

MINUTES OF THE SELECT COMMITTEE ON SCHOOL FINANCE

The meeting was called to order by Chairman Kathe Decker at 9:00 A.M. on March 1, 2006 in Room 519-S. Of the Capitol.

All members were present.

Committee staff present:

Carolyn Rampey, Kansas Legislative Research
Theresa Kiernan, Revisor of Statutes Office
Art Griggs, Revisor of Statutes Office
Ann Deitcher, Committee Secretary

Conferees appearing before the committee:

Bruce Baker, Professor, Kansas University
Val DeFever, Schools for Quality Education
Mark Tallman, KASB

The Chair introduced Representative Charles Roth who then introduced his wife, Marci Roth, recently named Kansas' Special Education Principal of the Year.

HB 2986 - concerning school districts; relating to school finance.

Bruce Baker offered an overview of the Post Audit Cost Studies Review, (Attachment 1), as well as a report on making suitable provision for finance of the educational interests of Kansas. (Attachment 2).

Val DeFever offered testimony regarding the concerns of the small rural districts, (Attachment 3).

Questions and answers followed.

Mark Tallman spoke to the Committee of his organization's concerns regarding (Attachment 4).

Questions and answers followed.

The meeting was adjourned at 10:10 a.m. The next meeting is scheduled for Thursday, March 2, 2006.

Overview

- Review of Post Audit Cost Studies
- Implementing a Cost-Based Aid Formula
- Preliminary Evaluation of the *Cost-Basis* of HB 2986 as Introduced

All opinions expressed in this presentation are those of the author and do not represent either the official position of *Schools for Fair Funding, Inc.* or The University of Kansas. Please address any questions, comments or concerns to bbaker@ku.edu

Post Audit Cost Studies

Comments on the Post Audit Report

- 3 Sets of Cost Estimates, not 2
 - LPA's Input Based Estimates (Appendix 16)
 - LPA's Modified Outcome Based Estimates (Appendix 16)
 - Duncombe & Yinger's Actual Outcome Based Estimates (D&Y Appendix F)

Comments on the Post Audit Report

1-4

■ Input vs. Outcome Based

- ❑ Kansas Supreme Court clearly mandated that the legislature's cost study be tied to "achievement of measurable standards of student proficiency."
- ❑ Only outcome-based analysis meets this requirement
- ❑ Only Duncombe & Yinger's own outcome based estimates are legitimate measures of outcome based costs (D&Y Appendix F, not the LPA Appendix 16 values)

Figure 1

General Funding 2005-06, Duncombe & Yinger, Augenblick & Myers by Size

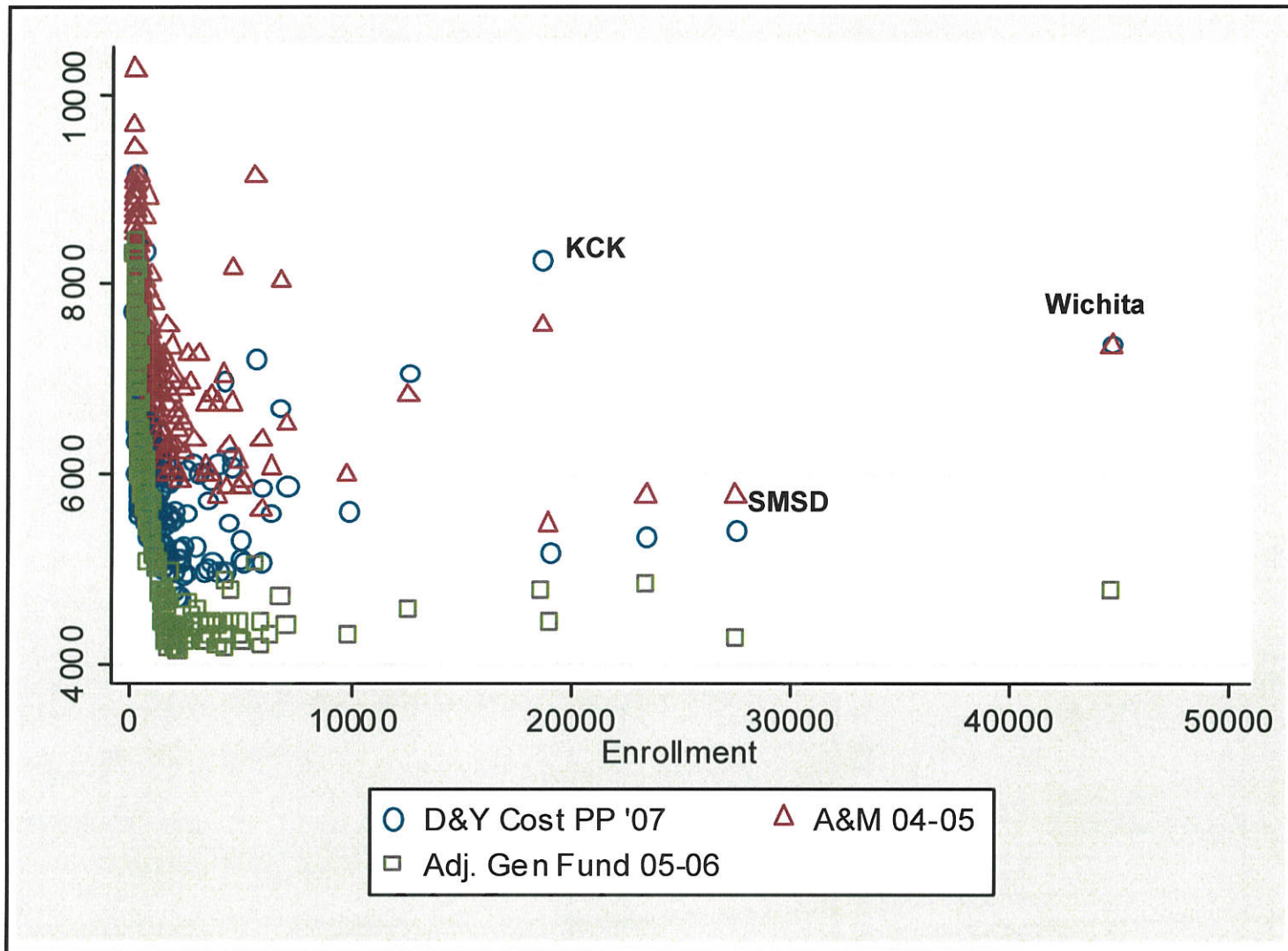
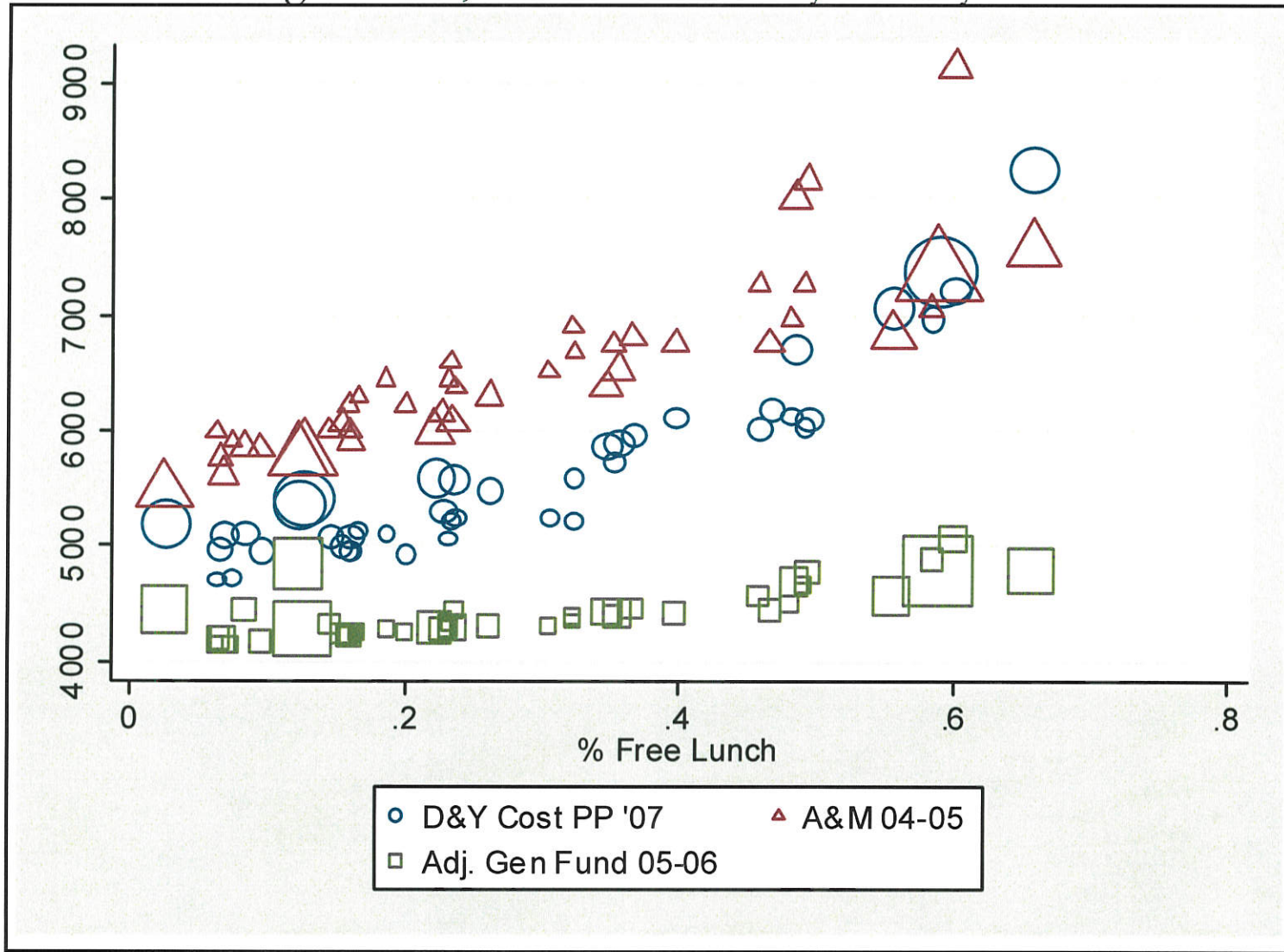


Figure 2

General Funding 2005-06, D&Y and A&M by Poverty



How did LPA Change D&Y?

1. LPA chose to take the variable student need weights for poverty, that were created partly by interacting poverty and population density in the actual cost function model, and put those weights into two separate categories – *poverty*, and *urban poverty*. LDPA chose somewhat arbitrarily to include only 4 districts in the urban poverty category, excluding, for example Hutchinson, Shawnee Mission and Leavenworth each of which had estimated poverty weights greater than Turner. This choice creates an unwarranted *technical distortion*.
2. LPA chose to then take those two separate groups of poverty weights and collapse them to the average for each group. That is, they chose to take a series of weights for children in poverty that vary widely from one district to the next, partly as a function of interaction with varied population density, and simply removed those variations, without rationale or evaluation of the effects. Their only rationale appears to have been mathematical convenience. LDPA similarly collapsed the variable LEP/ELL weight into a single weight. This choice creates an unwarranted *technical distortion*.

How did LPA Change D&Y?

3. LPA then chose to subtract in bulk, all federal revenues that might possibly be available for poverty related services, directly from the student need weights for poverty, urban poverty and LEP/ELL children. This choice creates a combination of unwarranted technical distortions, potential political distortions and systematic deprivation of higher need districts. *(it would appear that federal aid is added back into final costs in Appendix 16)*
4. Finally, it appears that in Appendix 16, LPA added back into the funding model New Facilities aid, despite the fact that the cost function model did not actually include a new facilities cost factor. The model did not include a new facilities cost factor because, quite simply, the percentage of children attending new facilities is NOT a cost factor.^[1] Having reviewed nearly every study of this kind (many reported in the previous section), I am aware of no input or outcome based study that has found additional costs associated with children in new facilities.^[2] This choice creates an unjustifiable political distortion.

^[1] this variable would likely produce a negative coefficient in the model due to the average demographic characteristics of districts with more children in new facilities

^[2] Augenblick and Myers merely recommended keeping the factor as a political compromise. They did not, actually find in their cost analysis, higher costs associated with new facilities.

In the actual D&Y Model

- There is complex interplay between all variables that influence costs, including poverty, LEP/ELL, density, wage variation, size and inflation.
- In the actual model, each district ends up with its own separate weight for poverty children, based on the interaction between poverty and density
 - There are not *poverty* and *urban poverty* categories.
 - While the LEP/ELL weights appear low, on average, districts with higher LEP/ELL shares would receive larger poverty/density weights

Table 1

Effects of LPA Distortions & Deductions

District	Percent Free Lunch	D&Y '07 Cost per Pupil	Simulated with Reduced Linear Wts[a]	Unmet Obligation (rel. to Sim.)	Appendix 16 LDPA (excl. Sped, Voc., Trans.)	Unmet Obligation (rel. to LDPA Appendix 16 excl. Sped, Voc., Trans.)
Dodge City	60%	\$7,215	\$6,267	\$948	\$6,451	\$764
Kansas City	66%	\$8,254	\$6,999	\$1,255	\$7,624	\$630
Garden City	48%	\$6,697	\$5,881	\$816	\$6,186	\$511
Derby	23%	\$5,590	\$5,201	\$389	\$5,429	\$161
Shawnee Mission	12%	\$5,415	\$4,960	\$456	\$5,260	\$155
Lawrence	22%	\$5,604	\$5,183	\$421	\$5,452	\$152
Salina	36%	\$5,884	\$5,486	\$398	\$5,736	\$148
Wichita	59%	\$7,375	\$6,737	\$638	\$7,257	\$118
Auburn Washburn	16%	\$5,084	\$5,025	\$59	\$5,082	\$2
Blue Valley	2%	\$5,194	\$4,718	\$476	\$5,202	-\$8
Topeka	56%	\$7,075	\$6,612	\$463	\$7,269	-\$194
Junction City	35%	\$5,867	\$5,481	\$385	\$6,126	-\$259
Maize	7%	\$5,084	\$4,815	\$269	\$5,345	-\$261
Olathe	12%	\$5,354	\$4,947	\$407	\$5,828	-\$474

[a] BSAPP = \$4,659, At Risk = .484 (times free lunch from legalmax06 file), Urban Pov = .726 (times free lunch from legalmax06 file, 4 districts), LEP = .10 (times LEP/ELL headcount from NCES, LEAU 03)

Figure 3

Effects of LPA Distortions on Cost-Basis of Estimates

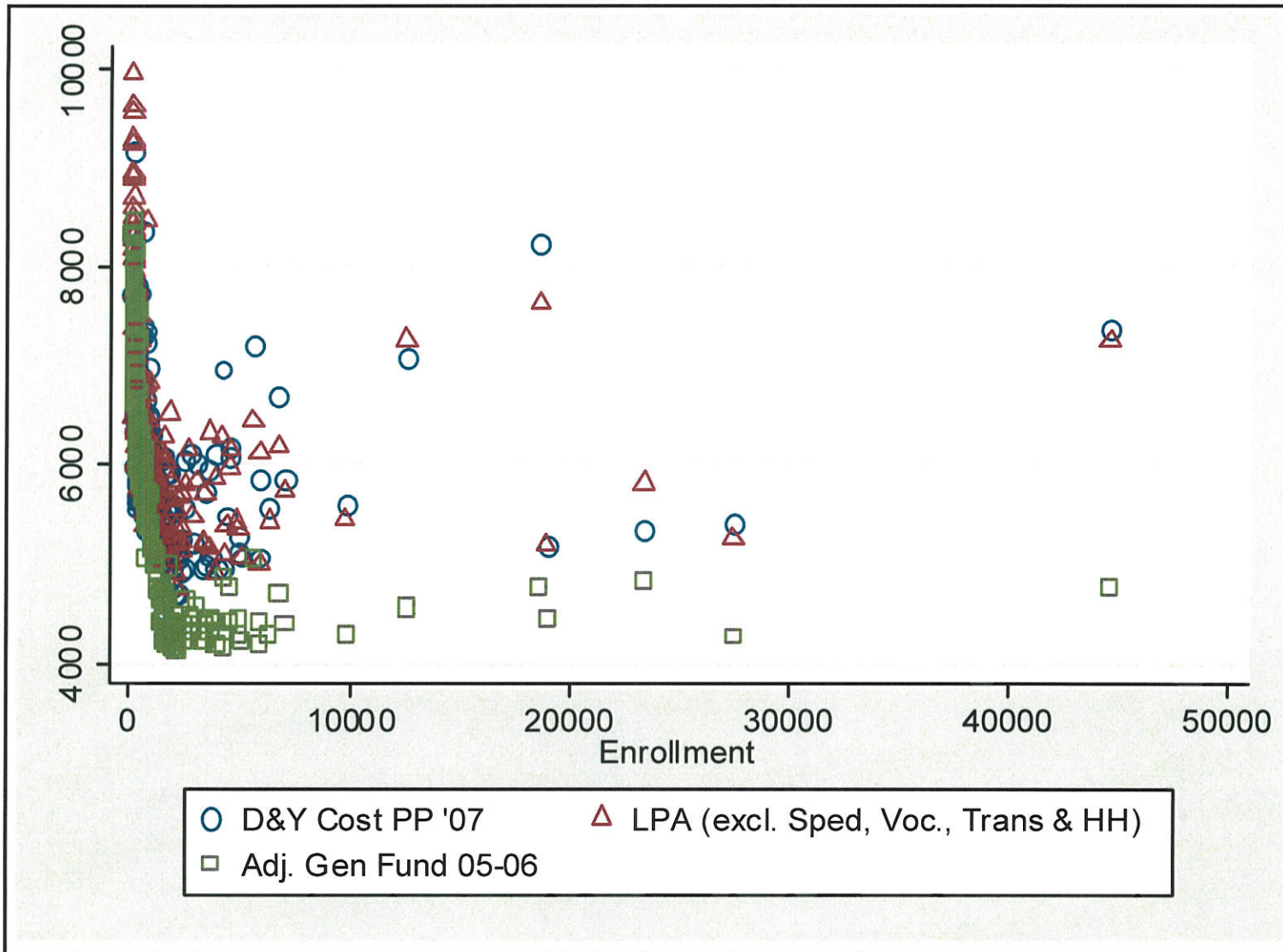


Figure 4

Effects of LPA Distortions on Cost-Basis of Estimates

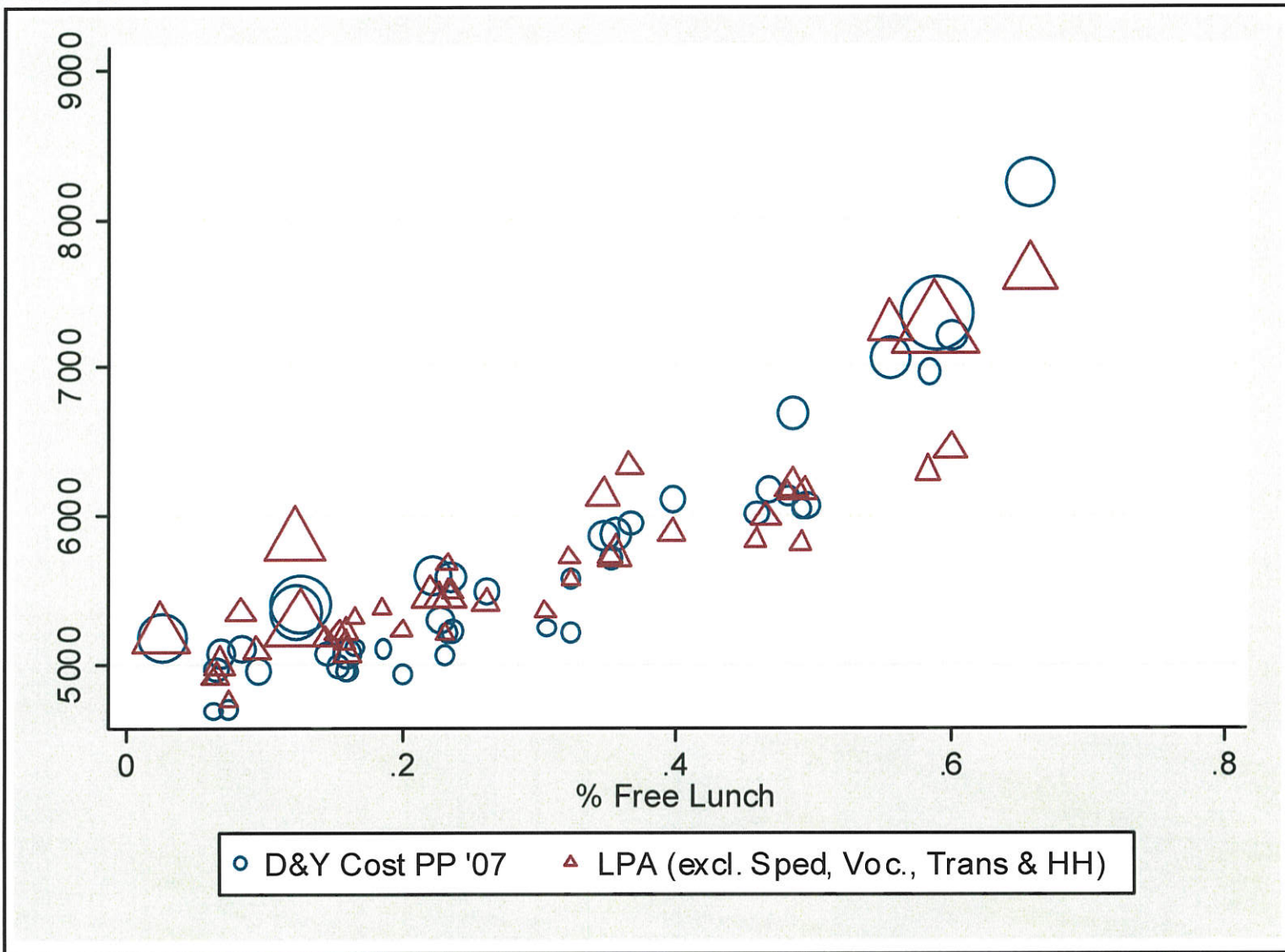
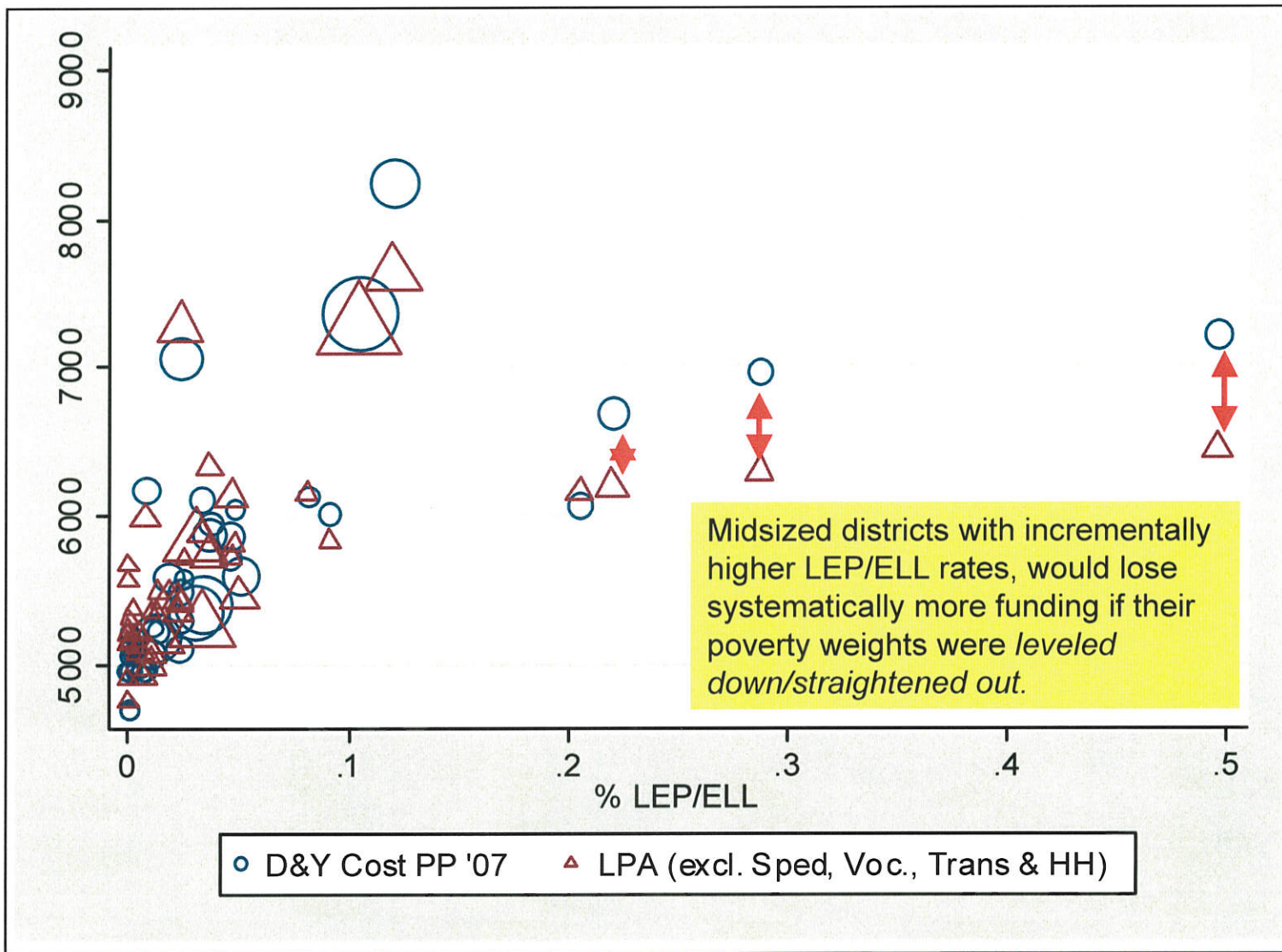


Figure 5

Effects of LPA Distortions on Cost-Basis of Estimates



Summary

- In summary, LDPA's 4-step modification of Duncombe and Yinger's estimates of outcome based costs renders LDPA's own estimates reported in Appendix 16 distorted and not cost-based. To reiterate, those four steps included:
 - Arbitrary re-grouping of districts into poverty and urban poverty districts;
 - Linearizing the student need weights for poverty, urban poverty and LEP/ELL;
 - Reducing the linearized weight by the aggregated total of potential poverty related federal aid;
 - Adding back into district level costs, funding factors not actually found to be related to cost in Duncombe and Yinger's study, to include new facilities, ancillary new facilities and declining enrollment.

Summary

- The only legitimate outcome-based cost estimates in the LDPA document are those in Duncombe and Yinger's Appendix F.
 - *One might consider those estimates to be a finely tuned working car or truck engine. In their report, Duncombe and Yinger provide some sketches of the inner workings of their engine by listing individual district cost factors for things like size, wage and student needs and they estimate pupil weights for various districts. One might analogize these “analytic” values to a series of gauges and meters that tell us how the engine works. The gauges do not, however, tell us how to take the engine apart and then put it back together. LDPA has chosen to use the information on those gauges and meters take the engine apart. LDPA then chose to hammer several of the previously malleable major engine parts into flat, inflexible new parts (with significant missing materials) and then stick them back together. Quite simply, that engine won't drive you from Garden to Dodge.*

Developing a General Fund Aid Formula based on Cost Function Findings

Two General Approaches

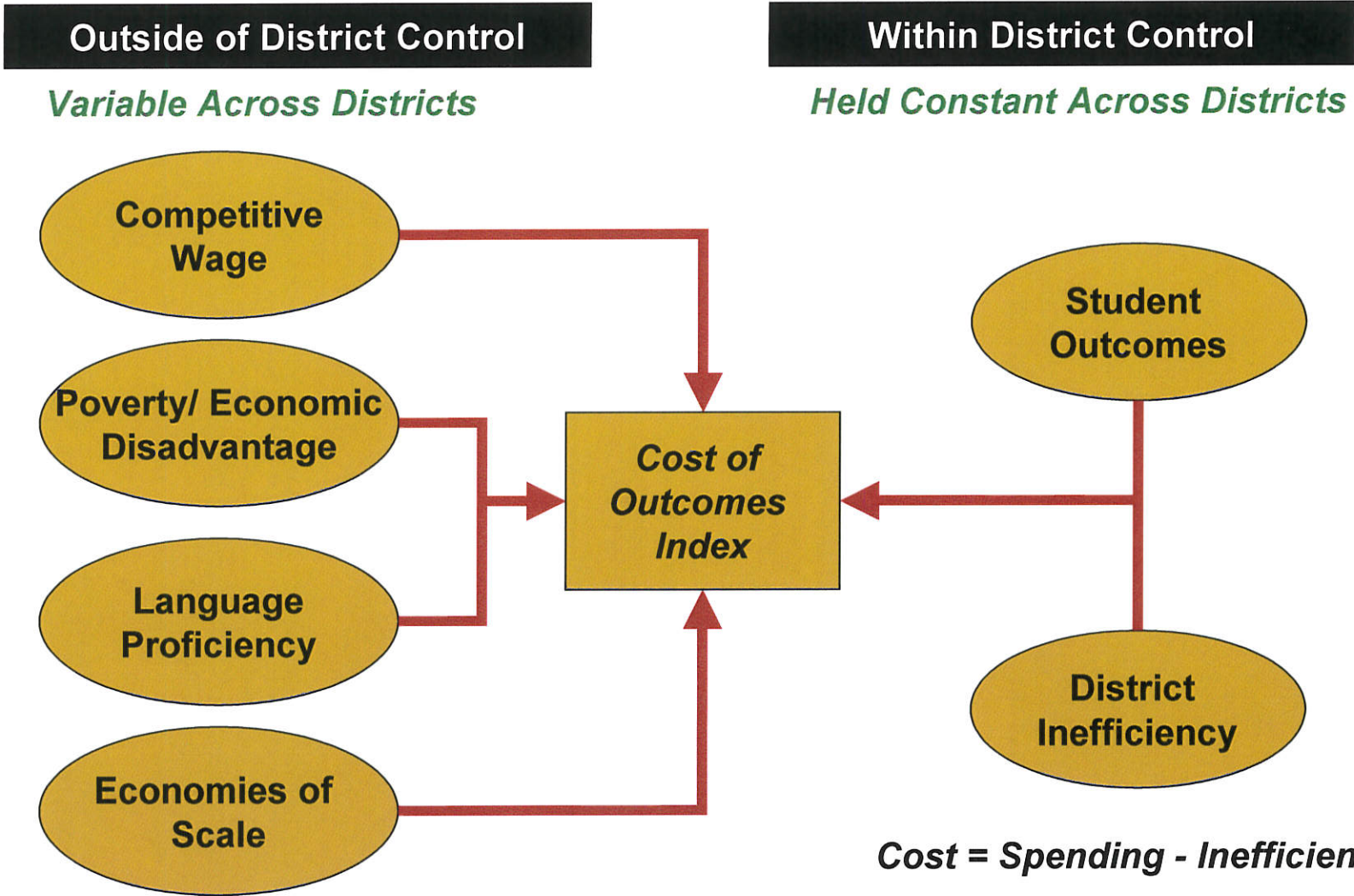
- **Cost-Based Foundation Model:** In a cost-based foundation aid model, the cost-of outcomes estimates themselves are used for determining each district's foundation level of funding required to achieve state mandated outcomes.
- **Cost-Guided Foundation Model:** In a cost-guided model, cost of outcomes estimates serve as target levels of funding needed by each district to achieve state mandated outcomes, but existing and new individual *policy levers* are used to adjust current funding levels toward target funding levels (to the extent possible).

Suitable School Finance Plan 2006 - 07

- **General Fund per Fall Enrollment = Overall Cost Index x \$6120**
 - **General fund excluding sped, voc., trans**
 - **Total Cost = \$505m over 2005-06 General (excl. Sped, Voc. & Trans)**
- **Add (from LPA Appendix 16)**
 - **Special Education**
 - **Vocational**
 - **Transportation**

Figure 6

Factors Driving the Overall Cost Index



Example

Suitable School Funding Plan

1 Enter Your District USD Number		443
2 Cost of 2006 - 06 Outcomes in Average District	\$	6,120
3 Your District's Overall Cost Index (D&Y Appendix D)		1.18
4 Your District's per Pupil General Fund (excludes special education, vocational & transportation)		7,215
	2005-06	2006-07
5 Your District's projected Fall Enrollment 2006 - 07	5,565	5,565
6 Your District's projected General Fund (excludes special education, vocational & transportation)	\$ 40,149,960	\$ 40,149,960
7 Projected Special Education Funding 2006 - 07 (LPA APP 16)		\$ 5,090,556
8 Projected Vocational Education Funding 2006 - 07 (LPA APP 16)		\$ 289,145
9 Projected Transportation Funding 2006 - 07 (LPA APP 16)		\$ 1,084,720
10 TOTAL General Fund Budget Projection		\$ 46,614,380
11 Local Option Budget 2005 - 06	\$ 8,888,084	
12 Total Potential General & Supplemental Budget		\$ 55,502,464
13 Potential General & Supplemental per Pupil		\$ 9,974

Advantages to an “Overall Cost Index”

- Each district has a single *overall cost index*, or omnibus weight, capturing that district’s relative cost of outcomes, given its size, labor costs and student needs
- A single cost index dramatically reduces *gaming* of student need pupil weights and contact hour use. Omnibus weight does not change based on identification of at risk students or increasing bilingual contact hours
- Omnibus weights could be re-estimated every 3 years, under supervision of LPA, at a cost of about \$50k
- The omnibus weight ensures that each district receives precisely its cost function estimated funding adjustment. Linearizing weights creates unacceptable levels of error (you just can’t hit the targets by tweaking the current weights and/or adding an urban poverty adjustment)
- If total funding comes up short due to economic constraints, *vertical equity* is maintained.
- Calculating district general fund revenues requires far fewer steps!

Does any other state use a similar index, created by a complex statistical model?

- Since 1990, the State of Texas has used a regional wage adjustment estimated by a complex regression equation that attempts to predict the cost, in each district, of hiring teachers with similar qualifications
- Instead of allocating state aid to districts/counties simply on the basis of taxable property wealth per pupil, the State of Tennessee uses a *Fiscal Capacity Index* generated by a regression equation estimated from a variety of economic characteristics of Tennessee Counties

Evaluation of HB 2986

As Introduced

Figure 6

Comparison of Current, HB 2986 and Cost Based by Size

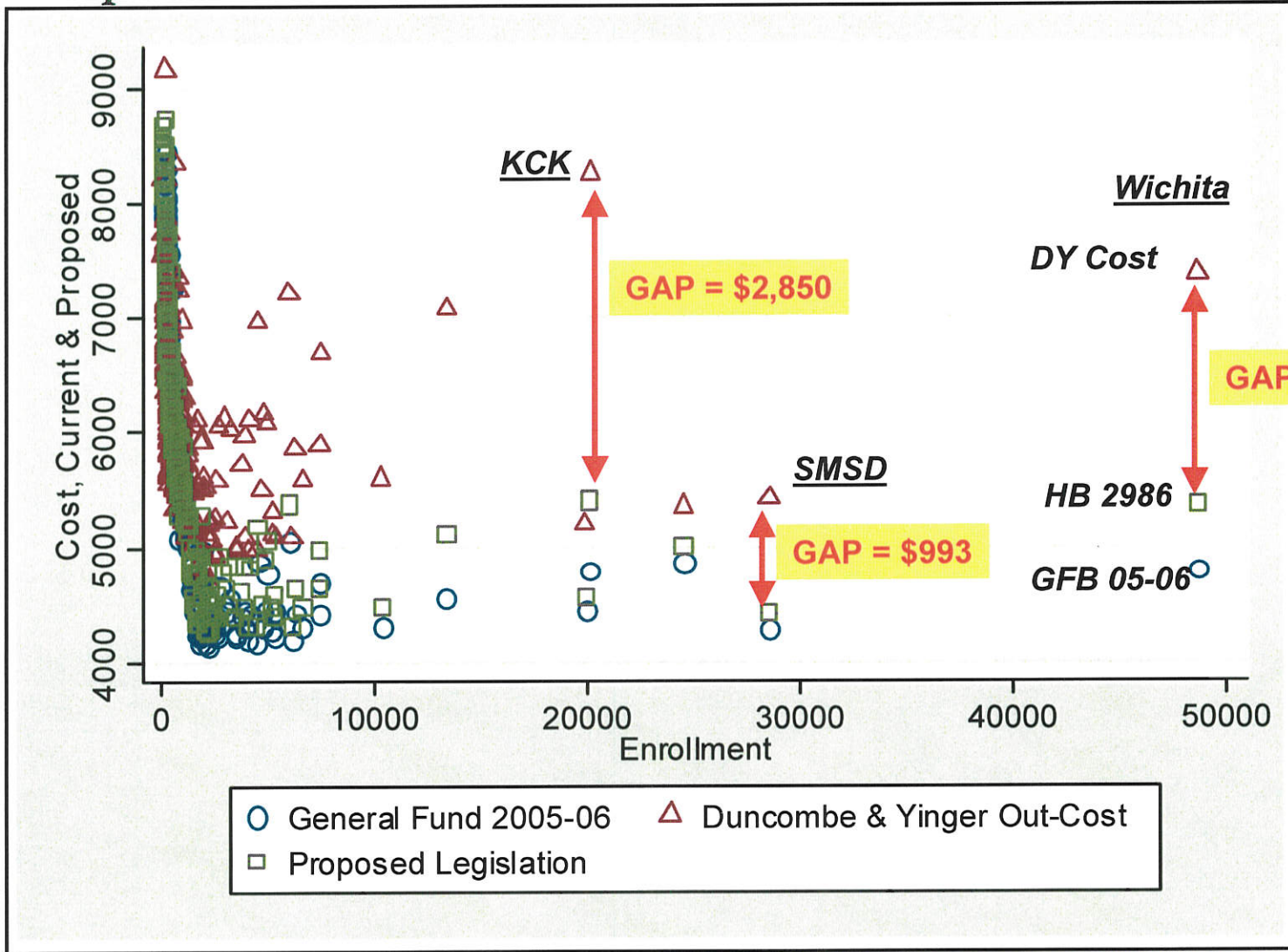


Figure 7

Comparison of Current, HB 2986 and Cost Based by Poverty

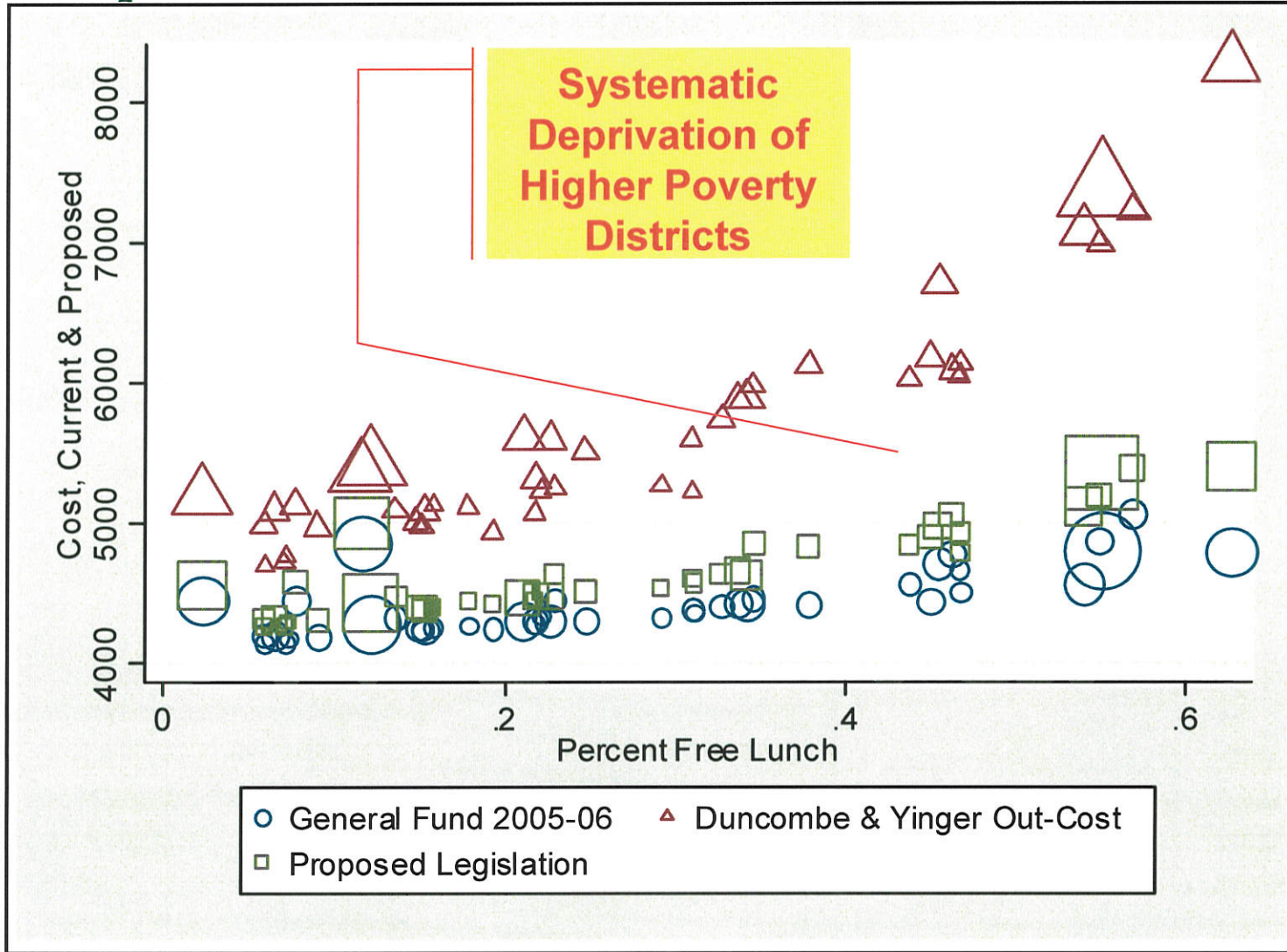


Figure 8

Cost Adjusted Equity & Sorting Districts into the Correct Order

Adj. General Fund per Pupil				Index Correlation (weighted for enrollment)	
<i>Year</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>CV</i>	<i>All Districts</i>	<i>Large Districts</i>
2006	\$4,844	\$676	13.96	.337	.720
2007	\$5,252	\$654	12.45	.533	.906

Cost Adjusted Equity improves slightly

District General Funds sorted in correct high to low order by need

Figure 9 Adjusting for Student Needs

	Current Policies Implied Marginal Costs			Target Needs Estimated Marginal Costs	
	GFB '04 - '05	GFB '05-'06*	HB 2986 as Introduced**	AMSB Weights	D&Y
<i>Poverty (U.S. Census)^[a]</i>					
Slope	16.62	27.53	49.50	104.99	149.21
R-squared	0.199	0.424	0.629	0.547	0.816
<i>Limited English Proficiency^[b]</i>					
Slope	11.13	19.36	27.67	63.82	71.36
R-squared	0.292	0.435	0.360	0.643	0.342

[a] percent of public school enrolled children between 5 & 17 in families living in poverty. NCES/U.S. Census Bureau, School District Demographics system.

[b] Number of limited English proficient/English language learners divided by district membership (k-12) as reported in 2003 in the National Center for Education Statistics Common Core of Data, Local Education Agency Universe Survey.

*excluding special education, vocational & transportation

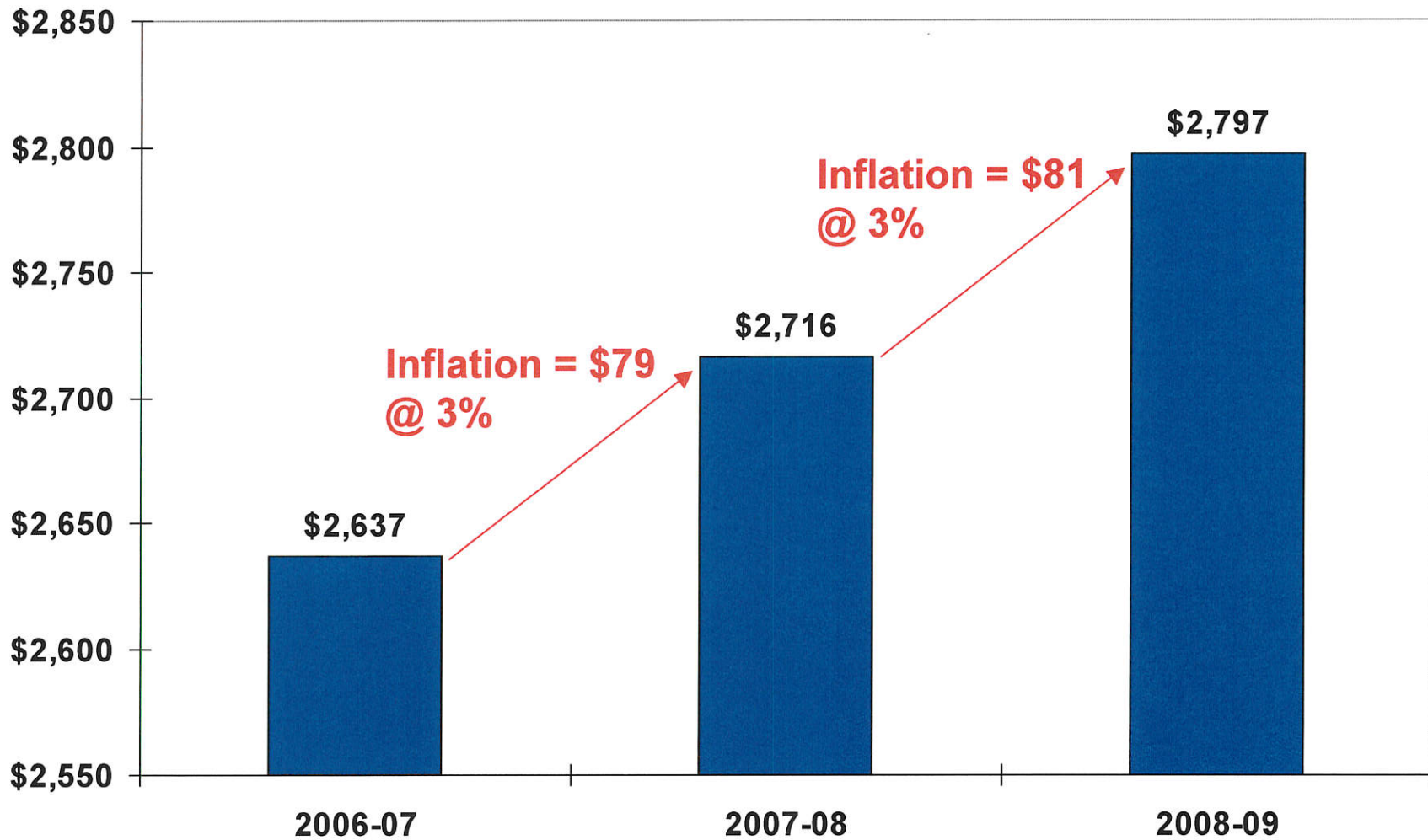
**also excluding special education. Based on run of expected increases provided by KSDE.

Phase-in Issues

- Two moving parts:
 - Inflation
 - Changing Outcome Standards

Figure 10

Inflation of General Fund, Excl. Sped, Voc. & Trans.

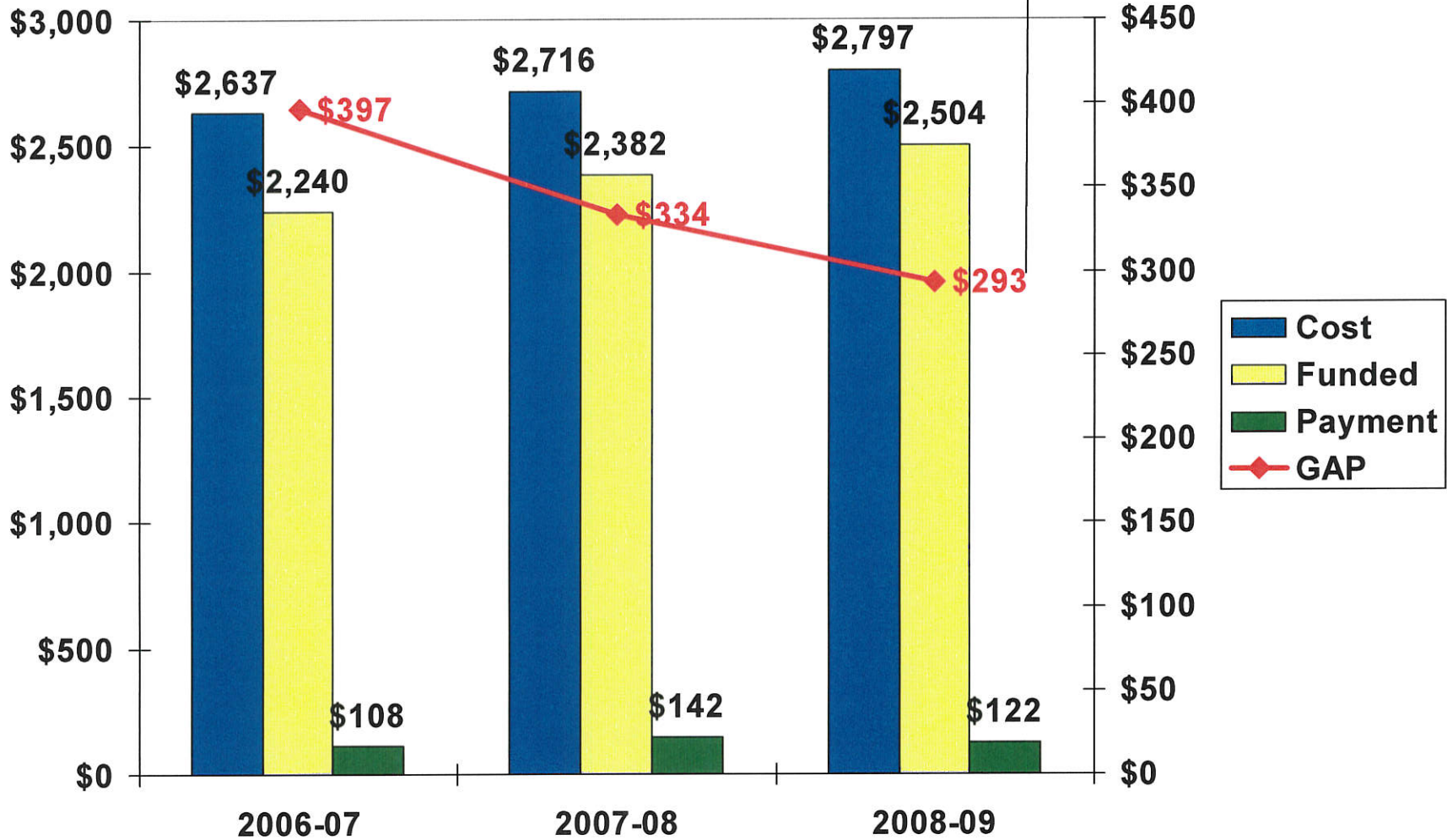


All values in millions
General, Excluding Sped, Voc. & Trans

Figure 11

Phase-in with Inflation (at low 3%) Only

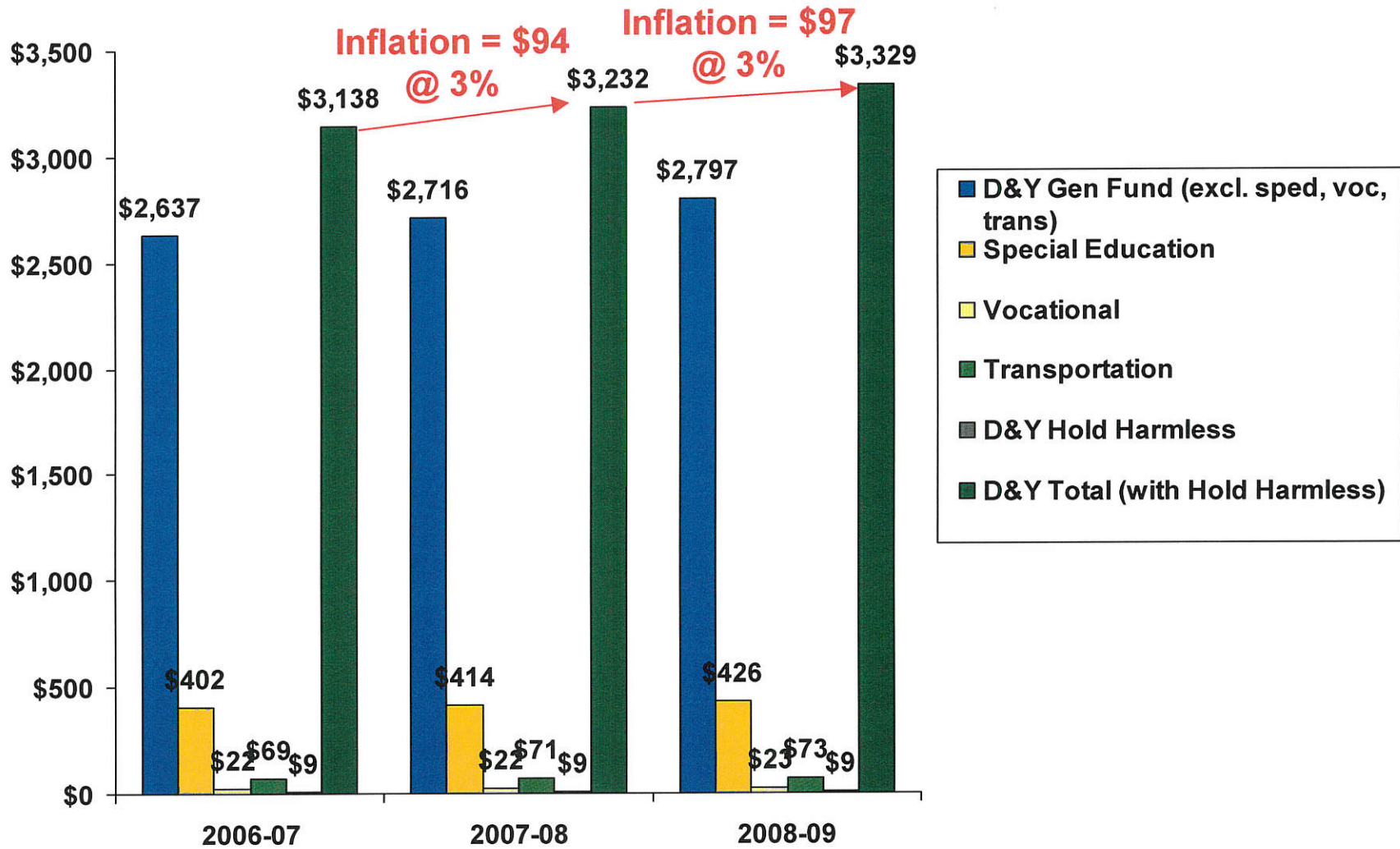
Gap closed by 2015 (to fund 2007 standards)



All values in millions
General, Excluding Sped, Voc. & Trans

Figure 12

Inflation of General Fund, Including Sped., Voc. & Trans.



All values in millions
General, Excluding Sped, Voc. & Trans

Phase-in Issues

- With the 2008-09 final payment under HB 2986 (if legislators in office at that time agree to continue implementation), districts are left with a cumulative gap of nearly \$300 million compared with needed funding at low inflation to achieve 2006-07 outcomes. In fact, at this rate of payment, assuming the legislature could cut the deficit by about \$50 million per year, it would take another 6 years to bring districts to that level of funding needed to achieve 2006 – 07 outcomes. Again, this assumes no change in total enrollment, or special need student populations, includes only General Funds without special education, vocational or transportation, assumes very low inflation of education resource prices, and assumes that in 2015, achieving 2006-07 performance levels will be suitable.

Making Suitable Provision for Finance of the Educational Interests of Kansas

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**Prepared on Behalf of *Schools for Fair Funding, Inc.*
Newton, KS**

Select Comm. on School Finance

Date 3-1-06

Attachment # 2-1

Making Suitable Provision for Finance of the Educational Interests of Kansas

Bruce D. Baker
University of Kansas
February 28, 2006

Executive Summary

Judicial Mandate & New Cost Studies

The current judicial mandate of the Supreme Court of the State of Kansas requires that the legislature make suitable provision for the finance of the educational interests of the state by (a) increasing total levels of general funds available and (b) eliminating political distortions. As of the special legislative session of the summer of 2005, the court's benchmark for a constitutionally suitable system of school finance was based on the 2002 Augenblick, Myers, Silverstein and Barkis study prepared for, overseen and financed by the Kansas Legislature.

During the spring legislative session of 2005, the legislature adopted legislation that would require the Kansas Legislative Division of Post Audit (LDPA) to conduct an additional education cost study to guide the legislative deliberations of 2006 and serve as an alternative benchmark for the constitutionality of school funding in Kansas. The study as originally proposed during the spring session was to evaluate the curricular inputs required to provide a suitable education under Kansas statutes. In response, the Kansas Supreme Court noted that the legislature's new cost study must be tied to "achievement of measurable standards of student proficiency."

During the special summer legislative session, amendments were made by the legislature to the proposed cost studies to include evaluation of both the costs of educational inputs and the costs of achieving Kansas State Board of Education mandated outcome standards. The studies were conducted by the Kansas Legislative Division of Post Audit, overseen by a bipartisan committee of Kansas legislators, who contracted the estimation of outcome-based costs to William Duncombe and John Yinger of the Maxwell School of Syracuse University.

As the 2006 session of the Kansas Legislature begins, it should be made excruciatingly clear that only one of the two new sets of cost estimates meets the Kansas Supreme Court's mandate of being tied to measurable standards of student proficiency. Only the out-come based cost estimates prepared by external consultants William Duncombe and John Yinger of Syracuse University meet this requirement.

Further, the new outcome-based cost estimates raise serious concerns regarding the level of educational deprivation suffered in a handful of Kansas school districts in recent years, most notably in Kansas City. In the September of 2005, Justices Beier, Luckert and Davis in concurring opinion (to the Jan. 2005 opinion in *Montoy*) indicated that they believe that the high court erred in its opinion in *USD 229 v. State* regarding

education as a fundamental right in Kansas. The justices argue that, in fact, education is a fundamental right under the Education Article of the Kansas Constitution.

The justices stopped short of suggesting that education's status as a fundamental right requires application of strict scrutiny to the state's school finance policies, arguing that the policies at present do not presently "actually or functionally *deny* the fundamental right to education to a segment of otherwise similarly situated students." I argue to the contrary, that the legislature's new evidence on the actual costs of achieving the KSBE mandated outcomes indicate quite clearly the selective denial and deprivation of the fundamental right to education to a segment of otherwise similarly situated students in cities including Kansas City.

Legislative Post Audit Cost Studies

The Legislative Division of Post Audit should be commended on performing rigorous and thoughtful evaluations of the costs of educational inputs and outcomes required under Kansas statutes and the Kansas Constitution. In addition, Post Audit contracted with leading national experts in statistical modeling of education costs, experts with prior experience and peer reviewed independent research publications on Kansas school finance in particular. In all, the LDPA cost study report contains 3 sets of estimates of the costs of a suitable education in Kansas:

- a. LDPA generated input-based costs at differing class sizes (Appendix 16 of LDPA Report)
- b. William Duncombe and John Yinger's statistical model estimates of costs of achieving 2006-07 KSBE outcome standards in each Kansas school district (Duncombe and Yinger, Appendix F)
- c. LDPA simulated costs of achieving outcomes based on simplifications of Duncombe and Yinger results and after removing from required expenditures, all Federal revenues

Only the second of the three sets of estimates above - Duncombe and Yinger's own district by district estimates (found in Appendix F of the Duncombe and Yinger report), meet the court's mandate that funding be tied to "achievement of measurable standards of student proficiency." Input-based figures constructed by LDPA and shown in Table 16 are merely tabulations of the costs of providing a set of staffing and other inputs that may or may not be reasonably tied to outcome standards. Little evidence either is, or could be provided to validate whether the staffing configurations recommended are in any way associated with achieving the state mandated outcomes.

The third set of figures listed above, LDPA's simulated estimates of costs based on Duncombe and Yinger's findings suffer at least two major conceptual and technical problems that render them significantly distorted and not cost-based:

- In Duncombe and Yinger's own cost estimates, student need weights for at risk and LEP/ELL vary widely across districts and vary for each and every district. Each district has its own LEP/ELL weight and each district has its own poverty weight. The interplay between these weights and distribution of the weights by

district population characteristics is not trivial. The LEP/ELL weights are relatively small, but partially compensated by the fact that among “non-urban” districts, districts with higher LEP/ELL rates receive higher at risk/poverty weights. As a result, replacing the variable at-risk/poverty weights and LEP/ELL weights with single weights leads to systematic deprivation of higher need districts, including those with the highest concentrations of LEP/ELL children. The choice to oversimplify these weights is analogous to the 1992 choice to use straight lines instead of a curve for low enrollment, leading to errors on the order of 20% in district general fund budgets. Straightening out the weights is an arbitrary technical decision made out of convenience and one that in this case, creates a new distortion that would disadvantage high need districts and their students.

- Duncombe and Yinger’s own cost estimates were built on district expenditure data from 2004, which included expenditures of some federal revenue source funds (Duncombe and Yinger, Appendix B). LDPA, in generating their total state cost estimate decided to subtract ALL federal source revenues, in the aggregate, from the simplified base and weights generated from the Duncombe and Yinger study. First, on a technical level, this strategy assumes that 100% of federal source revenues were being translated into those expenditures that existed in the 2004 spending data. Second, on a conceptual level, this strategy assumes that the federal government bears some responsibility for financing the State Constitutional mandate. It should be noted that to date, the Kansas Supreme Court when evaluating shortfalls of current general funds compared with Augenblick and Myers 2002 estimates has not deducted any federal aid from the state constitutional obligation. Implementing a financing formula based on this strategy would constitute a conscious legislative choice to SUPPLANT NOT SUPPLEMENT state funds with federal funds. Third, deducting federal revenues by reducing already compromised student need weights further significantly disparately affects the states highest need children.

As a result, LDPA’s simulated estimates of outcome-based costs which appear in Appendix 16 should be disregarded as distorted, no-longer cost based and failing to meet the State Constitutional mandate.

As a result, only an aid formula based directly on the cost estimates provided in Duncombe and Yinger’s Appendix F will meet the constitutional mandate.

Cost-Based General Fund Aid Formula

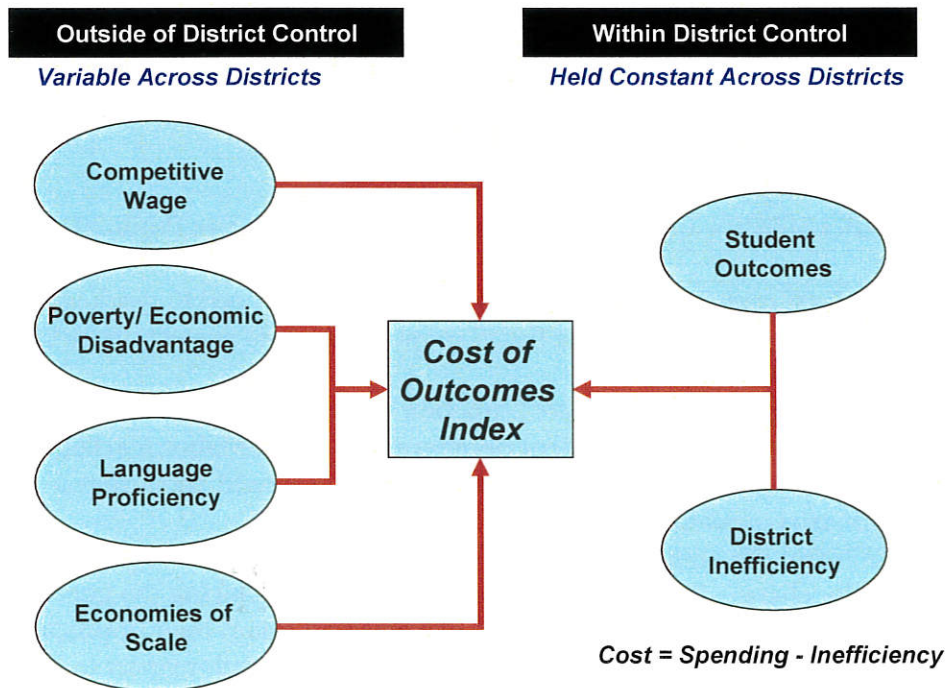
A two-tiered cost-based foundation aid formula is recommended. The first tier or General Fund Budget should include financing for all general education programs including accommodations for differences in district size, at risk/poverty and LEP/ELL children. These factors, along with regional variation in education costs are included in each district’s Overall Cost Index (Duncombe & Yinger Appendix D). The Overall Cost Index should simply replace all student weights for size, poverty, LEP/ELL, wage/price variation, new facilities etc. Those individual weights are no longer needed. The Overall

Cost Index supplies a more precise estimate of each district's cost of achieving a given level of outcomes, relative to each other district.

Figure E1 provides a summary of the factors underlying the Overall Cost Index or Omnibus Weight, per se. Figure E1 shows that each Kansas school district's cost of outcomes index is a function of competitive wages, student population characteristics including poverty levels and concentrations (urban poverty), language proficiency status and district size. It is important to understand that the spending data used for estimating the indices did also include expenditures of some capital outlay funds and all weighted funding derived from new and ancillary new facilities weight. In the Omnibus index, the share of children in new facilities is not, nor should it be a cost factor. Nor should it be added to general funding. Components that should be added above and beyond the new cost adjusted general fund are those that have been explicitly excluded from the omnibus weight - special education, vocational education and transportation.

It is most important to understand that the omnibus weight represents the relative cost, in each district, of achieving a specific level of educational outcome at a specified level of efficiency - for example the cost of achieving current state outcome standards at average efficiency. The omnibus index simply reflects the cost of achieving any given outcome in a specific district, relative to the cost of achieving that outcome in the average district, where the cost of achieving 2006-07 state mandated outcomes in the average district is approximately \$6120.

Figure E1
Components/Drivers of the Omnibus Weight



To set each district's General Fund Budget (*Suitable Education Foundation per Pupil*), the Overall Cost Index is multiplied times the *Cost of Mandated Outcomes in the*

Average District (\$6120 in 2006-07). Note that because expenditure of capital outlay funds was also included in estimating the outcome-based costs per pupil, that capital outlay funds, as we know them, should be phased out over time (folded into general funding). The total cost of financing this general fund is approximately \$505 million (\$514 including Hold Harmless) over the 2005-06 General Fund excluding Special Education, Vocational and Transportation.

Other components, left out of the new *cost-based* General Fund Budget should be, for the time being funded according to estimates provided by LDPA. Those include:

- d. financing of special education as recommended by LDPA
- e. financing of vocational education as recommended by LDPA
- f. financing of student transportation as recommended by LDPA

See Appendix B for a simulation of the Suitable Education Foundation per Pupil.

Financing Future Years

To finance future years General Fund Budgets, one need only update, for the short term, the cost of the new level of outcomes in the district of average characteristics. Those costs per pupil in the average district will escalate both as a function of changing outcome standards and as a function of inflation.

Determining Average Cost per Pupil for Subsequent Years

Average Cost per Pupil 2007-08 = Average Cost per Pupil 2006-07 x Inflation x Outcome Change

Determining District General Fund Budgets for Subsequent Years

District SEFPP = Overall Cost Index x Average Cost per Pupil 2007-08

To estimate 2007-08 costs in the average district, LDPA will need to work with Duncombe and Yinger to use the cost function model itself to project district level costs for subsequent years.

It is also important that new cost function estimates be generated on a regular cycle to accommodate changing student demographic and/or labor market conditions that may alter individual district's overall cost indices. I would encourage a 3-year cycle for updating district overall cost indices.

A significant advantage of the cost index based approach to financing the general fund is that if, by chance, the legislature does fall short in financing the general fund and reduces the "average cost per pupil" figure, districts will retain their appropriate relative position. That is, while "adequacy" might be compromised with respect to the desired outcome target, equity is not (with particular focus on vertical equity).

Phase-in of Options: Hitting the Moving Target

Phase-in should be viewed in terms of those classic 8th grade algebra problems where Train A is traveling at X miles per hour and Train B at Y miles per hour and where the goal is to get both trains to meet in a specific location at a specific point in time. One might also apply a skeet shooting analogy. At least as I understand, and as physics would dictate, you don't aim your gun directly at where the skeet is now. You aim for where it's going to be, and even account for such subtleties as the non-linear trajectory of the bullet.

What the legislature must not do is to look at the 2006-07 target levels of financing and decide that they are going to ramp up spending to reach those levels by 2008-09. Doing so will guarantee a perpetually unconstitutionally under-funded school finance system. In fact, the gap between suitably funded and actual funding may continue to grow over time, creating a seemingly insurmountable budget gap (dwarfing the current one) within 3 years. The legislature also cannot simply assume that they need to read only inflation adjusted target spending by 2008-09, because costs will increase as a function of both inflation and changing outcome standards. Rather, if the legislature must attempt to estimate as precisely as possible, where the "cost of outcomes" target will be for each district in 2008-09, and move toward that target with the intent of getting there at the same time.

Section I

History of School Finance Reform and Litigation in Kansas

Bruce D. Baker
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1.0 Introduction

In recent years, several states have faced challenges to their systems of funding K-12 public schooling, both on the basis of inequities and inadequacies of funding. States including New York and Arkansas have had their state school finance formulas overturned by their highest courts. Others, including Texas have had lower court decisions ruling in favor of plaintiffs. In the immediate region, Missouri currently faces challenges to the equity and adequacy of school funding brought initially by over 200 local public school districts in that state, and Nebraska faces challenges from two groups of districts, rural smaller districts in one case and a collection of demographically diverse larger districts in the other. Overall, 45 states have faced challenges to their school funding, and 23 are *in process* including cases recently filed and cases remaining under court oversight.¹

2.0 History of Kansas School Finance Reform

The Kansas system of K-12 public schooling emerged into its current form through a series of radical organizational changes in the 1960s. First, under the School Unification Law of 1963 the total number of school districts in the state was reduced from approximately 1,600 to 306. Parameters established for the consolidation movement were generally intended to organize rural, non-K-12 schools into fewer units covering wider geographic areas and complete K-12 grade ranges. Baker and Green (2005) explain how this reorganization, while substantially consolidating Kansas schoolchildren into far fewer organizational units, served to reinforce the racial isolation of schools in large towns (15,000 or more residents) that only nine years earlier were permitted under Kansas law to operate racially segregated schools.²

The next few years following the School Unification Act saw the redrafting and ratification of the current Education Article of the Kansas Constitution (Article 6). Scholars have argued that the changes to the constitution, which clarified a much stronger role for the state in organizing, controlling and financing schools, were proposed and adopted in part to justify the state's contentious mandated reorganization of schools three years prior.³

¹ As of October 14, 2005. <http://www.schoolfunding.info/litigation/In-Process%20Litigations-09-2004.pdf>

² Baker, B.D., Green, P.C. (2005) Tricks of the Trade: State Legislative Actions in School Finance Policy that Perpetuate Racial Disparities in the Post-Brown Era. *American Journal of Education* 111 (3) 372-413

³ For more detailed explanation, see Berger, C. (1998) Equity without Adjudication: Kansas School Finance Reform and the 1992 School District Finance and Quality Performance Act. *Journal of Law and Education* 27 (1) 1-46. Note that the new framing of the constitution came about as a result of recommendations to the legislature from an 11 member citizen task force. A similar approach would lead to 1992 reforms and eventually to the legislature's study of education costs that became the centerpiece of recent litigation.



Schools for Quality Education

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HB2986
The House School Funding Plan
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Concerns from our small rural districts:

Foundation funding is a relatively new term that is not fully defined. These funds must be only dollars that our schools can count on from year to year. Grant money is not necessarily on going. LOB dollars are locally generated and should not be included.

There has been discussion regarding how **at-risk funding** is to be determined. Since the dept. of ed has a number of variables identified that would be strong indicators for pinpointing children in need of additional assistance, it seems appropriate to look not only at free lunch but also at other factors such as reading and math competency.

Flexibility- Rural schools benefit from the low teacher-student ratio. Their success with many at-risk students is directly related to this factor. They need to flexibility to be able to meet their students needs within the school day since many children ride the bus.

Urban Density- Although there is no doubt that Kansas City, Kansas and Wichita have tremendous challenges there are many school districts, all sizes, across the state, that have a very high percentage of their students on free (and reduced) lunches. These children are a clear indication of poverty in their communities. Although crime rates in these school districts may not be as high, there are still huge needs to be addressed. We would asked that this weighting be given more consideration.

The need for **accountability** is understood, however our schools are doing a great deal of testing. These outcomes should sufficiently attest to academic success. QPA and NCLB reports are already filed with the dept. of ed. Additional paper work beyond these reports would incur additional administrative costs, diverting funds from instruction.

"Rural is Quality"

Select Comm. on School Finance

Date 3-1-06

Attachment # 3-1



Testimony on **HB 2986 – School Finance Proposal**
before the
House Select Committee on Education

by

Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

March 2, 2006

Madam Chair, Members of the Committee:

Thank you for the opportunity to comment on **HB 2986**. As we have previously presented to the committee, the Kansas Association of School Boards Delegate Assembly adopted a resolution on school finance issues prior to the 2006 Legislative Session and the release of the Legislative Post Audit study. This resolution and other positions adopted by our members guide our reaction to the proposals under consideration today.

Funding Components

Total Funding Increase. KASB supports the Supreme Court's finding state funding for public education remains at least \$568 million below the constitutional requirements for suitable funding, based on the only cost studies then available to the court. We believe the new studies confirm that overall target.

HB 2986 approaches that total funding increase. Unfortunately, by phasing it in over three years, this level of funding will immediately begin to fall behind both inflation and other costs. For example, the base budget increases of \$50 in FY 2007, \$49 in FY 2008 and \$35 in FY 2009 represent increases of 1.2 percent, 1.1 percent and 0.8 percent - less than half the average rate of inflation in recent years.

Base and Local Option Budgets. KASB supports a significantly higher base budget per pupil that would incorporate most of the current LOB funding. Districts are now using about 95 percent of LOB authority. Because the base increases in **HB 2986** are unlikely to even match the consumer price index, many districts will have to continue to use a significant amount of LOB to provide a suitable education. Although state equalization aid is provided, the tax effort required to use the LOB varies significantly.

Full-Day Kindergarten. KASB endorses state funding of full-day kindergarten, at an estimated cost of \$77 million. This proposal has been endorsed by the Kansas State Board of Education. Because **HB 2986** would increase at-risk funding by nearly \$229 million, we suggest that full-day kindergarten should be included.

At-Risk Funding. KASB supports increasing the at-risk weighting to at least 0.25, and broadening the weighting to include factors in addition to student poverty. **HB 2986** increases the at-risk weighting to 0.484 and creates a high density at-risk weighting of 0.242. We suggest this level of funding should allow the definition to be broadened to include other factors.

Bilingual and Special Education. KASB supports full funding of these programs. Bilingual education costs are not defined by formula. We hope the additional at-risk funding would cover the additional costs of bilingual education. Unfortunately, HB 2986 continues to fund special education at less than 100 percent of the excess cost formula.

Educator Salaries and Benefits. KASB supports a base budget that will provide more competitive salaries and state assistance in providing health insurance. As noted, the base increase in HB 2986 will continue to lag behind even the consumer price index.

Professional Development. KASB supports full funding of the state professional development program at a cost of \$8 million. This program, endorsed by the State Board, is a critical way to help ensure education dollars are spent effectively. Surely, in a \$500 million proposal, the Legislature can find \$8 million per year for this initiative.

KASB further believes that no district should receive reduced per pupil funding and all districts should receive increased funding. **HB 2986** provides increased funding for all districts through the base, at-risk funding and special education while also preserving low enrollment weighting. The base funding increase in HB 2986 is insufficient to meet the need of children in many districts who do not benefit from the new targeted weightings.

Spending Flexibility and Accountability

The bill makes a number of other changes that do not have a cost to the state, including:

Outcomes Accountability. KASB has supported the concept of an outcomes-based accountability system since the late 1980s when Kansas began to move toward Quality Performance Accreditation. Our position also supports “meaningful sanctions for districts that fail to meet accreditation standards.”

HB 2986 requires that whenever the State Board determines that a school has failed to either meet accreditation requirements or provide the curriculum required by state law, the local school board must reallocate resources to remedy the deficiencies identified by the State Board. In light of our position, this is a reasonable requirement – if adequate funding is provided. However, the Post Audit study indicates that school district costs will rise significantly as academic outcome standards increase under No Child Left Behind. School districts will not be able to reallocate resources if their total resources are inadequate.

Reporting Requirements. KASB supports efforts to reduce requirements to file reports and other documentation unless those items are necessary for decision-making at the state level.

HB 2986 amends the reporting requirements for the at-risk program, four-year-old at-risk program, and bilingual and vocational education programs to require the following: (1) specify the number of pupils served; (2) type of services provided; (3) research upon which the school district relied to determine the need for services; and (4) results of providing such services. KASB believes the most important requirement is reporting academic results. Reporting the types of services and research base will create additional paperwork for school personnel. We ask the committee to carefully consider whether this is justified. Quite frankly, what will the State Department do with 300 district reports each year in these four areas, especially when these services may be spread over 1,600

school buildings? Will this information truly be used to develop information on effective practices that can be shared and replicated, or will it simply be another form school administrators must complete for compliance?

Vocational Education. KASB does not have a specific position on vocational education, but supports a weighting system for programs that can be shown to have a higher cost.

HB 2986 amends the vocational education law to provide that no course or program shall be approved unless there is a similar program offered in a technical college or area vocational school and must be offered at grade levels 10, 11 or 12. KASB encourages the committee to carefully evaluate whether enough research has been done to justify this change, especially when there is considerable interest in the future of vocational and technical training. Perhaps this issue should be evaluated by Post Audit, by the 2010 Commission, or LEPC.

Needs Assessment. Through QPA, schools are required to develop a school improvement plan. KASB strongly supports efforts by local school boards to effectively evaluate needs and resource allocation.

HB 2986 requires school boards to conduct needs assessments of every attendance center on forms prescribed by the State Department and use this information in preparing their budget. KASB does not object to this requirement, but would simply ask: what purpose will a common form serve? Will this information be collected and used for some purpose by the State Department or Legislature?

School District Budgeting. KASB supports efforts to make school district budgets easier to understand and comparable across school districts. However, we oppose new state mandates that would add costs and would not be used to determine state funding of actual costs.

HB 2986 requires that the budget forms for districts are to be developed from recommendations based on standards established by the Post Audit Division, rather than Government Finance Officers Association and Association of School Business Officers. This does not appear to add any additional cost. We would only note that the Legislature recently included GFOA and ASBO standards in the budget law with the idea it would lead to greater clarity and consistency in budgeting.

“Foundation-level” Funding. KASB policies support a budget base per pupil and pupil weighting that should provide a suitable level of funding for all students and districts to achieve expected outcomes. We also support authority for local districts to enrich their educational programs beyond the base budget, provided that all districts can exercise the same degree of discretion by making the same amount of effort.

HB 2986 states that all state funding provided to school districts, other than federal funding, “shall be deemed to be foundation-level funding.” Some state funding, such as local option budget aid, is clearly not “foundation aid.” Funding which is not, in fact, part of the base budget and weightings should not be considered part of the base and weighting.

Spending Flexibility. KASB supports giving local boards and educators greater flexibility in spending resources to achieve academic results.

HB 2986 removes the requirement that funding from at-risk, vocational and bilingual weightings be placed in these funds and spent only on these specific programs. Our only caution is that additional dollars for these weightings will become available for salary negotiations. At a time when Kansas salaries are falling compared to other states and professions, boards will face tremendous pressure to add funds to existing salaries.

We appreciate the committee’s attention to our concerns. Thank you for your consideration.