09 (estimated)	2009-10 (estimated)	2010-11 (estimated)	2011-12 (estimated)	2012-13 (estimated)	2013-14 (estimated)
FOUNDATION LEVEL (Outcomes-Based Estimate)								
Not Adjusted for Inflation	\$3,151.3	\$3,349.4	\$3,477.0	\$3,604.5	\$3,732.7	\$3,860.2	\$3,983.4	\$4,108.5
Inflation Index (compounded)	1.0000	1.0371	1.0711	1.1062	1.1425	1.1800	1.2187	1.2586
Outcomes-Based Foundation Level (adjusted for inflation)	\$3,151.3	\$3,473.7	\$3,724.2	\$3,987.4	\$4,264.6	\$4,554.9	\$4,854.4	\$5,171.0
FOUNDATION LEVEL (Current Funding Formula)								
General Fund Authority	\$2,883.6	\$3,079.9	\$3,201.2	\$3,273.7	\$3,299.2	\$3,324.7	\$3,350.2	\$3,375.7
State Equalization Aid for LOB (a)	\$266.9	\$308.2	\$323.2	\$339.9	\$343.1	\$345.8	\$348.4	\$351.1
Current Formula Foundation Level	\$3,150.5	\$3,388.1	\$3,524.4	\$3,613.6	\$3,642.3	\$3,670.5	\$3,698.6	\$3,726.8
Difference in Foundation Level (Current Formula vs. Outcomes-Based Estimate)	(\$0.8)	(\$85.6)	(\$199.8)	(\$373.8)	(\$622.3)	(\$884.4)	(\$1,155.8)	(\$1,444.2)

ACCREDITATION STANDARDS								
Math								
K-8	67%	73%	78%	82%	87%	91%	96%	100%
High School	56%	65%	70%	76%	82%	88%	94%	100%
Reading								
K-8	70%	76%	80%	84%	88%	92%	96%	100%
High School	65%	72%	77%	81%	86%	91%	95%	100%
Graduation Rate								
	75%	75%	75%	75%	75%	75%	75%	75%

(a) State equalization aid for 2007-08 was estimated using school district budget data.

Source: LPA cost study results, KSDE State aid reports, school district budget data, KSDE and KLRD funding estimates for 2008-09 and 2009-10, and State accreditation standards.

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