



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.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

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LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@lpa.state.ks.us
Website:
<http://kslegislature.org/postaudit>

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LEGISLATURE OF KANSAS

LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
E-MAIL: lpa@lpa.state.ks.us

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. 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 addition, the State also provides districts with other sources of funding, including contributions to the KPERS retirement system, equalization aid for capital outlay, and equalization for bond and interest payments.

In 2005 and 2006, the Legislature changed the school finance formula to phase in additional funding over four years. 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 have received a cumulative total of \$2.3 billion in new funding, including \$1.6 billion from the State. Overall, total revenues for school districts have increased from \$4.3 billion in 2004-05 to \$5.4 billion in 2007-08, a three-year increase of 25%. On a cumulative basis over the three years, districts received \$1.6 billion in new State funding, with virtually all of this increase coming in four areas—general State aid, State equalization aid, special education categorical aid, and KPERS. In general, districts that received the most new funding on a per student basis tended to have more poverty.

**School Districts Change in Revenues Over the 2004-05 School Year
2005-06 to 2007-08 School Years**

| | Amount of Increase/Decrease Compared With 2004-05 | | | Cumulative Total Additional Funding |
|--------------------------------------|--|------------------------|-------------------------|---|
| | Actual 2005-06 | Actual 2006-07 | Estimated 2007-08 | |
| State Revenues | | | | |
| General State Aid | \$ 145,485,423 | \$ 251,042,612 | \$ 371,939,859 | \$ 768,467,894 |
| State Equalization Aid | | | | |
| Local Option Budget Equalization Aid | \$ 62,945,099 | \$ 111,805,347 | \$ 153,158,667 | \$ 327,909,113 |
| Capital Outlay Equalization Aid | \$ 19,293,911 | \$ 20,492,154 | \$ 22,939,522 | \$ 62,725,587 |
| Bond & Interest Equalization Aid | \$ 5,313,294 | \$ 11,522,766 | \$ 17,063,702 | \$ 33,899,762 |
| Subtotal - State Equalization Aid | \$ 87,552,304 | \$ 143,820,267 | \$ 193,161,891 | \$ 424,534,462 |
| Special Education Aid | \$ 41,810,547 | \$ 83,201,188 | \$ 146,122,215 | \$ 271,133,950 |
| KPERS | \$ 21,277,156 | \$ 47,430,617 | \$ 76,459,377 | \$ 145,167,150 |
| Professional Development Aid | \$ 954,113 | \$ 1,679,780 | \$ 1,589,723 | \$ 4,223,616 |
| Other State Aid (a) | \$ 4,385,075 | \$ 5,310,403 | \$ 4,283,665 | \$ 13,979,143 |
| Total State Revenues | \$ 301,464,618 | \$ 532,484,867 | \$ 793,556,730 | \$ 1,627,506,215 |
| Local Revenues | | | | |
| Property Taxes | | | | |
| General Fund | \$ 31,938,253 | \$ 65,261,724 | \$ 67,252,833 | \$ 164,452,809 |
| Local Option Budget | \$ 49,750,505 | \$ 109,141,301 | \$ 148,655,420 | \$ 307,547,225 |
| Capital Outlay | \$ 21,231,099 | \$ 30,552,625 | \$ 35,716,069 | \$ 87,499,793 |
| Bond & Interest | \$ 1,805,558 | \$ 9,580,404 | \$ 6,480,317 | \$ 17,866,279 |
| Other Taxes (b) | \$ (401,354) | \$ 414,613 | \$ (1,366,419) | \$ (1,353,160) |
| Subtotal - Property Taxes | \$ 104,324,061 | \$ 214,950,667 | \$ 256,738,220 | \$ 576,012,947 |
| Food | \$ 2,788,794 | \$ 4,467,609 | \$ 13,579,575 | \$ 20,835,978 |
| Investment Earnings | \$ 21,890,871 | \$ 41,184,141 | \$ 26,209,867 | \$ 89,284,879 |
| Other Local Revenue (c) | \$ 25,445,284 | \$ 32,651,610 | \$ 34,536,544 | \$ 92,633,438 |
| Total Local Revenues | \$ 154,449,010 | \$ 293,254,026 | \$ 331,064,206 | \$ 778,767,242 |
| Federal Revenues | | | | |
| Food | \$ 809,998 | \$ 9,311,280 | \$ 9,804,415 | \$ 19,925,693 |
| Special Education | \$ 270,972 | \$ (1,483,305) | \$ (21,241,082) | \$ (22,453,415) |
| Capital Outlay | \$ (1,026,202) | \$ (2,002,621) | \$ (166,546) | \$ (3,195,369) |
| Vocational Education | \$ 50,335 | \$ 73,054 | \$ 62,038 | \$ 185,427 |
| Other (d) | \$ (18,503,766) | \$ (19,298,271) | \$ (14,741,270) | \$ (52,543,307) |
| Total Federal Revenues | \$ (18,398,663) | \$ (13,399,863) | \$ (26,282,445) | \$ (58,080,971) |
| Total All Revenues | \$ 437,514,965 | \$ 812,339,030 | \$ 1,098,338,491 | \$ 2,348,192,486 |

(a) Includes vocational aid, juvenile detention facility aid, parent education, mineral production tax, SRS payments, food service, driver's education, mentoring grants, Wallace Foundation grants, Governor's teaching excellence grants, discretionary grants, and other aid (typically less than \$100,000 per year).

(b) Includes motor vehicle tax and other local tax revenue.

(c) Includes other local revenue such as tuition, book rental fees, student activity fees, contributions and donations, transportation fees and other fees.

(d) Includes other federal funding such as Title I, Title II, reading excellence, Title IV, and Title III aid.

Source: LPA analysis of KSDE State aid reports and school district budget data.

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

**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.

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.

About 29% of districts' increased spending between 2004-05 and 2006-07 was for support services, administration, maintenance, and transportation. *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. *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: *Since the Legislature began making changes to the school finance formula in 2005, school districts have received, cumulatively, \$2.3 billion in new funding over the past three years. 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*

APPENDIX B: *Three-Year Change in School District Revenues
(All Sources) Over the 2004-05 School Year*

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

APPENDIX D: *Agency Response*

APPENDIX E: *Changes in State and Total Funding Per FTE Student,
By District, 2004-05 vs. 2007-08*

APPENDIX F: *Increases to Spending Authority for School Districts'
General Fund and Local Option Budgets Resulting from
Legislative Changes, 2005-06 to 2007-08 School Years*

APPENDIX G: *Summary of Major Changes Shown in This Report*

Notice to the Reader

In August 2008, Legislative Post Audit made changes to Question 1 of this report in response to a request from the Legislative Post Audit Committee for more comprehensive background information on the new funding school districts have received since the 2004-05 school year. The changes are summarized in Appendix G. All recipients of the original report were notified of the changes and received copies of the revised report.

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.