



A KANSAS PRIMER ON EDUCATION FUNDING

Volume III: Analysis of K-12 Spending in Kansas
Dave Trabert



KANSAS · POLICY **INSTITUTE**

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The six appendices total 62 pages and printed copies are available upon request. They are also available electronically and can be downloaded from the Data Warehouse on our web site at <http://KansasPolicy.org/Library/DataWarehouse/EducationSpending/>.

Preface

Perhaps no subject in Kansas has been more controversial in recent history than school funding. Years of court battles earlier in the decade culminated in 2005 with the Kansas Supreme Court ruling in favor of plaintiffs in *Montoy vs. State of Kansas* and ordering the Legislature to increase funding by \$853 million. State aid to schools increased by \$496 million between the 2004-05 school year and the 2009-10 revised budget and total funding to schools has increased by \$1.26 billion. A severe decline in State tax receipts (\$498 million / 8.6% for FY 2009, with the first half of FY 2010 down 9.0%) prompted the Legislature and Governor Parkinson to reduce school funding for FY 2010. A group of districts recently petitioned the Kansas Supreme Court to re-open *Montoy* but they were denied, and are now planning to file yet another lawsuit.

Despite the unprecedented controversy, surprisingly little is understood about how much money schools actually receive, how that money is spent or even the basis upon which the court ruled in *Montoy*.

Education is extraordinarily important to the success of our State and to each individual. It is imperative that students receive an education that prepares them to enter the workforce, whether directly into their chosen field or first into higher levels of education. But while education is of critical importance, we must balance our approach to defining and funding a proper education with other essential needs. We must also have adequate funding for other necessary government services and the revenues required to fund all services cannot be so high as to necessitate a tax burden that impedes economic growth.

A Kansas Primer on Education Funding provides a high level of transparency and analysis so that taxpayers and legislators are empowered to make informed decisions going forward. The *Primer* is being published in four separate volumes.

“Volume I: The History of Education Finance in Kansas” traces school funding developments, starting at the inception of statehood in 1863 and leading up to the filing of *Montoy*.

“Volume II: Analysis of *Montoy vs. State of Kansas*” provides a detailed examination of the legal and political forces at play during the *Montoy* litigation. It also identifies existing barriers that prevent or restrict efforts to reform the system and offers specific recommendations for overcoming those barriers.

“Volume III: Analysis of K-12 Spending in Kansas” identifies how court-mandated funding increases were spent by Kansas school districts and compares per-pupil spending across districts in search of minimum spending levels that, at least under current curriculum standards, produce adequate results. It also offers specific alternatives to “just spend more” that provide reasonable funding to schools without raising taxes or eliminating other necessary government services.

“Volume IV: Defining and Funding a Proper Education” examines whether Kansas schools are providing an education that gives students the opportunity to gain substantial skills needed for citizenship, further education and functioning in today’s job market. It also offers proposals to improve the current education delivery process, explores alternatives to the current funding methodology and examines existing and alternative methods of measuring student (and school) performance.

The development of the *Primer* has been an extraordinary undertaking by a relatively small group of very dedicated and talented people. The authors, whose names and biographies are contained within each volume, were greatly assisted by Chris Brito, who helped with data collection; Grace Harris assisted with data collection and proofreading; Paul Soutar designed the timeline in Volume I; Gretchen Colon designed the layout for the *Primer* and managed the distribution process.

We are very passionate about the future of education and hope that this Primer can in some way serve to inspire citizens and legislators. The road to excellence is not an easy one to navigate but is well worth the journey. Along the way, we must remember the words of Henry Ford, who said “Obstacles are those frightful things you see when you take your eyes off your goal.”

We welcome constructive thoughts and suggestions as we strive to improve the educational climate in our state and to be responsible stewards of the finances which fund education.

Dave Trabert
President
Kansas Policy Institute

About the Author

Dave Trabert is President of Kansas Policy Institute. He is a frequent speaker to business, legislative and civic groups and also does research and writes on fiscal policy and education issues. Trabert regularly testifies before Kansas House and Senate committees on state budget, tax and education issues. His research also helped a group of state legislators design the Property Tax Accountability Act that was introduced in 2010.

Trabert developed his interest in the public policy arena during his 18-year career managing television stations. Immediately prior to joining KPI, Trabert served as general manager of WYTV in Youngstown, Ohio, an area beset with chronic employment issues resulting from a high tax burden, low education attainment and a lack of regionalism. He initiated community discussions, published an extensive white paper on the issue and led a research-driven education campaign focusing on possible solutions for removing job growth barriers. He graduated cum laude from West Liberty State College with a degree in Business Administration.

Introduction

An old aphorism says that there will always be wars and rumors of wars, and while it applies to nations and kingdoms, the same might be said of K-12 funding in Kansas. As explained in *Volume I: The History of Education Finance in Kansas*, battles have been fought in Kansas courts as far back as *Caldwell vs. State of Kansas* (1972) and most recently *Montoy vs. State of Kansas*, which concluded in 2005. Indeed, the sabers are rattling yet again as 72 school districts belonging to Schools For Fair Funding (SFFF) are using taxpayer funds to hire attorneys and prepare yet another lawsuit.

Many battles have been waged over issues of equity and adequacy but even court decisions have not answered the fundamental question: what is the minimum cost of providing an education that meets the constitutional suitability standards established by the Kansas Supreme Court? The court referred to an Augenblick & Myers cost study to justify its order to increase funding but as noted in *Volume II: Legal Analysis of Montoy vs. State*, the basis for the Professional Judgment portion of that study amounted to little more than surveys of a very small number of teachers and administrators who were effectively asked to pick their own salaries and budgets; their Successful Schools model was supposed to take efficiency into account but when 50 of the 85 'successful' districts were found to be inefficient spenders, A&M decided to exclude efficiency.

So the rumors of school funding wars persist, with legislators and taxpayers asking 'how much is enough?' and schools pressing for more money with no real end in sight. Speaker Pro Tem Arlen Siegfried (R-Olathe) shared with me a conversation he had with Mark Tallman, Assistant Executive Director/Advocacy for the Kansas Association of School Boards (KASB), which illuminates the dynamics at play:

Early last session Mark Tallman and I engaged in a conversation about the budget and school spending. During the conversation the difficulty of increasing school spending as 'required' by Montoy was juxtaposed against the need to cut school spending by the same percentage as other portions of the State budget. During our discussion I asked Mr. Tallman if we (the State) had the ability to give the schools everything he asked for would he still ask for even more money for schools. His answer was, 'Of course, that's my job'.¹

If the KASB philosophy is representative of schools at large, it only underscores the need to establish a rational basis to ascertain minimum funding levels.

Determining the minimum cost of providing a proper education is an extraordinary challenge, in part because the first step of doing so is to confirm that schools are in fact providing a proper education. How, after all, can anyone know whether education is adequately funded without first knowing whether schools are providing an adequate education? Does the funding mechanism respect the needs of and differences among students? Does it allow students the opportunity to gain substantial skills for citizenship, to further their education and prepare them to function in today's job market? A diploma certifies completion of state-mandated curriculum, but does the curriculum impart the skills required by the workforce?

¹ E-mail received from Rep. Arlen Siegfried on October 14, 2009.

These are questions that will be addressed in *Volume IV: Defining a Proper Education*. This Volume will identify how the court-mandated funding increases were spent by Kansas school districts and compare district per-pupil spending levels in search of minimum spending levels that, at least under current curriculum standards, produce adequate results. It is hoped that these findings empower taxpayers and legislators with alternatives to “just spend more” that provide reasonable funding to schools without raising taxes or eliminating other necessary government services.

A preliminary version of Volume III was published in January, 2010 comparing revenues and expenditures from FY 2005 to those from FY 2008 to provide some measure of analysis prior to the start of the 2010 Legislative session. This final version has been updated with FY 2009 per-pupil data recently released by the Department of Education.

I. School Funding Sources

As explained in *Volume II*, the Kansas Supreme Court ordered the Legislature to increase spending on schools by \$853 million over several years beginning with the 2005-06 year. Legislators responded by appropriating an additional \$289 million for the 2005-06 year and in the 2006 legislative session they appropriated another \$466 million to be phased in over the next two years. The court eventually determined that the total increase of \$755 million was “close enough” to the \$853 million it originally ordered and dismissed the case.

The Legislature continued to increase school funding beyond its original commitment of \$755 million, hitting a peak of a \$925 million total increase in the 2008-09 year until a severe decline in state tax receipts prompted the Legislature and Gov. Parkinson to reduce school funding for FY 2010.²

The budget approved by the Legislature used a \$245.3 million increase in federal aid to backfill an approximate \$250 million reduction in state aid; the “Governor’s Plan to Balance FY 2010 Budget” further reduced state aid by \$39.1 million.³ Tax collections fell even more than predicted in the first few months of FY 2010, prompting Gov. Parkinson to further reduce aid to schools. A portion of that reduction in state aid was offset by additional federal aid.

Table 1: Kansas K-12 Funding History

School Year	FTE Enrollment	Revenue Source (millions)			
		State	Federal	Local	Total
2003-2004	443,301.8	2,124.6	376.9	1,592.6	4,094.1
2004-2005	441,867.6	2,362.2	398.7	1,528.5	4,289.4
2005-2006	442,555.7	2,658.0	382.8	1,648.5	4,689.3
2006-2007	444,878.7	2,889.0	385.4	1,867.7	5,142.1
2007-2008	446,874.0	3,131.5	377.0	1,937.9	5,446.4
2008-2009	447,615.1	3,287.2	413.6	1,965.9	5,666.7
2009-2010+	454,256.8	2,858.2	703.4	1,991.8	5,553.4

School Year	Amount Per Pupil				
	State	Federal	Local	Total	% Change
2003-2004	4,793	850	3,593	9,235	3.83%
2004-2005	5,346	902	3,459	9,707	5.11%
2005-2006	6,006	865	3,725	10,596	9.16%
2006-2007	6,494	866	4,198	11,558	9.08%
2007-2008	7,008	844	4,336	12,188	5.45%
2008-2009	7,344	924	4,392	12,660	3.87%
2009-2010+	6,292	1,548	4,385	12,225	-3.43%

+2009-2010 estimated; data updated December 16, 2009.
Source: Kansas Department of Education

Skirmishes over school funding are always focused on state aid but schools also have local and federal sources of revenue. According to the Kansas Department of Education, schools will have total revenue of slightly over \$5.5 billion in the 2009-10 school year. Thanks to increases in federal and local funding, the Department of Education predicts total K-12 revenues to be just 2% less than the previous year. Per-pupil expenditures are predicted

Table 2: State Aid Per Pupil

School Year	Base	Other	Total
2003-2004	3,863	930	4,793
2004-2005	3,863	1,483	5,346
2005-2006	4,257	1,749	6,006
2006-2007	4,316	2,178	6,494
2007-2008	4,374	2,634	7,008
2008-2009	4,400	2,944	7,344
2009-2010 (estimated)	4,012	2,280	6,292

Source: Kansas Department of Education

² State General Fund tax receipts declined \$498 million (8.6%) for FY 2009. The first six months of FY 2010 declined 9.0%.

³ Upon subsequent release of final funding totals for FY 2009, state aid was \$10 million less than anticipated, thereby lowering the total reduction in state aid to \$279 million. Federal aid, however, was higher than projected for FY 2009, thereby reducing the overall FY 2010 increase to \$221.7 million.

to decline \$435, or 3.43% (an enrollment increase causes the decline in per-pupil aid to be slightly more than in total aid).⁴

It is important to note that there are multiple components of state aid to schools. Much of the attention is on Base State Aid Per-pupil (BSAPP) but that number is simply the starting point for an extremely complicated formula that employs multiple weighting factors to add money to the base. Those weighting factors include Low Enrollment, High Enrollment, Transportation, Vocational Education, Bilingual Education, At-Risk, Non-Proficient At-Risk, School Facilities, Ancillary School Facilities, Special Education, Declining Enrollment and Cost of Living. Additional aid is provided for bond principle and interest payments.

Reported Revenues Are Understated

The Department of Education systematically understates the amount of local aid that school districts receive. When it calculates the amount of local aid districts receive, it does so by subtracting the amount of state and federal aid from total expenditures. Certainly, the remaining

expenditures would have been covered by local revenue. But there is more to the story than the department's simple calculation suggests.

That's because school districts can draw on unspent funds they received in previous fiscal years. Their annual budget reports to the State include the unencumbered

Table 3: Unencumbered Carryover Cash Balances

	Balance as of July 1		4-Year Change (2005-2009)	
	2005	2009	Amount	Percent
Capital and Debt				
Capital Outlay	320,075,543	451,672,840	131,597,297	41%
Bond and Interest #1	269,090,483	327,700,705	58,610,222	22%
Bond and Interest #2	15,567,848	16,550,982	983,134	6%
	604,733,874	795,924,527	191,190,653	32%
Federal Funds	5,729,302	3,827,639	(1,901,663)	-33%
All Other State & Local Funds	458,173,556	699,150,812	240,977,256	53%
	1,068,636,732	1,498,902,978	430,266,246	40%

Source: Kansas Department of Education

cash balances in each of their funds (usually about 30 funds each year). Unencumbered cash is money that has no legal claim against it (mortgages, liens, accounts payable, etc.) The availability of unencumbered funds held by schools and other units of government is a subject of much debate but that is not the issue here; rather, it is the fact that these balances have changed significantly.

Capital and debt service balances may increase because of timing issues. There may be a lag between receiving bond proceeds and purchasing assets, or between collecting taxes to cover bond payments before payments are due. But regardless of whether we look at capital, debt service or other funds, annual unencumbered cash balances only grow when revenues exceed expenditures. So the 53% growth in the "All Other State and Local Funds" unencumbered balances has two very significant meanings: (1) total revenue was even higher than that reported by the Department of Education and (2) schools could have functioned the same on less money. The only difference would be that their operating cash balances wouldn't have grown and they would have foregone any interest income on the increased balances.

⁴ The amount of state, federal, local and total aid for each district is available for school years 2005 through 2010 at www.KansasPolicy.org in the Data Warehouse under Education Spending.

⁵ See Appendix "A" for definitions of each cost center.

II. Expenditure Overview

Kansas Policy Institute staff obtained school district expenditure data from the Department of Education, both by specific request and from their website. Data was downloaded by functional expenditure code (Instructional, School Administration, Transportation, etc.) for each of 29 separate funds and combined to generate total expenditures across 13 functional cost centers for each district.⁵ In order to show how schools spent court-mandated increases we compared pre-Montoy expenditures from the 2004-05 school year to expenditures for the 2008-09 school year.

We made the following adjustments to simplify this report:

- All Transportation expenditures (including maintenance) are included in Student Transportation Services in order to reflect the total cost of transportation services.
- Operations & Maintenance – Food Services expenditures are included in Food Services in order to reflect the total cost of food services.
- Unless otherwise noted, all expenditures from the Capital Outlay fund are shown as Capital Outlay rather than being broken down into partial allocations to the Instruction and other current functional costs areas, as districts typically do. We did this to separate long term capital costs from current operating expenditures, which would otherwise show atypical spikes or declines and thereby invalidate functional cost comparisons between districts.

Table 4: Current and Long Term Spending Growth

	FY 2005	FY 2009	\$ Change	% Change
Instruction	2,287,527,137	3,081,557,265	794,030,128	34.7%
Student Support	195,689,244	251,225,548	55,536,304	28.4%
Staff Support	155,414,629	213,627,555	58,212,926	37.5%
General Administration	123,423,690	132,945,595	9,521,905	7.7%
School Administration	220,152,789	275,730,666	55,577,877	25.2%
Central Services	89,202,567	121,931,490	32,728,923	36.7%
Operations & Maint.	366,145,135	441,570,633	75,425,498	20.6%
Transportation	161,575,274	203,234,864	41,659,590	25.8%
Community Services	874,659	2,084,851	1,210,192	138.4%
Food Service	184,669,675	228,266,208	43,596,533	23.6%
Total Current	3,784,674,799	4,952,174,675	1,167,499,876	30.8%
Arch. & Eng.	702,658	17,224,588	16,521,930	2351.3%
Capital Outlay	199,212,880	319,076,322	119,863,442	60.2%
Debt Service	286,295,224	365,230,347	78,935,123	27.6%
Total Long Term	486,210,762	701,531,257	215,320,495	44.3%
Total Spending	4,270,885,561	5,653,705,932	1,382,820,371	32.4%

Source: Kansas Department of Education; long term costs not allocated to current costs

- Food Service includes costs listed in the KPERS Special Retirement fund and classified as Operation of Non-Instructional Services.

Total Spending

Total expenditures jumped 32% in the first four years of court-ordered funding increase, going from \$4.271 billion to \$5.654 billion.⁶ The growth in long term spending (44.3%) far outpaced the increase in current operating costs (30.8%).

⁶ There is a slight difference between the sum of expenditures detailed within each fund on the department web site and total expenditures reported by the Department of Education. The total reported by DOE by is higher for both FY 2005 and FY 2009, by \$25.4 million (0.5%) and \$13.0 million (0.2%), respectively.

Table 5: Change in Spending by Fund

	Spending Net of Transfers		4-Year Change	
	FY 2005	FY 2009	Amount	Percent
General	2,148,943,825	2,237,350,130	88,406,305	4.1%
Federal	187,032,547	189,934,024	2,901,477	1.6%
Supplemental General	354,348,928	556,519,404	202,170,476	57.1%
Adult Education	3,684,526	2,584,731	(1,099,795)	-29.8%
At Risk (4yr Old)*	0	18,704,859	18,704,859	new fund
Adult Supplemental	98,838	152,768	53,930	54.6%
At Risk (K-12)*	0	387,027,546	387,027,546	new fund
Bilingual Education	20,684,592	46,121,267	25,436,675	123.0%
Capital Outlay	195,265,496	313,661,822	118,396,326	60.6%
Driver Training	5,487,477	5,260,400	(227,077)	-4.1%
Extraordinary School Prog	2,532,301	3,885,107	1,352,806	53.4%
Food Service	181,620,944	222,330,570	40,709,626	22.4%
Professional Development	9,544,266	14,236,103	4,691,837	49.2%
Parent Education	11,167,125	13,057,633	1,890,508	16.9%
Summer School	4,957,907	3,436,153	(1,521,754)	-30.7%
Special Education	440,464,331	690,386,900	249,922,569	56.7%
Vocational Education	68,180,118	95,448,422	27,268,304	40.0%
Gifts/Grants	35,058,733	33,859,886	(1,198,847)	-3.4%
Area Vocational School	19,426,845	12,911,968	(6,514,877)	-33.5%
Special Liability Expense	2,016,341	1,551,337	(465,004)	-23.1%
School Retirement	1,067,110	1,067,110	0	0.0%
KPERS Special Retirement	120,967,946	213,056,967	92,089,021	76.1%
Contingency Reserve	6,387,356	3,916,389	(2,470,967)	-38.7%
Student Material Revolving	23,162,574	26,108,388	2,945,814	12.7%
Bond and Interest #1	271,996,127	351,481,033	79,484,906	29.2%
Bond and Interest #2	13,556,466	13,551,145	(5,321)	0.0%
No-Fund Warrant	742,631	191,721	(550,910)	-74.2%
Special Assessment	3,325,704	3,588,572	262,868	7.9%
Temporary Note	0	6,448	6,448	new fund
Virtual Education**	0	12,591,896	12,591,896	new fund
COOP Special Education	139,164,507	179,725,233	40,560,726	29.1%
	4,270,885,561	5,653,705,932	1,382,820,371	32.4%

*At Risk spending went through the General Fund in FY 2005.

**Virtual Education spending went through the General and Supplemental General funds in FY 2005.

Source: Kansas Department of Education

Discussions of spending in schools and other government entities typically are focused on the General Fund, but the majority of spending often flows through other funds. There are two primary reasons for the use of multiple funds. One is to isolate revenue that is legally dedicated to a specific purpose, such as proceeds for voter-approved bond sales. The Legislature also will occasionally create new funds in order to isolate specific types of aid for tracking purposes.

In addition to examining changes in total expenditures, it's also instructive to study how expenditures in individual funds have grown. Of course, the re-direction of expenditures into new funds can skew the analysis of other funds. For example, in FY 2005 At Risk expenditures flowed through the General

Fund but new At Risk funds were created in FY 2006; accordingly, the growth in General Fund spending as compared to FY 2005 is artificially low, since At Risk spending in that year was included in the General Fund total.

Spending on Instruction

In 2005 the legislature took several steps to monitor how schools spent the additional money that was being appropriated. The 2010 Commission was established to advise legislators on a number of school finance issues, including whether weightings used to calculate school aid were equitable and whether the system was efficient and effective. A statutory policy goal was also adopted as Article 72-64c01 of the Kansas Revised Code, declaring that at least 65% of the total amount appropriated be spent "... in the classroom or for Instruction." At the time, this concept was being promoted around the country as a means of increasing efficiency and improving achievement. Most schools and some policy experts question the efficacy of attempting to force schools to direct larger portions of their budget to Instruction, partly because there is considerable disagreement over what costs should be classified as 'Instruction.'

This analysis does not explore the merits of the so-called 65% solution. However, since the legislature clearly intended that schools use the increased funding to devote larger portions of their budgets to Instruction, the spending trend warrants investigation. Elsewhere in this analysis we have included all capital outlay costs as long-term spending rather than allocate portions to current spending as reported by school districts, but both methods are shown here in order to fairly measure districts' efforts to comply with the Legislature's intent.

The statewide portion of total expenditures spent on Instruction shows relatively little change but there has

been more of a shift within specific districts. As shown in Table 7, which considers all capital outlays as long term costs, there is a general shift upward among the various spending brackets.

The percentage of students in districts that allocate 60% or more of their budgets to Instructional costs rose from 9% to 11%. The majority of students continue to be in districts that allocate less than 55% to Instructional costs, although the total has dropped from 57% to 52%. These gains are offset, however, by the fact that 89 districts with 117,531 students now devote a smaller portion of their budgets to Instructional costs than they did four years ago.

Expenditures Per-pupil

One of the more shocking aspects of school spending is the extreme low-to-high range of expenditures per-pupil. (All calculations of 'per-pupil' expenditures use Full Time Equivalent (FTE) enrollment data in keeping with standard Department of Education practice.) A certain degree of variance is to be expected but the 'high' is more than two and one-half times the 'low' for Current Operating⁷ and nearly four times the 'low' for Total Costs across all districts. There is also quite a large degree of variance among districts with similar enrollment.

Comparisons for individual cost centers can be found in Appendix "B", which shows even greater degrees of variance. For example, spending on General Administration in districts with enrollment of 100 to 499 ranges from a low of \$209 per-pupil to a high of \$1,917 per-pupil. Some of these extreme variances may result from districts not recording expenditures in accordance with established accounting procedures. A July 2009 Performance Audit Report from the Legislative Division of Post Audit (LPA) said "school districts didn't always report

Table 6: Percent of Total Budget Spent on Instruction

	All Capital Long Term		Reported by Districts	
	FY 2005	FY 2009	FY 2005	FY 2009
Instruction	53.6%	54.5%	54.4%	55.3%
Other current	35.1%	33.1%	36.0%	34.6%
	88.6%	87.6%	90.4%	89.9%
Capital / Debt	11.4%	12.4%	9.6%	10.1%
	100.0%	100.0%	100.0%	100.0%

Source: Kansas Department of Education

Table 7: Distribution of District Expenditures on Instruction

% Spent On Instruction	FY 2005 Actual				FY 2009 Actual			
	FTE	% Total	Districts	% Total	FTE	% Total	Districts	% Total
Under 50%	59,897.8	14%	32	11%	58,076.2	13%	19	7%
50% to 54.9%	234,424.7	53%	103	34%	176,208.5	39%	75	26%
55% to 59.9%	107,908.3	24%	113	38%	163,608.0	37%	116	40%
60% to 64.9%	35,875.0	8%	48	16%	39,999.4	9%	68	23%
Over 65%	3,761.8	1%	4	1%	9,512.5	2%	14	5%
	441,867.6	100%	300	100%	447,404.6	100%	292	100%

Source: Kansas Department of Education; 2009 excludes Greensburg (still rebuilding from tornado)

⁷ Current Operating includes all costs except Capital Outlay, Debt Service and Architecture & Engineering.

certain types of data consistently, making meaningful comparisons difficult.”⁸ The report went on to say that “while the State accounting handbook...provides good guidance to districts on how to categorize spending, districts don’t always follow it.”

It is of critical importance that districts adhere to State accounting guidelines so that legislators and the public can monitor the efficient use of taxpayer funds, especially since K-12 education consumes over half of the State General Fund. Legislators may want to consider implementing a penalty for non-compliance; one sure way to get districts’ attention would be to reduce State aid for repeat offenders.

Of course, while comparison of individual cost centers may be somewhat affected

by some districts’ failure to follow State accounting guidelines, any such differences are eliminated when comparing total expenditures. Also, the magnitude of the low-to-high range for total spending indicates that, accounting errors aside, there are quite significant real variances in per-pupil spending at the cost center level.

It would be unrealistic to expect cost per-pupil to be uniform across the state, as some students, particularly those categorized as Special Education, At Risk and English Language Learners, legitimately cost more to educate than others. Districts with higher proportions of enrollment in those categories will have higher costs.⁹ Total enrollment also impacts per-pupil costs, as low enrollment districts have fewer students over which to spread their administrative and other non-instructional expenditures.

But while there are understandable per-pupil variances, there is also tremendous opportunity for individual districts to reduce spending while achieving the same outcomes. The LPA report on school district efficiency included 80 recommendations to reduce costs without impacting outcomes. That study was the first of what was initially intended to be a two-phase audit ordered by the 2010 Commission, with LPA performing on-site district audits to help them identify

Table 8: Per Pupil Spending Range by District Size

	Districts	Total FTE	Per Pupil Spending			High-Low Variance
			High	Avg.	Low	
Current Operating						
Less than 100 FTE	8	640.7	21,528	16,928	14,626	47%
100 to 499	129	38,528.9	19,617	12,709	8,297	136%
500 to 999	77	55,095.8	17,061	11,420	8,803	94%
1,000 to 1,999	36	52,526.2	18,147	10,630	8,487	114%
2,000 to 2,999	15	36,064.8	15,739	10,870	7,997	97%
3,000 to 9,999	21	105,721.6	14,632	10,431	8,369	75%
Over 10,000	7	159,037.1	14,146	11,125	9,734	45%
All Districts	293	447,615.1	21,528	11,063	7,997	169%
Total Spending						
Less than 100 FTE	8	640.7	21,953	17,674	15,448	42%
100 to 499	128	38,318.4	31,786	14,201	8,490	274%
500 to 999	77	55,095.8	21,741	12,600	9,713	124%
1,000 to 1,999	36	52,526.2	19,053	11,960	9,838	94%
2,000 to 2,999	15	36,064.8	16,585	12,186	9,657	72%
3,000 to 9,999	21	105,721.6	16,144	11,950	10,327	56%
Over 10,000	7	159,037.1	16,322	12,964	11,744	39%
All Districts	292	447,404.6	31,786	12,591	8,490	274%

Source: Kansas Dept. of Education; Total Spending excludes USD 422 Greensburg (197 FTE) since it was rebuilding from tornado damage.

⁸ Legislative Division of Post Audit, “K-12 Education: School District Efficiency Audits,” page 17 http://www.kslegislature.org/postaudit/audits_perform/08pa11a.pdf. (accessed Dec. 24, 2009).

⁹ Districts receive additional funding for students in these categories through additional weightings for At Risk and English Language Learners and for Special Education cost reimbursements.

efficiencies. Unfortunately, districts objected and convinced the 2010 Commission to cancel the mandatory audits and made them voluntary.¹⁰

Seven districts (Derby, Ellinwood, Renwick, Winfield, Concordia, Riley County and Quinter) of the current 293 statewide volunteered for the efficiency audits as of February 8, 2010. Only the Derby and Ellinwood audits have been completed at this writing but both already have reinforced the findings of LPA's earlier study.¹¹ The Derby audit found that even though they are more efficient than most peer districts, it could still save another \$1 million per year.¹² The Ellinwood audit found potential savings of \$540,000 or 11.1% of their 2009 operating costs.

As evidenced by these audits, there is no question that Kansas school districts can operate more efficiently and achieve the same outcomes. The issue now is to determine how much might be saved statewide.

We attempted to answer that question by grouping districts by enrollment size and calculating the median cost per-pupil for each functional cost center. Next, we calculated the difference between the actual spending for each district and the median

Table 9: Savings if High-Spending Districts Could Move to Median Cost Per Pupil

District Size	Instruction	Other Current	Total Current	Capital / Debt Service	Total Spending
Less than 100 FTE	444,977	721,395	1,166,372	102,791	1,269,163
100 to 499	14,669,989	26,278,660	40,948,648	50,119,531	91,068,179
500 to 999	25,351,398	32,161,073	57,512,471	30,637,223	88,149,694
1,000 to 1,999	32,482,371	28,369,273	60,851,644	21,436,439	82,288,084
2,000 to 2,999	38,319,052	19,898,178	58,217,230	12,576,841	70,794,071
3,000 to 9,999	53,833,647	62,892,404	116,726,052	40,862,099	157,588,151
Over 10,000	51,139,593	93,845,441	144,985,034	81,129,699	226,114,733
All Districts	216,241,028	264,166,423	480,407,451	236,864,624	717,272,074

spending of its group. The total potential savings, as shown in Table 9, is quite astounding: \$480 million in current operating costs and another \$237 million in capital and debt service.

It may just be a coincidence, but the total potential operating cost savings from the Derby and Ellinwood efficiency audits was fairly close to the amounts we identified for those districts in the above exercise. The LPA audits found a total of \$1,558,350 and our total for those districts was \$1,594,724; the LPA total for Derby was less than our calculation but their total for Ellinwood was considerably higher than ours. Two districts do not make a trend, but the results of the first two efficiency audits at least offer encouragement for the potential savings to be several hundred million dollars.

FY 2009 Per-pupil spending for each cost center by district is listed in Appendix "C". Districts are grouped by enrollment size and the calculations for High, Median, Average and Low spending per-pupil are shown for each grouping. Appendix "D" shows the growth in per-pupil spending between FY 2005 and FY 2009 with districts listed by USD number in ascending order.

There may be valid reasons why some districts could not match the median cost per-pupil of similar sized districts, but it is also possible that districts below median could also find ways to save money. The potential savings is sufficiently large, however, to more than enough to

¹⁰ "Lack of Data, Oversight Raises Questions on School Spending," KansasWatchdog, July 23, 2009 <http://kansas.watchdog.org/2009/07/23/lack-of-data-oversight-raises-questions-on-school-spending/>.

¹¹ Legislative Division of Post Audit, "K-12 Education: Efficiency Audit of the Derby School District," December 2009 http://www.kslegislature.org/postaudit/audits_perform/09pa14a.pdf; "K-12 Education: Efficiency Audit of the Derby School District," January 2010 http://www.kslegislature.org/postaudit/audits_perform/09pa16a.pdf

¹² "First School Audit Finds \$1 Million in Potential Savings in Derby District," KansasWatchdog, December 24, 2009 <http://kansas.watchdog.org/2009/12/24/first-school-audit-finds-1-million-in-potential-savings-in-derby-district/>.

warrant the effort. Even if only half of the potential savings were actually realized, the savings would still be in the hundreds of millions. Every dollar saved is a dollar that doesn't have to be unnecessarily taken from taxpayers or cut from other essential services, which is very good news for all Kansans.

Spending vs. Achievement

One of the objections to finding ways to lower the cost of education is the belief that spending more money raises achievement levels, which leads some to believe that spending less will lead to lower achievement. It's true that state assessment test scores show that proficiency scores have increased, and it's also true that this occurred while per-pupil spending was growing, but as shown in Table 10, the relative growth rates have not been proportional.

Table 10: Spending & Achievement Comparison

	2000	2005	'00 - '05 Change	2009	'05 - '09 Change
Reading proficiency	59.2	73.1	23.5%	85.7	17.2%
Math proficiency	50.3	68.1	35.4%	82.8	21.6%
State aid per pupil	4,704	5,346	13.6%	7,344	37.4%
Total aid per pupil	7,585	9,707	28.0%	12,660	30.4%

Source: Kansas Department of Education

Reading and Math proficiency scores actually grew faster between the school years of 2000 and 2005 when state and total per-pupil spending was increasing much less than in later years. In fact, the growth in proficiency scores from 2005 to 2009 has

actually been less than the growth in per-pupil spending. That's not to say that lower spending increases in the last four years would have produced better test results; the mere fact that two circumstances occurred simultaneously does not mean that one drove the other. The same is true of the belief that spending and achievement are directly related. State test scores have increased while spending also increased, but correlation does not imply causation.

In fact, efforts to obtain proof of the relationship from the Kansas Department of Education have been unsuccessful. State Board of Education member Dr. Walt Chappell filed an Open Records Request on June 9, 2009 asking for "...research which has been done by the KSDE or by researchers contracted by the KSDE which supports a claim that student achievement scores have risen in Kansas due to increased funds appropriated by the Legislature following the Montoy case. Conversely, please provide any research for Kansas which shows at what amount of budget reduction will test scores for Reading, Math, Science, History/Government fall and by how much in what grades and subjects."¹³

The response to Dr. Chappell's request referenced a comment in a Legislative Post Audit (LPA) study of school expenditures from the school years 2000 through 2005 that said, "We found a strong association between the amounts districts spend and the outcomes they achieve."¹⁴ In the cost function results, a 1.0% increase in district performance outcomes was associated with a 0.83% increase in spending—almost a one-to-one relationship. This means that, all other things being equal, districts that spent more had better student performance. The results were

¹³ Letter from Dr. Walt Chappell to Dr. Alexa Posny, Kansas Commissioner of Education (June 9, 2009), copy in author's possession.

¹⁴ E-mail from Deanna Lieber, General Counsel, Kansas Department of Education, to Dr. Walt Chappell (June 12, 2009), copy in author's possession.

statistically significant beyond the 0.01 level, which means we can be more than 99% confident there is a relationship between spending and outcomes.”¹⁵

Dr. Chappell replied, saying his request was for research conducted subsequent to the increased funding following the Montoy case (post-2005).¹⁶ The response again referenced the LPA study and concluded “...KSDE does not have any other records that are responsive to your request.”¹⁷ Accordingly, it can be reasonably concluded that the Kansas Department of Education’s sole basis for their belief that is that single paragraph in the LPA cost study.

Interestingly, the Department of Education failed to mention that that same LPA study also disclosed the existence of reputable research that both supported and contradicted their own conclusion.¹⁸ In answering Question 3 of the audit: What Does the Educational Research Show About the Correlation Between the Amount of Money Spent on K-12 Education and Educational Outcomes?, LPA stated:

*Educational research offers mixed opinions about whether increased spending for educational inputs is related to improved student performance. Well-known researchers who have reviewed that body of research have come to opposite conclusions. Likewise, individual studies of specific educational inputs we reviewed sometimes concluded additional resources were associated with improved outcomes, and sometimes concluded they weren’t. Because of perceived shortcomings in many of the studies that have been conducted in these areas, many researchers think more and better studies are needed to help determine under which circumstances additional resources actually lead to better outcomes.*¹⁹

It is quite astonishing that professional educators (and others) would base their claims on the connection between spending and achievement on a single finding in an audit report and ignore contradictory evidence disclosed in that same report, especially since the LPA audit did not say that higher spending *caused* higher achievement.

There is also existing academic research that says “recent changes to school funding in Kansas reveal little evidence of improving student outcomes as measured by test scores.”²⁰ Dr. Florence Neymotin, an Assistant Professor of Economics at Kansas State University and a Visiting Research Fellow with the Center for Applied Economics at the University of Kansas, conducted the study. She describes it as “...the first-ever economic analysis of the most recent amendments to the School District Finance and Quality Performance Act on student outcomes.” Her research did find “weak evidence” of improved graduation rates.

¹⁵ Legislative Post Audit “Cost Study Analysis, Elementary and Secondary Education in Kansas: Estimating the Costs of K-12 Education Using Two Approaches”, January 2006, page 40.

¹⁶ Letter from Dr. Walt Chappell to Dr. Alex Posny (June 24, 2009), copy in author’s possession.

¹⁷ Letter from Deanna Lieber to Dr. Walt Chappell (June 29, 2009), copy in author’s possession.

¹⁸ Ibid, pages 107-113.

¹⁹ Ibid, page 107

²⁰ Dr. Florence Neymotin, “The Relationship Between School Funding and Student Achievement in Kansas Public Schools,” December 2008, Center for Applied Economics at the University of Kansas. (http://www.business.ku.edu/_FileLibrary/PageFile/1041/TR08-1205—EducationSpending_Neymotin.pdf, accessed Dec. 28, 2009).

One of the researchers mentioned in the LPA audit, Dr. Eric Hanushek of Stanford University, recently co-authored a book with Alfred Lindseth that describes how improved school finance policies can be used to meet achievement goals. The book explores the effectiveness of several court-mandated funding increases (including *Montoy vs. State of Kansas*) and also delves into the vast differences between state and national achievement scores.²¹

This is another important piece of examining the relationship between spending and achievement, because while Kansas' state-assessed scores have grown considerably over the last decade, Kansas' scores have shown little change on the National Assessment of Educational Progress (NAEP), a test given in all states and supervised by the National Center for Education Statistics within the U.S. Department of Education.²²

Hanushek and Lindseth provide a compelling explanation of the discrepancy between state and national assessment scores:

*Although No Child Left Behind (NCLB) increased the importance of ... proficiency levels ... it left the task of defining "proficiency" up to the individual states. The result is different standards and testing regimes from state to state. Some state have adopted rigorous and demanding standards that define proficiency at a level considerably above that achieved by students in the past, while for others proficiency is quite similar to the performance level of students when the standards were adopted. These differences in definitions of proficiency levels have led to a situation in which states with high proficiency standards have large numbers of "failing" schools under NCLB, while states with low standards have relatively few "failing" schools.*²³

They demonstrate their point with an eye-opening graph that plots the percentage of students scoring at or above the state proficiency level on the fourth grade math test in 2005 and compares this with the NAEP score that would correspond to each state's proficiency cutoff level.²⁴

²¹ A review published at Education News.org calls the book "... the most cogent and comprehensive analysis of America's school-finance challenges that I have ever seen. They establish the fundamental problem, which is that achievement isn't where it needs to be. They show how education resources have soared even as test scores and graduation rates have stagnated. They examine the unsuccessful efforts of elected officials to solve this problem by fiddling with funding formulae, special programs, class sizes and other input manipulations. They examine the even less successful (but often costlier) efforts to solve it via the courts—and show how none of the most popular approaches to revamping school financing via judicial action in the name of 'adequacy' is based on anything real. As they dryly remark, "The absence of a systematic positive relationship between spending and achievement presents a real challenge to the consultants who purport to describe the spending necessary to achieve adequate levels of student achievement." Finally, they offer a plausible alternative approach, a "performance-based funding system" which, in shortest form, says "focus funding and policy decisions on student outcomes, provide incentives and funding to achieve outcome goals, and evaluate whether what is being done is consistent with improving student outcomes." (Yes, there are 70 more pages elaborating on this, how to do it—and what all needs to change (plenty) in order for it to happen.) This book deserves serious attention by everyone concerned with student achievement and school finance." <http://www.ednews.org/articles/schoolhouses-courthouses-and-statehouses-solving-the-funding-achievement-puzzle-in-americas-public-schools.html>, accessed Dec. 28, 2009.

²² John LaPlante, "K-12 Spending and Achievement in Kansas: 2008 Edition," (www.kansaspolicy.org/library/policyanalysis, accessed Dec. 28, 2009).

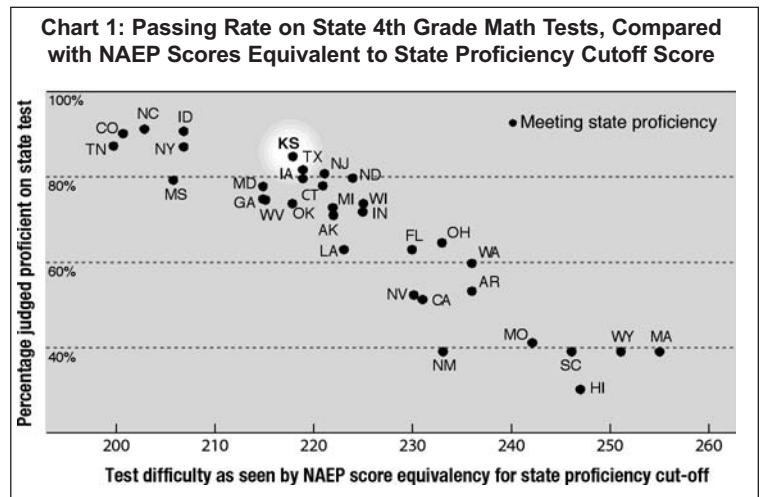
²³ Eric A. Hanushek and Alfred A. Lindseth, *Schoolhouses, Courthouses and Statehouses: Solving the Funding-Achievement Puzzle in America's Public Schools*, (Princeton, NJ: Princeton University Press, 2009), page 74.

²⁴ Ibid, page 75; graph reprinted with permission from Eric Hanushek.

They say the pattern is clear:

Those states where the NAEP equivalent cutoff level is low...have much higher pass rates on their state tests, while state where the NAEP equivalent cutoff is high...have the lowest passing rates on their state tests.²⁵

According to their graph, Kansas is one of those states with a low NAEP cutoff level (218 in the above example) and high pass rates. The NAEP scale ranges from 0 to 500 on both Reading and Math.



We decided to test the theory that higher spending leads to higher achievement by comparing state assessment scores and per-pupil spending for individual Kansas school districts. We used the 2007-08 Reading and Math proficiency scores (percent of students scoring Proficient or better) for individual grade levels to arrive at an average Proficiency score for the district.

Then we grouped districts by enrollment size and compared those average proficiency scores to per-pupil spending to see if districts with the highest per-pupil spending tended to have the highest proficiency scores.

As shown below, we found extreme per-pupil spending ranges within the same proficiency range for both Reading and Math. Table 11 only includes districts with FTE enrollment between 100 and 499 but there are very similar findings in all district sizes (this particular grouping was selected because it contains the greatest number of school districts). See Appendix "E" and Appendix "F" for complete district comparisons of Reading and Math, respectively.

Table 11: Wide Ranges of Per Pupil Spending at Each Proficiency Level

Subject	Proficiency Level	# Districts	Total Spending per FTE		High - Low Variance	
			High	Low	\$	%
Reading	90% to 99%	66	19,035	10,299	8,737	85%
	80% to 89%	46	19,992	11,082	8,910	80%
	< 80%	16	18,305	10,421	7,884	76%
Math	90% to 99%	34	17,542	10,440	7,102	68%
	80% to 89%	57	19,992	10,421	9,571	92%
	70% to 79%	31	16,990	10,299	6,691	65%
	< 70%	6	16,883	12,244	4,639	38%

Source: Kansas Dept. of Education; districts with FTE enrollment between 100 and 499

This methodology accounts for cost variances due to district size but other factors,

most notably enrollment size and varying levels of students classified as Special Education, At Risk and English Language Learners (ELL), will have an impact on per-pupil spending. However, we also found many anomalies within those categories. For example, one might reasonably expect districts with the highest levels of students classified as Special Education, At Risk and ELL to have the highest cost per-pupil, and districts with the lowest levels of those to have the lowest costs. Surprisingly, we found nine districts with very high levels of students in these

²⁵ Ibid, page 74.

classifications that actually spent \$1,065 per-pupil less than the overall state average.²⁶ We also found 86 districts with below-average enrollment levels of high-cost students (and not Special Education host districts) that spent \$984 per-pupil *more* than the state average. A listing of districts grouped by enrollment size that compares spending, achievement and the percentage enrollment in Special Education, At Risk and ELL can be found in Appendix “G.”

Regardless of allowances made for mitigating circumstances, the data simply does not support Department of Education claims that higher spending leads to higher achievement, nor does it support fears that reduced spending will lead to lower achievement levels. That’s not to say that money is not a factor, but there is no compelling evidence to justify fears that spending less—especially if driven by efficiency—will cause proficiency scores to decline.

District Size

As shown in Table 8, small districts typically cost more per-pupil to operate than larger ones, and some of Kansas’ smaller districts are losing enrollment. In FY 2005 there were only four districts with fewer than 100 students; by FY 2008 there were seven and in FY 2009 there were eight. The cost of operating the smallest districts, which are likely to continue losing enrollment, will grow exponentially unless something is done.

Consolidation of extremely small districts is not a popular topic for discussion, but one that should occur. USD 213 West Solomon is the smallest district in Kansas; in FY 2005 it had 63 FTE, dropped to 45.5 FTE in FY 2008 and declined further to 37.7 in FY 2009. Its current operating costs rose from \$14,380 per-pupil in FY 2005 to \$21,528 in FY 2009.

A new report from the Kansas Legislative Division of Post Audit examines school consolidation, concluding that “...reorganizing the system so there are fewer school districts has the potential to significantly reduce the cost of the system overall.”²⁷ They recommend that the Legislature take steps to encourage consolidation at the local level and to remove potential disincentives. The authors cite three other studies that examined options for school consolidation in Kansas.²⁸

Legislative Division of Post Audit (1992) – Our audit found that Kansas had more school districts, smaller districts, smaller schools, and smaller average class sizes than most other states. Additionally, the report found if significant savings are to be realized in consolidating school districts, schools must be closed, average class sizes need to increase, and teaching staff must be reduced.

Augenblick & Myers (2001) – Augenblick & Myers identified a number of districts for consolidation where spending was high but performance was low, or where the district was either too small or too large based on enrollment relative to the number of high schools. Based on these identified districts, the authors created a plan that would reduce the number of school districts from 304 to between 255 and 284. Additionally, they

²⁶ The data actually shows that 18 other districts fit this description but they are part of a Special Education co-op and we excluded them because Special Education co-op costs are not allocated to member districts, thereby understating the total cost of member districts and overstating total costs of host districts.

²⁷ Legislative Division of Post Audit, “K-12 Education: Reviewing the Potential for Cost Savings From Reorganization of Kansas School Districts,” page 29.

²⁸ Ibid, page 4.

recommended that State statute give the Board of Education more authority in re-drawing district boundaries.

Little & Kennedy (2003) – The authors recommended the State be divided into 40 regional education districts. These districts would have governing boards, attendance centers determined by geographical needs, and curriculum necessary to provide a suitable education. The report described a multi-year plan for implementing the districts and possible financial incentives for affected communities.

Consolidation is not just a cost issue; it's also about the quality of education. At what point does a district become too small to be able to offer an education that will prepare students to enter the workforce, whether directly into their chosen field or first into higher levels of education?

III. Conclusion

There are, of course, ways to avoid school district consolidation and still reduce the cost of providing a quality education. As noted earlier, implementing the recommendations of mandatory efficiency audits could potentially save hundreds of millions of dollars. The Legislature could also entertain structural administrative changes in combination with a revised school funding formula that would encourage districts (or mandate for districts of certain enrollment size) to participate in regional shared service arrangements.

Some districts are already involved in some measure of service sharing, but much more could (and should) be accomplished. There is tremendous potential for lowering non-instructional costs, whether through district consolidation or other shared service arrangements. Why, for example, should most small districts have their own purchasing department, transportation infrastructure or business office? Consolidating the management of these and other non-instructional functions would not only eliminate some administrative costs but also create greater economies of scale for purchasing.

Efforts to lower the cost of education will not be easy given Kansans' preference for local control and strong lobbying efforts by districts to maintain the status quo and sue taxpayers for more money. The status quo, however, is not sustainable. Kansas already has an uncompetitive tax structure and unnecessarily raising taxes (instead of pursuing proven methods to provide a quality education at a lower cost) will only make it even more difficult to create jobs and retain population.

The data very strongly suggest that Kansans do not have to choose between higher taxes and cutting essential educational services. In fact, the enormous efficiency opportunities and large carryover cash reserves indicates that Kansans could have lower taxes and retain those essential services.

NOTE: The six appendices total 62 pages and printed copies are available upon request. They are also available electronically and can be downloaded from the Data Warehouse on our web site at <http://KansasPolicy.org/Library/DataWarehouse/EducationSpending/>.



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