KENTUCKY GENERAL ASSEMBLY
OFFICE OF EDUCATION ACCOUNTABILITY

2002 FINANCE REPORT

INTRODUCTION

For the first time in recent memory, the finance report mandated by KRS 7.410(2)(c)(2) is presented as a report separate from the overall annual report mandated by KRS 7.410(2)(c)(8). The decision to present the report separately was made so that a more complete consideration of the report could be given by the Education Assessment and Accountability Review Subcommittee and those interested parties who read the report annually.

I would like to take this opportunity to thank those valuable staff members who have worked in the preparation of this report. Particularly, I would like to express my appreciation to Patti Ballenger, Manager of the Division of Finance; Pam Young, Analyst within the Division of Finance; and Tammy Daniel, my long-time and valued administrative assistant.

Staff and I have made every effort to ensure the accuracy of the report contained herein. Any omissions or errors that may occur in the report, although we believe there are none, are my responsibility, not theirs.

We hope that this report provides valuable information to the policymakers and other interested parties who read the report. As always, it is our pleasure to provide this information for consideration.

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Director, Office of Education Accountability

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I. Background

The *Rose* Decision

The Council for Better Education filed suit in Franklin Circuit Court in 1985, challenging the equity and adequacy of funds provided for the education of Kentucky students. The case was appealed, and in 1989 the Kentucky Supreme Court issued an opinion known as the *Rose* decision, which held the system of common schools in Kentucky unconstitutional. Chief Justice Robert Stephens wrote, "Each child, every child, in this Commonwealth must be provided with an equal opportunity to have an adequate education. Equality is the key word here. The children of the poor and the children of the rich, the children who live in the poor districts and the children who live in the rich districts must be given the same opportunity and access to an adequate education..." The Court decided one legal issue – the General Assembly had failed to establish an efficient system of common schools throughout the Commonwealth. Furthermore, "The system, as we have said, must be efficient, and the criteria we have set out are binding on the General Assembly as it develops Kentucky's new system of common schools ...The General Assembly must provide adequate funding for the system. How they do this is their decision."

Constitutional Responsibility

The framers of the Kentucky Constitution determined it is the responsibility of the General Assembly to provide for an efficient system of common schools throughout the State. The definition of "efficient" was at the heart of the question. In the *Rose* decision, the Supreme Court wrote that "the

essential, and minimal, characteristics of an "efficient" system of common schools are as follows:

1. The establishment, maintenance and funding of common schools in Kentucky is the sole responsibility of the General Assembly.
2. Common schools shall be free to all.
3. Common schools shall be available to all Kentucky children.
4. Common schools shall be substantially uniform throughout the state.
5. Common schools shall provide equal educational opportunities to all Kentucky children, regardless of place of residence or economic circumstances.
6. Common schools shall be monitored by the General Assembly to assure that they are operated with no waste, no duplication, no mismanagement, and with no political influence.
7. The premise for the existence of common schools is that all children in Kentucky have a constitutional right to an adequate education.
8. The General Assembly shall provide funding which is sufficient to provide each child in Kentucky an adequate education. An adequate education is one which has as its goal the development of the seven capacities."

The General Assembly responded with the Kentucky Education Reform Act (KERA) of 1990, hailed nationwide as a landmark in school legislation.

The SEEK Formula

The school finance program which determines the allocation of funds to school districts is known as Support Education Excellence in Kentucky (SEEK). See Appendix A for a brief synopsis of the SEEK process. The SEEK formula alleviated the wide disparity in the per pupil revenue of school districts. Thereby, common schools are to be substantially uniform with equal educational opportunities and funded sufficiently for an adequate education for all students.

The SEEK formula has three components: a guaranteed base level of support, adjustments for special student needs, and tiers that allow districts to contribute local tax dollars beyond the minimum level of support. The guaranteed base is a minimum level of state funding per pupil. Weighted adjustments for special student needs are made for the following: at-risk, exceptional children, and home-and-hospital. An adjustment is also made for transportation costs. The school finance system requires a minimum local tax effort of 30 cents per $100 property valuation. Tier I allows school districts to levy additional taxes to increase revenues up to 15% above the adjusted SEEK base. The state equalizes the increase at 150% of the statewide average per pupil property tax assessment. Tier II allows school districts to levy additional taxes to increase revenues up to no more than an additional 30% above the adjusted SEEK base plus Tier I. The state does not equalize this increase. The SEEK guaranteed base and the annual increase since the 1990 reform is as follows:

Year	Guaranteed SEEK Base	Percentage Increase
1990-91	$2,305	
1991-92	$2,420	4.99%
1992-93	$2,420	0.00%
1993-94	$2,495	3.10%
1994-95	$2,517	0.88%
1995-96	$2,593	3.02%
1996-97	$2,673	3.09%
1997-98	$2,756	3.11%
1998-99	$2,839	3.01%
1999-00	$2,924	2.99%
2000-01	$3,046	4.17%
2001-02	$3,066	0.66%

The Creation of OEA as a Monitoring Mechanism

In its decision, the Supreme Court wrote, "The General Assembly must not only establish the system, but it must monitor it on a continuing basis so that it will always be maintained in a constitutional manner. The General Assembly must carefully supervise it, so that there is no waste, no duplication, no mismanagement, at any level." (*Rose v. Council for Better Education*, 790 S.W.2d 186 (Ky. 1989)).

The General Assembly responded with the enactment of KRS 7.410, which created the Office of Education Accountability (OEA). OEA's Division of School Finance was established to conduct an ongoing review of the finance system. The review shall include an analysis of the level of equity achieved by the funding system and whether adequate funds are available to all school districts; a review of the weights of various education program components, which are to be developed by the Department of Education no later than October 1, 1991. KRS 7.410(2)(C)(2).

II. An Atmosphere of Discontent

Recent complaints by interested parties in public education reveal an atmosphere of discontent pertaining to the adequacy of funding in Kentucky. Summits have been called by the Kentucky Department of Education and the Governor. The Council for Better Education was reactivated. To date, the state is operating under the Governor's biennial budget plan. School administrators were directed to budget a 2.7% annual increase in pay for certified staff.

SEEK Summits

On March 21, 2001, the Kentucky Department of Education held a summit with a variety of interested persons, including superintendents, legislators, KDE officials and educational consultants. The purpose of the summit was to discuss Kentucky school funding and the SEEK funding formula.

KDE held a second summit on May 8, 2001, with more than 200 SEEK specialists – superintendents, finance officers, board members, KDE officials, legislators and representatives of the Governor's office. Discussions were focused upon the adequacy of funding of the SEEK base and certain weighted components such as special education and students needing assistance with English as a second language. The SEEK summit resulted in a study prepared for the Kentucky Board of Education by Allan Odden and Lawrence O. Picus. The study was presented in October 2002, concluding that "there is a substantial degree of fiscal equity in Kentucky under the SEEK formula." Adequacy of funding was not quantified in this study. The report concluded that adequacy would require additional research using one of four methodologies that has gained the respect of educational experts (referenced later in this report).

Governor Paul Patton called an education summit on July 30, 2002, to assess the progress of KERA. The major topics of discussion were adequacy of funding and tax code modernization. Reference was made to a report prepared by William Fox, Professor of Economics, University of Tennessee. The study was directed by the Sub-Committee on Tax Policy Issues of the Interim Joint Committee on Appropriations and Revenue and addressed the need for changes to Kentucky's tax code and 20 options to effect this change. School superintendents and other interested parties served as summit panelists, testifying that the amount of state and local revenue generated by school districts was negatively impacted by taxing limitations.

The Council for Better Education, Inc.

The Council for Better Education, Inc. (CBE), one of multiple organizations filing suit in Franklin Circuit Court which resulted in the *Rose* decision, was reactivated in 2002. There were 66 districts that originally formed CBE, and current membership totals 141. Despite KERA Reform and substantial state funding increases, it is the Council's contention that Kentucky is not spending enough on education. The Council has contracted with Deborah Verstegen, University of Virginia, to determine the cost of providing an adequate education for Kentucky children.

III. Equity Issues

OEA'S STATUTORY MANDATE: Analyze the level of equity achieved by the Support Education Excellence in Kentucky (SEEK) funding system.

Equity is the concept of fair treatment. The scope of this study will address these questions:

Question 1: Does the SEEK formula continue to close the equity gap for school districts?

Question 2: Why has the vertical equity gap persisted?

Question 1: Does the SEEK formula continue to close the equity gap for school districts?

The equity gap between property wealthy and property poor districts will be examined using research-based methodology. Robert Berne and Leanna Stiefel (The Measurement of Equity in School Finance. Baltimore: The Johns hopkins University Press, 1984) place reliance upon three research-based equity tests: horizontal equity, equal opportunity equity and vertical

equity. The results of these statistical tests will be analyzed by grouping districts in quintiles by property wealth. The 12-year trend toward closing the equity gap between the wealthiest and least wealthy quintiles will be examined.

Horizontal equity: Is there equal treatment of equals? Horizontal equity is the concept of equal treatment of equals. Students who are alike should receive equal shares. Analysis of horizontal equity is done by measuring the dispersion or inequality in the distribution of revenues per pupil. A measure of horizontal equity is the coefficient of variation, defined as the standard deviation divided by the mean. The closer the coefficient of variation is to 0, the more equitable the distribution of revenues.

Table 1 shows coefficients of variation from 1989-90 through 2000-01 for local, state and federal pupil weighted revenues by property wealth quintile. Quintiles are derived by ranking school districts' property wealth per funded ADA and then by dividing the districts funded ADA into five approximately equal groups. The pupil counts used in the equity calculations are Funded ADA. The pupil is the unit of analysis for all equity calculations. Calculations are weighted based on the district's funded ADA. Therefore, all calculations are based on the number of students, not the number of school districts. Coefficients for average local/state revenue (minus Capital Outlay and Facilities Support Program of Kentucky funds) of quintiles 1 through 5 for 2000-01 are .051, .057, .080, .060, and .061, respectively. Figure 1 shows the trend line of coefficients of variation since the KERA reform was enacted. The trend shows a leveling effect close to zero, indicating equitable distribution of SEEK revenues. In summary, correlation analysis provides a basis for our conclusion that the distribution of local and state funds results in the equal treatment of equals, that is, students in each of the five wealth quintiles are being treated relatively equally in regards to overall funding.

Table 1

HORIZONTAL EQUITY - COEFFICIENT OF VARIATION

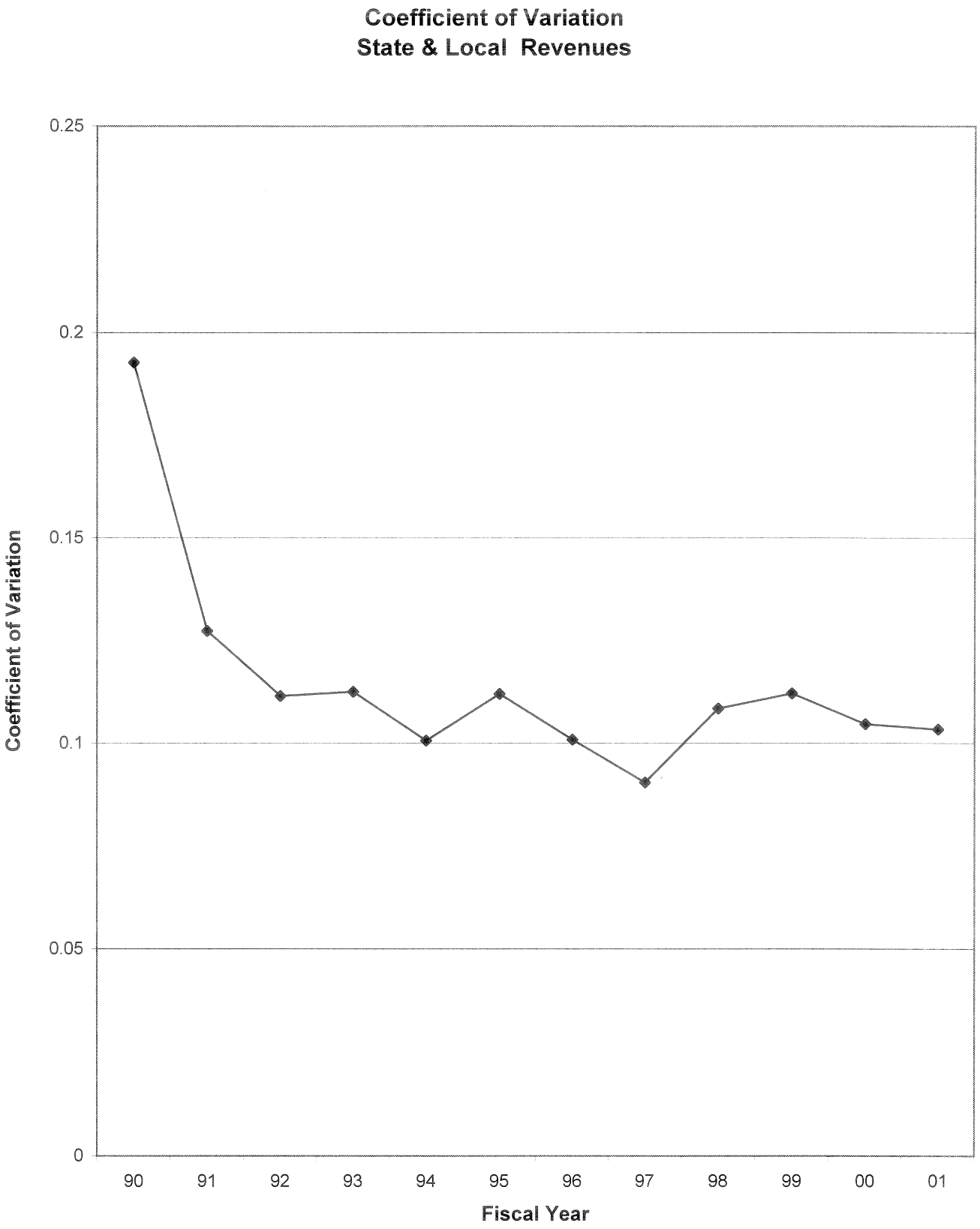
Quintile	Funded ADA	Average Local Revenue Per Pupil	Coefficient of Variation	Average State Revenue Per Pupil	Coefficient of Variation	Average Federal Revenue Per Pupil	Coefficient of Variation	Average Local/State Revenue Per Pupil	Coefficient of Variation	Average Total Revenue Per Pupil	Coefficient of Variation
1989-1990											
1	115,074	$ 346	0.435	$ 2,213	0.055	$ 540	0.276	$ 2,559	0.077	$ 3,099	0.079
2	114,190	533	0.343	2,146	0.048	401	0.270	2,679	0.086	3,080	0.074
3	118,119	663	0.286	2,101	0.037	323	0.282	2,764	0.066	3,087	0.059
4	106,632	983	0.260	2,066	0.046	292	0.480	3,049	0.093	3,341	0.110
5	121,119	1,966	0.156	2,020	0.046	361	0.277	3,987	0.081	4,348	0.090
Statewide	**575,134**	**$ 908**	**0.689**	**$ 2,109**	**0.057**	**$ 384**	**0.382**	**$ 3,016**	**0.193**	**$ 3,400**	**0.170**
1990-1991											
1	112,587	441	0.286	2,866	0.054	577	0.311	3,307	0.051	3,884	0.066
2	115,851	638	0.225	2,717	0.047	426	0.271	3,355	0.060	3,781	0.068
3	112,858	845	0.184	2,564	0.049	368	0.245	3,409	0.054	3,777	0.060
4	113,154	1,182	0.212	2,358	0.058	311	0.515	3,540	0.078	3,851	0.095
5	118,398	2,125	0.097	2,249	0.061	478	0.354	4,374	0.060	4,852	0.083
Statewide	**572,848**	**1,055**	**0.593**	**2,548**	**0.104**	**432**	**0.400**	**3,603**	**0.127**	**4,036**	**0.129**
1991-1992											
1	115,196	544	0.287	3,193	0.060	681	0.290	3,737	0.052	4,418	0.068
2	115,319	749	0.194	2,876	0.055	480	0.280	3,626	0.059	4,106	0.068
3	117,366	995	0.185	2,706	0.058	419	0.291	3,700	0.062	4,119	0.068
4	105,660	1,277	0.187	2,504	0.070	371	0.553	3,780	0.073	4,151	0.100
5	122,849	2,212	0.105	2,363	0.062	492	0.324	4,575	0.065	5,067	0.084
Statewide	**576,389**	**1,167**	**0.536**	**2,727**	**0.123**	**490**	**0.400**	**3,894**	**0.111**	**4,384**	**0.116**
1992-1993											
1	115,975	$ 547	0.235	$ 3,335	0.071	$ 693	0.313	$ 3,882	0.057	$ 4,575	0.083
2	116,562	772	0.240	3,000	0.061	531	0.279	3,772	0.062	4,303	0.069
3	112,531	954	0.177	2,803	0.061	461	0.257	3,757	0.068	4,218	0.077
4	116,281	1,301	0.181	2,574	0.075	351	0.551	3,874	0.069	4,226	0.096
5	120,705	2,355	0.111	2,372	0.071	497	0.311	4,728	0.064	5,225	0.078
Statewide	**582,054**	**$ 1,196**	**0.563**	**$ 2,813**	**0.138**	**$ 507**	**0.400**	**$ 4,010**	**0.113**	**$ 4,516**	**0.118**
1993-1994											
1	117,389	$ 642	0.303	$ 3,468	0.069	$ 697	0.289	$ 4,111	0.049	$ 4,808	0.071
2	115,073	836	0.228	3,138	0.056	567	0.262	3,974	0.049	4,541	0.058
3	115,901	1,057	0.155	2,906	0.060	444	0.276	3,963	0.057	4,407	0.070
4	112,221	1,407	0.187	2,627	0.083	401	0.601	4,034	0.078	4,435	0.104
5	121,719	2,421	0.118	2,411	0.064	601	0.361	4,832	0.065	5,433	0.084
Statewide	**582,303**	**$ 1,282**	**0.527**	**$ 2,908**	**0.145**	**$ 544**	**0.403**	**$ 4,190**	**0.101**	**$ 4,734**	**0.114**
1994-1995											
1	115,477	$ 727	0.278	$ 3,674	0.076	$ 725	0.306	$ 4,401	0.064	$ 5,126	0.084
2	114,974	939	0.244	3,344	0.049	588	0.252	4,283	0.051	4,871	0.059
3	117,044	1,167	0.157	3,087	0.058	483	0.278	4,254	0.062	4,737	0.074
4	112,117	1,634	0.323	2,683	0.080	414	0.466	4,317	0.126	4,731	0.128
5	121,110	2,716	0.097	2,496	0.051	528	0.295	5,212	0.060	5,740	0.074
Statewide	**580,722**	**$ 1,447**	**0.538**	**$ 3,053**	**0.155**	**$ 548**	**0.370**	**$ 4,501**	**0.112**	**$ 5,049**	**0.114**

Table 1

HORIZONTAL EQUITY - COEFFICIENT OF VARIATION

Quintile	Funded ADA	Average Local Revenue Per Pupil	Coefficient of Variation	Average State Revenue Per Pupil	Coefficient of Variation	Average Federal Revenue Per Pupil	Coefficient of Variation	Average Local/State Revenue Per Pupil	Coefficient of Variation	Average Total Revenue Per Pupil	Coefficient of Variation
1995-1996											
1	114,936	$ 805	0.312	$ 3,771	0.071	$ 753	0.265	$ 4,575	0.064	$ 5,328	0.077
2	114,767	1,063	0.197	3,405	0.045	561	0.237	4,468	0.047	5,029	0.054
3	116,275	1,281	0.126	3,168	0.051	454	0.284	4,449	0.051	4,903	0.065
4	109,635	1,773	0.207	2,766	0.075	407	0.496	4,539	0.081	4,946	0.094
5	120,298	2,921	0.090	2,520	0.048	566	0.314	5,441	0.053	6,006	0.069
Statewide	**575,912**	**$ 1,579**	**0.507**	**$ 3,124**	**0.155**	**$ 549**	**0.378**	**$ 4,702**	**0.101**	**$ 5,252**	**0.107**
1996-1997											
1	114,764	$ 965	0.301	$ 4,006	0.071	$ 861	0.277	$ 4,971	0.068	$ 5,832	0.085
2	115,076	1,231	0.200	3,615	0.050	632	0.235	4,845	0.059	5,477	0.066
3	115,470	1,425	0.172	3,364	0.051	511	0.324	4,789	0.050	5,300	0.064
4	109,368	1,916	0.165	2,855	0.094	400	0.480	4,771	0.061	5,171	0.081
5	120,576	3,146	0.097	2,527	0.063	551	0.253	5,673	0.056	6,224	0.066
Statewide	**575,254**	**$ 1,749**	**0.475**	**$ 3,270**	**0.175**	**$ 592**	**0.399**	**$ 5,019**	**0.090**	**$ 5,611**	**0.100**
1997-1998											
1	114,752	$ 948	0.303	$ 4,051	0.069	$ 822	0.245	$ 4,999	0.058	$ 5,822	0.071
2	115,626	1,286	0.229	3,590	0.050	671	0.294	4,876	0.064	5,547	0.076
3	113,668	1,450	0.169	3,343	0.063	575	0.335	4,793	0.055	5,368	0.073
4	108,988	2,012	0.157	2,835	0.096	441	0.487	4,847	0.053	5,288	0.079
5	121,188	3,382	0.087	2,632	0.074	640	0.314	6,013	0.060	6,653	0.074
Statewide	**574,222**	**$ 1,831**	**0.501**	**$ 3,288**	**0.172**	**$ 632**	**0.373**	**$ 5,119**	**0.108**	**$ 5,751**	**0.115**
1998-1999											
1	114,990	$ 999	0.182	$ 4,358	0.067	$ 887	0.248	$ 5,357	0.054	$ 6,244	0.072
2	113,775	1,420	0.244	3,873	0.052	701	0.315	5,293	0.070	5,994	0.081
3	113,861	1,589	0.199	3,670	0.069	619	0.353	5,259	0.069	5,878	0.090
4	108,784	2,161	0.151	3,108	0.094	473	0.462	5,269	0.059	5,742	0.080
5	121,348	3,725	0.075	2,799	0.117	584	0.244	6,524	0.071	7,108	0.082
Statewide	**572,758**	**$ 1,998**	**0.506**	**$ 3,557**	**0.175**	**$ 654**	**0.378**	**5,555**	**0.112**	**$ 6,209**	**0.114**
1999-2000											
1	114,448	$ 1,042	0.216	$ 4,453	0.075	$ 985	0.263	$ 5,495	0.054	$ 6,480	0.075
2	113,317	1,416	0.190	3,982	0.063	794	0.290	5,398	0.057	6,192	0.070
3	112,430	1,734	0.204	3,689	0.070	704	0.351	5,423	0.078	6,127	0.102
4	108,383	2,282	0.154	3,118	0.099	487	0.393	5,400	0.052	5,887	0.064
5	122,455	3,791	0.081	2,813	0.113	714	0.257	6,603	0.059	7,317	0.073
Statewide	**571,034**	**$ 2,077**	**0.495**	**$ 3,604**	**0.184**	**$ 739**	**0.371**	**$ 5,681**	**0.105**	**$ 6,420**	**0.111**
2000-2001											
1	114,195	$ 1,093	0.190	$ 4,674	0.071	$ 1,063	0.265	$ 5,766	0.051	$ 6,830	0.070
2	111,715	1,543	0.205	4,144	0.058	862	0.320	5,687	0.057	6,549	0.075
3	112,480	1,825	0.197	3,838	0.073	739	0.364	5,663	0.080	6,403	0.105
4	108,976	2,457	0.162	3,261	0.103	540	0.470	5,718	0.060	6,258	0.083
5	121,700	4,112	0.074	2,793	0.114	725	0.259	6,904	0.061	7,629	0.075
Statewide	**569,067**	**$ 2,233**	**0.502**	**$ 3,732**	**0.196**	**$ 787**	**0.390**	**$ 5,964**	**0.103**	**$ 6,752**	**0.110**

Figure 1


Coefficient of Variation
State & Local Revenues
0.25
0.2
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0.1
0.05
0
Coefficient of Variation
90
91
92
93
94
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Fiscal Year

Equal Opportunity Equity: Is there discrimination between the rich and the poor? Equal opportunity equity addresses discrimination. Prior to KERA, there was a wide disparity in revenues per pupil between property poor and property rich districts. It is the intent of KERA and the SEEK formula to eliminate the wide disparity in per pupil revenue of Kentucky school districts. Table 2 is a listing of pupil weighted averages for all sources of revenue from 1989-90 through 2000-01. Analytical comparisons of the weighted local and state revenues per pupil are illustrated in Figure 2. The trend lines depict funding gaps that refuse to close. The funding gap between quintile 1, districts poor in property wealth, and quintile 5, districts rich in property wealth, continues to create concern. As depicted in Figure 3, progress in closing the gap was made from 1989-90 until 1996-97. It appears unmined coal tax contributed to the gap being the narrowest in 1996-97. Three years' worth of unmined coal tax bills were issued in 1996-97, and many of the districts receiving unmined coal tax were in quintile 1, increasing local revenue in those districts with less wealth. Eleven districts in quintile 1 had also increased their local tax effort and received full Tier I Equalization in 1996-97 for the first time, increasing both local and state revenues. Previous OEA reports attributed the less than favorable progress in 1997-98 to several factors. For one, conversion to the MUNIS accounting system affected comparability of revenues between years. Second, unmined coal tax revenue was down substantially from the year before, however, this was attributed to only one year's worth of bills being issued in 1997-98. Migration patterns and changes in average daily attendance in some portions of the state had an impact on revenues per pupil. For the past four years, the gap between the wealthiest and the least wealthy districts has reached a plateau that ranges from $1047 to $1188. The wide disparity in the distribution of state funding that existed in 1989-90 was measured at $1558.

Table 2

PUPIL WEIGHTED AVERAGES FOR REVENUE BY WEALTH QUINTILE

Quintile	Funded ADA	Property Wealth Per Pupil	Average Local Revenue Per Pupil	Average State Revenue Per Pupil	Average Federal Revenue Per Pupil	Average Local/State Revenue Per Pupil	Average Total Revenue Per Pupil
1989-1990							
1	115,074	$ 71,665	$ 355	$ 2,310	$ 540	$ 2,665	$ 3,205
2	114,190	105,467	549	2,243	401	2,792	3,193
3	118,119	138,954	687	2,197	323	2,884	3,207
4	106,632	179,714	1,038	2,163	292	3,201	3,493
5	121,119	280,727	2,103	2,120	361	4,223	4,585
Statewide	**575,134**	**$156,255**	**$ 956**	**$ 2,206**	**$ 384**	**$ 3,163**	**$ 3,547**
1990-1991							
1	112,587	$ 78,561	$ 481	$ 3,006	$ 577	$ 3,487	$ 4,063
2	115,851	114,895	695	2,846	426	3,541	3,967
3	112,858	148,272	919	2,675	368	3,594	3,962
4	113,154	194,504	1,280	2,465	311	3,745	4,056
5	118,398	308,585	2,280	2,349	478	4,628	5,106
Statewide	**572,848**	**$170,087**	**$ 1,140**	**$ 2,666**	**$ 432**	**$ 3,806**	**$ 4,238**
1991-1992							
1	115,196	$ 82,965	$ 585	$ 3,344	$ 681	$ 3,930	$ 4,611
2	115,319	120,827	810	3,016	480	3,826	4,306
3	117,366	156,687	1,073	2,825	419	3,898	4,317
4	105,660	204,520	1,379	2,610	371	3,989	4,359
5	122,849	310,508	2,367	2,463	492	4,830	5,323
Statewide	**576,389**	**$176,332**	**$ 1,255**	**$ 2,851**	**$ 490**	**$ 4,105**	**$ 4,596**
1992-1993							
1	115,975	$ 87,359	$ 591	$ 3,478	$ 693	$ 4,069	$ 4,761
2	116,562	126,068	835	3,136	531	3,971	4,502
3	112,531	161,312	1,035	2,929	461	3,963	4,424
4	116,281	215,672	1,409	2,686	351	4,095	4,446
5	120,705	324,663	2,518	2,472	497	4,990	5,487
Statewide	**582,054**	**$184,254**	**$ 1,288**	**$ 2,936**	**$ 507**	**$ 4,225**	**$ 4,732**
1993-1994							
1	117,389	$ 95,407	$ 690	$ 3,613	$ 697	$ 4,303	$ 5,000
2	115,073	133,898	903	3,272	567	4,175	4,742
3	115,901	170,188	1,142	3,032	444	4,174	4,618
4	112,221	227,847	1,521	2,738	401	4,259	4,660
5	121,719	332,361	2,587	2,511	601	5,098	5,699
Statewide	**582,303**	**$192,952**	**$ 1,379**	**$ 3,031**	**$ 544**	**$ 4,410**	**$ 4,954**
1994-1995							
1	115,477	$104,767	$ 779	$ 3,865	$ 725	$ 4,644	$ 5,370
2	114,974	146,018	1,012	3,518	588	4,530	5,117
3	117,044	185,496	1,260	3,240	483	4,500	4,983
4	112,117	249,159	1,759	2,805	414	4,564	4,978
5	121,110	360,085	2,896	2,596	528	5,492	6,020
Statewide	**580,722**	**$210,329**	**$ 1,553**	**$ 3,201**	**$ 548**	**$ 4,754**	**$ 5,302**

Table 2

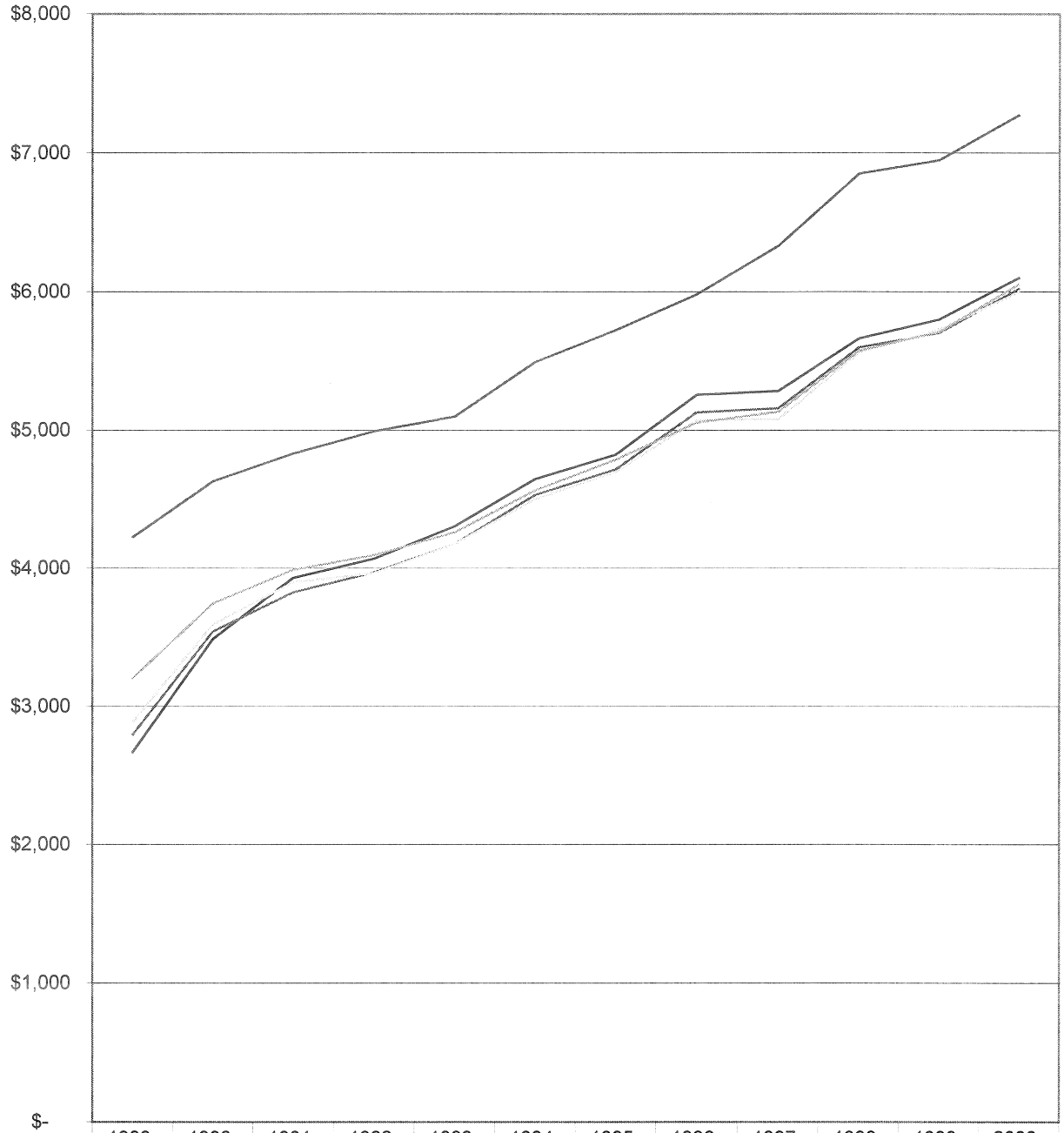
PUPIL WEIGHTED AVERAGES FOR REVENUE BY WEALTH QUINTILE

Quintile	Funded ADA	Property Wealth Per Pupil	Average Local Revenue Per Pupil	Average State Revenue Per Pupil	Average Federal Revenue Per Pupil	Average Local/State Revenue Per Pupil	Average Total Revenue Per Pupil
1995-1996							
1	114,936	$113,902	$ 859	$ 3,963	$ 753	$ 4,822	$ 5,575
2	114,767	158,720	1,137	3,579	561	4,716	5,276
3	116,275	203,231	1,375	3,321	454	4,696	5,150
4	109,635	273,034	1,898	2,888	407	4,787	5,194
5	120,298	383,316	3,102	2,620	566	5,722	6,288
Statewide	**575,912**	**$227,438**	**$ 1,685**	**$ 3,272**	**$ 549**	**$ 4,957**	**$ 5,506**
1996-1997							
1	114,764	$119,513	$ 1,025	$ 4,228	$ 861	$ 5,253	$ 6,114
2	115,076	169,753	1,316	3,812	632	5,128	5,760
3	115,470	214,715	1,533	3,539	511	5,072	5,583
4	109,368	293,622	2,063	2,991	400	5,053	5,453
5	120,576	412,182	3,352	2,627	551	5,979	6,530
Statewide	**575,254**	**$243,120**	**$ 1,870**	**$ 3,436**	**$ 592**	**$ 5,306**	**$ 5,898**
1997-1998							
1	114,752	$125,180	$ 1,011	$ 4,271	$ 822	$ 5,282	$ 6,104
2	115,626	181,230	1,377	3,782	671	5,159	5,830
3	113,668	225,941	1,563	3,513	575	5,075	5,650
4	108,988	313,937	2,168	2,963	441	5,131	5,572
5	121,188	430,946	3,597	2,732	640	6,329	6,969
Statewide	**574,222**	**$256,770**	**$ 1,959**	**$ 3,449**	**$ 632**	**$ 5,409**	**$ 6,041**
1998-1999							
1	114,990	$130,435	$ 1,064	$ 4,598	$ 887	$ 5,662	$ 6,549
2	113,775	188,977	1,514	4,084	701	5,598	6,299
3	113,861	239,224	1,709	3,854	619	5,563	6,182
4	108,784	327,102	2,324	3,250	473	5,574	6,047
5	121,348	452,967	3,951	2,899	584	6,850	7,435
Statewide	**572,758**	**$269,377**	**$ 2,133**	**$ 3,732**	**$ 654**	**$ 5,865**	**$ 6,519**
1999-2000							
1	114,448	$143,590	$ 1,114	$ 4,686	$ 985	$ 5,800	$ 6,785
2	113,317	208,156	1,520	4,183	794	5,703	6,497
3	112,430	260,192	1,864	3,863	704	5,727	6,431
4	108,383	352,757	2,458	3,250	487	5,708	6,195
5	122,455	486,063	4,034	2,913	714	6,946	7,661
Statewide	**571,034**	**$292,502**	**$ 2,223**	**$ 3,771**	**$ 739**	**$ 5,995**	**$ 6,734**
2000-2001							
1	114,195	$153,977	$ 1,170	$ 4,932	$ 1,063	$ 6,101	$ 7,165
2	111,715	221,926	1,654	4,368	862	6,022	6,884
3	112,480	280,527	1,965	4,032	739	5,997	6,737
4	108,976	377,408	2,645	3,408	540	6,054	6,594
5	121,700	535,780	4,380	2,893	725	7,272	7,997
Statewide	**569,067**	**$316,769**	**$ 2,391**	**$ 3,915**	**$ 787**	**$ 6,306**	**$ 7,094**

Figure 2

PUPIL WEIGHTED AVERAGES FOR REVENUE BY WEALTH QUINTILE

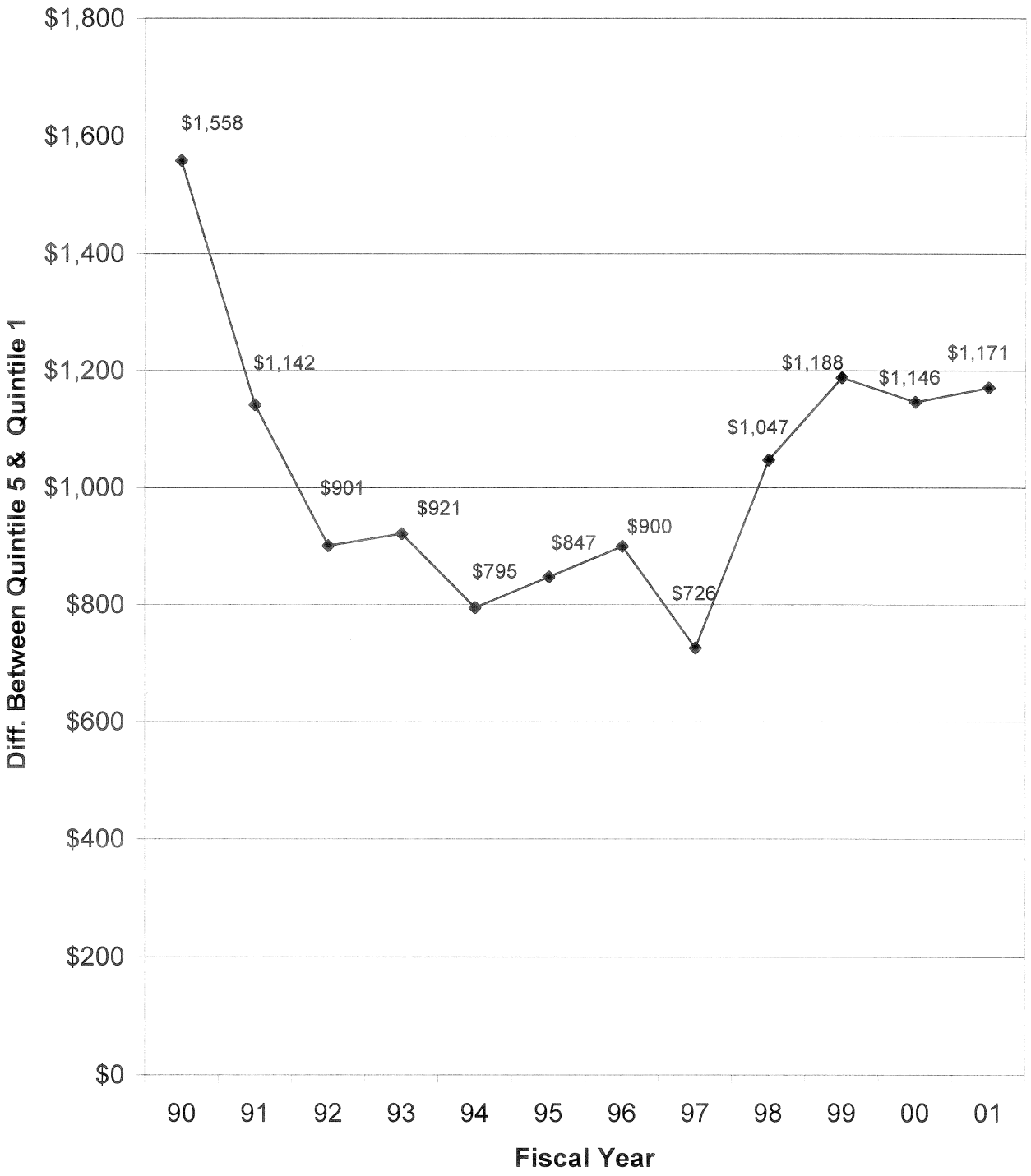
Local/State Per Pupil Revenue



	1989-1990	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001
Quintile 1	$2,665	$3,487	$3,930	$4,069	$4,303	$4,644	$4,822	$5,253	$5,282	$5,662	$5,800	$6,101
Quintile 2	$2,792	$3,541	$3,826	$3,971	$4,175	$4,530	$4,716	$5,128	$5,159	$5,598	$5,703	$6,022
Quintile 3	$2,884	$3,594	$3,898	$3,963	$4,174	$4,500	$4,696	$5,072	$5,075	$5,563	$5,727	$5,997
Quintile 4	$3,201	$3,745	$3,989	$4,095	$4,259	$4,564	$4,787	$5,053	$5,131	$5,574	$5,708	$6,054
Quintile 5	$4,223	$4,628	$4,830	$4,990	$5,098	$5,492	$5,722	$5,979	$6,329	$6,850	$6,946	$7,272

Figure 3

Gap Between Wealthiest and Least Wealthy Districts
State and Local Funding Per Pupil



If federal funds are included in the mix of per pupil revenues, the gap closes further. Figure 4 shows the 1989-90 gap between quintile 1 and quintile 5 was $1380 whereas the gap that exists in 2000-01 is $833. These results can be anticipated. Federal grants are targeted to benefit those students with special needs. Title I, the federal government's largest education entitlement program, is based upon the number of students participating in the free and reduced lunch program. As a general rule, districts with less property wealth have historically reported (1) higher percentages of their student population with special needs and (2) higher percentages of free lunch program participants.

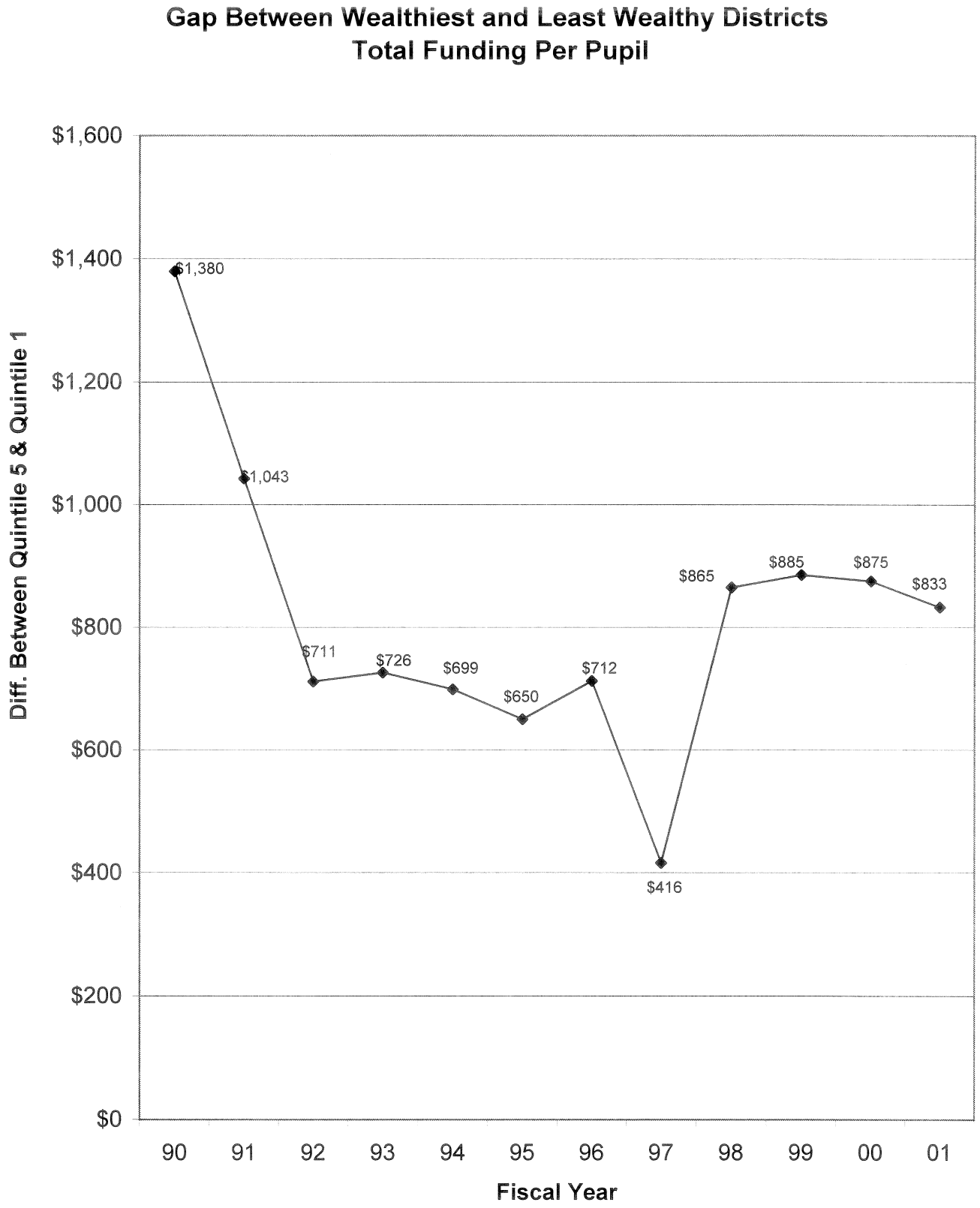
In summary, the SEEK formula has made significant progress in reducing the wide gap in funding between property poor and property rich districts. The disparity has narrowed, but there is opportunity to further reduce the gap.

Question 2: Why has the vertical equity gap persisted?

Vertical equity refers to unequal treatment of unequals. Some students bring with them handicapping or disabling conditions which require a greater investment. Therefore, increased financial resources may be needed to provide some students with educational services needed to help them reach their potential for independence and achievement. To achieve vertical equity, the SEEK program provides adjustment factors for exceptional children, at-risk pupils, and home and hospital based students.

When the Kentucky Education Reform Act (KERA) was passed and the Support Education Excellence in Kentucky (SEEK) formula became law, 41 districts were "grandfathered in," allowing them to continue to levy local taxes at the rate they were levying prior to the implementation of SEEK. Not only was this "grandfathering in" necessary as a reality in practical terms, it

Figure 4


Gap Between Wealthiest and Least Wealthy Districts
Total Funding Per Pupil
Diff. Between Quintile 5 & Quintile 1
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$1,380
$1,043
$711
$726
$699
$650
$712
$416
$865
$885
$875
$833
90
91
92
93
94
95
96
97
98
99
00
01
Fiscal Year

also preserved funding for these 41 districts so as to allow them to continue to provide adequate services to their students. However, allowing these districts to levy taxes above their Maximum Tier I Equivalent Rate resulted in a negative impact to the vertical equity side of the SEEK equation.

When the 41 "grandfathered"* districts are removed from the equity calculation, the results clearly illustrate that the SEEK formula performs as intended vis-a-vis vertical equity. See Figure 5. The equity calculation for all districts reveals that quintile 1 districts received an average of $6,101 while quintile 5 districts received an average of $7,272 per funded ADA in state and local funds for 2000-01 (i.e., quintile 5 districts received $1,171 more per funded ADA than quintile 1 districts). When the 41 "grandfathered" districts are removed from the calculation and new quintiles are derived, quintile 1 districts received an average of $6,092 and quintile 5 districts received an average of $6,050 per funded ADA in state and local funds for 2000-01 (i.e., quintile 5 districts received $42 less per funded ADA than quintile 1 districts). The coefficient of variation dropped from 0.103 for all districts to 0.050 when the 41 "grandfathered" districts are removed from the 2000-01 calculation. See Table 3. See also Appendix B, which contains tables and figures that parallel earlier ones presented in this report and excludes the 41 districts "grandfathered in."

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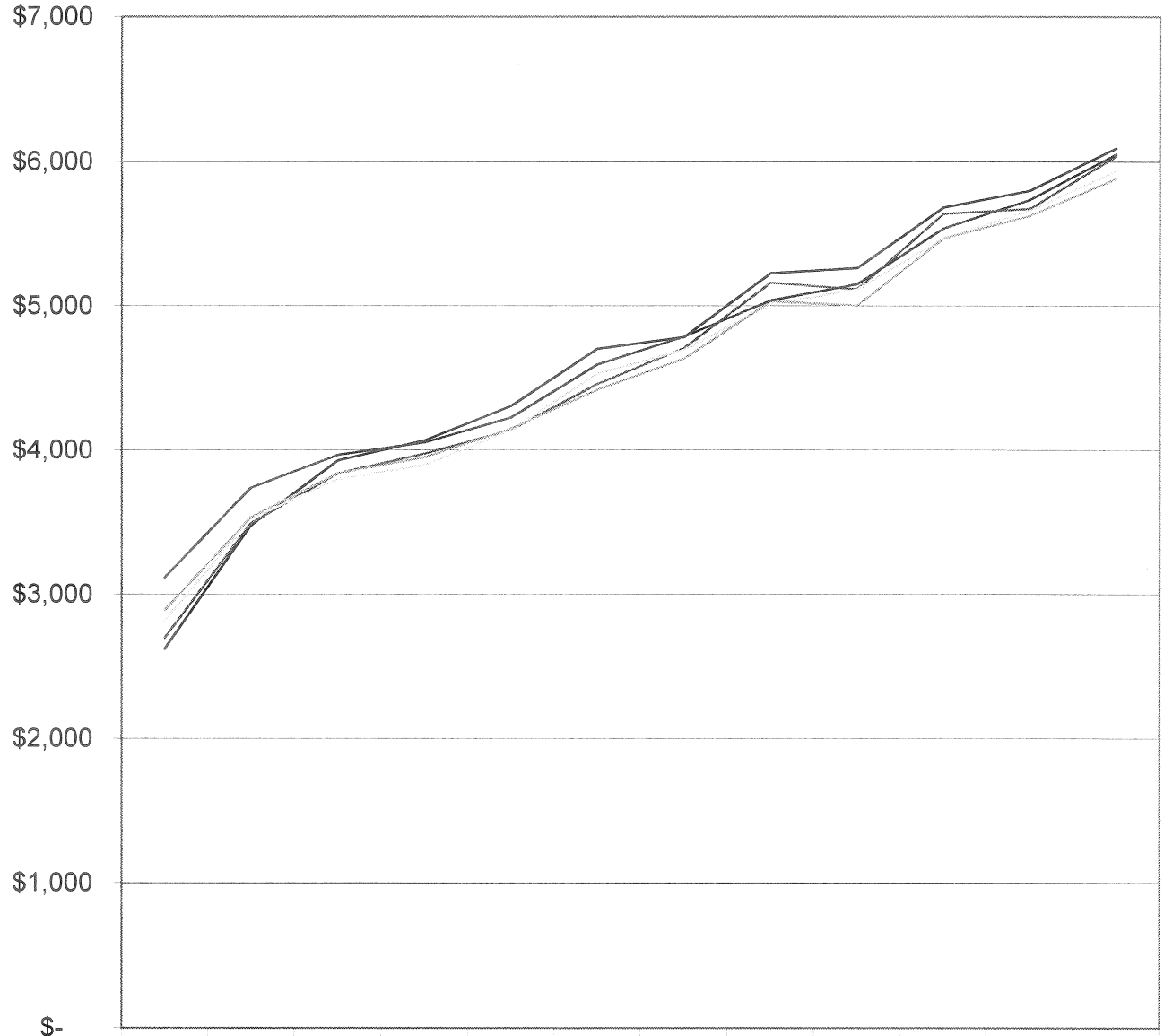
* House Bill 940 mandates that no school district shall be required to levy an equivalent tax rate lower than the rate levied during 1989-90. Under House Bill 940, the district's 1989-90 equivalent is compared to its current year Maximum Tier I Equivalent on an annual basis; so, the number of districts "grandfathered in" could vary from year to year. OEA staff's calculations show that over the 11-year span, as few as 40 districts and as many as 52 fit into this category. OEA's illustration eliminates the original 41 districts "grandfathered in."

Figure 5

Pupil Weighted Averages for Revenue by Wealth Quintile

(Excludes 41 Grandfathered Districts)

Local/State Per Pupil Revenue



	1989-1990	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001
Quintile 1	$2,619	$3,476	$3,928	$4,067	$4,307	$4,704	$4,785	$5,227	$5,262	$5,682	$5,798	$6,092
Quintile 2	$2,694	$3,493	$3,839	$3,976	$4,141	$4,458	$4,710	$5,162	$5,116	$5,638	$5,674	$6,036
Quintile 3	$2,816	$3,524	$3,799	$3,896	$4,139	$4,530	$4,697	$5,011	$5,117	$5,469	$5,660	$5,934
Quintile 4	$2,888	$3,533	$3,839	$3,951	$4,149	$4,420	$4,635	$5,032	$5,004	$5,466	$5,624	$5,881
Quintile 5	$3,115	$3,738	$3,966	$4,054	$4,227	$4,595	$4,788	$5,039	$5,151	$5,537	$5,736	$6,050

Table 3

Quintile 1 vs. Quintile 5: Removing Grandfathered Districts

	State and Local Funds Per Funded ADA	Statewide Coefficient of Variation
All Districts		
Quintile 1	$6,101	
Quintile 5	$7,272	
Difference	$1,171	0.103
Minus Grandfathered Districts		
Quintile 1	$6,092	
Quintile 5	$6,050	
Difference	($42)	0.050

Local property tax efforts also impact the vertical equity calculation. See Appendix C for a brief synopsis of the tax rate certification process. The Kentucky Education Reform Act of 1990 requires districts to levy minimum tax rates to participate in the SEEK program's equalization process. Table 4 shows the number of districts who received full Tier I Equalization through SEEK for years 1994-95 through 2000-01. As districts reach and go beyond maximum Tier I, they participate in Tier II. The additional revenues produced at this point are not equalized by the state and create more disparities among the revenues available to districts.

Table 4

Tier I Funding

Year	94-95	95-96	96-97	97-98	98-99	99-00	00-01
# Of Districts Receiving Full Tier I Funding	142	129	158	156	162	160	166
# Of Districts Receiving Less Than Full Tier I Funding	34	47	18	20	14	15	10

Some districts have not taken advantage of the full taxation available to them. Levying less than the maximum rate not subject to recall creates an

opportunity for loss of revenue not only in the current year, but in subsequent years as well. Districts have foregone approximately $24.4 million in revenues from 1997-98 to 2000-01. This amount includes only the loss in a given year and does not consider the cumulative effect.

Furthermore, some districts are limited to the Subsection (1) Rate and are not legally able to levy the 4% Tax Rate. These districts have involuntarily given up approximately $6.1 million over the four-year period. Again, this amount includes only the loss in a given year and does not consider the cumulative effect.

Table 5 below illustrates the number of districts that levied below the maximum rate not subject to recall and the number of districts that levied the Subsection (1) tax rate due to statutory limitations from 1997-98 through 2000-01.

Table 5

Levied Tax Rates

Year	Levied Maximum Rate Not Subject to Recall	Levied Below Maximum Rate Not Subject to Recall	Subject to Recall	Limited to Subsection (1)	Total Districts
1997-98	71	90	2	13	176
1998-99	71	87	1	17	176
1999-00	75	84	2	15	176
2000-01	70	88	1	17	176

The variation in local tax rates between districts can give the appearance of inequitable sharing of tax burden by Kentucky property owners and produce inequities in local tax revenue available to districts.

Real estate tax rates range from 26.1 to 98.2 cents per $100 of assessed property valuation in 2000-01. This variation is partially due to the

grandfather clause discussed earlier in this report. At the time of KERA's enactment, the accuracy of property valuation concerned policy makers. Those concerns have been addressed by the Revenue Cabinet's concerted effort, working with the local Property Valuation Administrators to assure property was assessed at 100 percent of the local economy's fair market value. Since valuations should be equitably assessed, the tax rate disparity can give an inequitable appearance to taxpayers. Furthermore, some of the districts levying the lower tax rates have the least property wealth while others levying the higher tax rates have the highest property wealth, which produces inequities in local revenue available to districts.

Property valuations play a major role in determining both state and local funds available to districts. Ideally, as districts produce more revenue locally through increased assessments, their state SEEK funds would decline proportionately. This, however, does not always happen, and districts are disproportionately impacted. It's also important to note that growth in assessment has a different impact if it is from reassessment as opposed to new property.

Districts whose assessments grow more than 4%, not considering new property, experience a larger decline in SEEK funds than they can collect from taxes if they adopt the 4% Increase Tax Rate. Districts whose assessments grow less than 4%, not considering new property, can collect more by adopting the 4% Increase Tax Rate than their SEEK funds will decline. Districts whose assessments grow exactly 4%, not considering new property, break even.

Some districts benefit as their assessments increase. Others do not. Using real estate as an example, if a district's real estate rate is higher than its Maximum Tier I Equivalent Rate, a district benefits as its assessment increases. The district will gain more from the taxes its collects than its

SEEK will decline. Since assessments hit the calculation in three places...30 cent local effort, Tier I, and FSPK (Facilities Support Program of Kentucky), the district's SEEK essentially declines by its Maximum Tier I Equivalent Rate. If a district's real estate rate is lower than its Maximum Tier I Rate Equivalent, a district does not benefit as its assessment increases. The district's SEEK will decline more than the amount of taxes it collects on the increased assessment. Table 6 illustrates this impact.

Table 6

Assessment Increase Illustration

	Real Estate Rate	Assessment Increase	Estimated Tax Receipts	Maximum Tier I Equivalent Rate	Estimated SEEK Decline	Net Difference
	a	b	a x b/10,000 = c	d	d x b/10,000 = e	c - e = f
District A	27.1	150,000,000	406,500	49.1	736,500	(330,000)
District B	67.0	150,000,000	1,005,000	49.1	736,500	268,500

Districts receiving hold harmless funds through SEEK benefit as their assessments increase. The hold harmless provision guarantees a district that it will receive at a minimum the same per pupil state funding as received in 1991-92. This provision benefits those districts who would otherwise receive less state funding due to increases in their assessments and corresponding 30 cents local effort. Districts who continue to receive hold harmless funds and whose enrollment remains constant essentially receive the same amount of state funding each year. So, as assessments increase, they benefit fully from the taxes generated on their increased assessments without a decline in SEEK dollars.

Permissive taxes i.e., utility, occupational, and excise taxes, which grow at rates different from property, have a major impact on vertical equity. In 2000-01, quintile 1 districts generated an average of $177 per funded ADA from permissive taxes. This amounted to an average of 15% of all local revenue generated in quintile 1 districts. Quintile 5 districts, in contrast,

generated $1,159 per funded ADA from permissive taxes in 2000-01. This amounted to 26% of all local revenue for quintile 5 districts.

Permissive taxes are figured into districts' levied equivalent rates which determine their participation in SEEK; however, there is no basis for permissive taxes in the assessments utilized by SEEK. Excluding permissive taxes from the assessments understates wealth available to districts.

Permissive taxes account for most of the vertical equity gap in 2000-01. The difference between quintile 1 districts and quintile 5 districts in 2000-01 for permissive taxes was $982 per funded ADA. Overall, the difference in state and local funds per funded ADA between quintile 1 districts and quintile 5 districts in 2000-01 was $1,171. Thus, permissive local taxes account for all but $189 of this difference. See Table 7.

Table 7

Permissive Tax

Quintile	# of Districts	# Not Levying Permissive Tax	2000-01 Actual Collections	Funded ADA	Permissive Tax Per Funded ADA	Avg. Local Revenue	% of Local Revenue
1	61	6	$20,234,824	114,195	$177	$1,170	15%
2	50	6	$26,496,450	111,715	$237	$1,654	14%
3	32	5	$29,922,636	112,480	$266	$1,965	14%
4	29	2	$46,999,426	108,976	$431	$2,645	16%
5	4	0	$141,045,197	121,700	$1,159	$4,380	26%

Examination of approximate local real property taxes paid for the support of schools as compared to the percentage of median household income paid for this purpose also sheds some light on the vertical equity equation. OEA staff used census data to estimate the median household value (in 2000) and median household income (in 1999) for all districts in the state. The actual real property tax levies (1999-00) for each district were then used to

determine the median household tax bill for real property in each district. Once this was calculated, the median amount paid by each household was divided by the median household income to determine the percentage of median household income paid in each district in real property taxes to support schools. Quintile analyses were then conducted in the same manner.

The approximate median household value in each of the quintiles was as follows: $47,100 in quintile 1; $63,000 in quintile 2; $74,000 in quintile 3; $89,200 in quintile 4; and $105,250 in quintile 5. Real property tax rates for the various quintiles were (in cents per $100 assessed value) as follows: 42.5 for quintile 1; 41.9 for quintile 2; 44.2 for quintile 3; 47.8 for quintile 4; and 54.0 for quintile 5.

The approximate median household income in each of the quintiles was as follows: $22,142 in quintile 1; $30,387 in quintile 2; $34,442 in quintile 3; $39,010 in quintile 4; and $39,635 in quintile 5. Homeowners in each of the quintiles paid approximately the following in real estate taxes for the support of local schools: $200 in quintile 1; $264 in quintile 2; $327 in quintile 3; $426 in quintile 4; and $568 in quintile 5.

Thus, homeowners in each of the quintiles paid the following percentages of their median household income in real property taxes to support local schools: 0.9% quintile 1; 0.9% in quintile 2; 0.9% in quintile 3; 1.1% in quintile 4; and 1.4% in quintile 5. See Table 8.

Table 8

Tax Paid as Percentage of Median Household Income

Quintile	Median Household Value (2000)	1999-00 Real Estate Tax Rate	Approx. Real Estate Tax Per Household	Median Household Income (1999)	Tax Paid as % of Median Household Income
1	$47,100	42.5	$200	$22,142	0.9%
2	$63,000	41.9	$264	$30,387	0.9%
3	$74,000	44.2	$327	$34,442	0.9%
4	$89,200	47.8	$426	$39,010	1.1%
5	$105,250	54.0	$568	$39,635	1.4%

Based on the above, Kentucky appears to have a progressive local real estate tax structure whereby residents of school districts with higher property values, higher median incomes, and higher tax levies pay a greater portion of their income to schools.

In summary, the SEEK formula functions as intended vis-à-vis vertical equity; however, there are issues and components of local funding that create a gap in vertical equity that the formula cannot account for. For instance, the effects of those districts "grandfathered in" cannot be addressed by the current SEEK calculation. In addition, local permissive taxes account for a huge portion of the vertical equity gap, but these sources of local revenue are not part of the assessments utilized by SEEK. Finally, the effects of varying local real property tax rates and effects of increased assessments contribute to variation in the total state and local revenues and thus to the vertical equity gap.

IV. Adequacy Issues

OEA'S STATUTORY MANDATE: Analyze the adequacy of funds available to all school districts.

Nationwide, the school finance issue has shifted focus from equity to adequacy. Equity deals with the spread of funding whereas adequacy deals with total funding. It is not enough that funding is equitably distributed. It is the premise of the *Rose* decision that school funding in Kentucky must be not only equitable, but also adequate.

How much funding is enough to meet state standards? Researchers have suggested educational strategies that will achieve adequate funding, but there have been few serious attempts to define adequacy in dollar terms. It is easier to define adequacy in programmatic terms rather than quantify it with a set dollar amount. Kentucky has defined adequacy standards for outcomes (*Rose v. Council for Better Education*), known as the seven capacities. The Kentucky Board of Education (KBE) has defined a high minimum level of outcome to achieve full functionality. The high minimum level translates to scores at proficiency on the CATS test by the year 2014 for all Kentucky schools.

The scope of the analysis of adequacy will be limited to the following questions:

Question 1: What are the school finance issues in other states?

Question 2: How does Kentucky's level of funding compare to surrounding states and the nation?

Question 3: What do researchers have to say about the adequacy of funding?

Question 1: What are the school finance issues in other states?

The claims of inadequacy that have made their way to the courtrooms of other states help to reach a better understanding of inadequacy in school funding in Kentucky. When recent claims in other states have been litigated

or litigation is threatened, they are related to available funding, cost studies and at-risk children.

Availability of funding was recently tested in New Hampshire. The New Hampshire Supreme Court decided that adequacy requires educational standards, and the state must assure that districts have the resources to meet state standards (*Claremont School District v. Governor*, 142 N.H. 462, 703 A.2d 1353 (N.H. 1997) and *Opinion of the Justices*, 142 N.H. 892, 712 A.2d 1080 (N.H. 1998)). Cost studies have become a tool to quantify adequacy. Ohio conducted a cost study to justify differential spending that was rejected by the Ohio Supreme Court. Courts in Wyoming (*Campbell County School District v. State*, 907 P.2d 1238 (Wyo. 1995)), New Jersey (*Abbott v. Burke*, 153 N.J. 480 710 A.2D 450 (199) (*Abbott V*), New York (*Campaign for Fiscal Equity v. State,* 86 N.Y.2d 307, 631 N.Y.S.2d 565 (1995), and Arkansas (*Tucker v. Lake View School District No. 25*, 323 Ark. 693, 917 S.W.2d 530 (1996), demanded cost of education and cost differential studies. In the Maryland case by Baltimore at-risk children, a settlement was reached when Maryland adopted a new school finance plan with an influx of $1.3 billion in new funding based on a study of adequate education (*Bradford v. State Board of Education*, Circuit Court for Baltimore City (Consent Decree, November 26, 1996), (described in related case of *Montgomery County v. Bradford,* 345 Md. 175, 691 A. 2d 1281 (1997))).

New Jersey has an exemplary plan often touted as a successful blend of adequacy and equity. Special needs districts will spend no less per pupil than wealthiest districts as a group. Additional supplemental aid is available for special needs districts.

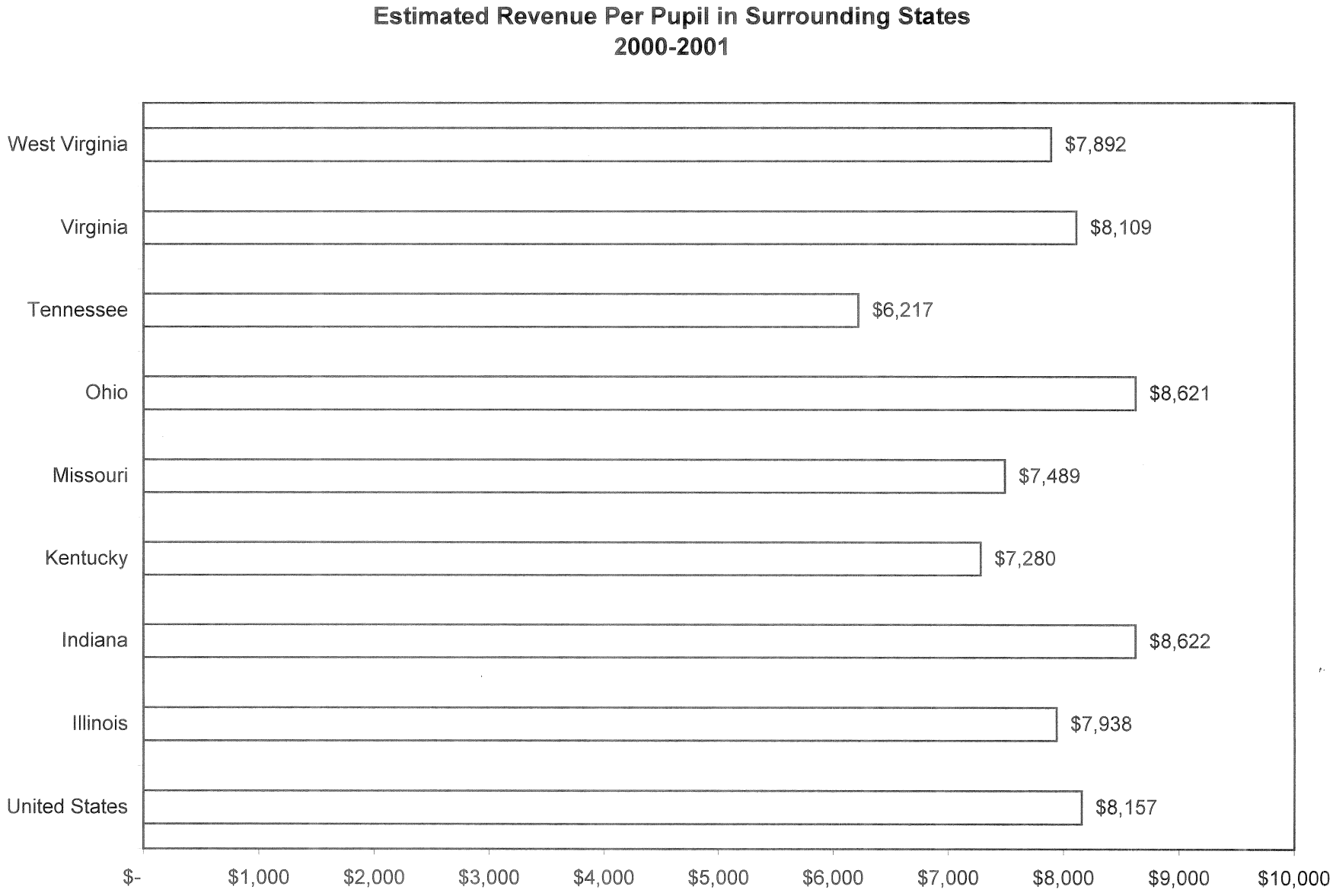
The Florida state legislature has taken a different approach. The 2001 legislature passed the *Sharpening the Pencil Act*, House Bill 269, to improve

the use of resources. Each school district must undergo a Best Financial Management Practices Review once every five years. The review determines whether the district is using best practices as adopted by the Florida Commissioner of Education. The review identifies opportunities for the district to save funds, improve management, and increase efficiency and effectiveness. The final product is a comprehensive plan covering every aspect of instruction and operations presented with cost savings recommendations. The legislature provided $3.2 million for reviews the first year. The Office of Program Policy Analysis and Government Accountability, assisted by Florida's Auditor General, is directed to develop the system for review. Private consultants report that $586 million in cost savings were possible if districts adopted suggestions made in reviews completed since January 1, 2002. Savings could be realized over a five year period in the following school districts: Hillsborough County $27.9 million, Manatee County $35.3 million, Miami-Dade County $509.9 million, Osceola County $5.6 million, and Santa Rosa County $7.3 million.

Question 2: How does Kentucky's level of funding compare to surrounding states and the nation?

The adequacy concern of the *Rose* decision was based in part upon Kentucky revenues per pupil compared with the seven surrounding states and national averages. Based upon estimated revenues as reported by the National Center for Education Statistics for school year 2000-01, Kentucky lags behind. As illustrated in Figure 6, Kentucky reports revenues of $7280 per pupil whereas the national median is $8157. All but one of the seven states that border Kentucky provide more revenue per pupil. Tennessee provides the least revenue per pupil ($6217), and Indiana and Ohio provide the most ($8622 and $8621, respectively). The median funding per pupil of the seven surrounding states is $7958, which is $678 more per pupil than is available for Kentucky students.

Figure 6


Estimated Revenue Per Pupil in Surrounding States
2000-2001
West Virginia
$7,892
Virginia
$8,109
Tennessee
$6,217
Ohio
$8,621
Missouri
$7,489
Kentucky
$7,280
Indiana
$8,622
Illinois
$7,938
United States
$8,157
$-
$1,000
$2,000
$3,000
$4,000
$5,000
$6,000
$7,000
$8,000
$9,000
$10,000

Question 3: What do researchers have to say about the adequacy of funding?

The Kentucky Board of Education contracted for an independent review of the SEEK formula by two nationally respected researchers. In September 2001, Alan Odden and Lawrence Picus presented "Assessing SEEK from an Adequacy Perspective." According to their study, "the adequacy question today, is whether the SEEK base provides sufficient funding for each school in the state to deploy powerful enough educational strategies to meet the state's 2014 goals, which are to have all students performing at or above the proficiency level on the state's student testing system."

For over a decade, education policy analysts have created various methodologies for determining school finance adequacy (Ladd & Hansen, 1999, Odden & Picus, 2000.) Four research-based methods include:

- Economic cost function approach;
- Identifying expenditure levels in districts/schools that meet performance benchmarks;
- Professional consensus approach; and
- Cost of effective school-wide strategies, or the state-of-the-art approach.

The advantages and disadvantages of the four methods are identified in Table 9.

Odden and Picus recommended the state-of the-art approach for three reasons:

1. It can provide a dollar estimate for adequacy.
2. It draws from the best research and the best craft wisdom.

Table 9

Methodologies for Determining Adequacy

Methodology	Pro	Con	States Utilizing the Methodology	Authoritative Research
Economic Cost Function Approach	Expenditure level is higher (lower) as expected performance level increases (decreases	Relies upon complex statitical analysis, which is difficult to understand	Proposed for use by Illinois, New York	Reschovsky & Imazeki, Yinger
Linking expenditure levels in districts/schools that meet performance benchmarks	Ease in defining the weighted average dollar amount of expenditures for homogeneous districts	Atypical districts (i.e., large urban and small rural ones) are eliminated from the analysis	Applied in part by Ohio, Illinois, Mississippi	Augenblick, Hinrichs & Laine
Professional consensus approach	Ingredients of an educational strategy is priced by experts based upon professional judgement	Does not differentiate strategy for at-risk students	Oregon, Maine, Wyoming	Jay Chambers & Tom Parrish, Guthrie & Rothstein
Cost of effective school wide strategies, or the state-of-the art approach	Embodies research findings linked to high performance in a school design, defining ingredients to implement various strategies	Level of service of the most expensive default design must be standardized to determine cost	New Jersey	Odden, Stringfield, Ross & Smith

3. It is clear about the key program elements that should be included in the overall educational strategy at each school site.

Under the state-of-the-art approach, schools would select from a menu of educational strategies and make a custom comprehensive design. A list of resources needed for the most expensive default design would be standardized with associated costs. Costs would be estimated based upon a benchmark of schools successfully utilizing this approach. The report provides an example of school level resources for 500 students applied at the elementary and secondary levels. According to Odden and Picus, Kentucky could quite easily define a state-of-the-art model school with ingredients necessary for success. The cost of the model would be tested with a stratified sample of schools at different spending levels and different student needs in different regions of the state. This study discussed these models in programmatic rather than specific dollar terms. The recommendation fell short of quantifying the dollar amount for the SEEK guaranteed base.

There is recent empirical evidence that would relate performance to the adequacy of revenues and resources at the district level. In his 2002 research, Phil W. Roeder, Department of Political Science, University of Kentucky, explored district financial and teaching resources and their impacts on performance using multivariate models. He states:

> *"Although most models of funding adequacy assume that resources have positive impacts on performance, in this research, multivariate models show only modest and inconsistent impacts of financial and teaching resources on accountability scores and other performance measures. Total revenue per pupil is related positively to accountability scores only in the 1997 model, while percentage change in total revenue is significant but negative in several models indicating that greater proportional increases in total revenue predict to lower scores. The findings indicate the*

need for caution about revenue-performance linkages and assertions of revenue inadequacy. If the "burden of proof" of resource inadequacy is on the advocates of increased revenue, then policy makers should seek at least some reasonable data and systematic studies demonstrating positive and significant impacts of resources on organization performance."

In summary, the Odden and Picus recommendation for determining adequacy is to identify necessary resources that will yield high student performance. The resources will fund an organization structure, which is based upon research-based instructional strategies; however, according to the Roeder study, increasing revenue will not guarantee results.

V. Weighted Components

OEA'S STATUTORY MANDATE: Review the weights of various education program components.

There are weights in the SEEK formula for at-risk students, exceptional children and home-and-hospital students. Presumably, program components are adequately funded if students requiring services are receiving needed services. The basis for our analysis will be a financial review of expenditures, demographics and related data. The scope of our study will be limited to the following questions:

Question 1: Are there unfunded needs?
Question 2: Are special needs students receiving needed services?

Question 1: Are there unfunded needs?

There is a relatively new unfunded need common to many districts due to immigration. The influx of foreign speaking children on Kentucky soil has challenged schools' ability to provide teachers with foreign language

communication skills. Districts receive no additional funding for students requiring special instruction for English as a second language or students with limited English proficiency (ESL). Districts must fund these costs from whatever local resources they have available. In FY 2000-01, there were 5917 students requiring special assistance due to second language restrictions. In the three-year period beginning in 1998, the student population grew 25% and spoke 82 different languages. Forty-seven percent of school districts have ESL student populations (as reported by KBE 11/13/01, legislative agenda). There is no exclusive tracking code in MUNIS to aggregate ESL costs at the present time. This information would be beneficial to policymakers and policy analysts.

Question 2: Are special needs students receiving needed services?

The At-Risk Weighted Component: There is a large population of at-risk students in Kentucky. The SEEK adjustment for at-risk students is applied at the rate of .15 of the SEEK base for each eligible student. The at-risk component is linked to the number of students approved for free lunch under the National School Lunch Program. In school year 2000-01, there were 251,762 eligible students that generated $115,042,942. The level of need based upon eligibility for the national school lunch program is also used to provide other federal and state grant funds.

The federal government has cast doubt about the accuracy of the count of free lunch participants, which is the basis for distributing SEEK at-risk funds. Currently, the income of a family of four cannot exceed $22,945 annually for a student to be eligible for free lunch at school. In studies performed from 1981 to 2001, the U.S. Department of Agriculture found eligibility error rates that ranged from 29% to 70%. The rates may not reflect the true number of ineligibles. If families were requested to verify their income and did not respond, they were deemed ineligible. Due to

comparison with the Bureau of Census surveys of 50,000 households monthly, it can be verified that ineligible families are receiving the benefit of free lunches for their children. In 1999, the Census determined that approximately 29% of the approved 15.4 million children were ineligible. If these results are projected to Kentucky free lunch participants, 73,011 students may be ineligible in 2000-01.

SEEK state dollars are allocated to districts, and districts allocate financial resources to schools. There is no requirement to assure that at-risk funding adjustments are distributed to schools based upon the number of at-risk students. Allocation is a mechanical procedure that provides an appearance of fairness. The allocation formula relies upon the number of students and the size of the building. Based upon this data, allocations are made for a specific number of teachers, administrators, support staff and instructional supplies. KRS 157.360 stipulates maximum class sizes for every academic course requirement in all grades except music and physical education classes. Generally speaking, the maximum class sizes are as follows: 24 in primary, 28 in grade 4, 29 in grades 5-6, and 31 in grades 7-12. Funds are available to support the salaries of the staff to achieve the designated class size. Some resources are held centrally at the district level because they are not easily allocated to individual schools. Capital costs and transportation costs are two types of resources provided but not allocated to schools.

Distribution of SEEK funds to each school is determined by boards of education pursuant to procedures set forth in 702 KAR 3:246. If the district has a remaining balance, funds are allocated in accordance with Section 7 of the administrative regulation. Distribution of the balance can be based upon one of the following criteria:

- An amount per prior year final average daily attendance;
- Based on pupil needs identified by school councils in their adopted school improvement plans and designated by the local school board. Money provided under this subsection shall be used only for the needs identified by the council from its adopted school improvement plan and designated by the board;
- For specific instructional purposes based on student needs identified by the board from disaggregated student achievement data. Money provided under this paragraph shall be used by the council to address only the identified needs; or
- A combination of the above.

Routinely, OEA sends a team to monitor implementation of the KERA initiatives in approximately 20 school districts each year. Team members interview central office administrators, principals and teachers. Staff review school improvement plans, certified school allocations and other financial data. Staff observe classroom teaching. This school year inquiries, review of documentation and observations revealed a lack of awareness of the process stipulated in Section 7. There does not appear to be a widespread practice of distributing at-risk adjustment dollars to schools in proportion to their at-risk populations.

Expenditure tracking for at-risk programs and services is currently not available. The MUNIS accounting system has no code established to exclusively track expenditures generated from at-risk revenues. These funds may be utilized for reduced class sizes in accordance with district policy, but this would apply to all schools in the district and benefit all students in the district.

In summary, the accuracy of at-risk student counts based upon free lunch eligibility is questionable. When the district's SEEK revenues are allocated to schools, the identity of the at-risk revenues is lost. Staff could not verify whether schools receive their proportionate share of at-risk revenues. In

other words, staff could not determine whether at-risk revenues follow the child. There is no code in the MUNIS chart of accounts to identify at-risk expenditures at the school level.

The Exceptional Children Weighted Component: Exceptional children are funded according to their handicap. There are three categories: severe, moderate and speech. In 2000-01, there were 82,009 exceptional children that received SEEK funding, totaling $277,108,131.

Kentucky funded special education as a weighted component in the following amounts: approximately $7205 (2.35 times the base) for severely disabled students, approximately $3587 (1.17 times the base) for moderately disabled students, and approximately $736 (.24 times the base) for speech impaired students. When combined with the guaranteed base, an average of $6445 per pupil was available for special education needs.

Demographics demonstrate the magnitude of the funding demands in meeting the needs for special education services as required by federal law. Table 10 shows the December 1 child count report of children needing special education from 1992 through 2001. The number of children to be served has increased more than 24 percent over this timeframe. Not all students are served by common schools. Some students are enrolled in the Kentucky School for the Blind, Kentucky School for the Deaf, Department of Corrections, or cared for through the Cabinet for Human Resources. Accordingly, districts received funds for only 86.7 percent of the total child count in 2000-01.

Table 10

Child Count Report of Children and Youth with Disabilities
1992 through 2001

Disability	12/1/01	12/1/00	12/1/99	12/1/98	12/1/97	12/1/96	12/01/95	12/01/94	12/01/93	12/01/92		Difference	% Change
Mild Mental Disabilities	14,942	14,897	15,065	15,124	15,012	14,906	15,098	15,000	15,198	14,514		428	2.95%
Functional Mental Disabilities	3,074	3,115	3,128	3,155	3,242	3,266	3,261	3,178	3,056	2,726		348	12.77%
Hearing Impairment	711	765	793	796	851	875	874	889	894	570		141	24.74%
Communication Disorders	27,260	26,598	26,507	26,240	26,734	26,802	26,748	26,133	25,834	28,052		(792)	-2.82%
Visual Impairment	459	494	474	480	484	502	507	505	530	364		95	26.10%
Emotional Behavioral Disability	5,861	5,872	5,763	5,486	5,263	5,228	4,776	4,456	3,977	3,283		2,578	78.53%
Orthopedic Impairment	533	533	543	541	548	525	510	507	486	472		61	12.92%
Other Health Impairment	8,119	6,852	5,656	4,562	3,474	2,408	1,675	1,058	556	408		7,711	1889.95%
Specific Learning Disability	19,697	20,455	21,116	21,752	21,725	22,220	21,841	22,228	22,940	23,302		(3,605)	-15.47%
Deaf/Blind	17	16	17	19	15	13	15	17	9	7		10	142.86%
Multiple Disabilities	2,853	2,542	2,335	2,059	1,899	1,761	1,560	1,435	1,374	1,162		1,691	145.52%
Autism	1,205	1,032	908	736	546	440	332	221	121	53		1,152	2173.58%
Traumatic Brain Injury	211	195	191	180	170	154	138	109	80	34		177	520.59%
Developmental Delay	13,204	11,206	9,041	6,843	6,009	5,952	5,554	4,982	4,459	3,897		9,307	238.82%
TOTAL	98,146	94,572	91,537	87,973	85,972	85,052	82,889	80,718	79,514	78,844		19,302	24.48%

The types of disabilities more frequently identified since 1992 include emotional/behavioral (2578 students), other health impairment (7711 students), and developmental delay (9307 students). Table 11 shows that boys are twice more likely to be identified with disabilities than girls.

Overall, nearly 15 percent of the SEEK average daily attendance population (i.e., 82,009 of 569,066.8) was identified as in need of special education services. Table 12 shows 13,918 personnel were employed during the 2001-02 school year to provide special education and related services to students with disabilities.

Despite the fact that the SEEK formula adds supplemental funding to the guaranteed base for special education, districts have expressed concern that it is not adequate. Kentucky distributed nearly 28 percent of total SEEK funds for the benefit of special education students (i.e., the guaranteed base plus the weighted component per student). The special education population served is 14.4 percent of the SEEK funded student population. Special education students require more staffing and specialized personnel, and these needs require additional dollars. Class sizes are smaller pursuant to 707 KAR 1:350. Instructional supplies and equipment cost more. When assistive technology, devices and equipment are identified in a student's IEP, schools must provide them. Federal programs provide additional resources. The federal program called IDEA B Basic allocated $91,957,165 for ages 3-21 for the 2002-2003 school year, and IDEA B Preschool will provide $7,984,734 in Kentucky.

School superintendents have expressed concern that federal programs such as IDEA are not providing adequate funding resources to comply with stringent federal requirements. Congress is scheduled to review IDEA this year as another step to ensure that no child with disabilities is left behind. The review is expected to strengthen and improve special education law.

TABLE 11

Special Education Totals by Gender

District Name	TOTAL	FEMALE	MALE
Adair Co	433	146	287
Allen Co	362	125	237
Anchorage Ind	81	14	67
Anderson Co	711	271	440
Ashland Ind	507	176	331
Augusta Ind	45	21	24
Ballard Co	313	126	187
Barbourville Ind	84	31	53
Bardstown Ind	304	105	199
Barren Co	592	200	392
Bath Co	284	93	191
Beechwood Ind	123	38	85
Bell Co	539	184	355
Bellvue Ind	197	84	113
Berea Ind	163	56	107
Boone Co	1,894	636	1,258
Bourbon Co	438	147	291
Bowling Green Ind	426	138	288
Boyd Co	632	240	392
Boyle Co	547	170	377
Bracken Co	201	81	120
Breathitt Co	528	188	340
Breckinridge Co	443	117	326
Bullitt Co	1,485	451	1,034
Burgin Ind	97	32	65
Butler Co	329	120	209
Caldwell Co	287	82	205
Calloway Co	540	196	344
Campbell Co	760	232	528
Campbellsville Ind	216	79	137
Carlisle Co	122	53	69
Carroll Co	261	85	176
Carter Co	876	303	573
Casey Co	402	125	277
Caverna Ind	159	59	100
Christian Co	1,771	606	1,165
Clark Co	743	231	512
Clay Co	1,034	333	701
Clinton Co	295	174	121
Cloverport Ind	98	31	67
Corbin Ind	325	113	212
Covington Ind	818	244	574
Crittenden Co	256	80	176
Cumberland Co	183	58	125
Danville Ind	325	89	236
Daviess Co	1,563	484	1,079
Dawson Springs Ind	139	56	83
Laurel Co	1,311	407	904
Lawrence Co	425	135	290
Lee Co	227	81	146

District Name	TOTAL	FEMALE	MALE
Dayton Ind	250	83	167
East Berstadt Ind	90	25	65
Edmonson Co	361	112	249
Elizabethtown Ind	231	74	157
Elliott Co	260	85	175
Eminence Ind	94	32	62
Erlanger Ind	395	129	266
Estill Co	512	189	323
Fairview Ind	94	31	63
Fayette Co	3,615	1,133	2,482
Fleming Co	299	131	168
Floyd Co	1,127	303	824
Ft Thomas Ind	216	74	142
Frankfort Ind	241	111	130
Franklin Co	752	240	512
Fulton Co	163	58	105
Fulton Ind	131	55	76
Gallatin Co	263	72	191
Garrard Co	392	116	276
Glasgow Ind	320	105	215
Grant Co	511	158	353
Graves Co	607	216	391
Grayson Co	576	173	403
Green Co	223	66	157
Greenup Co	556	179	377
Hancock Co	234	85	149
Hardin Co	1,933	643	1,290
Harlan Co	827	268	559
Harlan Ind	195	59	136
Harrison Co	490	186	304
Harrodsburg Ind	211	79	132
Hart Co	464	151	313
Hazard Ind	154	65	89
Henderson Co	1,209	398	811
Henry Co	251	74	177
Hickman Co	145	61	84
Hopkins Co	1,270	448	822
Jackson Co	429	127	302
Jackson Ind	83	34	49
Jefferson Co	13,307	4,194	9,113
Jenkins Ind	103	34	69
Jessamine Co	1,056	341	715
Johnson Co	527	191	336
Kenton Co	1,668	495	1,173
Knott Co	534	156	378
Knox Co	791	243	548
Larue Co	402	152	250
Providence Ind	82	20	62
Pulaski Co	1,063	339	724
Raceland Ind	101	23	78

TABLE 11

Special Education Totals by Gender

District Name	TOTAL	FEMALE	MALE
Leslie Co	413	130	283
Letcher Co	693	222	471
Lewis Co	385	166	219
Lincoln Co	870	269	601
Livingston Co	221	76	145
Logan Co	646	253	393
Ludlow Ind	164	44	120
Lyon Co	131	36	95
Madison Co	1,685	568	1,117
Magoffin Co	383	130	253
Marion Co	489	181	308
Marshall Co	626	264	362
Martin Co	560	205	355
Mason Co	415	137	278
Mayfield Ind	232	84	148
McCracken Co	962	330	632
McCreary Co	626	203	423
McLean Co	227	87	140
Meade Co	642	203	439
Menifee Co	219	50	169
Mercer Co	340	102	238
Metcalfe Co	278	108	170
Middlesboro Ind	301	127	174
Monroe Co	321	102	219
Montgomery Co	532	166	366
Monticello Ind	138	47	91
Morgan Co	388	180	208
Muhlenberg Co	839	281	558
Murray Ind	218	91	127
Nelson Co	670	211	459
Newport Ind	449	163	286
Nicholas Co	132	42	90
Ohio Co	699	240	459
Oldham Co	1,461	451	1,010
Owen Co	247	83	164
Owensboro Ind	725	257	468
Owsley Co	139	46	93
Paducah Ind	430	144	286
Paintsville Ind	64	21	43
Paris Ind	96	30	66
Pendleton Co	418	151	267
Perry Co	859	277	582
Pike Co	1,387	390	997
Pikeville Ind	132	32	100
Pineville Ind	74	21	53
Powell Co	446	141	305

District Name	TOTAL	FEMALE	MALE
Robertson Co	72	25	47
Rockcastle Co	466	129	337
Rowan Co	592	210	382
Russell Co	454	153	301
Russell Ind	233	90	143
Russellville Ind	254	104	150
Science Hill Ind	65	17	48
Scott Co	882	274	608
Shelby Co	688	199	489
Silver Grove Ind	86	40	46
Simpson Co	391	132	259
Somerset Ind	213	91	122
Southgate Ind	56	16	40
Spencer Co	373	124	249
Taylor Co	320	90	230
Todd Co	436	158	278
Trigg Co	350	112	238
Trimble Co	197	56	141
Union Co	606	212	394
Walton-Verona Ind	174	52	122
Warren Co	1,348	416	932
Washington Co	314	93	221
Wayne Co	426	143	283
Webster Co	250	89	161
West Point Ind	26	1	25
Whitley Co	705	217	488
Williamsburg Ind	111	33	78
Williamstown Ind	66	20	46
Wolfe Co	239	92	147
Woodford Co	444	155	289
KSB	80	27	53
KSD	155	64	91
Corrections	-	-	-
CHR	-	-	-
TOTAL	98,146	32,318	65,828

Table 12

Personnel Employed to Provide Special Education and Related Services to Students with Disabilities

Under Part B of the 1997 Amendments to the Individuals with Disabilities Education Act

12/01/01 Data

	State Total		
SPECIAL EDUCATION TEACHERS	EMPLOYED		TOTAL DEMAND
	Fully Certified	Not Fully Certified	
Subtotal Ages 3-5	*255.710*	*53.750*	***309.460***
AGES 6-11			
Collaborative	1,288.433	320.303	**1,608.736**
Resource Room	2,395.640	509.057	**2,904.698**
Separate Class	869.020	249.870	**1,118.890**
Home Hosp	28.860	2.700	**31.560**
Separate School	157.100	22.100	**179.200**
Subtotal Ages 6-11	*4,739.054*	*1,104.030*	***5,843.084***
OTHER SPEC ED PERSONNEL			
Voc Ed Teacher	82.600	11.000	**93.600**
Phys Ed Teach	47.050	-	**47.050**
Work Study Crd	27.000	7.600	**34.600**
Psychologists	281.919	8.300	**290.219**
Social Workers	25.583	1.000	**26.583**
Occupat Therap	159.569	6.925	**166.494**
Audiologists	16.750	-	**16.750**
Teacher Aides	4,521.118	9.000	**4,530.118**
Rec/Ther Spec	2.400	-	**2.400**
Diag/Eval Staff	116.530	-	**116.530**
Physical Therap	87.701	9.000	**96.701**
Counselors	248.800	3.000	**251.800**
Speech Path	862.770	81.484	**944.254**
Supervisors	186.716	3.800	**190.516**
SEA Supervisors	20.970	-	**20.970**
Interpreters	75.200	30.000	**105.200**
Rehab Counselors	3.550	-	**3.550**
Other Professionals	225.637	6.000	**231.637**
Non-Professionals	596.537	-	**596.537**
Subtotal Other	*7,588.400*	*177.109*	***7,765.509***
TOTAL	**12,583.164**	**1,334.889**	**13,918.053**

Kentucky school districts are fearful that revised federal regulations may require them to absorb the cost of additional services. Unfunded mandates create one more concern that complicates the issue of adequacy for Kentucky.

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Appendices

SEEK Process

1. In November, prior to the new fiscal year, the Division of School Finance at KDE prepares a SEEK profile containing actual data for several prior years and a "best guess" for the new year. The profile is sent to districts for their review/input.
2. Using responses received, the division prepares the Forecast Calculation for districts to use on the Draft Budget due to KDE on January 31st.
3. The Forecast Calculation is used to determine the first three month's SEEK payments to districts.
4. Due to the time span between SEEK Calculations, districts may ask the division to run calculations at any time using more up-to-date estimates. The most recent calculation is used to prepare the Tentative Budget due to KDE on May 30th.
5. In September, the division prepares the Tentative Calculation for districts to use in preparing the Working Budget due to KDE on September 30th. Most of the data is actual at this point, except for 2nd month growth factor, transportation, and levied equivalent rate. The sources of actual data are as follows:
   a) Prior year counts for ADA and Home & Hospital - Superintendent's Annual Attendance Report.
   b) Prior year 8th Month Average Free Lunch Count - Division of School and Community Nutrition.
   c) Prior year December 1 Exceptional Child Count - Division of Exceptional Children.
   d) Property and motor vehicle assessment - Kentucky Revenue Cabinet certified assessment
6. The Tentative Calculation is used to determine the next eight month's SEEK payments to districts.
7. In April, the division prepares the Final Calculation. The sources of the remaining items are as follows:
   a) 2nd Month Growth Factor - 2nd Month Growth Factor Report submitted by Director of Pupil Personnel (DPP).
   b) Transportation - Division of Pupil Transportation.
   c) Levied Equivalent Rate - the division calculates upon confirmation of rates set by district via the Tax Rates Levied Form.
8. The Final Calculation is used to determine the last month's SEEK payments to districts.

SEEK Definitions
(From KDE's Financial Management Manual)

- **Support Education Excellence in Kentucky (SEEK)** is the funding formula developed as part of the 1990 Kentucky Education Reform Act (KERA). A base funding level defined in KRS 157.320(2) guarantees an amount of revenue per pupil to be provided for regular operating and capital expenditures.
- **End-of-Year ADA** - Average Daily Attendance defined in KRS 157.320(1) means the aggregate days attended by pupils in a public school, adjusted for weather-related low attendance days if applicable, divided by the actual number of days the school is in session, after the five days with the lowest attendance have been deducted. Districts receive SEEK funds for the number of children served in the previous year.
- **Growth ADA** - The 2nd month ADA of the current year is compared to the 2nd month ADA of the previous year. The percent increase is multiplied by the end of year ADA and added to the end-of-year ADA to determine the total funded ADA. Districts are not penalized if there is a decline in the 2nd month ADA.
- **Guaranteed Base** - funding amount determined the General Assembly for each biennium. Base funding amount is multiplied by end-of-year ADA plus Growth.
- **At Risk** - The number of at-risk students identified as those approved for the free lunch program. The prior year average number is multiplied by 15% of the base funding amount;
- **Exceptional Children** - The number and types of exceptional children as defined by KRS 157.200 based on the prior year December 1 child count. Specific weights for each category of exceptionality are used to calculate the add-on factor for exceptional children. Weights and corresponding categories of exceptionality are:
  (1) Low Incident Disabilities (formerly Severe), 2.35 weight - Functional Mental Disability, Hearing Impairment, Emotional-Behavioral Disability, Visual Impairment, Multiple Disabilities, Deaf-Blind, Autism, and Traumatic Brain Injury;
  (2) Moderate Incident Disabilities, 1.17 weight - Mild Mental Disability, Orthopedic Impairment or Physically Disabled, Other Health Impaired, Specific Learning Disabilities, and Developmental Delay;
  (3) High Incident Disability (formerly Speech), 0.24 weight - Communication Disorders of Speech or Language;
- **Transportation** - The cost as calculated under the provisions of KRS 157.370. The transportation allocation is determined by the number of transported students and the average transportation cost per pupil at the district's pupil density level. The average cost is determined by a graph of all districts' cost per pupil. County and independent districts are graphed separately. As the density increases, the cost to transport each child decreases. Changes in an individual's district's costs have little effect on the average. So, decisions to add routes or give raises do not mean an increase in the allocation unless it is a statewide trend. A change in an individual district's number of transported students has more affect on its allocation.
- **Home and Hospital** - The number of students in average daily attendance as calculated under the provisions of KRS 157.270. The number of home and hospital students in average daily attendance in the prior year is multiplied by the base funding amount less the capital outlay allotment.
- **30 Cents Local Effort** - A guarantee of a minimum level of local support is generated by a required local effort of 30 cents per $100 assessed property valuation. KRS 160.470(9)(a).
- **Two Tier System** - allows school districts to exceed the required minimum level of local support (KRS 157.440):
  (1) Tier I - allows school districts to levy an equivalent tax rate which will raise revenue up to 15% above the adjusted SEEK base. The local effort is equalized at 150% of the statewide average per pupil assessed property valuation. This levy is not subject to hearing or recall.
  (2) Tier II - allows additional levies to produce up to 30% above the adjusted SEEK base plus Tier I. Tier II revenue is all local funds and is not equalized with state funds.
- **Hold Harmless** - school districts are guaranteed the same per pupil state funding as received in the 1991-92 school year. Even though a school district qualifies to be hold harmless, it could receive less total state funding than in 1991-92 if it had declining enrollment.
- **Capital Outlay** - the SEEK Capital Outlay Allotment ($100 per ADA) may only be used for capital outlay projects identified in the district's facility plan. Allowable expenditures include the following: direct payment of construction costs, principal and interest (debt service) on school revenue bonds for facilities, lease rental agreements under which the board will eventually acquire ownership of a school plant, retirement of any deficit resulting from over expenditure for capital construction and as a reserve fund for these purposes to be carried

forward in ensuing budgets. A school district with an approved facility plan showing no capital outlay needs may use these funds for other expenses upon approval by the Commissioner of Education.

- **FSPK** - A school district must levy a five-cent equivalent tax to participate in the Facility Support Program of Kentucky (FSPK) and School Facilities Construction Commission (SFCC) programs. The five cents is equalized when committed to debt service by the Facilities Support Program of Kentucky (FSPK) on the same basis as Tier I. KRS 157.440 requires that revenues generated by the local five-cent equivalent tax and equalization funds be limited to debt service on facility bond issues, new facilities, and major renovations of existing facilities as listed on the district's approved facility plan. Allowable expenditures include the following: purchase of sites, construction and equipping of new school buildings, and debt service on facility bond issues. There is no provision in the statute permitting reimbursement of general fund expenditures for maintenance and property insurance or any other expenditure from these funds for a district with identified facility needs. Any district that is not eligible for equalization and has not accepted assistance from SFCC may be permitted upon written application to the Division of School Finance to transfer the local five-cent equivalent tax revenue for other school purposes.

Support Education Excellence in Kentucky
TENTATIVE CALCULATION
2001-02 School Year

District 000 Sample Co.

00-01 End of Year AADA	9,611.3
Growth	19.2
00-01 AADA Plus Growth	9,630.5

Assessment	$3,118,427,919	Base Year Levied Equiv. Rate	48.1
Per Pupil Assessment	$ 323,807	Maximum Tier I Rate	47.7

91-92 Guaranteed Per Pupil Funding 2,569.61

SEEK CALCULATION TOTAL	Per Pupil	
Guaranteed Base *	3,066.00	29,527,113
At Risk	122.89	1,183,461
Home & Hospital	1.79	17,203
Exceptional Child	446.92	4,304,051
Transportation	341.55	3,289,312
Calculated Base Funding	3,979.14	38,321,139
LESS $.30 Local Effort	971.42	9,355,284
Calculated STATE Portion	3,007.72	28,965,855
State Tier I	185.66	1,787,957
Hold Harmless	0.00	0
Adjustment to Appropriation	0.00	0
Total State SEEK *	3,193.38	30,753,812
Prior Year Adjustment	0.00	0
Total State Funds	3,193.38	30,753,812
Less Capital Outlay		963,050
Net General Fund SEEK		29,790,762
Local FSPK		1,559,214
State FSPK		703,959

* CAPITAL OUTLAY in the amount of $ 963,050
is included in the total guaranteed base.

District Profile for Sample Co.
on Database D0102TN

District No. 000

Base Year Levied Equivalent Rate:		48.90
Current Year Levied Equivalent Rate:		48.10
Assessment:		3,118,427,919
Prior Year End of Year Adjusted ADA:		9,611.3
Prior Year 8 Month Average Free Lunch		2,573.30
Prior Year December 1 Child Count:		
SEVERE:	196.00	
MODERATE:	736.00	
SPEECH:	342.00	
Prior Year Home and Hospital ADA:		5.8
Base Year Debt Service:		1,960,363
Current Year Second Month Growth Factor Percentage:		0.2
Transportation (Unprorated)		3,289,312.00

SUPPORT EDUCATION EXCELLENCE IN KENTUCKY (SEEK)
Sample Calculation for 2001-02

Sample District Data

A.	Current Year Total Assessment of Property and Motor Vehicle	$ 3,118,427,919
B.	Prior Year Adjusted Average Daily Attendance (PY AADA)	9,611.3
C.	Current Year Second Month Growth Factor	0.2%
D.	Base Year Equivalent Tax Rate	48.9
E.	Current Year Equivalent Tax Rate	48.1
F.	Prior Year Free Lunch Applications	
	(8 Month Average Excluding December)	2,573.3
G.	Prior Year December 1 Exceptional Child Count	
	Severely Handicapped	196
	Moderately Handicapped	736
	Speech	342
H.	Prior Year Home and Hospital ADA	5.8
I.	Graph Adjusted Cost of Transportation Plus Growth	$ 3,289,312
J.	Hold Harmless Per Pupil (1991-92 State SEEK Funding)	$ 2,569.61

State Data

1.	State Equalization Level	$ 470,000
	(150% of Statewide Average Per Pupil Assessment)	
2.	Current Year Guaranteed Base Funding Per Pupil	$ 3,066
3.	At Risk Weight	0.15
4.	Exceptional Children Weights	
	Severely Handicapped	2.35
	Moderately Handicapped	1.17
	Speech	0.24
5.	Add-on Funding Level	
	At Risk	100%
	Exceptional Children	100%
	Home and Hospital	100%
	Transportation	100%

SUPPORT EDUCATION EXCELLENCE IN KENTUCKY (SEEK)
Sample Calculation for 2001-02

Base SEEK Calculation

PY AADA Plus Growth (B + (B X C))			9,630.5
Base SEEK (PY AADA Plus Growth X $3,066)		$	29,527,113
Plus At Risk Funds (F X .15 X $3,066)		$	1,183,461
Plus Home & Hospital Funds (H X ($3,066-$100))		$	17,203
Plus Exceptional Children Funds			
Severely Handicapped ADA X 2.35 X $3,066 +	$ 1,412,200		
Moderately Handicapped ADA X 1.17 X $3,066 +	$ 2,640,194		
Speech ADA X 0.24 X $3,066	$ Angie Dr. a		
		$	4,052,394
Plus Transportation Funds		$	3,289,312
Equals Calculated Base Funding		$	38,069,482
Less: Local 30¢ Effort (A X .0030)		$	9,355,284
Equals Calculated State Portion		$	28,714,198

Tier I Calculation

Maximum Tier I Revenue Per Pupil (Calculated Base X 15% / PY AADA Plus Growth)	$	592.95
Times Percent Local Tier I (Local Assessment Per Pupil /470,000)		68.9%
Equals Local Tier I	$	408.52
Maximum Less Local Equals State Tier I Per Pupil	$	184.44
State Tier I (Per Pupil X PY AADA Plus Growth)	$	1,776,215

Hold Harmless

Hold Harmless Funding (Hold Harmless Per Pupil X PY AADA Plus Growth)	$	24,746,629
Less: State SEEK Base + State Tier I	$	30,490,413
Equals Hold Harmless Amount-If Positive	$	-5,743,784

SUPPORT EDUCATION EXCELLENCE IN KENTUCKY (SEEK)
Sample Calculation for 2001-02

Facility Support Program of Kentucky (FSPK)

Sample District

1. Total Assessment	$	3,118,427,919
2. Adjusted Average Daily Attendance Plus Growth		9,630.5
3. Per Pupil Assessment	$	323,807
4. State Equalization Level (150% of Statewide Average Per Pupil Assessment)	$	470,000
5. Debt Service as of 10/1/99	$	1,960,363

Eligibility Calculation - as of 10/1/99

A. Amount Generated by Local FSPK 5¢ Equivalent Building Fund Tax (1 X .0005)	$	1,559,214
B. Less Debt Service (5)	$	1,960,363
C. Debt Service Needed for Equalization (A - B)	$	-401,149

If positive, bonds must be sold by October 1 of the odd numbered years to qualify for equalization the following biennium.

Equalization Calculation

a. Maximum Funding per Pupil (4 X .0005)	$	235.00
b. Local Effort per Pupil (3 X .0005)	$	161.90
c. State Equalization per Pupil (a - b)	$	73.10
d. Total Local Effort (b X 2)	$	1,559,214
e. Total State Equalization (c X 2)	$	703,954

HORIZONTAL EQUITY - COEFFICENT OF VARIATION

(Excludes 41 Grandfathered Districts)

Quintile	Funded ADA	Average Local Revenue Per Pupil	Coefficient of Variation	Average State Revenue Per Pupil	Coefficient of Variation	Average Federal Revenue Per Pupil	Coefficient of Variation	Average Local/State Revenue Per Pupil	Coefficient of Variation	Average Total Revenue Per Pupil	Coefficient of Variation
1989-1990											
1	82,491	299	0.276	2,219	0.052	578	0.255	2,518	0.047	3,096	0.061
2	84,452	436	0.252	2,147	0.049	412	0.252	2,584	0.064	2,996	0.057
3	79,690	558	0.285	2,138	0.047	365	0.283	2,696	0.065	3,060	0.054
4	83,671	670	0.213	2,096	0.040	315	0.286	2,766	0.054	3,081	0.051
5	81,111	939	0.198	2,030	0.036	251	0.421	2,968	0.057	3,219	0.055
Statewide	**411,415**	**579**	**0.447**	**2,126**	**0.054**	**385**	**0.409**	**2,705**	**0.082**	**3,090**	**0.061**
1990-1991											
1	79,007	402	0.224	2,893	0.053	625	0.296	3,295	0.050	3,921	0.069
2	81,672	546	0.136	2,765	0.039	442	0.213	3,311	0.038	3,753	0.042
3	84,671	697	0.225	2,642	0.044	395	0.311	3,338	0.049	3,733	0.062
4	80,071	845	0.120	2,501	0.044	357	0.233	3,346	0.036	3,703	0.038
5	83,778	1,211	0.203	2,316	0.065	265	0.512	3,527	0.057	3,792	0.062
Statewide	**409,198**	**744**	**0.424**	**2,621**	**0.091**	**415**	**0.422**	**3,365**	**0.053**	**3,780**	**0.060**
1991-1992											
1	82,199	488	0.176	3,250	0.053	723	0.277	3,737	0.043	4,461	0.063
2	83,116	689	0.149	2,950	0.049	516	0.217	3,639	0.037	4,155	0.050
3	82,319	793	0.213	2,808	0.048	457	0.306	3,601	0.064	4,057	0.071
4	79,134	1,013	0.138	2,627	0.050	421	0.323	3,640	0.049	4,061	0.052
5	84,344	1,306	0.177	2,443	0.078	293	0.518	3,749	0.044	4,042	0.062
Statewide	**411,112**	**858**	**0.375**	**2,815**	**0.113**	**481**	**0.430**	**3,674**	**0.051**	**4,155**	**0.071**
1992-1993											
1	83,281	496	0.159	3,387	0.070	738	0.300	3,882	0.056	4,620	0.085
2	83,379	679	0.158	3,099	0.055	568	0.266	3,779	0.051	4,347	0.064
3	83,614	810	0.185	2,884	0.052	475	0.274	3,694	0.054	4,169	0.067
4	78,832	1,009	0.124	2,733	0.055	435	0.277	3,742	0.051	4,177	0.057
5	86,587	1,321	0.192	2,507	0.091	312	0.474	3,828	0.053	4,140	0.065
Statewide	**415,693**	**865**	**0.377**	**2,921**	**0.123**	**505**	**0.423**	**3,786**	**0.056**	**4,290**	**0.081**
1993-1994											
1	83,650	563	0.219	3,553	0.060	753	0.256	4,116	0.047	4,869	0.069
2	82,342	756	0.125	3,185	0.050	575	0.264	3,941	0.039	4,516	0.054
3	84,853	910	0.159	3,024	0.058	502	0.243	3,934	0.045	4,436	0.056
4	81,475	1,099	0.098	2,836	0.053	413	0.308	3,934	0.035	4,347	0.050
5	82,872	1,442	0.188	2,552	0.101	361	0.604	3,993	0.068	4,354	0.081
Statewide	**415,191**	**953**	**0.358**	**3,031**	**0.128**	**521**	**0.414**	**3,984**	**0.052**	**4,505**	**0.076**
1994-1995											
1	81,922	677	0.286	3,784	0.062	766	0.280	4,461	0.060	5,227	0.080
2	84,473	822	0.106	3,389	0.044	605	0.277	4,211	0.040	4,817	0.057
3	82,723	1,047	0.203	3,237	0.046	547	0.223	4,284	0.052	4,831	0.056
4	83,842	1,188	0.127	2,985	0.048	449	0.282	4,173	0.031	4,622	0.043
5	81,825	1,744	0.338	2,600	0.093	359	0.437	4,344	0.137	4,704	0.132
Statewide	**414,785**	**1,094**	**0.434**	**3,199**	**0.137**	**545**	**0.389**	**4,294**	**0.079**	**4,839**	**0.090**

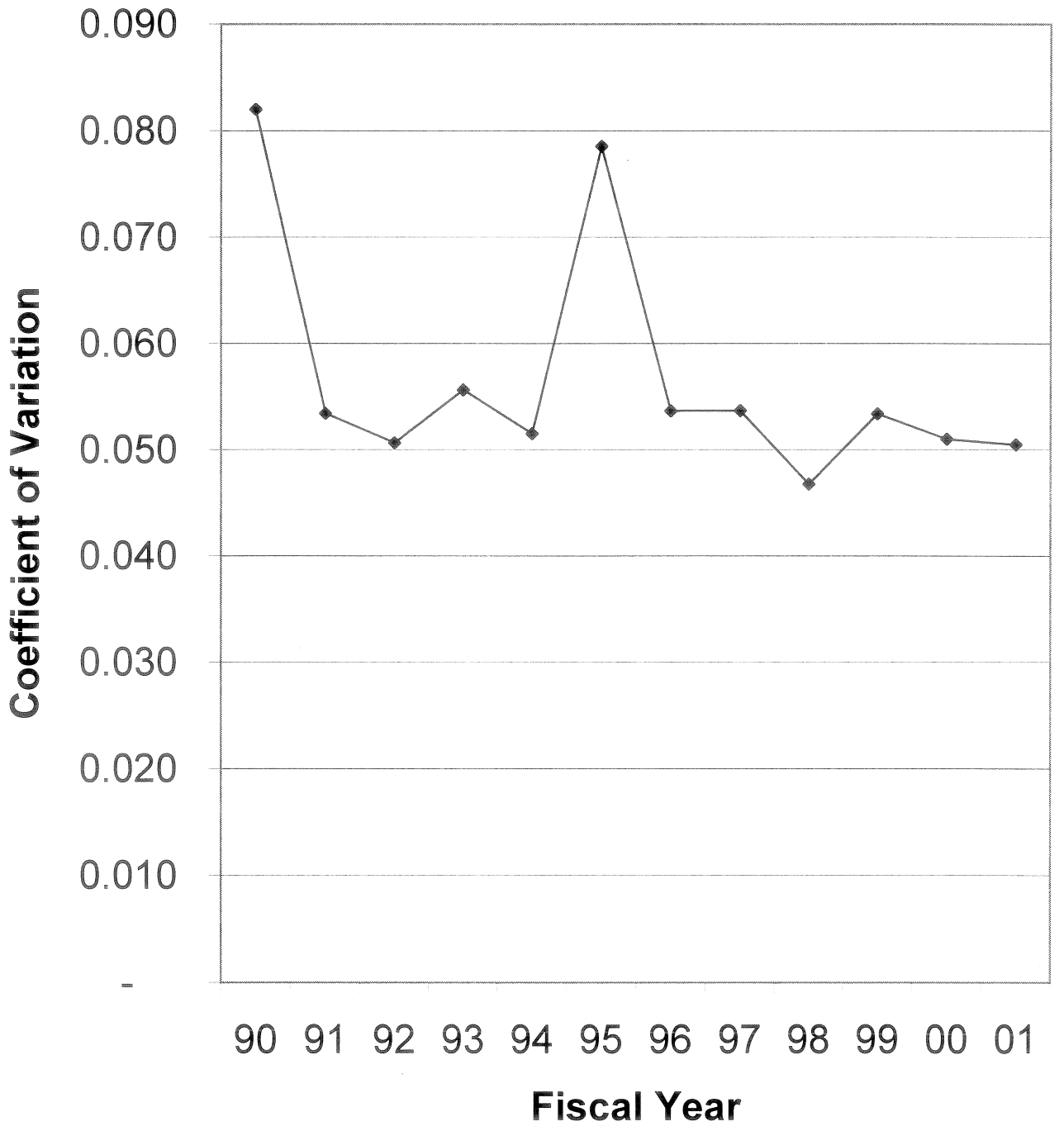
HORIZONTAL EQUITY - COEFFICENT OF VARIATION

(Excludes 41 Grandfathered Districts)

Quintile	Funded ADA	Average Local Revenue Per Pupil	Coefficient of Variation	Average State Revenue Per Pupil	Coefficient of Variation	Average Federal Revenue Per Pupil	Coefficient of Variation	Average Local/State Revenue Per Pupil	Coefficient of Variation	Average Total Revenue Per Pupil	Coefficient of Variation
1995-1996	82,842	719	0.222	3,818	0.072	762	0.278	4,537	0.055	5,299	0.071
1	79,850	953	0.102	3,509	0.045	613	0.226	4,462	0.037	5,075	0.054
2	81,601	1,135	0.145	3,316	0.043	519	0.230	4,451	0.044	4,970	0.048
3	85,263	1,294	0.108	3,094	0.039	421	0.286	4,388	0.038	4,810	0.043
4	81,816	1,845	0.205	2,691	0.084	362	0.444	4,536	0.075	4,898	0.076
5	**411,373**	**1,190**	**0.365**	**3,285**	**0.130**	**535**	**0.392**	**4,475**	**0.054**	**5,009**	**0.069**
Statewide											
1996-1997											
1	83,929	882	0.229	4,062	0.069	870	0.267	4,945	0.060	5,814	0.081
2	85,180	1,168	0.214	3,711	0.058	692	0.306	4,879	0.061	5,572	0.077
3	77,809	1,223	0.098	3,506	0.040	569	0.219	4,729	0.034	5,298	0.044
4	81,196	1,483	0.117	3,267	0.060	475	0.294	4,750	0.042	5,226	0.048
5	82,803	2,005	0.173	2,747	0.103	354	0.441	4,752	0.048	5,106	0.060
Statewide	**410,916**	**1,351**	**0.330**	**3,462**	**0.145**	**594**	**0.426**	**4,813**	**0.054**	**5,407**	**0.081**
1997-1998											
1	82,434	866	0.191	4,114	0.070	850	0.252	4,980	0.047	5,830	0.069
2	79,462	1,115	0.186	3,718	0.060	687	0.276	4,833	0.044	5,520	0.060
3	83,921	1,301	0.107	3,534	0.035	645	0.240	4,834	0.041	5,479	0.051
4	82,496	1,521	0.127	3,201	0.056	509	0.325	4,722	0.041	5,232	0.051
5	81,779	2,141	0.172	2,718	0.106	400	0.445	4,858	0.044	5,258	0.059
Statewide	**410,092**	**1,389**	**0.352**	**3,456**	**0.152**	**618**	**0.385**	**4,846**	**0.047**	**5,464**	**0.071**
1998-1999											
1	82,910	956	0.178	4,420	0.065	918	0.245	5,377	0.053	6,294	0.072
2	85,511	1,301	0.280	4,031	0.055	757	0.293	5,333	0.062	6,090	0.073
3	75,503	1,365	0.074	3,799	0.039	668	0.278	5,164	0.036	5,831	0.050
4	84,158	1,658	0.138	3,505	0.058	548	0.310	5,163	0.042	5,711	0.060
5	80,867	2,293	0.203	2,930	0.129	410	0.378	5,223	0.054	5,633	0.060
Statewide	**408,948**	**1,513**	**0.356**	**3,741**	**0.152**	**661**	**0.394**	**5,254**	**0.053**	**5,915**	**0.077**
1999-2000											
1	81,230	964	0.149	4,529	0.073	1,008	0.262	5,493	0.048	6,501	0.076
2	81,864	1,259	0.150	4,110	0.062	868	0.305	5,369	0.048	6,238	0.066
3	82,196	1,470	0.090	3,885	0.046	744	0.180	5,355	0.039	6,099	0.047
4	81,220	1,800	0.137	3,520	0.064	576	0.294	5,320	0.059	5,897	0.066
5	80,381	2,475	0.202	2,940	0.130	462	0.392	5,415	0.053	5,876	0.061
Statewide	**406,890**	**1,591**	**0.368**	**3,799**	**0.160**	**732**	**0.391**	**5,390**	**0.051**	**6,123**	**0.075**
2000-2001											
1	82,374	1,015	0.137	4,742	0.066	1,139	0.217	5,757	0.043	6,896	0.060
2	79,975	1,388	0.159	4,313	0.062	857	0.258	5,701	0.046	6,559	0.064
3	83,760	1,564	0.110	4,035	0.047	833	0.325	5,599	0.041	6,432	0.061
4	77,606	1,891	0.123	3,657	0.070	614	0.327	5,548	0.057	6,162	0.076
5	82,538	2,660	0.207	3,042	0.149	477	0.307	5,702	0.055	6,179	0.058
Statewide	**406,253**	**1,703**	**0.373**	**3,959**	**0.166**	**786**	**0.404**	**5,662**	**0.050**	**6,448**	**0.077**

Coefficient of Variation
State & Local Revenues

(Excludes 41 Grandfathered Districts)



PUPIL WEIGHTED AVERAGES FOR REVENUE BY WEALTH QUINTILE

(Excludes 41 Grandfathered Districts)

Quintile	Funded ADA	Property Wealth Per Pupil	Average Local Revenue Per Pupil	Average State Revenue Per Pupil	Average Federal Revenue Per Pupil	Average Local/State Revenue Per Pupil	Average Total Revenue Per Pupil
1989-1990							
1	82,491	66,759	304	2,315	578	2,619	3,197
2	84,452	96,667	451	2,243	412	2,694	3,106
3	79,690	120,114	582	2,234	365	2,816	3,181
4	83,671	148,195	696	2,192	315	2,888	3,202
5	81,111	198,930	988	2,127	251	3,115	3,366
Statewide	**411,415**	**125,853**	**603**	**2,222**	**385**	**2,825**	**3,210**
1990-1991							
1	79,007	73,142	439	3,038	625	3,476	4,101
2	81,672	102,561	598	2,895	442	3,493	3,935
3	84,671	129,390	761	2,763	395	3,524	3,919
4	80,071	158,489	924	2,609	357	3,533	3,890
5	83,778	212,531	1,318	2,420	265	3,738	4,003
Statewide	**409,198**	**135,891**	**812**	**2,742**	**415**	**3,554**	**3,969**
1991-1992							
1	82,199	77,437	526	3,402	723	3,928	4,652
2	83,116	109,772	744	3,095	516	3,839	4,355
3	82,319	136,403	861	2,938	457	3,799	4,256
4	79,134	166,679	1,097	2,742	421	3,839	4,260
5	84,344	226,476	1,419	2,547	293	3,966	4,259
Statewide	**411,112**	**143,536**	**930**	**2,945**	**481**	**3,875**	**4,356**
1992-1993							
1	83,281	81,644	536	3,531	738	4,067	4,805
2	83,379	115,596	737	3,239	568	3,976	4,544
3	83,614	141,665	881	3,015	475	3,896	4,371
4	78,832	172,704	1,095	2,856	435	3,951	4,386
5	86,587	236,659	1,440	2,615	312	4,054	4,366
Statewide	**415,693**	**150,084**	**940**	**3,050**	**505**	**3,990**	**4,494**
1993-1994							
1	83,650	89,664	608	3,699	753	4,307	5,060
2	82,342	124,648	818	3,323	575	4,141	4,716
3	84,853	149,105	985	3,154	502	4,139	4,641
4	81,475	181,468	1,189	2,959	413	4,149	4,562
5	82,872	252,270	1,568	2,659	361	4,227	4,587
Statewide	**415,191**	**159,221**	**1,032**	**3,160**	**521**	**4,193**	**4,714**
1994-1995							
1	81,922	98,634	727	3,977	766	4,704	5,470
2	84,473	136,404	891	3,567	605	4,458	5,063
3	82,723	162,400	1,128	3,402	547	4,530	5,077
4	83,842	198,150	1,287	3,132	449	4,420	4,868
5	81,825	270,442	1,879	2,715	359	4,595	4,954
Statewide	**414,785**	**173,052**	**1,181**	**3,359**	**545**	**4,540**	**5,085**

PUPIL WEIGHTED AVERAGES FOR REVENUE BY WEALTH QUINTILE

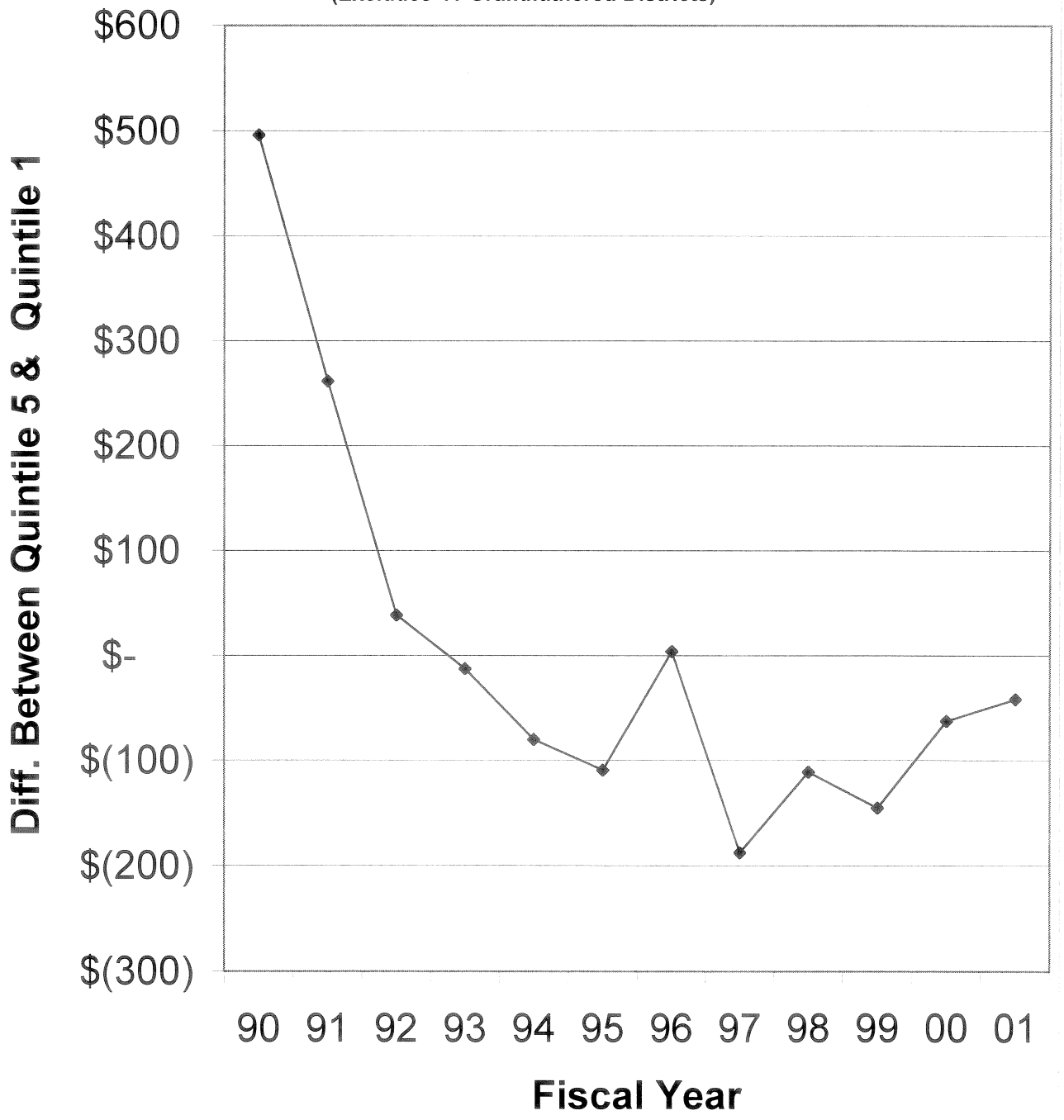
Appendix B

(Excludes 41 Grandfathered Districts)

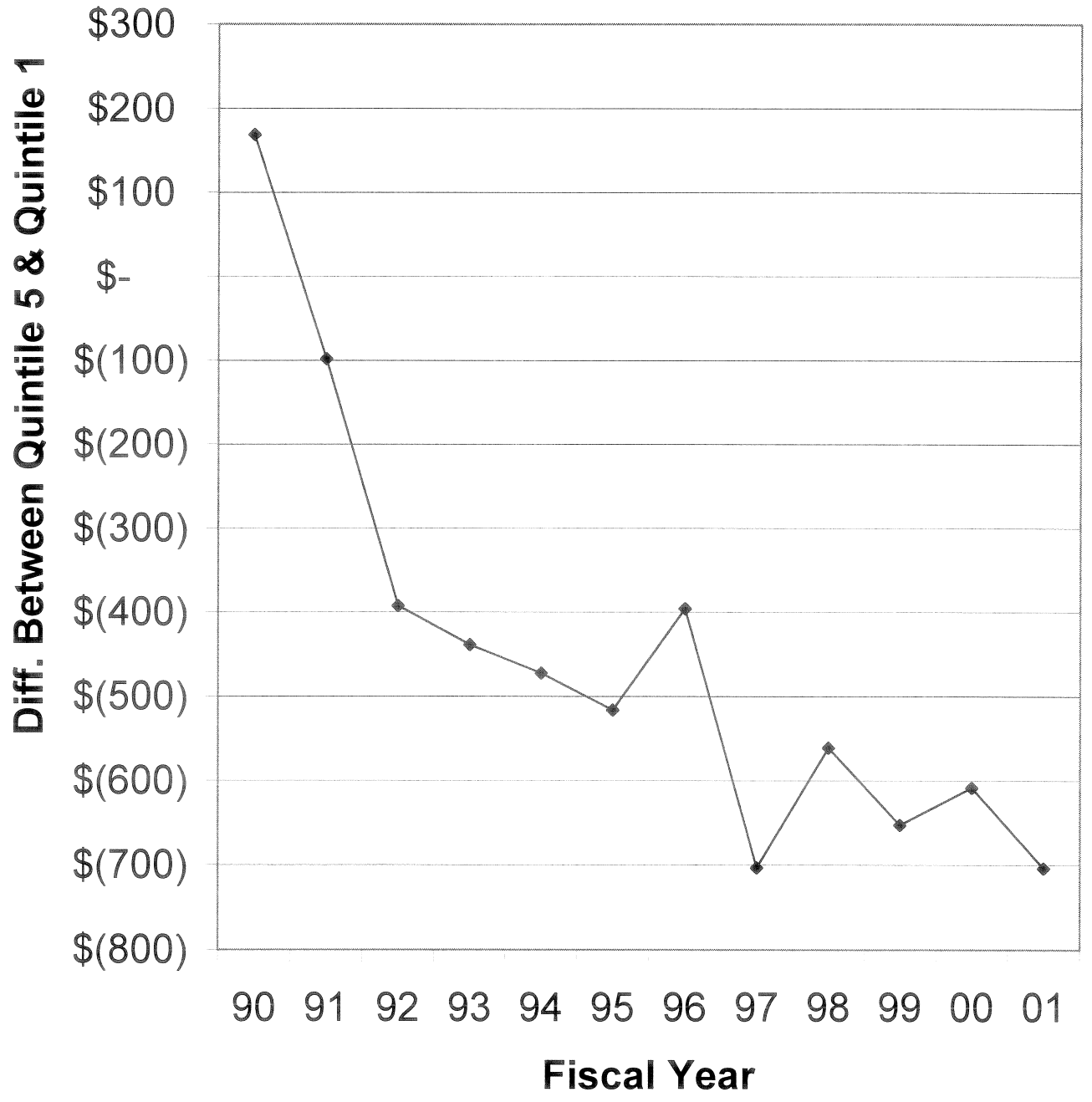
Quintile	Funded ADA	Property Wealth Per Pupil	Average Local Revenue Per Pupil	Average State Revenue Per Pupil	Average Federal Revenue Per Pupil	Average Local/State Revenue Per Pupil	Average Total Revenue Per Pupil
1995-1996							
1	82,842	107,778	770	4,014	762	4,785	5,546
2	79,850	146,543	1,022	3,688	613	4,710	5,323
3	81,601	177,417	1,217	3,481	519	4,697	5,216
4	85,263	216,004	1,393	3,242	421	4,635	5,056
5	81,816	299,199	1,980	2,808	362	4,788	5,151
Statewide	**411,373**	**189,619**	**1,278**	**3,445**	**535**	**4,723**	**5,257**
1996-1997							
1	83,929	114,071	939	4,288	870	5,227	6,097
2	85,180	157,778	1,247	3,914	692	5,162	5,854
3	77,809	190,831	1,319	3,693	569	5,011	5,581
4	81,196	228,721	1,597	3,434	475	5,032	5,507
5	82,803	323,594	2,167	2,873	354	5,039	5,394
Statewide	**410,916**	**202,541**	**1,452**	**3,644**	**594**	**5,096**	**5,690**
1997-1998							
1	82,434	118,716	925	4,337	850	5,262	6,112
2	79,462	164,610	1,198	3,918	687	5,116	5,802
3	83,921	201,921	1,402	3,715	645	5,117	5,762
4	82,496	242,501	1,642	3,362	509	5,004	5,513
5	81,779	347,845	2,315	2,836	400	5,151	5,551
Statewide	**410,092**	**215,228**	**1,497**	**3,633**	**618**	**5,130**	**5,748**
1998-1999							
1	82,910	123,234	1,018	4,664	918	5,682	6,599
2	85,511	172,315	1,388	4,250	757	5,638	6,395
3	75,503	213,783	1,472	3,997	668	5,469	6,136
4	84,158	255,549	1,785	3,681	548	5,466	6,015
5	80,867	371,149	2,478	3,058	410	5,537	5,947
Statewide	**408,948**	**226,467**	**1,626**	**3,934**	**661**	**5,560**	**6,222**
1999-2000							
1	81,230	135,075	1,031	4,767	1,008	5,798	6,806
2	81,864	188,077	1,353	4,321	868	5,674	6,543
3	82,196	233,987	1,587	4,073	744	5,660	6,404
4	81,220	279,876	1,940	3,684	576	5,624	6,200
5	80,381	402,176	2,676	3,060	462	5,736	6,197
Statewide	**406,890**	**247,389**	**1,715**	**3,984**	**732**	**5,698**	**6,431**
2000-2001							
1	82,374	145,864	1,088	5,004	1,139	6,092	7,231
2	79,975	202,146	1,489	4,547	857	6,036	6,894
3	83,760	251,497	1,690	4,244	833	5,934	6,767
4	77,606	299,918	2,041	3,841	614	5,881	6,495
5	82,538	432,729	2,876	3,174	477	6,050	6,527
Statewide	**406,253**	**266,433**	**1,836**	**4,163**	**786**	**6,000**	**6,785**

Gap Between Wealthiest and Least Wealthy Districts
State and Local Funding Per Pupil

(Excludes 41 Grandfathered Districts)



Gap Between Wealthiest and Least Wealthy Districts
Total Funding Per Pupil
(Excludes 41 Grandfathered Districts)



Tax Rate Certification Process

1. Beginning mid-July, the Kentucky Revenue Cabinet delivers property assessments to the Division of School Finance at KDE. The division uses the assessments to certify tax rates to school districts.
2. Upon receipt of the tax rate certification, districts have 30 days to adopt their tax rates and submit the Tax Rate Levied Form to KDE.
3. The rates are reviewed by the division and submitted to the Kentucky Board of Education for approval.
4. The division calculates each district's levied equivalent rate (LER) upon notification of the rates set. The actual assessment (property and motor vehicle) and LER are then entered into the SEEK calculation. A district's participation in SEEK is limited to the lower of the Base Year LER and the Current Year LER. (The Base Year is the odd year before the biennium.) The lower LER is compared to the district's Maximum Tier I rate. If the LER exceeds Max Tier I, the district receives full Tier I equalization. If the LER is less, the district still receives Tier I funds, but not the maximum it could have.

Tax Definitions
(From KDE's Financial Management Manual)

- **HB 44** is solely dependent upon property valuation. House Bill 44 has three possible levies: Compensating Rate, Subsection 1 Rate, and 4% Increase Rate.
- **HB 940** is dependent upon the mix of taxes levied by a district, including real estate, tangible, motor vehicle, and permissive taxes (utility, occupational, and excise). The HB 940 Rate is the levy that qualifies districts for maximum Tier I state equalization.
- **Compensating Rate** is defined in KRS 132.010 as ". . . that rate which . . . applied to the current year's assessment of property . . . produces an amount of revenue approximately equal to that produced in the preceding year . . ." The Compensating Rate may be levied without hearing or recall.
- **4% Increase Tax Rate** is defined in KRS as "...The tax rate which will produce no more revenue . . . than four percent (4%) over the amount of revenue produced by the compensating tax rate . . ." In order to levy a rate above of the Compensating Rate but within the limits of the 4% Increase Rate, a school district must follow the hearing provisions of Subsection (7) of KRS 160.470.
- **Subsection (1) Tax Rate** - Subsection (1) of KRS 160.470 provides that a board of education may not levy a rate, which will produce more revenue than the previous year's maximum rate. In order to levy a rate above the 4% Increase Rate but within the limits of the Subsection (1) Rate, a school district must follow the hearing and recall provisions of Subsection (7) and (8) of KRS 160.470. KRS 157.440(2)(a) provides that a school district may exceed the Subsection (1) Rate only with the approval of a majority of the qualified voters.
- **Tier I Tax Rate** is defined in KRS 157.440(1)(a) as " . . . each school district may levy an equivalent tax rate . . . which will produce up to fifteen percent (15%) of those revenues guaranteed by the program to support education excellence in Kentucky." The rate levied under this subsection is not subject to the public hearing and recall provisions of KRS 160.470.
- **Permissive Taxes** Permissive taxes comprise utility taxes, excise taxes, and occupational taxes. The authority to levy these taxes is found in KRS 160.593. Before a board of education can levy any of these permissive taxes, it must give public notice of its proposed levy and conduct a public hearing to explain the reason for the tax and to hear comments and complaints regarding the proposed levy. The requirements for the notice and hearing are found in KRS 160.603. Any of the permissive taxes levied by the board of education is subject to petition and recall by the qualified voters in the school district (KRS 160.597). According to KRS 160.635, permissive taxes levied by a board of education remain in effect until the board reduces the rate; however, this statute allows the board to set a date on which the tax expires at the time the tax is first levied.
- **Utility Tax** - KRS 160.613 authorizes a utility gross receipts license tax for schools not to exceed three percent (3%) of the gross receipts derived from the sale of telephonic and telegraphic communications services, electric power, water, and natural, artificial and mixed gas. (Bottled gas companies are exempt.) If the cost of energy or energy producing fuels used in the course of manufacturing, processing, mining or refining exceeds three percent (3%) of the cost of production then the costs of those utilities are exempt from the utility tax. Also, amounts received for utilities to be resold are exempt. KRS 160.614 adds the gross receipts derived from the sale of cable television to the class of utilities subject to the utility tax.
- **Occupational Tax** - KRS 160.605 authorizes the levy of an occupational license tax for schools on the salaries or wages of individuals for work done in a county and on the net profits of all businesses, professions, or occupations from activities conducted in a county. Exempted from paying an occupational tax for schools are public service companies that pay an ad valorem tax, insurance companies, banks, trust companies, savings and loan associations, and income received by members of the Kentucky National Guard for training. The occupational tax rate cannot exceed one-half of one percent (0.5%) and must be a single uniform rate. Any county with 300,000 or more residents is authorized to levy a rate not to exceed 0.75% (KRS 160.607).
- **Excise Tax** - KRS 160.621 authorizes an excise tax for schools not to exceed twenty percent (20%) on a county resident's state individual income tax liability. In other words, the amount of state income tax a school district resident owes would be multiplied by the percent levied to determine the tax amount to be paid to the school system. The school district may hire someone to collect the excise tax or request that the Revenue Cabinet act as tax collector. When the Revenue Cabinet is requested to be the tax collector, the school district must reimburse the cabinet for its actual cost of collecting the excise tax.
- **Equivalent Tax Rate** - the rate which results when income collected during the prior year from all taxes levied by a district is divided by the total assessment (property and motor vehicle).

KENTUCKY DEPARTMENT OF EDUCATION

Real Estate And Personal Property Tax Calculation

District: 000 Sample County - School Year: 2001-2002

Form No. F-TR-2 A,B,C,D

The property tax rates shown below are calculated under the provisions of KRS 160.470 (House Bill 44). The hearing and recall requirements footnoted apply unless the rates are less than those allowed under KRS 157.440 (House Bill 940) shown on Form No. F-TR-2E.

CLASS OF PROPERTY - REAL ESTATE, TANGIBLE PERSONALTY, PUBLIC SERVICE COMPANIES AND DISTILLED SPIRITS

Item A		Compensating Tax Rate *	Subsection (1) **	4% Increase ***
General Fund Real Estate KRS 160.470	Rate	40.5	48.5	42.1
	Revenue	$9,923,402.59	$11,883,580.88	$10,315,438.24
General Fund Personal Property KRS 160.473	Rate	42.1	48.5	43.0
	Revenue	$1,295,330.75	$1,492,245.63	$1,323,021.90

Item D
Maximum Tax Rate for Motor Vehicles: 47.7

* No hearing required - no recall (cannot be levied if higher than Subsection 1). KRS 160.470(2)
** Hearing required if this rate exceeds the compensating rate; subject to recall if exceeds 4 percent. KRS 160.470(1)
*** Hearing, - no recall (cannot be levied if higher than Subsection 1). KRS 160.470(7)

5.7 cents of the total property rate shown above is required to produce the 5 cent equivalent tax necessary for participation in the SFCC and FSPK programs.

NOTE: 0.1 cents may be added to the above property rates to recover prior year losses due to exonerations. KRS 134.590

KENTUCKY DEPARTMENT OF EDUCATION

Real Estate And Personal Property Tax Calculation

District: 000 Sample County - School Year: 2001-2002

Form No. F-TR-2 E

The property tax rates shown below are calculated under the provisions of KRS 157.440 (House Bill 940). These may be levied without hearing or recall. The equivalent rate shown is the maximum Tier I equivalent, or the 1989-90 equivalent, plus the 5 cent growth district levy, if applicable, whichever is higher.

CLASS OF PROPERTY - REAL ESTATE, TANGIBLE PERSONALTY, PUBLIC SERVICE COMPANIES AND DISTILLED SPIRITS

		Required Tax Rate for 47.7 Cent Equivalent Revenue *
Item E		
General Fund Real Estate	Rate	41.0
	Revenue	$10,045,913.73
General Fund Personal Property	Rate	41.0
	Revenue	$1,261,486.00

Maximum Tax Rate for Motor Vehicles: 47.2

Item E above may be used in place of Item A General Fund Tax Rate and Revenue Certification.
If a higher motor vehicle rate is used, this property tax rate must be recalculated.

* No hearing required - no recall KRS 157.440(1)(a)

5.7 cents of the total property rate shown above is required to produce the 5 cent equivalent tax necessary for participation in the SFCC and FSPK Programs.

NOTE: 0.1 cents may be added to the above property rates to recover prior year losses due to exonerations. KRS 134.590

KENTUCKY DEPARTMENT OF EDUCATION

Real Estate And Personal Property Tax Calculation

District: 000 Sample County - School Year: 2001-2002 Assessment Form Data Items (A-L)

ITEM			
A.	January 1, 2000	Assessment of Adjusted Property at Full Rates	2,556,390,169
B.	January 1, 2001	Homestead Exemptions	9,242,705
C.	January 1, 2000	Adjusted Tax Base (A-B)	2,547,147,464
D.	January 1, 2001	Net Assessment Growth	210,754,909
E.	January 1, 2001	Total Valuation of Adjusted Property at Full Rate	2,757,902,373

	Property Subject to Taxation as of January 1, 2000	Net Assessment Growth	Property Subject to Taxation as of January 1, 2001
F Real Estate	2,243,160,754	191,721,793	2,425,639,842
G. Tangible Personalty	70,405,094	836,985	71,242,079
H. P.S. Co. - Real Estate	24,583,019	0	24,583,019
I. P.S. Co. - Tangible Personalty	97,759,086	938,404	98,697,490
J. Distilled Spirits	120,482,216	17,257,727	137,739,943
K. Electric Plant Board			
L. Motor Vehicles - Includes Public Service Motor Vehicles	334,952,147		360,525,546

Net New Property: PVA Real Estate		93,567,305
P.S. Co. Real Estate		0
Exonerations: Real Estate	5,745,700	
Tangible	2,041,704	

KENTUCKY DEPARTMENT OF EDUCATION
Real Estate and Personal Property Tax Calculation

Form No. F-TR-1

District: 000 Sample County - School Year: 2001-2002

Total Valuation Real and Personal Property *

M	2000	Total Valuation of Real Property (F + H)	$2,267,743,773
N	2001	Revaluation of Real Property (Growth F + H - New Property - B)	$88,911,783
O	2001	Total Valuation of Real Property Exclusive of New Property (F + H - New Property)	$2,356,655,556
P	2001	New Property	$93,567,305
Q	2001	Total Valuation of Real Property (F + H)	$2,450,222,861
R	2001	Total Valuation of Personal Property (G + I + J)	$307,679,512
S	2001	Total Valuation of Property (Q + R = E)	$2,757,902,373
T	2000	Total Valuation of Personal Property (G + I + J)	$288,646,396
U	2000	Total Valuation of Property (M + T =A)	$2,556,390,169

* Does not include Motor Vehicle Assessment KRS 132.487(3).

KENTUCKY DEPARTMENT OF EDUCATION
Real Estate and Personal Property Tax Calculation
Compensating Tax Rates Form

District: 000 Sample County - School Year: 2001-2002

	Prior Year Maxium Tax Rates		Prior Year Tax Rate Levied		Prior Year Tax Rates	
	Real Estate	Personal Property	Real Estate	Personal Property	Real Estate	Personal Property
General (160.470)	48.4	48.4	42.0	43.0	42.2	43.1
Special Voted General Fund (157.440)	0.0	0.0	0.0	0.0	0.0	0.0

COMPENSATING TAX RATE I	General Fund		Special Voted General Fund
1. Prior Year Revenue From RealProperty (Levied Rate x M)	9,524,523.85		0.00
2. Compensating Rate (#1/O and rounded to next higher one-tenth cent)	40.5	Compensating Rate	
	0.404154		0.00
COMPENSATING TAX RATE II			
3. Prior Year Total Revenue (Levied Rate x A)			
a. Real Estate (Rate x M)	9,524,523.85		0.00
b. Personal Property (Rate x T)	1,241,179.50		0.00
Total	$10,765,703.35		$0.00
4. Compensating Rate (#3/E and rounded to next higher one-tenth cent)	39.1		
	0.390358		0.000000

Certify the higher of #2 or #4

KENTUCKY DEPARTMENT OF EDUCATION
Real Estate and Personal Tax Calculation
Compensating Tax Rates Form

District: 000 Sample County - School Year: 2001-2002

160.470 SubSection (1)

	General Fund		Special Voted General Fund
5. Prior Year Revenue (Maximum Rate x Prior Year Assestment)			
a. Real Estate (Rate x M)	10,975,879.86		0.00
b. Personal Property (Rate x T)	1,397,048.56		0.00
Total	12,372,928.42		0.00
6. Subsection (1) Tax Rate (#5/C and rounded down)	48.5 0.485756	**Subsection (1) Rate**	0.0

160.470 (4c)

7. Revenue From Old Real Property (Higher of #2 or #4 x O)	9,544,455.00		0.00
8. Revenue After 4% Increase on Old Real Property (#7 x 1.04%)	9,926,233.20		0.00
9. 4% Tax Rate (#8/O and rounded down)	42.1 0.421199	***4% Increase Rate***	0.0

Certify #9

KENTUCKY DEPARTMENT OF EDUCATION

Real Estate And Personal Property Tax Calculation

KRS 160.473

District: 000 Sample County - School Year: 2001-2002

REAL ESTATE REVENUE (Rate x Real Estate Assessment)	Compensating	Subsection (1)	4 Percent
10. Current Year (Q x House Bill 44 Rate)	$9,923,402.59	$11,883,580.88	$10,315,438.24
11. Prior Year (#1)		$9,524,523.85	
12. Percent Increase (#10 minus #11 / #11)	4.187913 %	24.768241 %	8.303978 %
PERSONAL PROPERTY REVENUE (Rate x Personal Property Assessment)			
13. Current Year (R x House Bill 44 Rate)	$1,246,102.02	$1,492,245.63	$1,295,330.75
14. Prior Year (3B or T times Levy)		1,241,179.50	
15. Percent Increase (#13 minus #14 / #14)	0.3966002 %	20.2280275 %	4.3628863 %
CALCULATE ONLY IF #12 HIGHER THAN #15			
16. Personal Property Tax Revenue (#14 x (#12 + 100%)	$1,293,158.86	$1,548,597.32	$1,344,245.80
17. Personal Property Tax Rate (#16 / R and rounded to the next higher 1/10 cent) Not to Exceed Prior Year's Tax Levy on Personal Property	42.1	50.4	43.7
18. 160.470 Certified Rate	40.5	48.5	42.1
19. Prior Year Levy	43.0	43.0	43.0
20. Current Year Personal Property Rate	42.1	48.5	43.0

Personal Property:	***Compensating Rate***	***Subsection (1) Rate***	***4% Increase Rate***

For lines 17,18,19, and 20, compare line 17 to line 19 in each of the three columns, select the lower of the two rates and compare to line 18; select the higher of those two rates to arrive at the rate shown on line 20.

KENTUCKY DEPARTMENT OF EDUCATION
Property and Motor Vehicle Tax Calculation

District: 000 Sample County - School Year: 2001-2002

I. Tax Revenue

A. Property Tax Revenue		10,669,553.36
B. Permissive Tax Revenue	1,968,574.92	
C. Motor Vehicle Tax Revenue	1,472,700.00	
D. Total Tax Revenue	14,110,828.28	

II. Maximum Revenue

		Collection Rate	
A. Real Property Tax Rate (42.0) x PY Assessment	(2,267,743,773)		9,524,523.85
B. Personal Property Tax Rate (43.0) x PY Assessment	(288,646,396)		1,241,179.50
Total Revenue (Real Estate and Personal Property)		99.2%	10,765,703.35
C. Motor Vehicle Tax Rate (45.8) x PY Assessment	(334,952,147)	96.0%	1,534,080.83
D. Maximum Tax Revenue (Real + Personal + MV + Perm)		98.895943%	14,268,359.10

III. Property and Motor Vehicle Assessment

	Prior Year Assessment	Exonerations	Current Year Assessment
A. Property Assessment	2,556,390,169	7,787,404	2,757,902,373
B. Motor Vehicle Assessment	334,952,147		360,525,546
C. Total Prior Year Assessment	2,891,342,316		3,118,427,919

IV.

A. Equivalent Tax Rate 48.8 Levied Equivalent Rate 49.1

B. One Cent Revenue (Maximum Revenue/Annualized Equiv. Rate)	292,384.41	
C. Max Tier I Rate (Base SEEK x 15% / ADA / (greater of $470,000 or (assessment/ADA)		12.7
D. Max Tier II Rate (Base SEEK x 34.5% / ADA / (assesssment/ADA)		42.6

KRS 157.440 (HB 940) Property Tax Rate Calculation

Maximum Equivalent Rate

Calculated SEEK Base	$ 38,321,139
Times 15%	0.15
Equals Maximum Tier I Revenue	$ 5,748,171
Divided by ADA	9,630.5
Equals Maximum Tier I Revenue Per Pupil	$ 597
Divided by State Equalization Level*	470,000
Equals Tier I Rate	0.00127
Plus 35 cents	0.0035
Equals Maximum Equivalent Rate	0.00477

*Higher of state equalization level or local per pupil assessment

The higher of the Maximum Tier I or the 1989-1990 Equivalent Rate will be used to calculate the Maximum Property Tax Rate that may be levied without a hearing or recall.

Maximum Property Tax Rate

Maximum Equivalent Rate	0.00477
Times Total Assessment	$ 2,891,342,316
Equals Maximum Local Revenue	$ 13,791,703
Divided by Collection Rate	$ 0.992
Equals Maximum Levied Revenue	$ 13,902,926
Minus Permissive Tax Revenue	$ 1,968,575
Minus Motor Vehicle Revenue	$ 1,472,700
Equals Maximum Levied Property Revenue	$ 10,461,651
Divided by Property Assessment	$ 2,556,390,169
Equals Maximum Property Tax Rate	0.0041

Sample Levied Equivalent Rate Calculation

Levied Property Tax Rate for Real Estate	0.00422	
Times Property Assessment for Real Estate	$ 2,267,743,773	
Levied Real Estate Property Tax Revenue		$ 9,569,879
Plus		
Levied Property Tax Rate for Personal Property	0.00431	
Times Property Assessment for Personal Property	$ 288,646,396	
Levied Personal Property Tax Revenue		$ 1,244,066
Plus		
Levied Motor Vehicle Tax Rate	0.00477	
Times Motor Vehicle Assessment	$ 334,952,147	
Levied Motor Vehicle Revenue		$ 1,533,813
Plus		
Permissive Tax Revenue		$ 1,968,575
Equals Local Taxes		$ 14,316,332
Times Collection Rate		0.992
Total Levied Tax Revenue		$ 14,201,802
Divided by Total Assessment		$ 2,891,342,316
Equals Levied Equivalent Rate		0.00491

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