



School District PERFORMANCE AUDIT REPORT

**K-12 Education: School Districts' Use of Additional
State Funding**

Executive Summary

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
June 2008**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$13 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

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LEGISLATURE OF KANSAS

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June 18, 2008

To: Members of the Kansas Legislature

This executive summary contains the findings, conclusions and the agency responses from our completed performance audit, *K-12 Education: School Districts' Use of Additional State Funding*.

The report also contains an appendix showing how much new money school districts' have received since the 2004-05 school year, as well as an appendix explaining how State equalization aid works.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials. If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

Overview of the Kansas School Finance Formula

The primary sources of funding for school districts are determined based on formulas in State law. page 3
The school finance formula was created in 1992 under the School District Finance and Quality Performance Act. The formula has two parts: the general fund budget and the local option budget. Each school district's general fund budget is calculated using a formula that is based on the district's enrollment and a set of "weights" to recognize the additional costs districts incur for such things as low enrollment levels and special needs students. Local school boards also have the option to approve additional funding through a local option budget, which allows districts to raise money locally to enhance their educational programs.

In 2005 and 2006, the Legislature changed the school finance formula to phase in additional funding over four years. page 4
The 1999 Montoy v. State of Kansas lawsuit involved two school districts that filed suit against the State and alleged that the Legislature had failed to adequately fund K-12 education as required by the Kansas Constitution. The Kansas Supreme Court issued an opinion in January 2005, saying the Legislature hadn't met its constitutional burden. As a result, the Legislature changed the school finance formula to phase in an estimated \$756 million in additional funding for K-12 education between the 2005-06 and 2008-09 school years.

Question 1: How Have School Districts Used the Additional State Funding They've Received Since 2005?

Over the past three years, districts received a cumulative total of more than \$1.5 billion in new funding because of changes to the school finance formula. page 9
School districts have received a cumulative total of \$1.7 billion in additional funding from all sources (over and above the 2004-05 funding levels) for the past three years. The vast majority of this (more than \$1.5 billion) was new funding that resulted from changes to the school finance formula. In all, 90% of the new funding brought about by funding formula changes came from basic operating aid (including the base state aid per pupil, low enrollment, and high enrollment weightings), at-risk funding, and districts' local option budgets. Districts that received the most new funding per student were larger districts or had more poverty.

**New Additional Funding Resulting from Legislative Changes
2005-06 to 2007-08 School Years**

Revenue Type	Additional Funding Over the Amount Received in the 2004-05 School Year			Cumulative Total	% of Total
	2005-06	2006-07	2007-08		
GENERAL FUND BUDGET					
Basic Operating Aid (a)	\$102,843,027	\$144,595,372	\$182,558,793	\$429,997,192	28%
At-Risk (b)	\$58,469,493	\$145,041,361	\$214,925,290	\$418,436,144	27%
Special Education	\$19,497,153	\$31,506,164	\$37,336,100	\$88,339,417	6%
Bilingual	\$11,166,663	\$13,151,000	\$16,252,638	\$40,570,301	3%
Vocational Education	\$3,030,372	\$3,543,438	\$3,938,002	\$10,511,812	1%
Cost of Living	-	\$2,548,598	\$4,018,831	\$6,567,429	0%
New Facility	\$1,500,076	\$1,412,681	\$2,040,678	\$4,953,435	0%
GEN FUND BUDGET TOTAL (above the 2004-05 base year)	\$196,506,784	\$341,798,614	\$461,070,332	\$999,375,730	66% (c)
LOCAL OPTION BUDGET					
New LOB (local funds)	\$68,789,539	\$118,734,405	\$149,065,773	\$336,589,717	22%
New LOB (State funds)	\$33,291,858	\$67,100,044	\$88,857,588	\$189,249,490	12%
LOB TOTAL	\$102,081,397	\$185,834,449	\$237,923,361	\$525,839,207	34%
TOTAL ALL NEW FUNDS	\$298,588,181	\$527,633,063	\$698,993,693	\$1,525,214,937	100%

(a) Includes base state aid per pupil (BSAPP), as well as low-enrollment and correlation weighting.

(b) Includes at-risk, non-proficient, and high-density at-risk weighting.

(c) Will add to 65% because of rounding.

Source: LPA analysis of budget documents from the Kansas Department of Education.

More than 70% of districts' increased spending between 2004-05 and 2006-07 was for student instruction. *In total, districts spent almost \$630 million more on district operations in 2006-07 (the most recent year for which expenditure data were available) than they did in 2004-05. Of this total, more than \$448 million was for student instruction—primarily salaries and benefits. That's because districts hired additional instructional staff, increased teacher salaries, and spent more on benefits. Districts also spent \$101 million more on special education in 2006-07 than in 2004-05. Finally, district officials told us they spent some of their new funding to create or expand instructional programs, such as all-day kindergarten, before-school and after-school programs, and four-year-old at-risk programs.*

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Summary of School District Spending Increases 2004-05 vs. 2006-07 School Year				
Functional Area	Increase from		% of Total Increase	# of districts that increased spending in this area (a)
	\$	%		
Instruction	\$448,072,466	20%	71%	278
Support Services				
<i>Student Support</i>	\$21,858,509	13%	3%	205
<i>Instruction Support</i>	\$34,675,272	22%	6%	199
Total Support Services	\$56,533,781	17%	9%	202
Administration				
<i>District Administration(b)</i>	\$18,404,222	9%	3%	184
<i>School Administration</i>	\$30,669,884	14%	5%	239
Total Administration	\$49,074,105	12%	8%	221
Operations and Maintenance	\$52,077,190	14%	8%	226
Transportation	\$23,829,903	15%	4%	212
Total	\$629,587,445	18%	100%	267

(a) The analysis includes a total of 287 districts. 13 districts that were involved in a consolidation during this time have been excluded.

(b) District administration includes several categories of services: administrative support services, special area administrative services, and supplemental services.

Source: LPA analysis of unaudited school district expenditures submitted to the Department of Education.

About 29% of districts' increased spending between 2004-05 and 2006-07 was for support services, administration, maintenance, and transportation. page 17
Our review of school district expenditure data also showed districts increased spending in other non-instruction areas. They increased spending on support services (\$57 million), school- and district-level administration (\$49 million), operations and maintenance (\$52 million), and student transportation (\$24 million).

Overall, reading and math student outcomes continue to show improvement for all grade levels. page 18
As required by the federal No Child Left Behind law, Kansas administers assessment tests to measure how well students are learning the State's K-12 curriculum. We looked at math and reading scores from the 2001-02 to 2006-07 school years. Scores showed that student outcomes have been improving for years, and have continued to improve since the new funding was added for the 2005-06 school year. We also noticed student outcomes continue to be worse for large districts (more than 1,725 students) and districts with high poverty.

CONCLUSION: *Because of the changes the Legislature made to the school finance formula in 2005, school districts have received, cumulatively, \$1.5 billion in new funding over the past three years—* page 20

funding that primarily went to a relatively small number of large districts with higher poverty levels. Because student performance is the result of years of accumulated instruction, it's too early to tell how the new funding has affected performance. However, our review of recent expenditures showed that most of districts' increased spending was in the area thought to have the most direct impact on performance—student instruction—although there also were notable increases in spending for administration, maintenance, and transportation.

APPENDIX A: *Scope Statement* page 21

APPENDIX B: *School Districts' General Fund and Local Option Budget Funding 2004-05 through 2007-08 School Years* page 23

APPENDIX C: *Explanation of How State Equalization Aid Works* page 28

APPENDIX D: *Agency Response* page 30

This audit was conducted by Laurel Murdie, Brenda Heafey, Lindsay Rousseau and Ivan Williams. Scott Frank was the audit manager. If you need any additional information about the audit's findings, please contact Laurel Murdie at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.