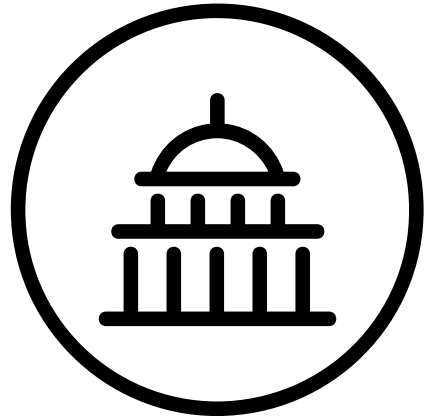


FEB 2023

Governance for Consolidated School Systems

Key Findings and Recommendations

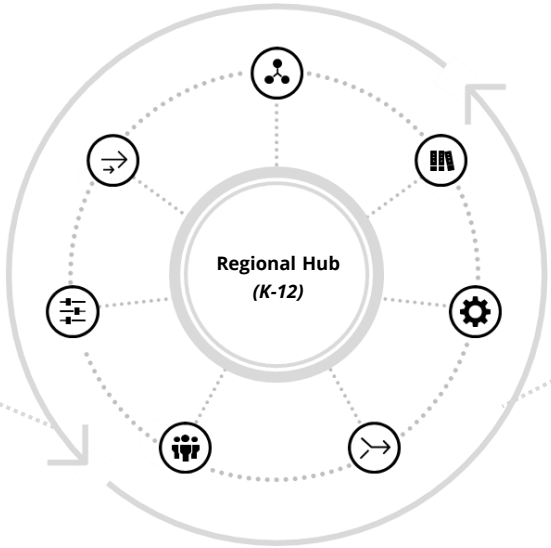
Historical Context

School consolidation trends began in the 1960's, but they never fully caught on in Kansas due to the unique makeup of rural populations and regions across the state.

A wave of school consolidations occurred across the nation in the 1950's-60's and "hub and spoke" models that connected smaller elementary schools (spokes) to larger, centralized high schools (hubs) became the norm.

Kansas moved in this direction in the 1960's, but the "hub and spoke" model was never fully implemented.

Concerned about rising education costs, the Kansas Legislature commissioned a school finance study in 2002 which prompted two Kansas superintendents to propose a ***new hub and spoke model*** organized like ***small town health clinics that feed into regional hospitals*** (the plan proposed consolidating all existing schools into 40 regional systems, with most elementary schools remaining open).



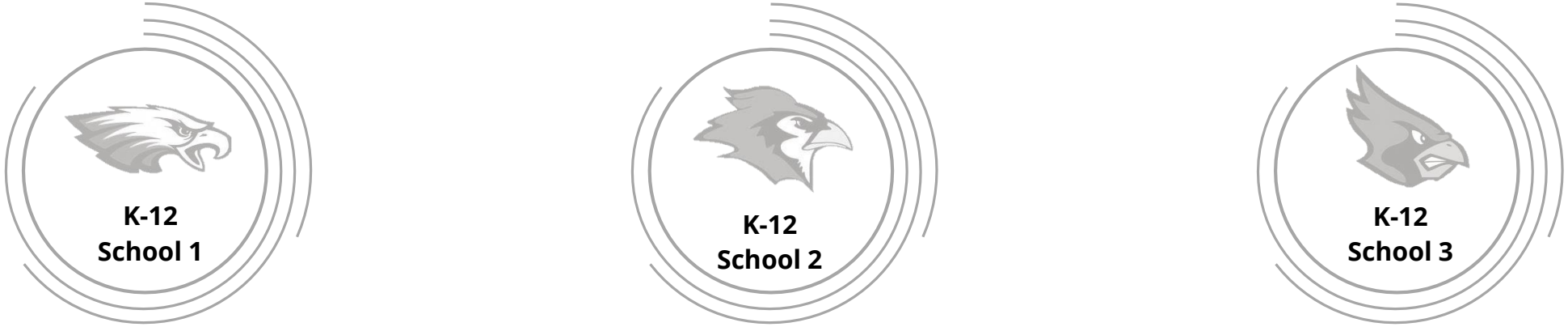
Alternate Approach to Consolidation

New proposals developed suggesting that K-12 school systems could lower costs and remain intact if they partnered with neighboring schools for certain shared services and administrative functions.

"One school per county" proposals were ***met with resistance*** from rural areas, so ***new proposals emerged*** in the 2000's to suggest that administration functions should be consolidated across schools to save money while ***leaving existing K-12 systems intact.***

Sample Consolidated School System Structure

Central Office
(Shared Services and Superintendent or Administrative Functions)



One or more K-12 school systems consolidate under a single Superintendent's office to lower administration costs and provide cost saving opportunities through shared services and economies of scale on select contracts.

Emerging Issues In Consolidated School Districts

Although multiple K-12 schools have pursued consolidation recommendations to lower costs, the Kansas BOE doesn't provide sufficient guidelines, accounting systems, or tools to manage budgets across schools.

The ***primary accounting issue*** in consolidated school districts is that administrators ***do not have the ability to track and manage incoming revenue (or state aid) by school building*** or system.

The ***lack of clear accounting standards*** and guidelines in this area prevents consolidated school districts from establishing impartial budgets that ***accurately reflect*** the amount of incoming revenue that each school brings in based on its unique student population.

When consolidated school districts are ***unable to accurately segment revenue and expenses by school***, they are ***unable to monitor*** the financial health of each school ***and/or assess the efficiency levels*** (and need for adjustments) when enrollment and demographics change.

Accounting Issues in Consolidated School Districts

Revenue Allocations — *Inconsistent revenue allocation methodology and incomplete tracking and reporting*

Expense Allocations — *Non-Standard Expense Allocation Methodology and unclear processes and standards for managing exceptions*

Internal Controls — *Minimal internal controls present and processes and standards for financial management are unclear and incomplete*

Financial Reporting — *Lack of structured reporting system and/or ability to track performance and trends over time (reactive management approach)*

Lack of Standard Processes Limits Effectiveness

Without technical guidance or support from the KS BOE, various revenue allocation models are being developed with a range of maturity, effectiveness, and accuracy.

Process Maturity – Revenue Allocation

Consolidated School Districts are stuck here

Lagging (Ad-Hoc)

Process for tracking and distributing revenue ***varies year over year*** and revenue distribution decisions are driven by expenses incurred rather than revenue received (reactive approach).

Basic (Minimum Standard)

District redistributes revenue based on simple student enrollment counts, but it ***does not have a system*** that accounts for unique characteristics of student population and related revenue drivers from the Form 150.

Without clear guidelines, accounting systems, and reports in place, local school boards are managing what should be straight forward budget decisions in ***non-standard*** and ***emotionally driven*** ways. Many unified districts are stuck at this stage, because they are ***unable to see*** and easily trace how much revenue each school brings into the unified system.

Advanced (Improving)

District allocates revenue to each school based on some Form 150 factors, but the process ***does not account for all Form 150 factors*** and/or the process does not fully trace back to the Form 150 (and other funding sources such as Land Valuation (property tax) revenue are not tracked in a systematic way).

Leading (Best Practice)

District has a ***clear and repeatable process*** for tracking and managing ***all incoming revenue sources*** and related allocations on a per school basis. Process is ***clearly defined, partially automated, and can be clearly traced*** to each of the incoming revenue sources.[1]

1) Initial recommendations limited to scope of General Fund and Supplemental Fund for simplification purposes. Similar adjustments needed for Land Valuation (property tax) revenue and other funding sources.

Key Recommendations

The Kansas State Board of Education should provide more advanced systems, tools, and guidance to help unified school districts manage financial reporting and decision making.

Key Recommendations

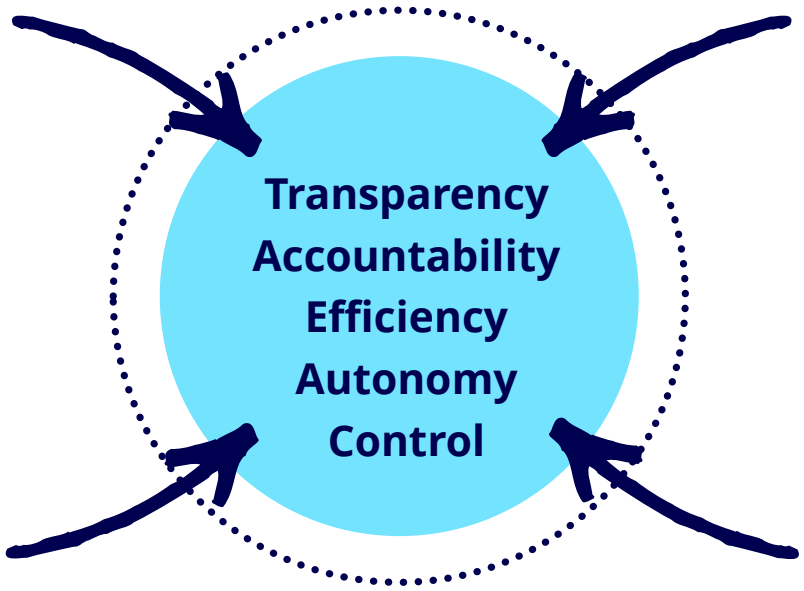
The lack of structure and formal accounting guidance for consolidated school districts leads to infighting between schools, and it inhibits the district's ability to plan for and manage long term budget issues and/or the need for potential structural changes.

Revenue Allocation Methodology

District should have a clearly documented and repeatable process for tracking and redistributing revenue based on actual revenue (or state aid) received for each school's student population.

Expense Allocation Methodology

District should have clearly documented processes for tracking expenditures at the building level and standard procedures should be developed for reviewing and changing allocation methods when unique scenarios arise.



Local Autonomy

Each school should have autonomy and control over how the revenue brought in by their community and student population is used and distributed.

Local Accountability

Each school should be responsible for managing shortfalls in revenue and decisions related to structural changes or school closures to minimize irresponsible decision making.

Closing Statement

The lack of clear guidance and administrative structure pits schools against one another and prevents the district from developing a wholistic vision and realistic strategy for the future.

- Although ***formal pushes for consolidation have slowed*** in recent years as school funding formula issues were being addressed in the supreme court, the ***Kansas Board of Education*** has taken an ***isolationist and laissez-faire approach*** to helping schools manage questions and issues related to consolidation.

- With the ***KS BOE unwilling to engage*** in the conversation and/or provide technical guidance and support, ***local school boards*** have been ***forced to manage the burdens*** of school closure decisions independently, ***without clarity*** regarding ***how to evaluate*** these decisions ***or guidance on the types of structural changes*** (e.g. K12 vs. K-8 vs. K-5) that could be made to support their communities.

- The lack of formal guidance and neutral third-party oversight has led to ***intra-school cannibalization***, ***regional infighting***, and the ***closure of academically successful*** and ***financially solvent schools***.

- In addition, the ***broader conversations*** about what a ***reasonable hub and spoke model*** could look like (where local elementary schools feed a regional high school hub) is not being explored or considered in a thoughtful or strategic manner.

- Local school boards are ***not operating with a vision for the future*** and these ***choices have consequences*** - if no one steps up to lead our people into the future, our children and our economy will continue to suffer.

Appendix

Overview of Form 150 and why it creates revenue allocation issues for consolidated systems

Introduction to the Form 150 and the Kansas School Funding Formula

The Form 150 is a tool used by school administrators to report details related to the district's student population as needed to calculate the total amount of state aid the district will receive.

Illustrative Explanation[1]

Base Student Counts	+	Enrollment Weighting Factors	=	Total Weighted FTE
600 Students (FTEs)		*400 Extra Weighting Points*		*1,000 wFTEs*

- The ***Base Student (or FTE) Counts*** are relatively straight forward counts of the ***total students enrolled*** (with some technical instructions related to counting students that attend part time).
- The Base FTE Count includes the sum of the ***highest K-12 enrollment*** count from the ***past two years***, plus the count of At-Risk, ***Pre-School*** (age 3-4) students for the ***current year***.
- Actual amounts vary based on unique student populations, but the Base FTE Counts ***typically represent ~60% of total revenue*** *(or state aid).*

- The ***Enrollment Weighting Factors*** are designed to provide additional funding for ***select student populations*** that are ***more expensive to educate*** on a per-pupil basis (e.g. extra resources and support needed to educate at-risk or non-English speaking students).
- There were 9 unique weighting factors in the FY23 version of the Form 150, and ***each weighting factor has a unique formula*** and process for calculating the extra weighting points that are input into the form.

- The Base Student Count (600 FTEs) is added to the Enrollment Weighting Factors (400 Weighting Points) to identify the ***Total Weighted FTE*** amount.
- Once the total "***Weighted FTE***" amount is calculated, this number is multiplied times a "***Base Aid Rate Per Pupil***" (e.g. ~$5,000/student) to calculate the amount of Weighted FTE funding that each district will receive:

1,000 wFTEs x $5,000/student = $5M in Revenue

1) Description of Form 150 process and mechanics simplified to provide general understanding and illustrate the process. Additional factors such as special line items for virtual education and special education are included in the final Form 150 amounts for General Fund and Supplemental Fund revenue. Refer to the KSBOE website and related instruction manuals for detailed information on Form 150 mechanics.

Form 150 Process Issues for Consolidated School Districts

The Form 150 was not designed to serve consolidated school districts, so it is difficult for administrators to track and/or identify how much revenue (or state aid) each school system receives from the state.

Illustrative Sample – Form 150 Inputs

Base Student Counts	+	Enrollment Weighting Factors	=	Total Weighted FTE
1,069.5Students (FTEs)		*672.9 Extra Weighting Points*		*1,742.4 wFTEs*

Base Student Counts	
Adjusted FTE Count (highest enrollment from past 2 years, excluding At-Risk Pre-K)	1053.5
At-Risk Pre-K FTE Count (from current year)	16
Total Base Student Count (A)	***1,069.50***

Enrollment Weighting Factors	
Low Enrollment Weighting	238.2
Bilingual Weighting	0
Career Technical Education (CTE) weighting	24.3
At-Risk Student Weighting	136.5
High-Density At-Risk Student Weighting	0.5
School Facilities Weighting	0
Transportation Weighting	93.8
Ancillary School Facilities Weighting	0
Special Education Weighting	179.6
FHSU Math & Science Academy FTE enrollment	0
Total Weighting Added to Base FTE Count (B)	***672.9***

Total Weighted FTE	
Total Weighted FTE (A+ B)	*1742.4*
Base Aid Rate Per Pupil (FY23 level)	*$4,846*
Total wFTE Revenue	***$8.4M***

Superintendents from consolidated school districts combine data for each line item offline and input it into the Form 150 as a single value.

The Form 150 utilizes the single value inputs provided by the administrator to calculate a total weighted or FTE amount for each line item (complexity of calculation varies by line item).

The final output of the Form 150 is a single lump sum amount of revenue (or state aid) that will be provided to the entire consolidated school district.

Without technical guidance or support from the KS BOE, local school boards and administrators are forced to develop models for redistributing the revenue back to schools on their own.[1]

1. There are some specific policies for At-Risk and Special Education funding; however, unified districts are responsible for redistributing the lump sum of funding across school buildings and systems at their discretion.

Sample Process: *Basic or Minimum Standard*

The most basic process for redistributing revenue (or state aid) to schools simplifies the model by allocating funding based on the student enrollment (60% of students = 60% of revenue).

Basic (Minimum Standard)

A *Breakdown for each school is based on *actual* student enrollment counts.*

B *District *estimates* weighting factor amounts for each school based on student enrollment counts For example, School 1 = 60% of student population, so school 1 receives 60% of enrollment weighting factors in final revenue allocation. Approach does not adjust for unique characteristics of each school's student population.*

C *Final revenue amount allocated to each school is based on student enrollment counts (School 1 = 60% of student population and 60% of revenue allocation)*

	School 1	School 2	School 3	USD 001
A Base Student Counts				
Adjusted FTE Count (highest enrollment from past 2 years, excluding At-Risk Pre-K)	684.8	210.7	158	1053.5
At-Risk Pre-K FTE Count (from current year)	10	3.0	3.0	16
Total Base Student Count (A)	***694.8***	***213.7***	***161.0***	***1,069.50***
B Enrollment Weighting Factors				
Low Enrollment Weighting				238.2
Bilingual Weighting				0
Career Technical Education (CTE) weighting				24.3
At-Risk Student Weighting				136.5
High-Density At-Risk Student Weighting				0.5
School Facilities Weighting				0
Transportation Weighting				93.8
Ancillary School Facilities Weighting				0
Special Education Weighting				179.6
FHSU Math & Science Academy FTE enrollment				0
Total Weighting Added to Base FTE Count (B)				***672.9***
C Total Weighted FTE				
Total Weighted FTE (A+ B)	*1,131.91*	*348.15*	*262.34*	*1742.4*
Base Aid Rate Per Pupil (FY23 level)	*$4,846*	*$4,846*	*$4,846*	*$4,846*
Total wFTE Revenue	***$5.49M***	***$1.69M***	***$1.27M***	***$8.45M***

District does not track or calculate Weighting Factors on a school by school basis.

Final revenue is estimated based on student population

(60% of student population = 60% of revenue)

1) Initial recommendations limited to scope of General Fund and Supplemental Fund for simplification purposes. Similar adjustments needed for Land Valuation (property tax) revenue and other funding sources.

Sample Process: *Leading or Best Practices*

The best practice for redistributing revenue (or state aid) to schools assigns revenue allocations based on actual revenue earned (or actual state aid received).

Leading (Best Practice)

A *Breakdown for each school is based on *actual* student enrollment counts.*

B *Unique formula used for each Enrollment Weighting Factor line item to identify *actual* weighting factors driven by each school.*

C *Total Weighted FTE and total revenue (or state aid) amount associated with each school is clearly identified and easy to trace.*

	School 1	School 2	School 3	USD 001
A Base Student Counts				
Adjusted FTE Count (highest enrollment from past 2 years, excluding At-Risk Pre-K)	684.8	210.7	158	1053.5
At-Risk Pre-K FTE Count (from current year)	10	3.0	3.0	16
Total Base Student Count (A)	***694.8***	***213.7***	***161.0***	***1,069.50***
B Enrollment Weighting Factors				
Low Enrollment Weighting	47.64	90.52	100.04	238.2
Bilingual Weighting	0.00	0.00	0.00	0
Career Technical Education (CTE) weighting	18.00	6.30	0.00	24.3
At-Risk Student Weighting	27.30	20.48	88.73	136.5
High-Density At-Risk Student Weighting	0.00	0.00	0.00	0.5
School Facilities Weighting	0.00	0.00	0.00	0
Transportation Weighting	56.28	18.76	18.76	93.8
Ancillary School Facilities Weighting	0.00	0.00	0.00	0
Special Education Weighting	44.90	53.88	80.82	179.6
FHSU Math & Science Academy FTE enrollment	0.00	0.00	0.00	0
Total Weighting Added to Base FTE Count (B)	***194.12***	***189.93***	***288.85***	***672.9***
C Total Weighted FTE				
Total Weighted FTE (A+ B)	*888.90*	*403.63*	*449.87*	*1742.4*
Base Aid Rate Per Pupil (FY23 level)	*$4,846*	*$4,846*	*$4,846*	*$4,846*
Total wFTE Revenue	***$4.31M***	***$1.96M***	***$2.18M***	***$8.45M***

1) Initial recommendations limited to scope of General Fund and Supplemental Fund for simplification purposes. Similar adjustments needed for Land Valuation (property tax) revenue and other funding sources.

Side By Side Comparison: Minimum Standard vs. Best Practices

Failing to allocate revenue (or state aid) based on actuals can have a significant impact on allocations for schools that would receive additional aid for more expensive student populations (e.g. at risk students).

Basic (Minimum Standard)

Final revenue amount allocated to each school is based on student enrollment counts. School 1 has 60% of student population and received 60% of revenue allocation.

	School 1	School 2	School 3	USD 001
Total Weighted FTE				
Total Weighted FTE (A+ B)	*1,131.91*	*348.15*	*262.34*	*1742.4*
Base Aid Rate Per Pupil (FY23 level)	*$4,846*	*$4,846*	*$4,846*	*$4,846*
Total wFTE Revenue	***$5.49M***	***$1.69M***	***$1.27M***	***$8.45M***

Largest school receives most funding

At-Risk funding does not follow the students

Revenue assigned (or state aid received) is ESTIMATED.

Process is traceable, but NOT accurate

Leading (Best Practice)

Final revenue amount allocated to each school is based on actual revenue earned or state aid received for each school. Total Weighted FTE and total revenue (or state aid) amount for each school is identified and easy to trace.

	School 1	School 2	School 3	USD 001
Total Weighted FTE				
Total Weighted FTE (A+ B)	*888.90*	*403.63*	*449.87*	*1742.4*
Base Aid Rate Per Pupil (FY23 level)	*$4,846*	*$4,846*	*$4,846*	*$4,846*
Total wFTE Revenue	***$4.31M***	***$1.96M***	***$2.18M***	***$8.45M***

School with high at-risk population receives equitable funding

Revenue assigned (or state aid received) is based on ACTUALS.

Process is traceable AND accurate

1) Initial recommendations limited to scope of General Fund and Supplemental Fund for simplification purposes. Similar adjustments needed for Land Valuation (property tax) revenue and other funding sources.