

MINUTES OF THE SENATE EDUCATION COMMITTEE

The meeting was called to order by Chairman Jean Schodorf at 1:35 p.m. on February 21, 2008, in Room 123-S of the Capitol.

Committee members absent:

Committee staff present: Sharon Wenger, Kansas Legislative Research Department
Carol Toland, Kansas Legislative Research Department
Theresa Kiernan, Revisor of Statutes Office
Matt Todd, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Senator Jim Barnett
Dr. John Heim, Superintendent, U.S.D. 253
Mike Argabright, Superintendent, U.S.D. 252
Mark Tallman, Kansas Association of School Boards
Scott Frank, Legislative Division of Post Audit
Diane Gjerstad, Wichita Public Schools
Bill Reardon, Kansas City, Kansas Public Schools
Bill Brady, Schools For Fair Funding

SB 628 – School districts; school finance; Lynn County, Emporia, and Chase County

Theresa Kiernan, Revisor of Statutes Office, noted that **SB 628** was introduced at the request of Senator Jim Barnett. She explained that the bill would guarantee U.S.D. 251 (North Lyon County), U.S.D. 252 (Southern Lyon County), U.S.D. 253 (Emporia), and U.S.D. 284 (Chase County) 98 percent of the adjusted enrollment in the 2007-2008 base school year when calculating the general fund budget of the district for the 2008-2009 school year.

Senator Barnett testified in support of **SB 628**. He pointed out that the Emporia community has experienced a serious economic disaster with the recent closure of the Tyson Fresh Meats Corporation. The bill would help Emporia schools adapt to by placing a 2 percent floor for loss of adjusted enrollment. (Attachment 1)

Dr. John Heim, Superintendent, U.S.D. 253, testified in support of **SB 628**. He discussed the closure of the Tyson Meat Corporation, which has eliminated 1,800 jobs locally, which amounts to 75 percent of the local workforce. At this point, it is unknown how the Tyson layoffs will affect families in Emporia. Approximately 1,200 students in the district (25 percent of the current enrollment) have parents who are employed by Tyson. A large percentage of the district's funding is due to weighting for at-risk students (47 percent) and English language learners (31 percent). By statute, teachers must be notified that their contracts will not be renewed by May 1, 2008. Due to the teacher shortage, Emporia teachers who are uncertain about their future can find jobs in other districts immediately. The district will not know how many students will enroll or the number of weighted students enrolled until September 2008; therefore, it is unknown how many teachers will be needed before the May 1 deadline for non-renewals. In conclusion, Dr. Heim said that his district needs help in budgeting for the potential loss of 25 percent of its 4,800 students, and a floor on weighted student losses in the first year would give the district a year to gather data and make decisions based upon facts, not speculation. (Attachment 2)

Mike Argabright, Superintendent, U.S.D. 252, testified in support of **SB 628**. He echoed the concerns about the unknown as expressed by Dr. Heim. He noted that 30 of the 545 students in his district were directly affected by the Tyson closure. His school district is a declining enrollment district, and significant budget cuts were made at the last board meeting. An additional loss of 30 students would be a significant loss, and trying to plan for the unknown becomes more difficult after already making one round of cuts. He urged the Committee to support the bill to allow his district time to plan for the future.

Mark Tallman, Kansas Association of School Boards (KASB), testified in support of **SB 628**. KASB has a long-standing position supporting mechanisms that allow districts to avoid significant reductions in their

CONTINUATION SHEET

MINUTES OF THE Senate Education Committee at 1:35 p.m. on February 21, 2008, in Room 123-S of the Capitol.

budget authority through a phase-in mechanism. He commented that the bill seems to recognize that the current system does not deal with the issue of changes in weighting. He suggested that the Legislature should further study whether the current declining enrollment feature should be modified for all districts. (Attachment 3)

Senator Schodorf called attention to written testimony in support of **SB 628** submitted by Steven Mollach, Superintendent, U.S.D. 251 (Attachment 4) and by Mark Desetti, Kansas National Education Association (Attachment 5).

There being no others wishing to testify, the hearing on **SB 628** was closed.

SB 620 – School districts; special education; Medicaid replacement state aid

Theresa Kiernan, Revisor of Statutes Office, noted that **SB 620** was introduced at the request of Senator Anthony Hensley, and it was patterned after a House bill introduced at the request of Representative Marti Crow. She explained that the bill would provide a new category of state aid called “Medicaid replacement state aid,” which would be subject to appropriation. Whatever amount the Legislature appropriated would be divided on the basis of children who are receiving special education and related services and who are eligible for Medicaid. The bill provides that all money received by the district pursuant to this section will be paid to the State General Fund and then transferred to the special education fund similar to the way special education money is currently handled. Any Board of Education that desires to receive the state aid would be required to submit documentation or information as required by the State Board of Education.

Scott Frank, Legislative Division of Post Audit, distributed copies of a summary of findings regarding a Post Audit performance audit report entitled, “K-12 Education: Reviewing Issues Related to Special Education Funding.” (Attachment 6) He summarized the answer to the following questions which the report addressed: (1) What percent of the excess costs of special education are districts and cooperatives reimbursed for, and why do those percentages vary? and (2) How will districts and cooperatives be affected by changes to school-based Medicaid funding? In conclusion, he called attention to table in an appendix attached to the summary which dealt with the estimated effect of changes to Medicaid on 69 districts and cooperatives, based on revenue and staffing data.

Diane Gjerstad, Wichita Public Schools, testified in support of **SB 620**. She discussed the December 2007 Legislative Post Audit’s report, “Reviewing Issues Related to Special Education Funding.” She noted that the report indicated that the current distribution of categorical state aid leaves a number of districts far short of the state policy of funding 92 percent of excess cost, but on the other hand, the formula reimburses a number of districts and cooperatives over 100 percent of the excess cost to educate special education students. In addition, the report indicated that the Legislature’s attempt to fund the loss in Medicaid dollars for the approximately 70 districts who have Medicaid eligible students did not benefit those districts who lost the funding. She then discussed recent changes to the federal rules for Medicaid reimbursement for school-based services. She commented that the current formula has shortchanged districts that have historically been under-compensated for serving high need, high cost students. The bill would establish a distribution mechanism directing dollars to the districts with Medicaid eligible populations. (Attachment 7)

Bill Reardon, Kansas City, Kansas Public Schools, testified in support of **SB 620**. He noted that Medicaid funding provided to Kansas school districts was reduced this year from \$35 million to \$11.5 million. The Department of Education replaced \$22 million of the \$23.5 million loss. Currently, the only statutory method for distributing these new dollars is to increase the number of dollars provided for each special education teacher. This results in a distribution that has no relationship to the number of Medicaid students in a given school district. He urged the Committee to rectify this problem by directing the new state dollars to the districts that incur the additional Medicaid costs. (Attachment 8)

Mark Tallman, Kansas Association of School Boards (KASB), testified in support of **SB 620**. Noting that there has been considerable discussion about special education funding, he offered three broader comments on the current formula in light of the Post Audit report on the current distribution formula and the replacement of Medicaid funding. (Attachment 9)

CONTINUATION SHEET

MINUTES OF THE Senate Education Committee at 1:35 p.m. on February 21,2008, in Room 123-S of the Capitol.

Bill Brady, Schools For Fair Funding, testified in support of **SB 620**. In his opinion, distributing funds generated with Medicaid reimbursed services by headcount is closer to funding based on actual costs than the current method of distributing the money to all districts whether they have any Medicaid eligible students or not. Schools For Fair Funding believes that this is a fairness issue that should be addressed this session. (Attachment 10)

There being no others wishing to testify, the hearing on **SB 620** was closed.

Senator Schodorf called the Committee's attention to the minutes of the February 11 and 12 meetings.

Senator Lee moved to approve the minutes of the February 11 and 12 meetings, seconded by Senator Steineger. The motion carried.

The meeting was adjourned at 2:25 p.m.

The next meeting is scheduled for February 22, 2008.

SENATE EDUCATION COMMITTEE
GUEST LIST

DATE: February 21, 2008

NAME	REPRESENTING
Scott Frank	LFA
Patrick Woods	SRB
Diane Gjerstad	Wichita USD 259
Mike Newman	Elwoods USD 486 - Wathena USD 406
Dennis Stokes	USD 441 / Wolf River
Ally Miller	USD 441 / Wolf River
Doug Leiper	USD 441 / Wolf River
Doug Bowman	CCECOS
Tom KREBS	KRSTB
Katie Firebaugh	Kearney and Associates
Andrea Denckla	visitor from KU
Bae Boelworn	Visitor from KU
Ben Ryden	Visitor from KU
Val DeFever	SQE
Brianna Landon	
Nanny Elder	USD 486 / Wolf River
Effie Sumner	Sen. D. Schmidt
Deidre Grayson	KHLAC
Irene Caballero	KHLAAC

STATE OF KANSAS

JIM BARNETT
SENATOR, 17TH DISTRICT
CHASE, COFFEY, GREENWOOD
LYON, MARION, MORRIS, AND OSAGE
COUNTIES



TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS
CHAIR: SENATE PRESIDENTS TASK FORCE ON
HEALTH CARE
CHAIR: PUBLIC HEALTH AND WELFARE
CHAIR: KANSAS HEALTH POLICY AUTHORITY
OVERSIGHT COMMITTEE
MEMBER: FINANCIAL INSTITUTIONS AND
INSURANCE
HEALTH CARE STABILIZATION FUND
ORGANIZATION, CALENDAR AND RULES
FEDERAL AND STATE AFFAIRS

Testimony to
Senate Education Committee
Senate Bill 628 - School finance; general state aid and supplemental
general state aid for
certain districts
Thursday, February 21
1:30PM – Room 123-S

Madam Chairperson and other distinguished members of the Senate Education Committee, thank you for the opportunity to speak in support of Senate Bill 628.

Kansas has experienced many disasters during 2007. Tornadoes, floods, and ice storms have brought devastation to many areas of our State. The Emporia community has also experienced a serious devastation and a true economic disaster with the closure of Tyson Fresh Meats Corporation.

Senate Bill 628 is brought before your Committee to help our schools adapt to those losses by placing a two percent (2%) floor for loss of adjusted enrollment.

Thank you for the opportunity to join other members in our region to speak in support of this legislation.

Senator James Barnett

*Senate Education Committee
2-21-08
Attachment 1*

- Because of the teacher shortage in Kansas, most any teacher who is non-renewed will be offered employment in another district immediately.
- Because of the teacher shortage, Emporia teachers who are uncertain about their future can find jobs in other districts immediately.
- We will not know how many students we will have, or our weighted enrollment numbers, until September 2008.
- Unemployment benefits for most Tyson workers run out on September 24, 2008.
- We will not know how many teachers we will need until five months after the May 1, 2008, deadline for non-renewals.
- We need help budgeting for the potential loss of 25% of our 4,800 students. A floor on weighted student losses in the first year would give us a year to plan and make good decisions for our students. We need a year to gather data and plan based upon facts, not speculation.
- We appreciate your consideration of SB 628 and encourage you to support this bill.

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS

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Testimony before the
Senate Committee on Education

on
SB 628 – Enrollment Protection for Lyon County

by

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

February 21, 2008

Madam Chair and Members of the Committee:

Thank you for the opportunity to comment on **SB 628**, which would provide the three school districts in Lyon County budgets for next school year (2008-09) based on an adjusted enrollment of at least 98 percent of the enrollment in the current year. The bill has been proposed to protect these districts from anticipated enrollment decline due to the drastic layoffs at the Tyson plant.

KASB appears as a proponent of this bill based on a long-standing position supporting mechanisms to phase-out losses in state aid or budget authority, which is why we supported the declining enrollment feature of the current formula. **SB 628** is based on the fact that the current feature does not consider reductions in weighting factors.

We agree with the concept behind this bill, but suggest that it would also apply to other districts in similar circumstances. While there are good reasons to act on this particular bill now, we suggest the Legislature should further study whether the current declining enrollment feature should be modified for all districts.

Thank you for your consideration.

*Senate Education Committee
2-21-08
Attachment 3*

Superintendent
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Board of Education
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William Leffler, Vice President
Sarah Meenen
Mike Hanks
Wayne Symmonds
Bill McClellan
James Davis

"THE BEST STUDENTS IN THE WORLD ARE LEARNING HERE!"

Written Testimony before the
Senate Education Committee

On
SB 628

By

Steven Mollach, Superintendent of Schools
USD #251 North Lyon County

Madam Chair, Members of the Committee:

Thank you for the opportunity to ask for your support of SB 628. As you know, we recently learned that Tyson of Emporia would be conducting a layoff of approximately 1800 workers or 75% of their workforce. Truly, this is devastating news for the families affected but it also creates a sense of the unknown as I attempt to prepare the district budget for the 2008-09 school term.

Previous legislative action (enrollment averaging) protects the district from a dramatic decline in Full-Time Equivalency (FTE) but an unknown factor comes into play when considering the weighting factors such as At Risk, Transportation, Vocational Education and others. I can only speculate how those weightings will be impacted as the severance package and unemployment benefits the Tyson workers receive end and families begin to leave.

SB 628 with its 2% cap on adjusted enrollment (weighting) loss will, for the most part, end the speculation associated with the 2008-09 school term. It will allow the school districts affected to appropriately plan for the future and to better gauge the residual consequences that most assuredly will spider-web into the trucking, feed and cattle industries that are co-dependent on Tyson.

What is happening in Lyon County in many ways is unique. Now is not the time for a knee-jerk planning by the local school districts. Rather, it is a time for consultation and well thought out planning as to what the future will bring to our schools. I am in full support of SB 628. Thank you for your consideration.

Steven Mollach, Superintendent

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Senate Education Committee
2-21-08
Attachment 4



Making public schools great for every child

KANSAS NATIONAL EDUCATION ASSOCIATION / 715 SW 10TH AVENUE / TOPEKA, KANSAS 66612-1686

Mark Desetti, Written Testimony
Senate Education Committee
February 21, 2008

Senate Bill 628

Madame Chair, members of the committee, thank you for the opportunity to submit written testimony on **Senate Bill 628**.

We come to you today to ask for your support for the Emporia schools in this difficult time. As Emporia Superintendent Heim has said, the worst part of the situation is the not knowing.

The impact of the Tyson closure on the Emporia Schools is not really known at this time and, unfortunately, may not be known until the summer. But the people of Emporia are hoping the legislature will help them breathe a little easier.

The trouble for the Emporia Schools is what to do about personnel in a time of teacher shortages. With no knowledge of what might actually happen, do the schools non-renew teachers by May 1? Those teachers will likely be snapped up by other districts. If the student population does not decline sharply, Emporia would be left with too few teachers in the fall and scrambling to find some.

Do the schools keep their teachers on in the hopes that families won't leave? In this case if the student population does decline sharply, they would be left with too many teachers and too few dollars.

SB 628 buys breathing space. It allows the school district to keep the staff on and open schools in the fall fully staffed.

SB 628 is narrowly written to include only Emporia and a few contiguous districts. It is a bill written for extraordinary circumstances.

We believe this bill is worthy of your consideration.

K-12 Education: Reviewing Issues Related to Special Education Funding

Summary of Findings

Question 1: What Percent of the Excess Costs of Special Education Are Districts and Cooperatives Reimbursed for, and Why Do those Percentages Vary?

1. In 2005-06, State categorical aid for special education covered between 45% and 207% of the excess costs of special education for 69 districts and cooperatives. [page 7]
 - These results are consistent with findings from our 1998 audit.
 - That audit found that the percent of excess costs covered varied from 69% to 208%.
2. Districts and cooperatives that spent more per special education student had less of their excess costs covered by categorical aid. [page 9]
 - Districts and cooperatives with a low percentage of their excess costs covered:
 - were large districts, or cooperatives made up of larger districts.
 - spent more per special education student on direct costs, such as instruction, student support, and transportation.
 - had more certified teachers per 10 students, and paid higher average teacher salaries.
3. Capping the amount of funding a provider could receive would allow money to be redistributed, but wouldn't eliminate the variation. [page 14]

Question 2: How Will Districts and Cooperatives Be Affected by Changes to School-Based Medicaid Funding?

1. Changes to Medicaid will cost districts and cooperatives almost \$2 million dollars in special education funding, starting in the 2007-08 school year. [page 16]
 - Changes to school-based Medicaid are the result of two recent federal audits. Those changes include:
 - changing from a bundled rate to a fee-for-service rate
 - requiring a doctor's authorization for services
 - requiring a parent's authorization to bill Medicaid
 - The Consensus Revenue Estimating Group estimates the changes will reduce Medicaid funding from \$35 million a year to \$11.5 million a year (a 67% decrease).
 - Under the current school finance formula, the Legislature will replace 92% of this lost funding (almost \$22 million) with special education categorical aid.
2. Because of how the lost Medicaid dollars will be replaced with State aid, some districts and cooperatives actually will gain funding. [page 17]
 - The new categorical aid will be distributed based on the number of special education teachers employed by the district or cooperative, not the amount of Medicaid funding lost.
 - As a result, some districts and cooperatives will gain funding, while others will lose funding:
 - 31 districts and cooperatives will gain an estimated \$3.9 million in funding. (Tend to be suburban with little poverty)
 - 38 districts and cooperatives will lose an estimated \$5.8 million in funding. (Tend to be districts with high poverty.)

**Figure OV-2
Statewide Calculation and Distribution of State Categorical Aid
2006-07 School Year**

		Amounts Used in the 2006-07 Calculation
EXPENDITURE CALCULATION	Actual Expenditures (2004-05 School Year)	\$578,595,181
	Plus Estimated Increase in Special Education Teachers & Salaries for 2005-06 and 2006-07	+ \$81,151,808
	Projected Total Estimated Expenditures for 2006-07	= \$659,746,989
EXCESS COST CALCULATION	Less per Pupil Cost of Regular Education	- \$172,022,832
	Less Federal Aid	- \$100,060,000
	Less Medicaid Reimbursements	- \$35,000,000
	Less SRS contribution for students in State hospitals	- \$1,500,000
	Total Excess Cost	= \$351,164,157
CATEGORICAL AID CALCULATION	Excess Cost x 92%	x 92%
	Categorical Aid (a)	= \$323,071,024
DISTRIBUTION OF CATEGORICAL AID	"Catastrophic" Aid to be distributed	\$1,700,000
	Transportation Aid to be distributed	\$52,364,000
	The remainder is distributed based on the number of special ed teachers and paraprofessionals (approximately \$23,000 X 11,700 FTE teachers)	\$269,007,024

(a) This is the amount approved by the Legislature based on the estimates for that year. The amount of categorical aid actually paid that year was \$334 million.
Source: Legislative Research Department and Department of Education.

Question 2: How Will Districts and Cooperatives Be Affected by Changes to School-Based Medicaid Funding?

Answer In Brief:

Recent changes to Medicaid will cost the State an estimated \$24 million in Medicaid funding, starting in the 2007-08 school year. The Legislature has agreed to replace 92% of the lost funding, resulting in almost half the districts and cooperatives gaining more funding than they lost in Medicaid because of how the new funding will be distributed. Districts and cooperatives that will lose funding tend to be in high-poverty areas, while districts and cooperatives that gain funding tend to be in more affluent, suburban areas. These and related findings are discussed in the sections that follow.

Changes to Medicaid Will Cost Districts and Cooperatives Almost \$2 Million in Special Education Funding, Starting in the Current School Year

Because some special education services provided by districts and cooperatives are health-related, they are able to bill Medicaid to help pay for these services if the students are eligible. Beginning with the 2007-08 school year, several key changes have been made to the Kansas Medicaid plan that will make it more difficult for districts and cooperatives to access this funding.

Changes to the school-based Medicaid rules are the result of two recent audits by the federal Department of Health and Human Services. In the past two years, the federal Department of Health and Human Services conducted two audits of the school-based Medicaid program in Kansas. These audits found several problems with how the program was being administered, including errors in reimbursement rates and cost reports that didn't accurately reflect the services provided by districts and cooperatives. As a result of these findings, the Kansas Health Policy Authority—the agency that administers the Medicaid program in Kansas—implemented the following changes:

- reimbursements will be based on a fee-for-service rate rather than a bundled rate
- services will have to be authorized by a doctor to be eligible for reimbursement
- each year, a student's parent will have to authorize the school to access Medicaid for reimbursement

These changes are expected to decrease the amount of Medicaid funding districts and cooperatives are able to receive, primarily for these reasons:

- **Because the bundled rates were too high, districts will receive less when they have to document the individual services.** A bundled rate plan includes an array of services priced at one rate. However, a fee-for-service plan prices each service individually. Because the federal audits

concluded the State's bundled rates were too high, the State will lose money when districts and cooperatives are reimbursed for each individual service.

- **Fee-for-service rates will require districts and cooperatives to maintain more detailed service records in order to receive reimbursements.** Under a bundled rate plan, a provider only needed to show the student received a service once that month in order to bill Medicaid for the month. Under the new fee-for-service plan, districts and cooperatives must be able to match their billing records directly to the documentation in the student's file. Some districts and cooperatives might find this requirement too burdensome and not even try to seek reimbursement for many services.
- **Parents will have little incentive to obtain a doctor's note or sign an authorization form to allow their school to bill Medicaid.** That's because schools are required to provide special education services to all students who need them, regardless of how those services are going to be paid for.

Kansas' Consensus Revenue Estimating Group estimates that changes to Medicaid will reduce Medicaid funding from \$35 million to \$11.5 million, beginning with the 2007-08 school year. This group recently estimated Kansas would receive only \$11.5 million in school-based Medicaid funding because of the changes described above. In 2005-06 (the most recent year for which actual revenue data was available), districts and cooperatives in Kansas received \$35.4 million in school-based Medicaid funding. If they receive only \$11.5 million in Medicaid funding, it would mean a loss of \$23.9 million, or 67.5%, of Statewide Medicaid funding for the 2007-08 school year.

Under the current school finance formula, the Legislature will replace 92%, or almost \$22 million, of the lost Medicaid revenues with State categorical aid. Medicaid is one of the sources of primary funding used in calculating the excess costs of special education. Every dollar lost increases Statewide excess costs by a dollar. Under current law, the Legislature funds 92% of all excess costs. If the State loses \$23.9 million in Medicaid funding, the Legislature will offset most of the loss by providing an additional \$21.9 million in categorical aid. Districts and cooperatives will have to fund the remaining almost \$2.0 million with their own revenues.

Because of How the Lost Medicaid Dollars Will Be Replaced With State Aid, Some Districts And Cooperatives Actually Will Gain Funding

As we described above, it's estimated that districts and cooperatives will lose a little more than two-thirds of their Medicaid funding as a result of the recent changes. Although the Legislature will replace 92% of the lost funding with special education categorical aid, the new aid will be distributed based on the number of special education teachers employed by each district or cooperative (as described in the Overview), not based on the amount of Medicaid funding districts and cooperatives will lose. This means that some are likely to be affected more adversely than others.

To assess the net effect of the Medicaid changes on each district or cooperative in the State, we used revenue and staffing data from the 2005-06 school year to estimate the amount of Medicaid funding each provider would lose (assuming they lost a little more than two-thirds of their funding), and the amount of new categorical aid they would receive. *Figure 2-1* summarizes our estimates, while *Appendix G* details the estimated impact on each of the 69 districts and cooperatives.

Figure 2-1				
Summary of the Estimated Effect of Changes to Medicaid on Districts and Cooperatives				
Based on 2005-06 Revenue and Staffing Data				
	Districts or Co-ops Estimated To Gain Funding		Districts or Co-ops Estimated To Lose Funding	
ALL DISTRICTS OR COOPERATIVES				
Total # of Districts or Cooperatives	31		38	
Total Estimated Gain (Loss)	\$3.9 million		(\$5.8 million)	
DISTRICTS OR COOPERATIVES AFFECTED MOST				
Total # of Districts or Co-ops Estimated to Gain (Lose) More Than \$100,000	13		12	
Average Estimated Gain (Loss)	\$258,004		(\$426,408)	
Poverty (% Free Lunch)	19%		39%	
INDIVIDUAL DISTRICTS OR COOPERATIVES				
Districts or Cooperatives Estimated To Gain or Lose the Most Funding	Shawnee Mission (512)	\$ 827,710	Wichita (259)	(\$2,166,500)
	Blue Valley (229)	\$ 622,765	Kansas City (500)	(\$769,074)
	Olathe (233)	\$ 421,028	Hutchinson (308)	(\$352,953)
Source: LPA estimates based on 2005-06 Medicaid reimbursement and special education staffing data from 69 providers, and Consensus Estimating Group estimates.				

As the figure shows, 31 districts or cooperatives will gain an estimated total of \$3.9 million, while 38 will lose a total of \$5.8 million. Although all providers will be affected, 10 were estimated to gain or lose less than \$10,000 each. On the other hand, many districts and cooperatives will be affected significantly—we estimated that 13 would gain more than \$100,000 and 12 would lose more than \$100,000.

When we looked at the characteristics of districts that will gain or lose the most money, we found that:

- **Suburban districts with little poverty are likely to gain the most funding.** The three districts that gain the most are Shawnee Mission, Blue Valley, and Olathe. Overall, the districts that gain the most tend to have very little poverty—on average only 19% of their students qualify for free lunches under the National School Lunch program.
- **Districts with high poverty are likely to lose the most funding.** The three districts that lose the most are Wichita, Kansas City, and Hutchinson. Overall, the districts that lose the most tend to be very poor. On average, 39% of their students qualify for free lunches.

Districts and cooperatives with very little poverty don't rely as heavily on Medicaid as a funding source. As a result, it will be easier for them to get enough of the new special education categorical aid to offset (or even exceed) the Medicaid funding they will lose.

On the other hand, districts and cooperatives with more poverty likely will be more adversely affected by the changes because they rely more heavily on Medicaid as a funding source than other districts. It's far less likely that they will be able to get enough new categorical aid to offset the lost Medicaid funding.

Conclusion

Each year the Legislature provides categorical aid to districts and cooperatives to help pay for the cost of providing special education services. The categorical aid isn't distributed based on the actual costs of providing special education services or on the number of students who are served. Rather, the majority of it is given to districts and cooperatives based on the number of special education teachers they employ.

Using the number of special education teachers as the basis for distributing categorical aid reduces the incentives districts and cooperatives may have to "over identify" students for services and may help control costs. But it also can create certain inequities in the distribution of aid. As we've found in this audit and in our 1998 audit of special education funding, this system results in significant differences in the percent of districts' and cooperatives' special education excess costs that are paid for with categorical aid. We've also found that recent changes that will reduce the amount of school-based Medicaid funding for districts and cooperatives will affect them very differently because of this system. If the Legislature wants the distribution of special education funding to be more closely linked to the excess costs of providing those services, it will have to consider changing the current funding formula.

APPENDIX G

**Estimated Effect of Changes to Medicaid on 69 Districts and Cooperatives
Based on 2005-06 Revenue and Staffing Data**

This appendix shows our estimate of the amount of Medicaid revenue each district and cooperative might lose because of changes to the program, the amount of new categorical aid they are likely to receive as a "replacement" from the Legislature, and the net impact.

The estimate of lost revenues is based on providers losing 67.5% of their Medicaid revenues. Also, although the Medicaid changes didn't go into effect until the 2007-08 school year, these estimates are based on revenue and staffing data from the 2005-06 school year (the most recent year for which complete data were available). The amount of new categorical aid is based on the Legislature funding 92% of the "excess costs" of special education, as is currently in statute.

District Number	School District or Cooperative Name	Medicaid Lost	New Categorical Aid	Net Impact
259	Wichita	\$4,182,118	\$2,015,618	(\$2,166,500)
500	Kansas City	\$1,624,526	\$855,452	(\$769,074)
308	Hutchinson	\$555,437	\$202,484	(\$352,953)
637	Southeast Kansas Interlocal	\$909,485	\$573,016	(\$336,469)
253	Emporia	\$649,159	\$353,990	(\$295,169)
305	Salina	\$926,670	\$671,546	(\$255,124)
465	Winfield	\$549,178	\$345,376	(\$203,802)
607	Tri-County Cooperative	\$585,365	\$397,979	(\$187,386)
501	Topeka	\$976,157	\$791,925	(\$184,232)
603	ANW Special Education Cooperative	\$544,387	\$392,321	(\$152,066)
333	Concordia	\$266,409	\$152,759	(\$113,650)
490	El Dorado	\$748,901	\$648,426	(\$100,475)
428	Great Bend	\$297,566	\$220,025	(\$77,541)
282	West Elk	\$140,206	\$78,268	(\$61,938)
407	Russell	\$110,530	\$53,641	(\$56,889)
602	Northwest Kansas Education Center	\$454,684	\$398,057	(\$56,627)
611	High Plains Education Cooperative	\$432,704	\$381,143	(\$51,561)
202	Turner	\$220,437	\$172,570	(\$47,867)
636	North Central KS Special Education Co-op	\$330,003	\$284,354	(\$45,648)
290	Ottawa	\$158,869	\$114,505	(\$44,363)
379	Clay Center	\$199,848	\$161,646	(\$38,201)
450	Shawnee Heights	\$164,696	\$135,394	(\$29,302)
610	Reno County Cooperative	\$315,020	\$288,603	(\$26,418)
495	Ft. Larned	\$135,770	\$110,707	(\$25,062)
615	Brown Cty Special Education Interlocal	\$150,931	\$127,994	(\$22,937)
368	Paola	\$442,620	\$425,739	(\$16,881)
619	Sumner County Interlocal	\$150,934	\$134,337	(\$16,597)
389	Eureka	\$54,560	\$38,488	(\$16,071)
489	Hays	\$247,684	\$233,866	(\$13,818)
234	Ft. Scott	\$85,828	\$72,376	(\$13,452)

6-7

District Number	School District or Cooperative Name	Medicaid Lost	New Categorical Aid	Net Impact
442	Nemaha Valley	\$79,209	\$66,366	(\$12,843)
616	Doniphan County Education Cooperative	\$99,139	\$89,192	(\$9,947)
263	Mulvane	\$78,595	\$69,498	(\$9,097)
273	Beloit	\$129,535	\$121,788	(\$7,747)
620	Three Lakes Co-op	\$265,928	\$259,002	(\$6,925)
330	Wabaunsee East	\$34,119	\$30,090	(\$4,030)
373	Newton	\$256,438	\$252,659	(\$3,778)
336	Holton	\$166,186	\$162,430	(\$3,757)
405	Lyons	\$123,914	\$128,992	\$5,078
364	Marysville	\$72,413	\$78,092	\$5,679
261	Haysville	\$208,090	\$214,680	\$6,590
345	Seaman	\$155,113	\$165,425	\$10,312
372	Silver Lake	\$26,820	\$38,958	\$12,138
260	Derby	\$283,962	\$299,174	\$15,212
617	Marion County Special Education Cooperative	\$162,213	\$178,972	\$16,759
353	Wellington	\$91,041	\$108,848	\$17,806
497	Lawrence	\$556,970	\$575,580	\$18,611
320	Wamego	\$124,297	\$149,998	\$25,701
480	Liberal	\$94,641	\$122,160	\$27,519
244	Burlington	\$84,179	\$111,784	\$27,605
321	Kaw Valley	\$44,466	\$77,055	\$32,589
230	Spring Hill	\$23,342	\$78,327	\$54,985
605	South Central Kansas Cooperative	\$363,893	\$429,850	\$65,957
231	Gardner-Edgerton	\$111,847	\$178,013	\$66,166
418	McPherson	\$181,242	\$261,626	\$80,383
613	Southwest Kansas Area Cooperative	\$452,658	\$534,998	\$82,339
453	Leavenworth	\$395,198	\$495,805	\$100,607
409	Atchison (a)	\$0	\$110,844	\$110,844
457	Garden City	\$198,640	\$310,725	\$112,085
475	Junction City	\$243,555	\$356,867	\$113,312
614	East Central Kansas Cooperative	\$37,932	\$165,484	\$127,552
437	Auburn Washburn	\$130,021	\$262,409	\$132,388
232	DeSoto	\$75,929	\$214,837	\$138,908
383	Manhattan	\$158,771	\$309,393	\$150,623
608	Northeast Kansas Education Center	\$28,787	\$259,609	\$230,823
618	Sedgwick County Interlocal	\$463,991	\$729,396	\$265,405
233	Olathe	\$710,400	\$1,131,427	\$421,028
229	Blue Valley	\$217,202	\$839,966	\$622,765
512	Shawnee Mission	\$342,049	\$1,169,759	\$827,710
Statewide Total		\$23,883,402	\$21,972,682	(\$1,910,720)

(a) Atchison did not receive any Medicaid revenue in 2005-06 so the analysis shows no changes in Medicaid funding for them.
Source: LPA analysis based on 2005-06 Special Education revenues and expenditures for 69 districts and cooperatives



Senate Education Committee
Senator Schodorf, chair
Special Education and Medicaid Reimbursement

Submitted by: Diane Gjerstad
Wichita Public Schools
February 21, 2008

Madame Chair and members of the Committee:

Legislative Post Audit's report "*Reviewing Issues Related to Special Education Funding*" December 2007 finds the current distribution of categorical state aid leaves a number of districts far short of the state policy of funding 92% of excess cost; and on the other hand, the formula reimburses a number of districts and cooperatives over 100% of the excess cost to educate special education students. In addition the audit found the legislators attempt to fund the loss in Medicaid dollars for the approximately 70 districts who have Medicaid eligible students did not benefit those district who lost the funding.

S.B. 620 establishes a Medicaid fund to reimburse districts who are serving Medicaid eligible students. Districts are required by federal law to serve the students and have been encouraged by the legislature to claim Medicaid dollars. Recent changes to the federal rules for Medicaid reimbursement for school based services (OT, PT and speech) has significantly reduced the amount districts are reimbursed by Medicaid (estimated statewide loss between \$11.5m to \$35m for 2007-08). Last session the legislature appropriated more to special education in an attempt to off-set the losses. However the current distribution method (categorical aid based on certified special education teachers) benefited districts with low poverty, while the districts with high poverty still face significant losses (Figure 2-1). S.B. 620 establishes a distribution mechanism directing dollars to the districts with Medicaid eligible populations.

This structural problem with allocating categorical state aid is not new. In 1998 LPA conducted a similar audit which had similar results; page 8, "Overall, the results are consistent with findings from our 1998 audit of special education funding. In that audit, using a similar methodology, we found that the percent of costs covered ranged from 69% to 238% for the 1996-97 school year". Attached to this testimony is appendix C comparing the 1998 audit to the current. For many districts, like Wichita, there is not much change. In 1998 Wichita received 74% of excess costs; compared to 72% in the current audit.

The result is districts below the state target are disproportionately subsidizing special education. In Wichita the subsidy is over \$30 million dollars or to put into 'per pupil' terms, each regular education student subsidizes special ed by \$700.

Post Audit estimated the impact if those districts receiving more than 100 or 105% of excess costs were capped. The result is obviously 'winners' and 'losers'. HB 2790 takes a moderate approach by simply targeting future new money to those districts below the state policy target of 92%. This approach doesn't create 'losers' but does assist the districts who have historically been under-compensated for serving high need, high cost students as mandated by law. The current formula shortchanged several of the same districts ten years ago and today. This means several districts have borne the fiscal brunt for many years.

Madame Chair, we urge the committee's favorable action on both bills.

Senate Education Committee
2-21-08
Attachment 7

APPENDIX C
Comparison of Percent of Excess Costs Covered by
Categorical Aid for 23 Districts and Cooperatives
1996-97 and 2005-06 School Years

This appendix compares the percent of excess costs covered by categorical aid in 1996-97 and 2005-06 for 20 districts and three cooperatives that were included in our 1998 audit of Special Education funding.

Provider #	Provider Name	Percent of Excess Costs Covered	
		1996-97	2005-06
202	Turner	123%	102%
229	Blue Valley	72%	66%
234	Fort Scott	92%	88%
259	Wichita	74%	72%
260	Derby	83%	83%
261	Haysville	82%	98%
263	Mulvane	97%	45%
290	Ottawa	128%	138%
308	Hutchinson	115%	145%
321	Kaw Valley	102%	94%
330	Wabaunsee East	111%	117%
336	Holton Special Education Cooperative	113%	101%
383	Manhattan	83%	95%
389	Eureka	137%	94%
407	Russell	116%	201%
409	Atchison	123%	86%
457	Garden City	87%	72%
475	Junction City	93%	105%
480	Liberal	85%	115%
497	Lawrence	78%	86%
512	Shawnee Mission	69%	65%
616	Doniphan County Education Cooperative	238%	204%
620	Three Lakes Educational Cooperative	113%	112%

Source: LPA 99-02, published October 1998, and LPA analysis of 2005-06 Special Education funding and expenditures for 69 districts and cooperatives.

Appendix B lists each of the 39 special education cooperatives and the 270 school districts that belong to them, as well as the 30 districts that provide special education independently.

- **We had to remove certain internal transfers and payments made between districts or cooperatives in order to avoid double-counting them.** For example, districts that serve as the head of a cooperative typically transfer many of the special education revenues between two internal funds—the normal special education fund that all districts use, and a separate cooperative fund they use to pay for the expenses of the cooperative. In order to not count that money twice, we backed out those transfers.
- **We had to allocate the special education expenditures from the Southeast Kansas Education Service Center (Greenbush) to the districts and cooperatives it served.** Although special education students aren't directly assigned to Greenbush, the service center does contract with a number of districts and cooperatives to provide specific special education services for their students. In 2005-06, Greenbush spent about \$5.5 million on services for public school students and received a little over \$802,000 in State special education categorical aid. In order to match these revenues and expenditures with the students Greenbush served,

we allocated those amounts back to the districts and cooperatives that were responsible for serving those students.

Figure 1-1
Percent of Special Education "Excess Costs"
Covered By Categorical Aid
2005-06 School Year

District or Cooperative		% of Excess Costs Covered
TOP 10		
372 - Silver Lake	District	207%
616 - Doniphan Co Ed Co-op	Co-op	204%
407 - Russell County	District	201%
353 - Wellington	District	194%
442 - Nemaha Valley	Co-op	181%
282 - West Elk	Co-op	175%
465 - Winfield	Co-op	156%
495 - Fort Larned	Co-op	146%
308 - Hutchinson	District	145%
615 - Brown County Special Ed Co-op	Co-op	142%
BOTTOM 10		
368 - Paola	Co-op	76%
614 - East Central Ks Co-op	Co-op	73%
259 - Wichita	District	72%
457 - Garden City	District	72%
233 - Olathe	District	70%
232 - DeSoto	District	69%
230 - Spring Hill	District	68%
229 - Blue Valley	District	66%
512 - Shawnee Mission	District	65%
263 - Mulvane	District	45%

Source: LPA analysis of 2005-06 special education revenues and expenditures for 69 districts and cooperatives

In 2005-06, the percent of a district's or cooperative's excess costs that were covered by special education categorical aid ranged from 45% to 207%. *Figure 1-1* shows the top 10 and bottom 10 districts or cooperatives in terms of the percent of excess costs that were covered by categorical aid. As the figure shows, the Mulvane school district had the lowest percent of its costs covered (45%) while the Silver Lake school district had the highest (207%). Because Department of Education officials were surprised by the results for Mulvane and Silver Lake, we contacted officials from both districts and confirmed that the data we used either matched their own internal records, or seemed reasonable to them.

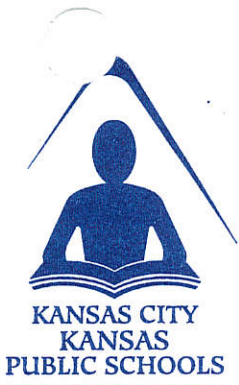
Overall, the results are consistent with findings from our 1998 audit of special education funding. In that audit, using a similar methodology, we found that the percent of costs covered ranged from 69% to 238% for the 1996-97 school year. *Appendix C* compares the results for 23 districts or cooperatives that were examined in both audits.

To assess the net effect of the Medicaid changes on each district or cooperative in the State, we used revenue and staffing data from the 2005-06 school year to estimate the amount of Medicaid funding each provider would lose (assuming they lost a little more than two-thirds of their funding), and the amount of new categorical aid they would receive. *Figure 2-1* summarizes our estimates, while *Appendix G* details the estimated impact on each of the 69 districts and cooperatives.

Figure 2-1 Summary of the Estimated Effect of Changes to Medicaid on Districts and Cooperatives Based on 2005-06 Revenue and Staffing Data				
	Districts or Co-ops Estimated To Gain Funding		Districts or Co-ops Estimated To Lose Funding	
ALL DISTRICTS OR COOPERATIVES				
Total # of Districts or Cooperatives	31		38	
Total Estimated Gain (Loss)	\$3.9 million		(\$5.8 million)	
DISTRICTS OR COOPERATIVES AFFECTED MOST				
Total # of Districts or Co-ops Estimated to Gain (Lose) More Than \$100,000	13		12	
Average Estimated Gain (Loss)	\$258,004		(\$426,408)	
Poverty (% Free Lunch)	19%		39%	
INDIVIDUAL DISTRICTS OR COOPERATIVES				
Districts or Cooperatives Estimated To Gain or Lose the Most Funding	Shawnee Mission (512)	\$ 827,710	Wichita (259)	(\$2,166,500)
	Blue Valley (229)	\$ 622,765	Kansas City (500)	(\$769,074)
	Olathe (233)	\$ 421,028	Hutchinson (308)	(\$352,953)
Source: LPA estimates based on 2005-06 Medicaid reimbursement and special education staffing data from 69 providers, and Consensus Estimating Group estimates.				

As the figure shows, 31 districts or cooperatives will gain an estimated total of \$3.9 million, while 38 will lose a total of \$5.8 million. Although all providers will be affected, 10 were estimated to gain or lose less than \$10,000 each. On the other hand, many districts and cooperatives will be affected significantly—we estimated that 13 would gain more than \$100,000 and 12 would lose more than \$100,000.

When we looked at the characteristics of districts that will gain or lose the most money, we found that:



Kansas City, Kansas Public Schools

Unified School District No. 500

**Senate Education Committee
Testimony by Kansas City, Kansas Public Schools
SB 620
February 21, 2008**

Federal Medicaid funding that is provided to Kansas USDs was reduced this year from \$35 million to \$11.5 million. Since current law requires the state to provide 92% of Special Ed excess costs, the Kansas Department of Education replaced \$22 million of this \$23.5 million loss. Currently, the only method provided in the statutes for distributing these new dollars is to increase the number of dollars provided to each Special Education teacher. This results in a distribution to USDs that has no relationship to the number of Medicaid students in a given school district. Some districts, such as Kansas City, that have large numbers of Medicaid students must transfer dollars from our general fund to cover these Medicaid costs. Other districts with few Medicaid students are reaping a windfall from the additional state dollars that were intended to cover the shortfall of federal Medicaid dollars.

I have included several pages of the December, 2007 Post Audit Report on Special Education Funding that focuses on Medicaid Funding. This complete report also includes graphs that illustrate the funding effect on each USD in the state.

The Kansas City, Kansas Public School District urges the Senate Education Committee to rectify this problem. Directing these new state dollars to the districts that in fact incur the additional Medicaid costs is fair and is precisely what most legislators assumed would happen when the state provided 92% of these lost federal funds.

Bill Reardon
Lobbyist, Kansas City, Kansas
Public Schools

Question 2: How Will Districts and Cooperatives Be Affected by Changes to School-Based Medicaid Funding?

Answer In Brief:

Recent changes to Medicaid will cost the State an estimated \$24 million in Medicaid funding, starting in the 2007-08 school year. The Legislature has agreed to replace 92% of the lost funding, resulting in almost half the districts and cooperatives gaining more funding than they lost in Medicaid because of how the new funding will be distributed. Districts and cooperatives that will lose funding tend to be in high-poverty areas, while districts and cooperatives that gain funding tend to be in more affluent, suburban areas. These and related findings are discussed in the sections that follow.

Changes to Medicaid Will Cost Districts and Cooperatives Almost \$2 Million in Special Education Funding, Starting in the Current School Year

Because some special education services provided by districts and cooperatives are health-related, they are able to bill Medicaid to help pay for these services if the students are eligible. Beginning with the 2007-08 school year, several key changes have been made to the Kansas Medicaid plan that will make it more difficult for districts and cooperatives to access this funding.

Changes to the school-based Medicaid rules are the result of two recent audits by the federal Department of Health and Human Services. In the past two years, the federal Department of Health and Human Services conducted two audits of the school-based Medicaid program in Kansas. These audits found several problems with how the program was being administered, including errors in reimbursement rates and cost reports that didn't accurately reflect the services provided by districts and cooperatives. As a result of these findings, the Kansas Health Policy Authority—the agency that administers the Medicaid program in Kansas—implemented the following changes:

- reimbursements will be based on a fee-for-service rate rather than a bundled rate
- services will have to be authorized by a doctor to be eligible for reimbursement
- each year, a student's parent will have to authorize the school to access Medicaid for reimbursement

These changes are expected to decrease the amount of Medicaid funding districts and cooperatives are able to receive, primarily for these reasons:

- **Because the bundled rates were too high, districts will receive less when they have to document the individual services.** A bundled rate plan includes an array of services priced at one rate. However, a fee-for-service plan prices each service individually. Because the federal audits

concluded the State's bundled rates were too high, the State will lose money when districts and cooperatives are reimbursed for each individual service.

- **Fee-for-service rates will require districts and cooperatives to maintain more detailed service records in order to receive reimbursements.** Under a bundled rate plan, a provider only needed to show the student received a service once that month in order to bill Medicaid for the month. Under the new fee-for-service plan, districts and cooperatives must be able to match their billing records directly to the documentation in the student's file. Some districts and cooperatives might find this requirement too burdensome and not even try to seek reimbursement for many services.
- **Parents will have little incentive to obtain a doctor's note or sign an authorization form to allow their school to bill Medicaid.** That's because schools are required to provide special education services to all students who need them, regardless of how those services are going to be paid for.

Kansas' Consensus Revenue Estimating Group estimates that changes to Medicaid will reduce Medicaid funding from \$35 million to \$11.5 million, beginning with the 2007-08 school year. This group recently estimated Kansas would receive only \$11.5 million in school-based Medicaid funding because of the changes described above. In 2005-06 (the most recent year for which actual revenue data was available), districts and cooperatives in Kansas received \$35.4 million in school-based Medicaid funding. If they receive only \$11.5 million in Medicaid funding, it would mean a loss of \$23.9 million, or 67.5%, of Statewide Medicaid funding for the 2007-08 school year.

Under the current school finance formula, the Legislature will replace 92%, or almost \$22 million, of the lost Medicaid revenues with State categorical aid. Medicaid is one of the sources of primary funding used in calculating the excess costs of special education. Every dollar lost increases Statewide excess costs by a dollar. Under current law, the Legislature funds 92% of all excess costs. If the State loses \$23.9 million in Medicaid funding, the Legislature will offset most of the loss by providing an additional \$21.9 million in categorical aid. Districts and cooperatives will have to fund the remaining almost \$2.0 million with their own revenues.

Because of How the Lost Medicaid Dollars Will Be Replaced With State Aid, Some Districts And Cooperatives Actually Will Gain Funding

As we described above, it's estimated that districts and cooperatives will lose a little more than two-thirds of their Medicaid funding as a result of the recent changes. Although the Legislature will replace 92% of the lost funding with special education categorical aid, the new aid will be distributed based on the number of special education teachers employed by each district or cooperative (as described in the Overview), not based on the amount of Medicaid funding districts and cooperatives will lose. This means that some are likely to be affected more adversely than others.

To assess the net effect of the Medicaid changes on each district or cooperative in the State, we used revenue and staffing data from the 2005-06 school year to estimate the amount of Medicaid funding each provider would lose (assuming they lost a little more than two-thirds of their funding), and the amount of new categorical aid they would receive. *Figure 2-1* summarizes our estimates, while *Appendix G* details the estimated impact on each of the 69 districts and cooperatives.

Figure 2-1 Summary of the Estimated Effect of Changes to Medicaid on Districts and Cooperatives Based on 2005-06 Revenue and Staffing Data				
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Total # of Districts or Co-ops Estimated to Gain (Lose) More Than \$100,000	13		12	
Average Estimated Gain (Loss)	\$258,004		(\$426,408)	
Poverty (% Free Lunch)	19%		39%	
INDIVIDUAL DISTRICTS OR COOPERATIVES				
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	Blue Valley (229)	\$ 622,765	Kansas City (500)	(\$769,074)
	Olathe (233)	\$ 421,028	Hutchinson (308)	(\$352,953)
Source: LPA estimates based on 2005-06 Medicaid reimbursement and special education staffing data from 69 providers, and Consensus Estimating Group estimates.				

As the figure shows, 31 districts or cooperatives will gain an estimated total of \$3.9 million, while 38 will lose a total of \$5.8 million. Although all providers will be affected, 10 were estimated to gain or lose less than \$10,000 each. On the other hand, many districts and cooperatives will be affected significantly—we estimated that 13 would gain more than \$100,000 and 12 would lose more than \$100,000.

When we looked at the characteristics of districts that will gain or lose the most money, we found that:

- **Suburban districts with little poverty are likely to gain the most funding.** The three districts that gain the most are Shawnee Mission, Blue Valley, and Olathe. Overall, the districts that gain the most tend to have very little poverty—on average only 19% of their students qualify for free lunches under the National School Lunch program.
- **Districts with high poverty are likely to lose the most funding.** The three districts that lose the most are Wichita, Kansas City, and Hutchinson. Overall, the districts that lose the most tend to be very poor. On average, 39% of their students qualify for free lunches.

Districts and cooperatives with very little poverty don't rely as heavily on Medicaid as a funding source. As a result, it will be easier for them to get enough of the new special education categorical aid to offset (or even exceed) the Medicaid funding they will lose.

On the other hand, districts and cooperatives with more poverty likely will be more adversely affected by the changes because they rely more heavily on Medicaid as a funding source than other districts. It's far less likely that they will be able to get enough new categorical aid to offset the lost Medicaid funding.

Conclusion

Each year the Legislature provides categorical aid to districts and cooperatives to help pay for the cost of providing special education services. The categorical aid isn't distributed based on the actual costs of providing special education services or on the number of students who are served. Rather, the majority of it is given to districts and cooperatives based on the number of special education teachers they employ.

Using the number of special education teachers as the basis for distributing categorical aid reduces the incentives districts and cooperatives may have to "over identify" students for services and may help control costs. But it also can create certain inequities in the distribution of aid. As we've found in this audit and in our 1998 audit of special education funding, this system results in significant differences in the percent of districts' and cooperatives' special education excess costs that are paid for with categorical aid. We've also found that recent changes that will reduce the amount of school-based Medicaid funding for districts and cooperatives will affect them very differently because of this system. If the Legislature wants the distribution of special education funding to be more closely linked to the excess costs of providing those services, it will have to consider changing the current funding formula.

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS

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Testimony before the
Senate Committee on Education

on
SB 620 – Medicaid Replacement Aid

by

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

February 21, 2008

Madam Chair and Members of the Committee:

Thank you for the opportunity to offer comments today on **SB 620**, which would change the distribution of special aid to recognize changes in Medicaid reimbursement. Because there has been considerable discussion about special education funding, I am including a broader statement on this issue.

KASB's long-standing position on special education is the state should fund 100 percent of the "excess cost" formula. Although that formula has historically been based primarily on reimbursement of teacher units, rather than actual district costs, the only position adopted by our Delegate Assembly regarding distribution has been that use of a weighting system should be considered. There have been no alternative proposals advanced through our policy-making process. However, much more attention is being focused on the current formula in light of the Post Audit report on the current distribution formula and the replacement of Medicaid funding. We would offer the following comments.

First, the whole point in having a separate funding system for special education is that districts have different costs in serving these children. Therefore, the system ought to reflect these differences, and the more closely it reimburses districts for these actual cost differences, the better.

Second, we believe changes in the formula should be adopted so no districts face abrupt losses in funding.

Third, the Legislature needs to decide on a comprehensive plan for dealing with special education. For example, if the Legislature decides to reimburse districts for their actual costs, a separate system for funding catastrophic costs, which the 2010 Commission recommended adjusting, or reimbursing for Medicaid, which this bills addresses, should not be necessary.

*Senate Education Committee
2-21-08
Attachment 9*

Fourth, the state should carefully study whether changes in funding may have unintended negative consequences. For example, one reason some districts are currently receiving a lower percentage of excess costs is because they pay their teachers more. These districts will argue this is because salary costs are higher in their areas. On the other hand, some districts appear to be getting more than their "fair share" because their salaries are low and pupil teacher ratios are high. Reducing funding for these districts could further depress salaries, make it harder to employ the required number of teachers, and result in even higher "class sizes." This could, in turn, further reduce state reimbursement and create new inequities.

Fifth, the Legislature needs to understand that reimbursement for actual costs may tend to increase spending on special education. From the viewpoint of students, parents and advocates, that would be a very good thing. Parents want the best for their children, and that often means more expensive services. Often, it is the school system that is put in the position of having to say no. Many advocates claim districts are not providing nearly enough special services – you will no doubt hear that today from those concerned about dyslexia. Yet school districts are also being told the state is spending enough on education, that state spending and taxation is too high, and that school advocates should stop asking for more. But special education is just one area where the state, the federal government, and parents are asking the schools to do more.

In conclusion, KASB supports the concept of linking special education reimbursement more closely to actual costs, but we encourage the Legislature to move with caution.

Thank you for your consideration.

SCHOOLS FOR FAIR FUNDING

Testimony in Support of SB 620

Bill Brady

February 21, 2008

Chairperson Schodorf and members of the Education Committee:

Schools for Fair Funding believes the underwriting principle in deciding where to place limited resources for public education is actual costs. Each year a myriad of proposals are made by various individuals and groups to divide educational dollars in a different manner. We believe the issue in SB 620 is one that warrants your support. Due to a CMS audit on the use of Medicaid dollars the federal government changed its policy on Medicaid reimbursement to Kansas for schools providing health services to students. The change resulted in a loss of Medicaid dollars in the neighborhood of \$24 million and a new system for billing for these services. The 2007 legislature appropriated state dollars to replace the lost federal dollars. In the absence of any formula to direct the Department of Education to send the lost Medicaid dollars back to the districts that are serving the kids who are getting the services, the Department distributed the dollars across the board to all school districts through the normal special education funding formula. The result is districts that have large Medicaid expenditures did not receive the dollars necessary to pay for the services associated with the students responsible for those costs. Since all districts received a portion of the dollars, in some cases, districts with little Medicaid expense are receiving higher reimbursed costs than their previous Medicaid expenditures. The Legislative Post Audit substantiated this fact in its Audit released in December 2007. Appendix G on page 42 of the Audit lists the districts that lost Medicaid dollars, the amount of increased categorical aid that they received due to the Department of Education's allocation process and the net impact to the district.

Schools for Fair Funding believes that the \$24 million should be directed more effectively to get the dollars to the districts actually serving the Medicaid children. This includes services such as speech and hearing and physical therapy that can be critical to the educational achievement of students. The change in SB 620 attempts to distribute this funding based on headcount. We understand the challenge in coming up with a fair formula. Although not a perfect answer we believe distributing funds generated with Medicaid reimbursed services by headcount is closer to funding based on actual costs than the current method of distributing the money to all districts whether they have any Medicaid eligible students or not. SFFF encourages this Committee to address this problem this session. We believe it is a fairness issue and should not get bogged down in how it affects individual member's districts. If a district has the students that need services the money should flow to meet those needs.

*Senate Education Committee
2-21-08
Attachment 10*