



Office Of  
Education  
Accountability

Legislative Research Commission

# Education Revenue, Expenditures, And Staffing Over 10 Years

Research Report No. 409

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**Research Report No. 409**

**Legislative Research Commission**

Frankfort, Kentucky  
[lrc.ky.gov](http://lrc.ky.gov)

Accepted November 21, 2014, by the  
Education Assessment and Accountability Review Subcommittee

Paid for with state funds. Available in alternative format by request.



## Foreword

In December 2013, the Education Assessment and Accountability Review Subcommittee directed the Office of Education Accountability to examine education revenue, spending, and staffing changes for Kentucky school districts and the Kentucky Department of Education (KDE) over the prior 10 years.

This study analyzes school districts' and KDE's revenues, expenditures, and staffing for fiscal years 2004 through 2013.

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November 2014



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## Summary

This study reviews education revenue, spending, and staffing changes for Kentucky school districts and the Kentucky Department of Education (KDE) from 2004 through 2013.

One of the General Assembly's top priorities is education funding. It appropriated \$3.2 billion to elementary and secondary education in FY 2004 and \$4.2 billion in FY 2013. More specifically, it provided funding for the Education Professional Standards Board, the School Facilities Construction Commission (SFCC), the Kentucky Teachers' Retirement System, the KDE, and the Support Education Excellence in Kentucky (SEEK) funding program. FY 2013 funding for SEEK made up 69.4 percent of total education-related appropriations.

KDE revenues and expenditures increased over the 10-year period. Revenues increased 33 percent from \$3.56 billion in FY 2004 to \$4.74 billion in FY 2013, while total expenditures increased 77 percent from \$74.3 million to \$131.5 million. KDE's operating expenditures increased from \$12.96 million to \$30.8 million, and its personnel expenditures increased from \$60.77 million to \$100.56 million.

While KDE staff decreased by 18 percent from 736 to 604, positions filled by memoranda of agreement (MOA) increased from 76 to 110. Total costs of MOAs increased by 62 percent from \$6,485,275 in FY 2004 to \$10,531,013 in FY 2013. Funding for MOAs from federal and agency sources increased from \$302,544 to \$7,187,937. Personal service contracts decreased from 72 in FY 2009 to 51 in FY 2013, while the average cost per contract increased from \$332,132 to \$446,573.

KDE and SFCC on-behalf payments for school districts increased from \$808 million in FY 2009 to \$1.1 billion in FY 2013. Payments were made for the employer's portion of life insurance, the KTRS contributions for non-federal-funded employees, technology, debt service, administrative fees, and flexible benefit accounts.

District revenues and expenditures also increased during the 10-year period. Districts' total revenues (excluding on-behalf payments) increased 31 percent from \$5.1 billion to \$6.7 billion, while expenditures increased from \$4.76 billion to almost \$7 billion. Total K-12 per-pupil current expenditures increased from \$6,687 in FY 2004 to \$8,638 in FY 2013.

Property taxes made up an increasing portion of local revenue, rising from 55 percent in FY 2004 to 61 percent in FY 2013. Instruction made up a decreasing portion of expenditures, falling from 50 percent to 43 percent.

Special education and transportation expenditures have outpaced revenue since FY 2004. The special education expenditure gap grew from \$15 million in FY 2004 to \$131 million by the end of FY 2013. Likewise, the gap in transportation expenditures grew from \$89 million to \$244 million.

Salaries were 65 percent of total district spending in FY 2004 and 57 percent in FY 2013. K-12 teaching staff grew 3.7 percent from 40,600 to 42,100.

**Recommendations**

- 2.1 The Kentucky Department of Education should track all staff provided through memoranda of agreement annually by full-time equivalent for internal and external reporting.**
- 3.1 The Kentucky Department of Education should continue to work with districts to ensure that on-behalf revenue and expenditures are recorded correctly and that districts follow KDE guidance.**
- 3.2 The Kentucky Department of Education should ensure that districts are coding expenditures correctly on annual financial reports.**
- 3.3 Districts should ensure that they are not violating KRS 160.280 for board per diem payments as well as update their board policies to conform with statutory requirements.**
- 3.4 The Kentucky Department of Education and Jefferson County Public Schools (JCPS) should work together to ensure JCPS's chart of accounts is set up correctly in Munis to ensure data is pulled correctly into the Professional Staff Data/Classified Staff Data (PSD/CSD) module.**
- 3.5 The Kentucky Department of Education should review the nonacademic reporting requirements to ensure that certified and classified staff numbers are reported correctly to the United States Department of Education.**

# Chapter 1

## Introduction And Overview

### Background

The Constitution of Kentucky allows the General Assembly to tax and spend the revenue generated each year. The appropriations or biennial budget acts are the only bills required to be passed by the General Assembly.

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This chapter focuses on the combined general fund and general fund tobacco budget in the executive branch of government and specifically the amounts allocated for the public school education system.

This chapter focuses on the combined general fund and general fund tobacco budget in the executive branch of government and specifically the amounts allocated for the public school education system. The budget is passed in even-numbered years and provides 2 years of revenue and expenditures. The fiscal year begins on July 1 and ends on June 30. The approved appropriations authorize a state agency, such as the Kentucky Department of Education (KDE) to spend a maximum amount of revenue each fiscal year for specific expenses.

The total general fund budget for elementary and secondary education includes appropriations to the KDE, the Education Professional Standards Board (EPSB), the Kentucky Teachers' Retirement System (KTRS), and the School Facilities Construction Commission (SFCC).

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Included as part of the Kentucky Department of Education (KDE) budget are allocations to local school districts for Support Education Excellence in Kentucky (SEEK).

Included as part of the KDE budget are allocations to local school districts for the Support Education Excellence in Kentucky (SEEK) funding program mandated by the General Assembly in 1990 as part of the Kentucky Education Reform Act.

### Conclusions

This study has 18 conclusions:

- General fund education appropriations grew 31 percent from \$3.2 billion in FY 2004 to \$4.2 billion in FY 2013. This amount includes SEEK contributions, which increased 21 percent from \$2.4 million in FY 2004 to \$2.9 million in FY 2013.

- Membership (the number of students in attendance on the last day of school) grew by a little more than 30,600 (4.7 percent) from 2004 to 2013. The adjusted average daily attendance (AADA) increased by 25,044 (4.2 percent) during the same period.
- Total revenue to KDE increased 33 percent from \$3.56 billion in FY 2004 to \$4.74 billion in FY 2013. Funding for SEEK (approximately \$2.9 billion) made up 69.4 percent of total funding and 75 percent of general fund revenue in FY 2013.
- Overall, KDE expenditures increased 77 percent from \$74.3 million in FY 2004 to \$131.5 million in FY 2013. Approximately \$45 million was attributed to the acquisition of the Office of Career and Technical Education (CTE).
- KDE operating expenditures increased 138 percent from FY 2004 through FY 2013 from \$12.96 million to \$30.8 million. The largest increases within the operating category were in miscellaneous services, supplies, miscellaneous commodities, and maintenance and repairs.
- Personnel expenditures increased during the same period from \$60.77 million to \$100.56 million or 65 percent.
- The KDE staff decreased from 736 to 604 (18 percent) when excluding those funded through CTE and memoranda of agreement (MOAs).
- MOAs increased 45 percent from 76 in FY 2004 to 110 in FY 2013. Total costs of MOAs increased by 62 percent from \$6,485,275 in FY 2004 to \$10,531,013 in FY 2013. Also, funding from federal and agency sources have increased 2,276 percent from FY 2004 to FY 2013 from \$302,544 to \$7,187,937.
- Personal service contracts decreased 29 percent from 72 in FY 2009 to 51 in FY 2013. The average cost of a contract was about \$332,132 in FY 2009 and \$446,573 in FY 2013.
- Total state on-behalf payments in FY 2006 were almost \$808 million and increased by \$306 million by FY 2013.
- Total revenue (excluding on-behalf payments) to districts increased 31 percent from \$5.1 billion in FY 2004 to \$6.7 billion in FY 2013.

- Districts received more than 61 percent of their local revenue from property taxes in FY 2013 compared to 55 percent in FY 2004.
- Districts increased spending from \$4.76 billion in FY 2004 to almost \$7 billion in FY 2013. Including on-behalf payments, districts expended \$8.06 billion in FY 2013.
- Instruction made up less than 50 percent of total district spending in FY 2004 but decreased to 43 percent in FY 2013.
- Total K-12 per-pupil current expenditures increased from \$6,687 in FY 2004 to \$8,638 in FY 2013.
- As a percentage of total district spending, salaries were 65 percent in FY 2004 and 57 percent in FY 2013.
- Special education and transportation expenditures have outpaced revenue since FY 2004. The special education expenditure gap grew from \$15 million in FY 2004 to \$131 million by the end of FY 2013. The transportation expenditure gap grew from \$89 million in FY 2004 to \$244 million in FY 2013.
- K-12 teaching staff grew 3.7 percent from 40,600 in FY 2004 to 42,100 in FY 2013.

### **Organization Of This Report**

The remainder of Chapter 1 discusses study objectives and methodology, definitions and sources of data used for the report, and a description of the chart of accounts used by local districts. It also includes an analysis of student trends for end-of-year membership and AADA. It ends with an overview of appropriated funds for elementary and secondary education.

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Chapter 2 provides information on how funds flow to KDE and ultimately to local districts to fund elementary and secondary education.

Chapter 2 provides information on how funds flow to KDE and ultimately to local districts to fund elementary and secondary education. More specifically, it discusses various revenue sources and explains pass through funding for SEEK. The chapter also shows trends of KDE's expenditures in the areas of personnel, operations, debt service, capital outlay, and construction. Finally, it provides information on KDE's full-time staffing, as well as numbers and dollar amounts for personal service contracts (PSC).

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Chapter 3 provides information on the flow of funds to and from districts.

Chapter 3 provides information on the flow of funds to and from districts. It discusses total revenue, with and without on-behalf payments. Both inflation-adjusted and unadjusted amounts are presented. The analysis includes local revenue by tax type and state revenue by various sources such as SEEK, restricted, and vocational funds.

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Chapter 3 provides information on district expenditures, which are also adjusted for inflation and include on-behalf payments.

Chapter 3 also provides information on district expenditures, which are also adjusted for inflation and include on-behalf payments. The analysis includes a review of expenditures at the function (for instance, instruction and transportation) and object (for instance, salaries and retirement) levels, along with K-12 current expenditures. It also provides the amount of money received and expended by districts on special education and transportation. Finally, it includes an analysis of per-pupil expenditures based on function and other areas and finishes with an analysis of certified and classified staffing changes.

## **Study Objectives And Methodology**

### **Objectives**

As part of its 2014 research agenda, the Office of Education Accountability (OEA) was directed by the Education Assessment and Accountability Review Subcommittee to conduct a study of elementary and secondary education revenue, expenditures, and staffing from fiscal years 2004 through 2013.

More specifically, the overall objective of this study was to determine how local school districts and the KDE revenue and expenditures have changed over the last 10 years and to review any changes in staffing for this period.

Specific objectives include the following:

- What resources has the General Assembly provided for primary and secondary education?
- What revenue does KDE receive, and how is it distributed to school districts for funding elementary and secondary education?
- What are KDE's expenses in personnel, operations, debt service, capital outlay, and construction?

- How has KDE staffing changed in PSCs, information technology contracts, MOAs, the Kentucky School for the Blind (KSB), the Kentucky School for the Deaf (KSD), and KDE administration?
- What revenue do districts use to fund education, and at what pace has this revenue grown?
- How have districts expenditures changed by function codes for instruction, district and school support, and transportation, as well as other areas such as salaries, retirement, and debt service?
- How much is expended (current expenditures) based on a per-pupil analysis?
- How much do districts receive and expend on special education and transportation?
- How has district staffing changed with regard to classified and professional staff, as well as administrators?

### **Methodology**

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Generally, the report examines how funds flow to and from KDE and how those funds are expended by KDE and districts by functional and other areas.

Generally, the report examines how funds flow to and from KDE and how those funds are expended by KDE and districts by functional and other areas. It also includes an analysis of on-behalf payments, which are payments made by other state agencies on behalf of local school districts.

Total revenue and expenditure graphs in the main body of this report are adjusted for inflation (reported as 2004 constant dollars) to illustrate that a dollar in 2004 is worth much less in 2013. However, analyses by function and object code are not adjusted for inflation (shown in nominal dollars). Where appropriate, additional adjusted illustrations appear in the appendices.

### **Sources And Descriptions Of Data Used For This Report**

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Data used in this report are from fiscal years 2004 through 2013 and primarily include data provided by KDE.

Data used in this report are from fiscal years 2004 through 2013 and primarily include data provided by KDE. KDE employees within the Division of Budget and Financial Management also provided the necessary data for reporting various departmental changes. Appendix A provides additional information on adjustments to district data for purposes of the report.

The following provides more detailed information on the data sets used in the report.

**General Fund.** General fund dollars appropriated by the General Assembly for elementary and secondary education broken out by KDE, SEEK, EPSB, KTRS (state contribution), and SFCC. Budget Review staff of the Legislative Research Commission (LRC) provided this data.

**District Annual Financial Reports.** District revenue and expenditures were obtained from annual financial reports, which are custom designed to summarize data from Munis, the financial management system used by KDE to oversee districts' financial data.

**KDE Revenue And Expenditures.** Excel spreadsheets were developed by the Division of Budget and Financial Management within KDE. Information includes revenue and expenditures by fund source, as well as expenditures by major object codes.

**Chart Of Accounts.** KRS 156.070(1) grants authority to the Kentucky Board of Education for the management and control of the common schools. KRS 156.200 requires the commissioner of education to ensure that financial and educational accounts are accurately and neatly kept and that all reports are made according to the forms adopted by the board.

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702 KAR 3:120 establishes a uniform system of financial accounting and budgets for the Board.

702 KAR 3:120 establishes a uniform system of financial accounting and budgets for the board. It requires districts to follow the uniform financial account system detailed in the Kentucky Education Technology System (KETS) district administrative system chart of accounts and chart of accounts descriptions. The chart of accounts KDE adopted mirrors the federal National Center for Education Statistics chart of accounts. More specifically, it is used for defining various classifications for which money is expended and received.

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District revenue is classified by local, state, federal, and other sources of income.

Revenue is classified by local, state, federal, and other sources of income (revenue by object code). Within each series of object codes are lower-level codes to record specific object code types. For example, within the local revenue object code series, codes break out specific tax types such as property and occupational taxes. At the state level, revenue object codes exist for specific state revenue such as SEEK or restricted funds, which must be used for categorical or specific purposes.

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Expenditures are classified by function, such as instruction, instructional support, administration, and transportation.

Expenditures are classified functionally, with codes that describe the activity or operational objective for which an expense is made, such as instruction, instructional support, administration and transportation. They are grouped further by expense object codes for comparisons of the service or commodity obtained, such as salaries, benefits, and supplies.

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Program codes are used to describe activities across functional areas.

Program codes are used to describe activities across functional areas. Examples of programs include the regular program for elementary and secondary education, special programs such as those for exceptional and gifted children, and programs for culturally deprived students and nonpublic purposes.

Program codes are used when determining the current expense amount for each district versus total expenses. Current expenses for educational purposes are noncapital expenditures and only for the education purposes of the students enrolled in schools. Expenditures related to nonpublic programs, adult education, community services, and cocurricular and extracurricular activities are excluded. Appendix B displays a diagram of each segment of the chart of accounts.

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Payments are made on behalf of school districts for various purposes such as the employer's portion of life insurance for nonfederally funded employees, technology, and administrative fees.

**On-Behalf Payments.** Payments are made on behalf of school districts for various purposes such as the employer's portion of life insurance, the KTRS contributions for nonfederal employees, technology, administrative fees, and flexible spending. KDE also pays the local school district employer's portion of health and life insurance.

This report illustrates district revenue and expenditure data including on-behalf payments as well as excluding them for purposes of analysis. Because districts captured on-behalf payments inconsistently on the annual financial report (AFR) during 2004 through 2013, the report includes OEA staff analysis of on-behalf payments for FY 2006 through FY 2014 for various areas such as technology, health insurance, state paid retirement (KTRS), and SFCC. On-behalf data is provided by KDE.

KTRS provides documents to KDE and districts to calculate estimated matches or contributions. See Appendix C for additional information about on-behalf payments.

**Staffing Data.** This report illustrates district staffing information for full-time-equivalent (FTE) staff, which includes K-12 classroom teachers, other certified staff, classified staff, and

administrative staff. The source of this information is KDE, after being reported by districts.

The Professional Staff Data (PSD) and Classified Staff Data (CSD) include districts' FTE employees by job classification and include the salary paid to each employee by the fund from which he or she is paid and how the pay is allocated for a specific job classification for multiple locations. This set of data is also broken out by the type of employee such as certified, classified, and employees who have retired but subsequently returned to work.

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Districts are required to submit Professional Staff and Classified Staff Data to KDE by October 1.

Districts are required to submit PSD and CSD reports to KDE by October 1 of each year and include staff who are working at the district from July 1 through September 15 of each year. KDE uses these reports to submit information to the US Department of Education for state-level comparisons; LRC's Budget Review staff supplies this information to the General Assembly for decisions related to mandated salary increases.

For KDE, data from the department are analyzed based on full-time staff broken out by leadership, professional and support, and categories. Data are discussed generally but are also broken out by the KDE level, KSB, KSD, MOA, information technology contracts, and PSC.

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The end-of-year membership is taken on the last day of school at each district and includes students in kindergarten through 12<sup>th</sup> grade.

**Student Counts.** Kentucky reports counts of students in several ways. For example, membership accounts for students in kindergarten through 12<sup>th</sup> grade from the date of enrollment until the date of withdrawal. The membership count uses the end-of-year membership, which is taken on the last day of school at each district and is reported by districts to KDE through the Superintendent's Annual Attendance Report.

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The end-of-year adjusted average daily attendance is determined by the aggregate days attended by pupils, adjusted for weather-related low-attendance days and divided by the actual number of days school is in session.

The end-of-year AADA is more formula driven. According to KRS 157.320(1), the end-of-year AADA is determined by the aggregate days attended by pupils in a public school, adjusted for weather-related low-attendance days and divided by the actual number of days the school is in session, after the 5 days with the lowest attendance have been deducted.

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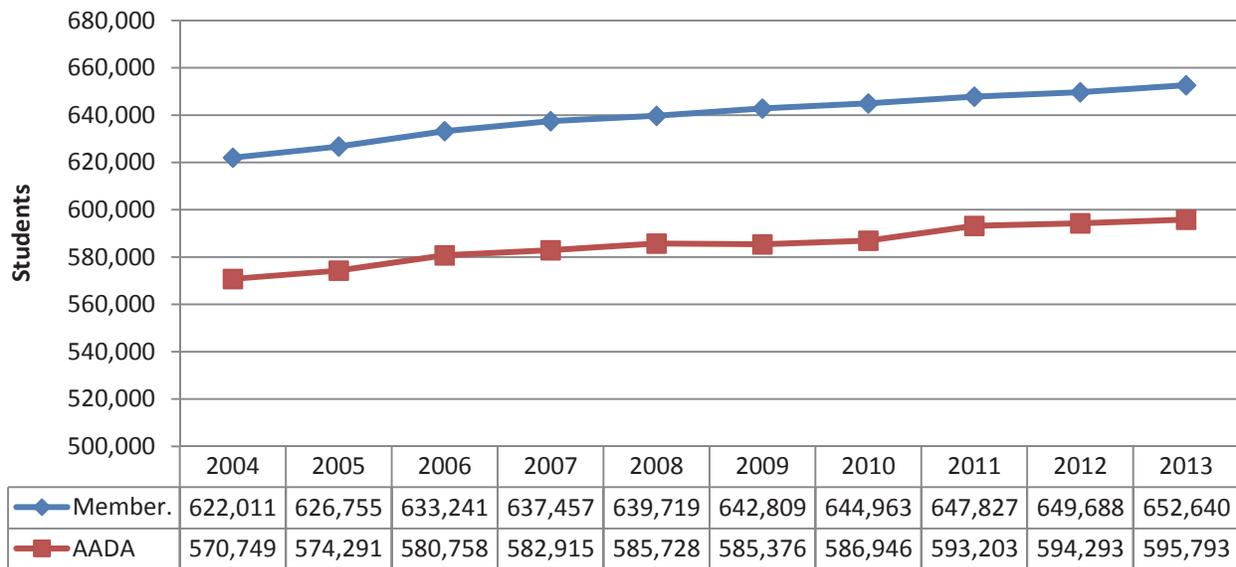
The adjusted average daily attendance counts are used in the per-pupil spending analysis.

The AADA student counts are used in the per-pupil spending analysis shown later in this report because the districts' SEEK funds are partially calculated using this number instead of membership. When comparing staff to student data, however, this report uses membership numbers.

Membership grew by 30,629 students. In contrast, the adjusted average daily attendance increased by 25,044 during the same period.

As Figure 1.A illustrates, membership grew by 30,629 students between 2004 and 2013; in contrast, the AADA increased by 25,044 during the same period. Another way to look at this is that AADA was 92.08 percent of the membership in 2004 and 91.29 percent in 2013. This indicates that students are attending the instructional school days a little less than they did 10 years ago.

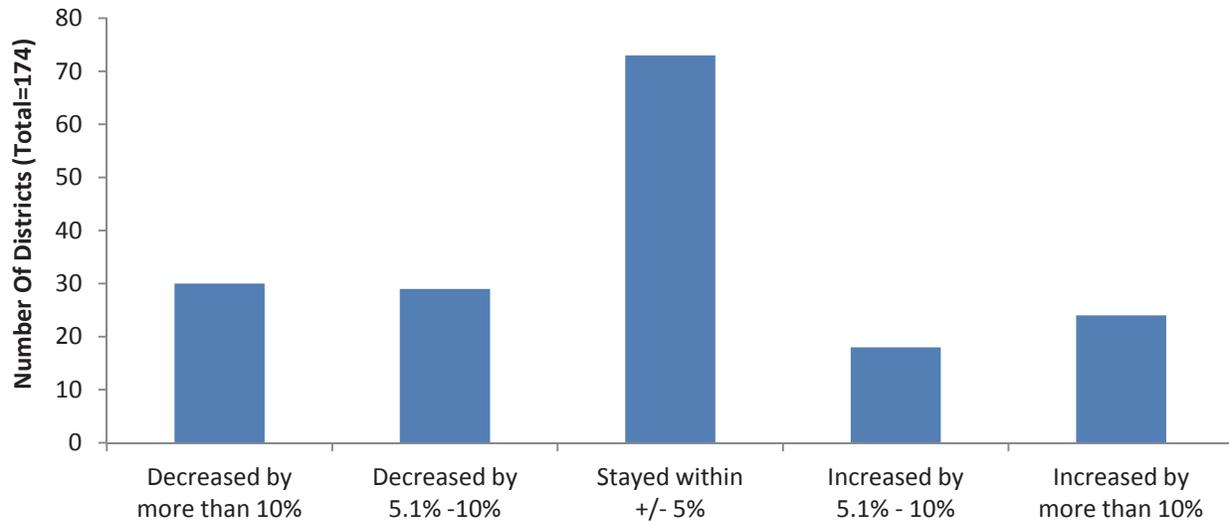
**Figure 1.A**  
**Student Membership And Adjusted Average Daily Attendance, FY 2004-FY 2013**



Source: Staff compilation of data from Superintendent Annual Attendance Reports and SEEK bulletins.

Figure 1.B shows the percent change in AADA during this period by district. AADA decreased by more than 10 percent in 30 districts and increased by that rate in only 24 districts.

**Figure 1.B**  
**Percentage Change In Districts' End-Of-Year Adjusted Average Daily Attendance, FY 2004-FY 2013**



Source: Staff compilation of data from SEEK bulletins.

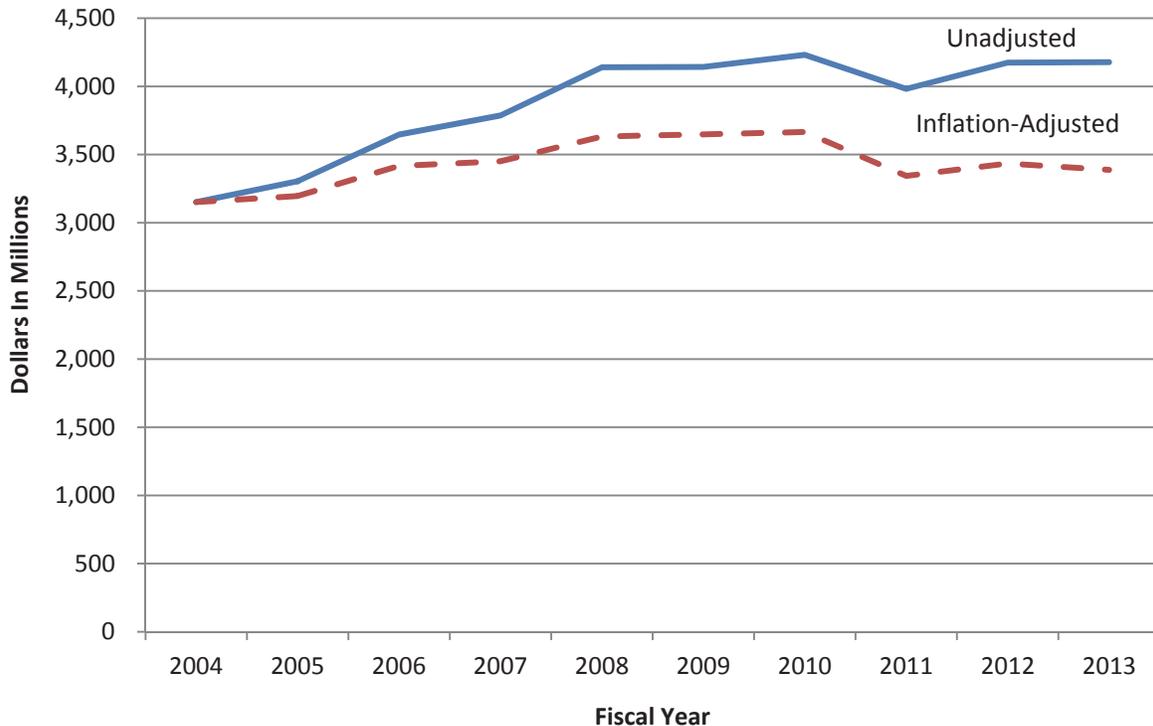
### Overview Of Funds Appropriated For Elementary And Secondary Education

The General Assembly appropriated \$3.2 billion to elementary and secondary education in FY 2004 with an additional billion added by FY 2013. However, after adjusting for inflation using the constant 2004 dollars the additional growth was only \$242,717,585.

One of the General Assembly's top priorities is education funding. The General Assembly appropriated \$3.2 billion to elementary and secondary education in FY 2004, which equated to 42.47 percent of the total general fund budget. By 2013 the General Assembly added more than \$1 billion, which increased the primary and secondary education to 43.98 percent of the state's total general fund budget.

However, as shown in Figure 1.C, the constant 2004 dollars grew only by an additional \$241,717,585, so even though more than \$1 billion was added to the budget, the buying power in 2013 of that same dollar amount was \$241.7 million.

**Figure 1.C**  
**Elementary And Secondary Education Appropriations, FY 2004–FY 2013**  
**Unadjusted And Inflation-Adjusted (Constant 2004) Dollars**



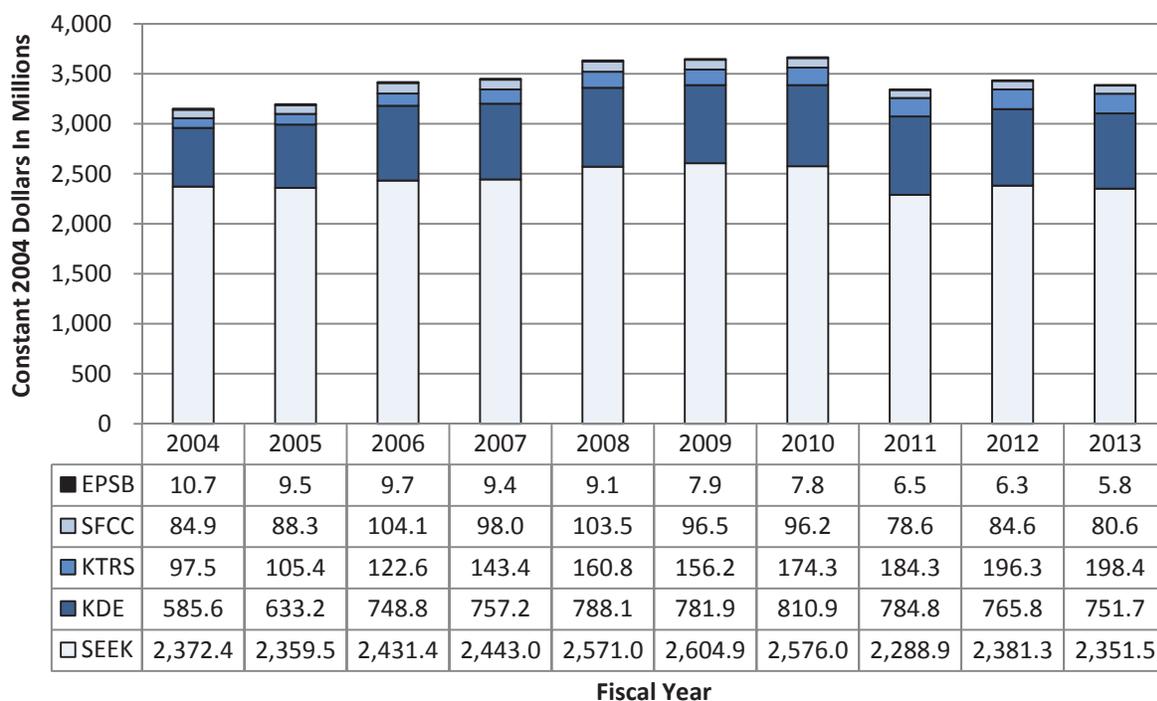
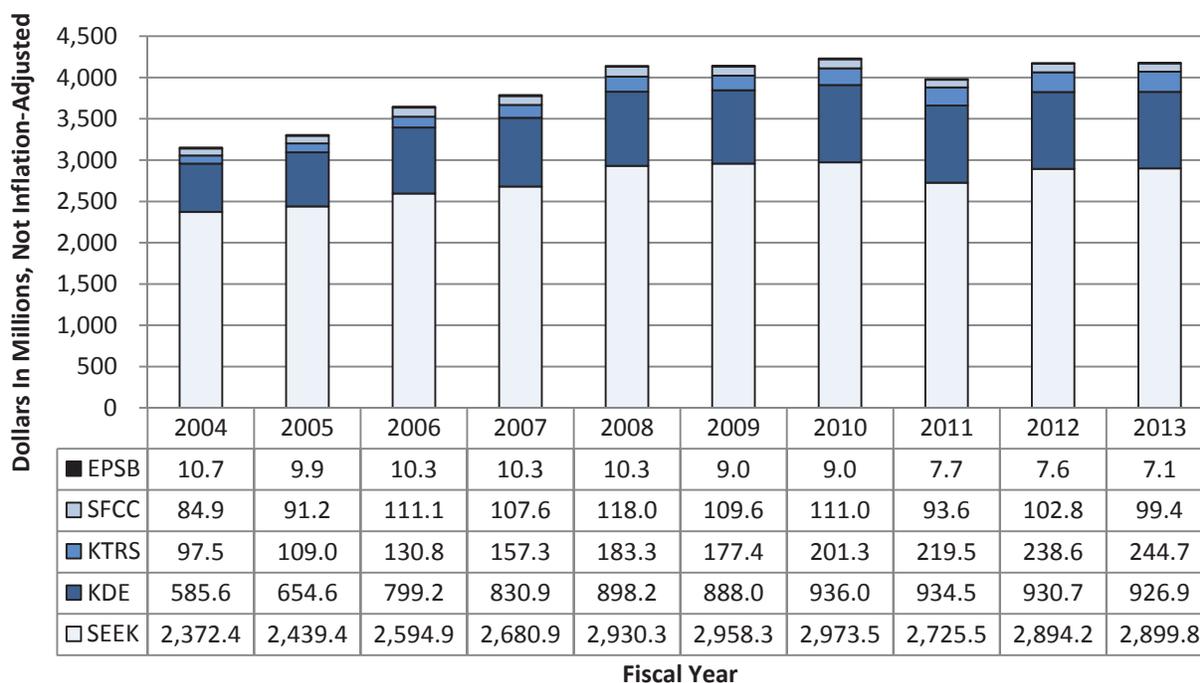
Notes: Appropriations as enacted by the General Assembly. Combined general fund and general fund tobacco, excluding continued appropriations. For FY 2008-2009, HB 143 authorized various budget reduction measures without specifying new amounts. The language forbade reductions to SEEK or KTRS. HB 1 (2011 Special Session) reduced the SFCC appropriation for 2010-2011 from its original amount of \$101,433,100.  
Source: Staff compilation of data from LRC budget office.

Figures 1.D and 1.E show appropriations by agency. Figure 1.D shows dollar amounts, before and after adjusting for inflation, and Figure 1.E shows agency appropriation as a percentage of total elementary and secondary education expenditures.

The SEEK and KDE budget makes up the largest part of the elementary and secondary allocations.

Generally, Figures 1.D and 1.E illustrate that SEEK and KDE make up the largest part of the budget. However, as a percentage of the budget, SEEK appropriations decreased from 75.3 percent in FY 2004 to 69.4 percent in FY 2013, but KDE appropriations increased from 18.6 percent to 22.2 percent. Although KTRS represents only a small percentage of the overall budget, its percentage of the budget nearly doubled from 3.1 percent to 5.9 percent. Additional description and analysis related to each category are provided after the figures.

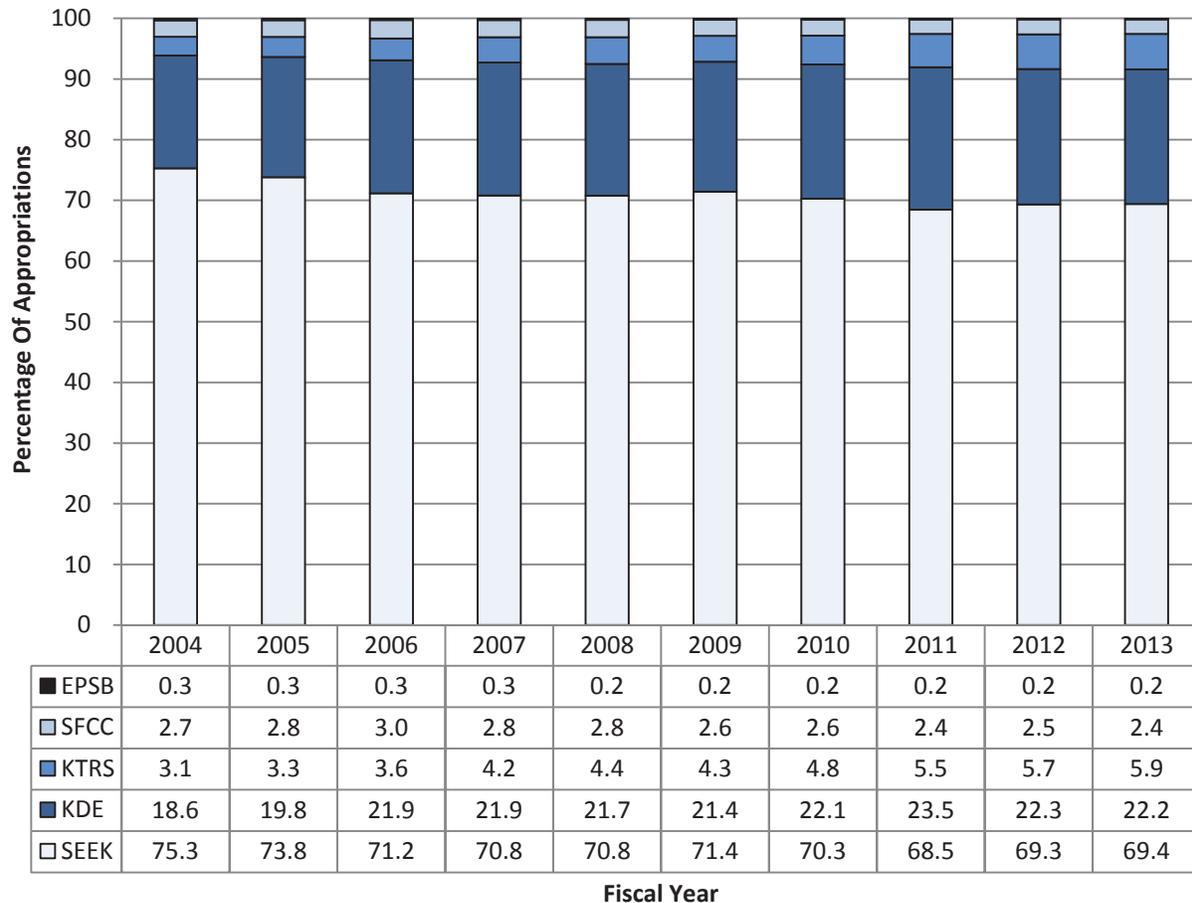
**Figure 1.D**  
**Elementary And Secondary Education Appropriations, By Type, FY 2004–FY 2013**



Notes: EPSB=Education Professional Standards Board. SFCC=School Facilities Construction Commission. KTRS=Kentucky Teachers' Retirement System. KDE=Kentucky Department of Education. SEEK=Support Education Excellence in Kentucky funding program.

Source: Staff compilation of data from LRC budget office.

**Figure 1.E**  
**Type Of Appropriation As A Percentage Of All**  
**Elementary And Secondary Education Appropriations, FY 2004–FY 2013**



Notes: EPSB=Education Professional Standards Board. SFCC=School Facilities Construction Commission. KTRS=Kentucky Teachers’ Retirement System. KDE=Kentucky Department of Education. SEEK=Support Education Excellence in Kentucky funding program.  
Source: Staff compilation of data from LRC budget office.

The Education Professional Standards Board budget was \$10.7 million in FY 2004 and by FY 2013 decreased to \$7.1 million.

The EPSB appropriations are for staff and operational expenses. In FY 2004 the EPSB budget was \$10.7 million. By FY 2013, its budget had decreased to a low of \$7.1 million, which was only \$5.8 million in constant 2004 dollars. As a percentage of the total primary and secondary education budget, EPSB funding was 0.3 percent in FY 2004 and 0.2 percent in FY 2013.

The School Facilities Construction Commission budget was approximately \$85 million in FY 2004 and by FY 2013 increased by an additional \$14.4 million.

The SFCC appropriations include money for new debt service to support bonds for local district construction payments, as well as its operating expenses. In FY 2004 SFCC’s budget was approximately \$85 million. By FY 2013, its budget had increased by an additional \$14.4 million. However, when dollars are adjusted for inflation, there was a decrease of approximately \$4.3 million.

As a percentage of the total primary and secondary education budget, SFCC funding represented 2.7 percent in FY 2004 and 2.4 percent in FY 2013.

The KTRS budget includes payments for the teacher retirement debt service for retired employees' medical insurance fund obligations. It also provides the cost of amortization of sick leave liability for new retirees, as well as its operating expenses.

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The Kentucky Teachers' Retirement Systems budget was \$97.5 million in FY 2004 and increased by \$147 million by FY 2013.

In FY 2004 KTRS's budget was \$97.5 million. By FY 2013, its budget had increased by \$147 million; in constant 2004 dollars the increase was about \$101 million. As a percentage of the total primary and secondary education budget, KTRS funding represented 3.1 percent in FY 2004 and 5.9 percent in FY 2013.

The KDE general fund allocated budget includes staff and operational expenses for the department. In addition, it includes funding for other budgetary items such as special schools; local school districts' health insurance and HRA account payments; district-run vocational centers; and state grants for preschool, family resource youth service center, and other programs.

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The Kentucky Department of Education's budget was \$585.6 million in FY 2004, and by FY 2013 the budget increased by \$341.3 million.

In FY 2004 KDE's budget was \$585.6 million. By FY 2013, its budget had increased by \$341.3 million. When adjusted for inflation using constant 2004 dollars, the increase was approximately \$166 million. As a percentage of the total primary and secondary education budget, KDE funding represented 18.6 percent in FY 2004 and 22.2 percent in FY 2013.

SEEK includes district allotments and funding for the KTRS match for local school districts for nonfederal employees, salary supplements for national board-certified teachers, vocational education, transportation, and the equalizations for all building fund levies.

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In FY 2004 the Support Education Excellence in Kentucky allocations were \$2.4 billion. They increased by \$527 million in FY 2013.

In FY 2004, SEEK allocations were \$2.4 billion. Between FY 2004 and FY 2013, allocations increased by \$527 million. However, in constant 2004 dollars, SEEK allocations decreased by \$20.9 million. As a percentage of the total primary and secondary education budget, SEEK declined from 75.3 percent in FY 2004 to 69.4 percent in FY 2013.

## Chapter 2

### Kentucky Department Of Education

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The Kentucky Board of Education adopts regulations that govern school districts and serves as the board for state schools. The Kentucky Department of Education provides technical assistance, support, and oversight to local school districts. The Office of Career and Technical Education was merged with the department in August 2012.

The Kentucky Department of Education is one of 11 agencies under the Education and Workforce Development Cabinet in the Governor's Office. It is overseen by a commissioner of education, who is appointed by the Kentucky Board of Education. It adopts the regulations that govern public school districts and also serves as the board for the Kentucky School for the Deaf in Danville and the Kentucky School for the Blind in Louisville.

The KDE provides technical assistance, support, resources, and oversight to local public school districts as they implement the state's P-12 education laws. It also serves as the state liaison for federal education funding and compliance with federal laws.

In August 2012, Governor Beshear reorganized KDE to include the Office of Career and Technical Education. The addition of the CTE staff will be discussed later in the report under the staffing trend analysis.

In Kentucky, there are two types of career and technical schools, those operated locally and those run by the state. The CTE office at KDE assists districts in the education and preparation of students for a successful transition at the postsecondary level, to provide necessary skills for career preparation or joining the military.

#### Revenue Received By KDE

The KDE receives revenue from various sources to help districts fund elementary and secondary education. It receives funding from the general fund, federal funds, and restricted funds. Some funds are used for KDE administration, but the majority are used by local school districts to provide education for almost 652,000 students.

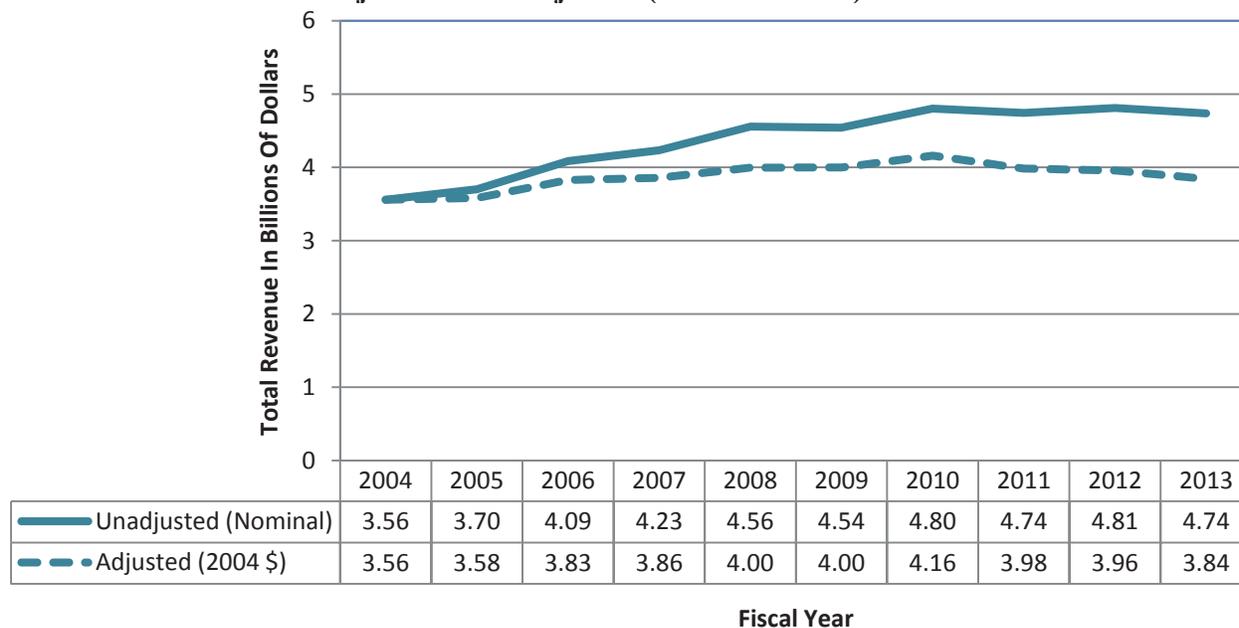
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Revenue received by the Kentucky Department of Education increased by \$1 billion or 33 percent between FY 2004 and FY 2013, but after adjusting for inflation the buying power of this increase was \$284.3 million.

Between FY 2004 and FY 2013, total revenue received by KDE increased 33 percent from \$3.56 billion to \$4.74 billion. However, as shown in Figure 2.A, after adjusting for inflation (using constant 2004 dollars), revenue grew by only \$284.3 million or 8 percent. In other words, although KDE received about \$1 billion more in FY 2013, the buying power in FY 2013 was only about \$284 million more than it was in FY 2004.

Starting in FY 2012 the CTE was reorganized into KDE, thus increasing the revenue for KDE. The CTE added approximately \$56 million in revenues.

**Figure 2.A**  
**Total Revenue Received By Kentucky Department of Education, FY 2004-FY 2013,**  
**Unadjusted And Adjusted (Constant 2004) Dollars**



Source: Staff compilation using data from the Kentucky Department of Education.

Figure 2.B reports revenue by category, in inflation-adjusted and unadjusted dollars. The majority of funding (more than 80 percent) to KDE consists of general fund revenues, with the exception of FY 2010 and FY 2011. During this period, Kentucky received federal state fiscal stabilization fund (SFSF) dollars for education through the American Recovery and Reinvestment Act (ARRA) of 2009. These funds were appropriated to assist in stabilizing local and state budgets in order to minimize reductions in education due to the 2008 recession.

Kentucky used SFSF funding in FY 2010 to maintain the 2009 SEEK guaranteed base per-pupil amount of \$3,866. For FY 2011 SFSF funding was also used for the same reason; the per-pupil guaranteed base amount was \$3,868. This funding represents only 1.4 percent of total SEEK funding.

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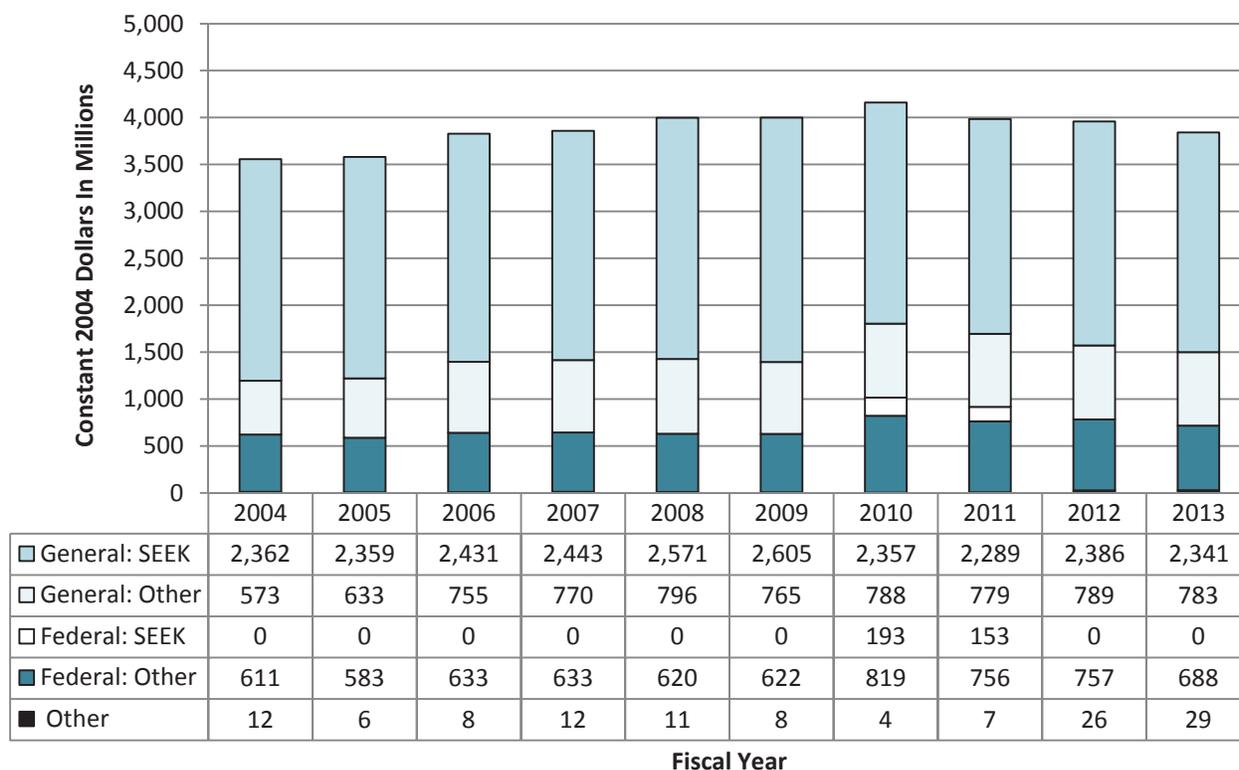
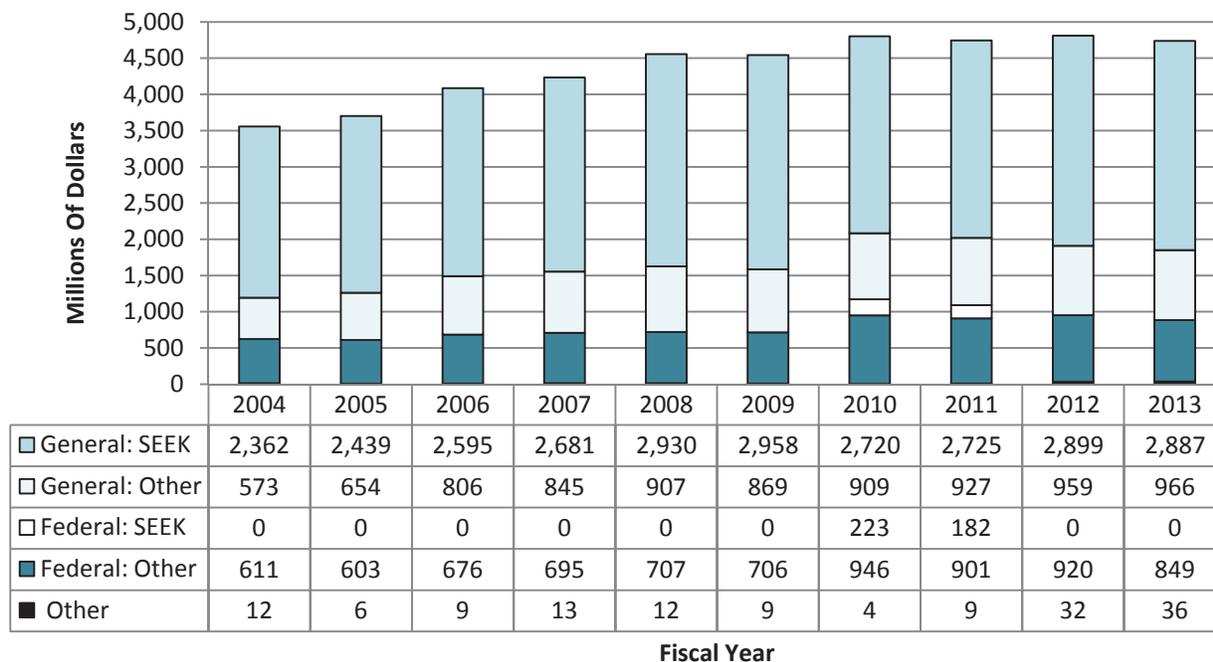
In FY 2013, SEEK funds totaled approximately \$2.9 billion, or 61 percent of total KDE funding. Federal funds were \$848.9 million, or 18 percent of the funding. The remaining revenues were from local grants, such as grants from the Gates Foundation.

For FY 2013, SEEK funds totaled approximately \$2.9 billion and made up 75 percent of general fund revenues. SEEK appropriations made up 61 percent of total KDE funding. KDE's Office of Administration and Support through the Division of District Support distributes SEEK funds to local school districts.

The next largest portion of KDE revenue comes from federal funds, which totaled \$848.9 million (18 percent) from various grant sources. Federal dollars for programs such as the Elementary Secondary Education Act, No Child Left Behind, Title I (A-D), Special Education (IDEA (B)), and school nutrition are overseen and administered by various offices within KDE's Bureau of Operations and Support Services program area (for instance, Next Generation Schools and Next Generation Learners).

The remaining revenues come from various restricted funds such as tobacco funds and local grants, such as Gates Foundation grants. Starting with FY 2010, the Early Childhood function and the tobacco funds were moved to the Governor's Office of Early Childhood from the KDE.

**Figure 2.B**  
**Total Revenue Received By Kentucky Department Of Education, FY 2004–FY 2013,**  
**Including Revenue Later Distributed To Districts And Other Agencies**



Notes: SEEK is the Supporting Education Excellence in Kentucky funding program.  
Source: Staff compilation of data from the Kentucky Department of Education.

## Agency Expenditures

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While the revenue section discussed all funds received by the department, this section focuses on the 3 percent of remaining funds spent at the KDE level.

While the revenue section discussed all funds received by KDE, including those passed along to districts and other agencies, this section focuses on funds expended only at the KDE level. More than 97 percent of KDE expenditures are paid out of the grants/loans and benefits category. These expenditures are paid by KDE for nonstate agencies, such as payments to local school districts, education co-ops, and Kentucky universities. Because Chapter 3 includes all payments from KDE to local school districts, this chapter will focus on the 3 percent of remaining funds expended at the KDE level.

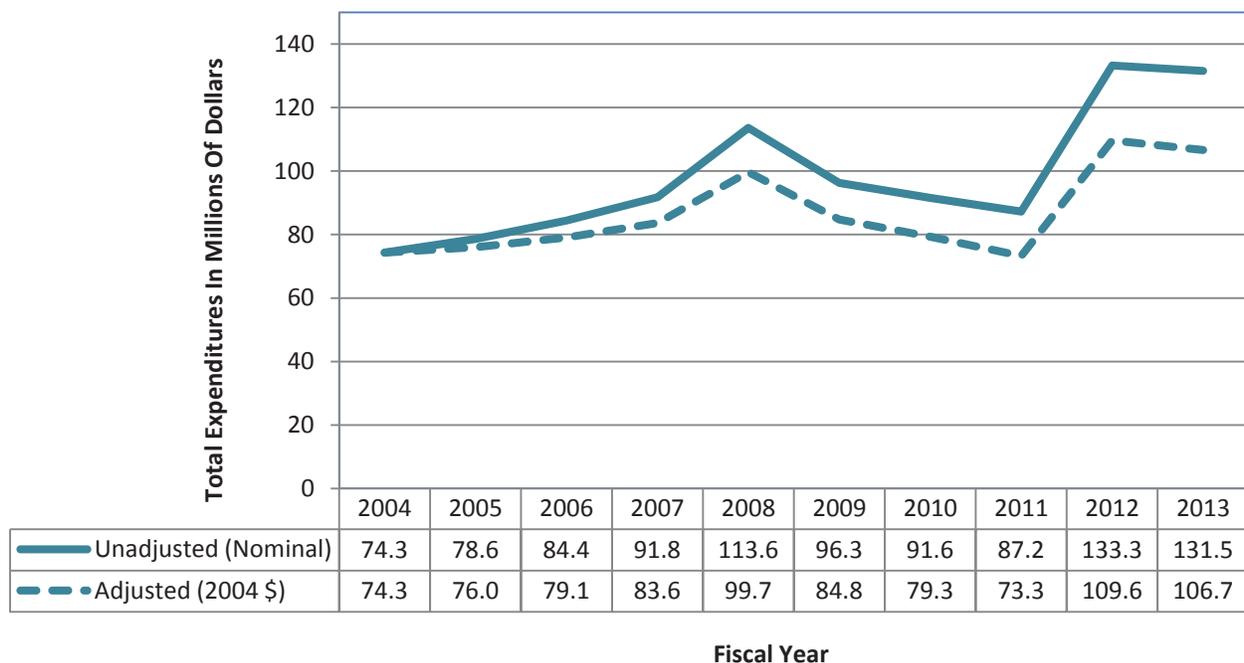
The analysis of KDE-level expenditures included expenditures for KSB and KSD because the Kentucky Board of Education serves as the board and KDE staff serves as resources for these two schools. KSB and KSD expenditures increased 2.6 percent from \$15.3 million in FY 2004 to \$15.7 million in FY 2013. Appendix D shows KSB and KSD expenditures.

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Overall, expenditures increased 77 percent from \$74.3 million in FY 2004 to \$131.5 million in FY 2013. After adjusting for inflation expenditures increased only 44 percent.

Figure 2.C illustrates total KDE-level expenditures adjusted and unadjusted for inflation. Overall, expenditures increased 77 percent from \$74.3 million in FY 2004 to \$131.5 million in FY 2013. As discussed earlier, starting in FY 2012 CTE transferred into KDE and approximately \$45 million of the increase in expenditures can be attributed to this addition. When adjusted for inflation, expenditures increased only 44 percent from \$74.3 million to \$106.7 million.

**Figure 2.C**  
**Kentucky Department Of Education Expenditures, FY 2004–FY 2013**



Source: Staff compilation of data from the Kentucky Department of Education.

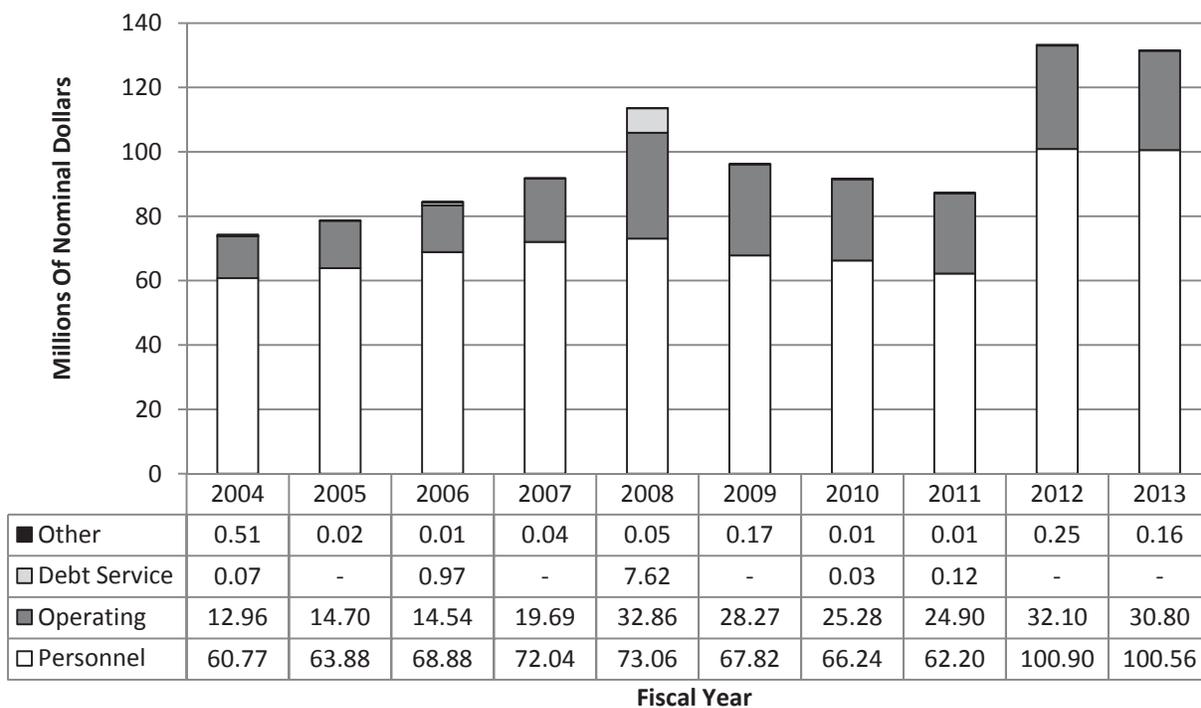
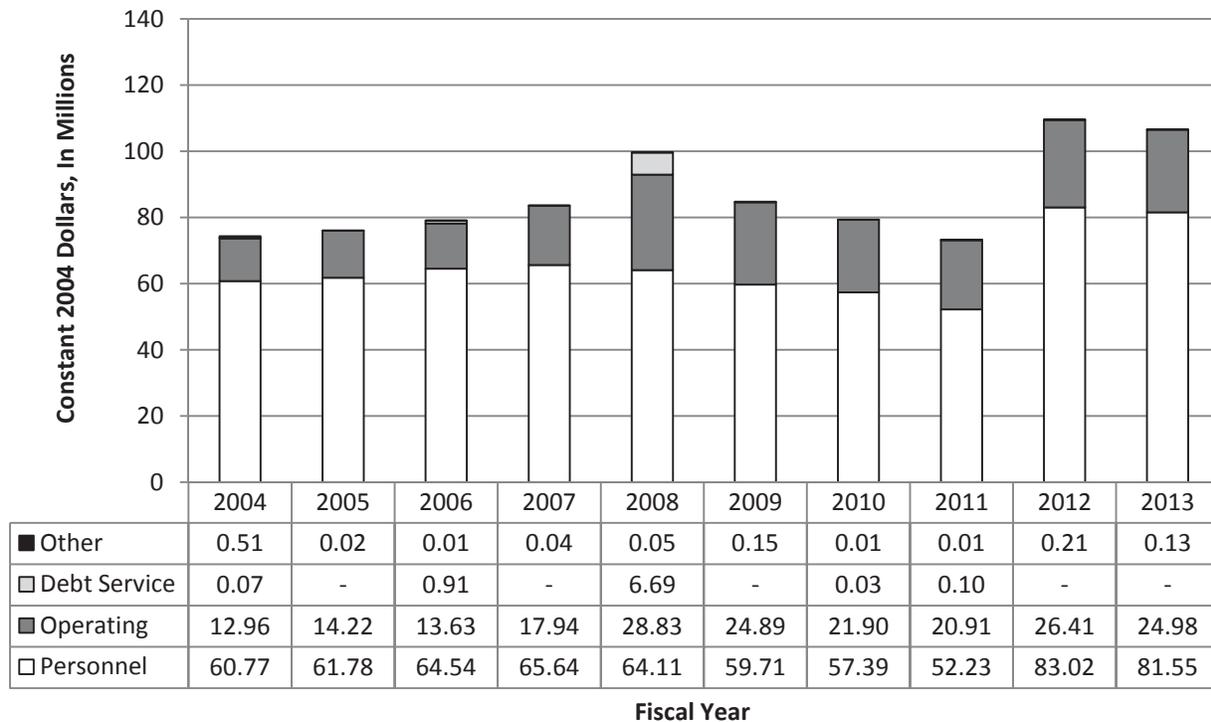
Figure 2.D provides additional information on actual expenditures broken out by categories. The personnel category primarily consists of expenditures related to regular salaries and wages, as well as benefits and professional services. The operating category includes expenditures such as utilities and heating fuels, facilities and support services, supplies, etc. “Other” includes expenditures for capital outlay and construction.

As seen in these figures, personnel expenditures were \$60.77 million in FY 2004 and increased to \$100.56 million by FY 2013. Operating expenditures were \$12.96 million and grew to \$30.8 million during the same time.

In FY 2008, the \$7.62 million in debt service included costs for the Student Information System, instructional device upgrade, and projects for two area technology centers.

In 2008, \$7.62 million in expenditures for debt service included costs for the following projects: Student Information System, instructional device upgrade, and projects for two area technology centers in Letcher and Rockcastle Counties.

**Figure 2.D**  
**Kentucky Department Of Education Expenditures By Category, FY 2004–FY 2013**

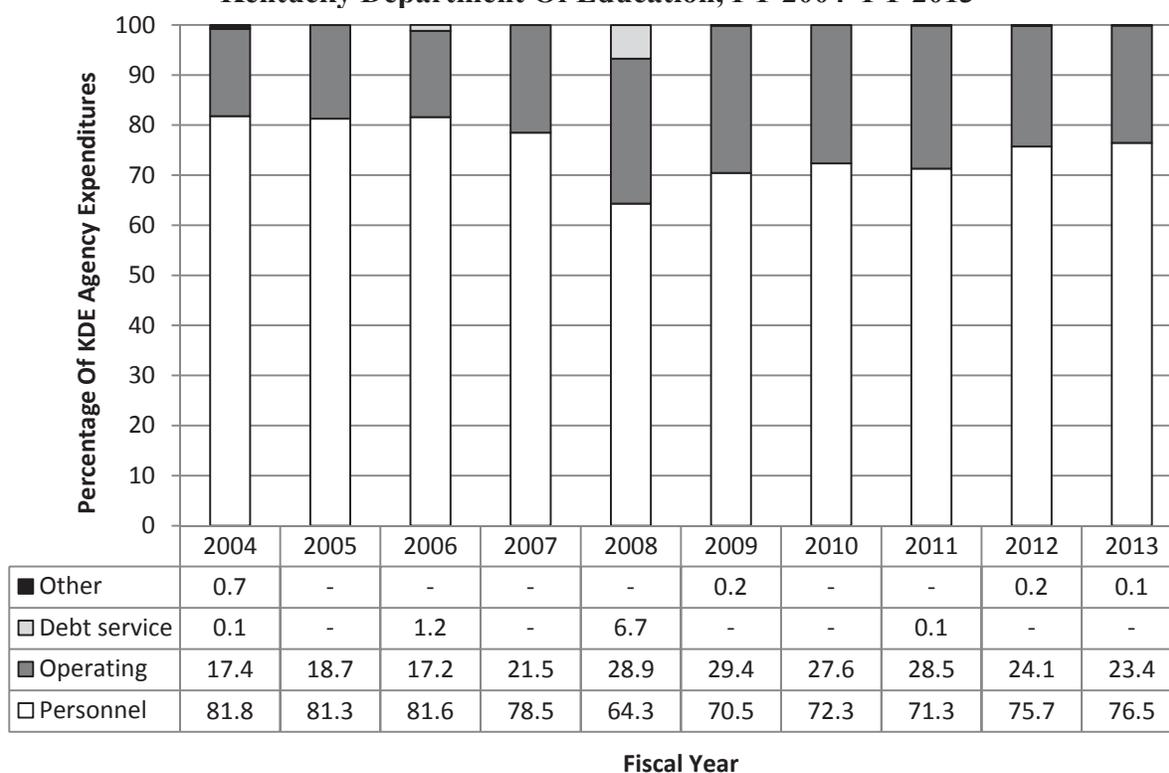


Note: “Other” expenditures are construction and capital outlay.  
Source: Staff compilation of data from the Kentucky Department of Education.

Personnel expenditures were almost 82 percent of the total expenditures in FY 2004 and 76.5 percent in FY 2013. Operating expenditures were 17.4 percent in FY 2004 and increased to 23.4 percent by FY 2013.

Figure 2.E provides information on classifications of expenditure category as a percentage of total expenditures. For example, personnel and operating expenditures constituted the largest percentage of total expenditures from FY 2004 through FY 2013. Personnel expenditures were close to 82 percent of total expenditures in FY 2004 and 76.5 percent in FY 2013. Operating expenditures were 17.4 percent of total expenditures in FY 2004 and increased to 23.4 percent by FY 2013.

**Figure 2.E**  
**Expenditure Category As A Percentage Of All Expenditures**  
**Kentucky Department Of Education, FY 2004–FY 2013**



Note: "Other" expenditures are construction and capital outlay.  
Source: Staff compilation of data from the Kentucky Department of Education.

Table 2.1 provides additional detail with respect to personnel and operating expenditures.

Within the personnel cost, health insurance increased by 282.6 percent during this period and employer retirement increased by 138 percent. The operating expenditures increased by 138 percent.

More than half of the personnel expenditures are paid in salaries and wages. Salaries cost KDE more than \$32.7 million in FY 2004 and grew to almost \$55.7 million by FY 2013. Health insurance contributions grew the most within this category, increasing by 282.6 percent from \$2,221,000 to \$8,497,000. Employer retirement had the second largest percentage increase at 138 percent, from \$4,082,000 in FY 2004 to \$9,707,000 in FY 2013.

As for operating expenditures, these increased 138 percent from \$12,964,000 to \$30,802,000. Three areas within the operating category showed dramatic percentage changes. Miscellaneous services increased 511 percent from \$1,857,000 in FY 2004 to \$11,352,000 in FY 2013. Supplies increased 489 percent from \$656,000 to \$3,864,000. Miscellaneous commodities increased by 460 percent from \$442,000 to \$2,476,000.

KDE attributes the increase in supplies to the addition of CTE; the category includes classroom supplies and information technology (IT) upgrades at the state-run vocational schools.

Miscellaneous services increased because of the Kentucky Educational Network (KEN) upgrade, which increased the local bandwidth for school districts. KEN started in FY 2008 and is considered a recurring expense each year.

The category of miscellaneous commodities includes the cost for off-the-shelf tests purchased for testing students across Kentucky. After FY 2013, KDE has coded these expenses under the supply category in an attempt to better represent this cost.

**Table 2.1**  
**Kentucky Department Of Education Personnel And Operating Expenses**  
**FY 2004 And FY 2013**

	2004	2013	Change 2004-2013	
	\$ (000s)	\$ (000s)	\$ (000s)	%
<b>Personnel Cost</b>				
Regular salaries and wages	\$32,729	\$55,676	\$22,947	70.1
Other salaries and wages	496	349	-147	-29.6
Employer FICA	907	1,388	481	53
Employer retirement	4,082	9,707	5,625	137.8
Health insurance	2,221	8,497	6,276	282.6
Life insurance	17	18	1	6
Other fringe benefits	11	3	-8	-73
Workers' compensation	113	389	276	244
Other personnel cost	97	124	27	28
Legal services	168	11	-157	-94
Auditing services	0	281	281	N/A
Other professional service contracts	18,283	22,775	4,492	25
Other	797	6	-791	-100
Personal service distribution	0	188	188	N/A
Security guard services	0	45	45	N/A
Indirect personnel cost	0	5	5	N/A
Personnel transfers	852	1,103	251	30
<b>Total personnel cost</b>	<b>60,774</b>	<b>100,565</b>	<b>39,791</b>	<b>66</b>
<b>Operating Expenses</b>				
Utilities and heating fuels	985	3,252	2,267	230
Facilities and support services charges	791	952	161	20
Other rentals	773	580	-193	-25
Maintenance and repairs	621	2,451	1,830	295
Postage and related services	340	113	-227	-67
Miscellaneous services	1,857	11,352	9,495	511
Telecommunications	268	306	38	14
Computer services	2,586	838	-1,748	-68
Items for resale	67	51	-16	-24
Supplies	656	3,864	3,208	489
Commodities	846	1,783	937	111
Travel expense and expense allowance	2,645	2,785	140	5
Miscellaneous commodities	442	2,476	2,034	460
Transfers—operating	88	0	-88	-100
<b>Total operating expenses</b>	<b>12,964</b>	<b>30,802</b>	<b>17,838</b>	<b>138</b>

Note: Not adjusted for inflation. Calculations used rounded numbers for consistency within the table.  
Source: Staff analysis of data from the Kentucky Department of Education.

## Agency Staffing

For insights into personnel costs, which make up the largest portion of expenditures, this section discusses staffing at KDE. Full-time staffing data for KDE includes leadership, professional, and support staff.

For comparability reasons, Figure 2.F includes staff by agencies and categories for KDE Frankfort-based employees; KSB/KSD employees; staff hired on IT contracts to work in the Knowledge, Information and Data Services office; MOAs; and the addition of CTE.

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Of the 576 additional CTE employees, 48 were housed at KDE and the remaining work in state-run vocational schools.

Of the 576 CTE employees, 48 were housed at KDE and the remaining 528 worked in the state-run vocational schools. Staff at KDE decreased by 17 percent, from 393 in FY 2004 to 325 in FY 2013. KSB and KSD experienced a decrease of 21 percent, from 259 in FY 2004 to 204 in FY 2013. IT staff decreased from 84 in FY 2004 to 75 in FY 2013.

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Memoranda of agreement increased 45 percent from 76 in FY 2004 to 110 in FY 2013. One MOA is used with a nonprofit company to provide staff to perform diagnostic reviews and leadership assessments. This company provides multiple staff, making the MOA count inaccurate.

MOAs increased 45 percent from 76 in FY 2004 to 110 in FY 2013. KDE uses MOAs for a variety of types of temporary staff. For example, some MOAs are with local boards of education for staff to work temporarily at priority districts/schools as education recovery staff. Others are with educational co-ops working on changes in the common core standards. Finally, some are with for-profit and nonprofit companies.

One example is an MOA with a nonprofit company that conducts on-site external reviews. This MOA is different than those with local boards and co-ops, because it must provide staff to perform diagnostic reviews and leadership assessments required in a pending regulation (703 KAR 5:260). The MOA will utilize multiple staff, where other MOAs at the district level are typically done for one specific person and if more than one staff member is utilized, separate MOAs are completed.

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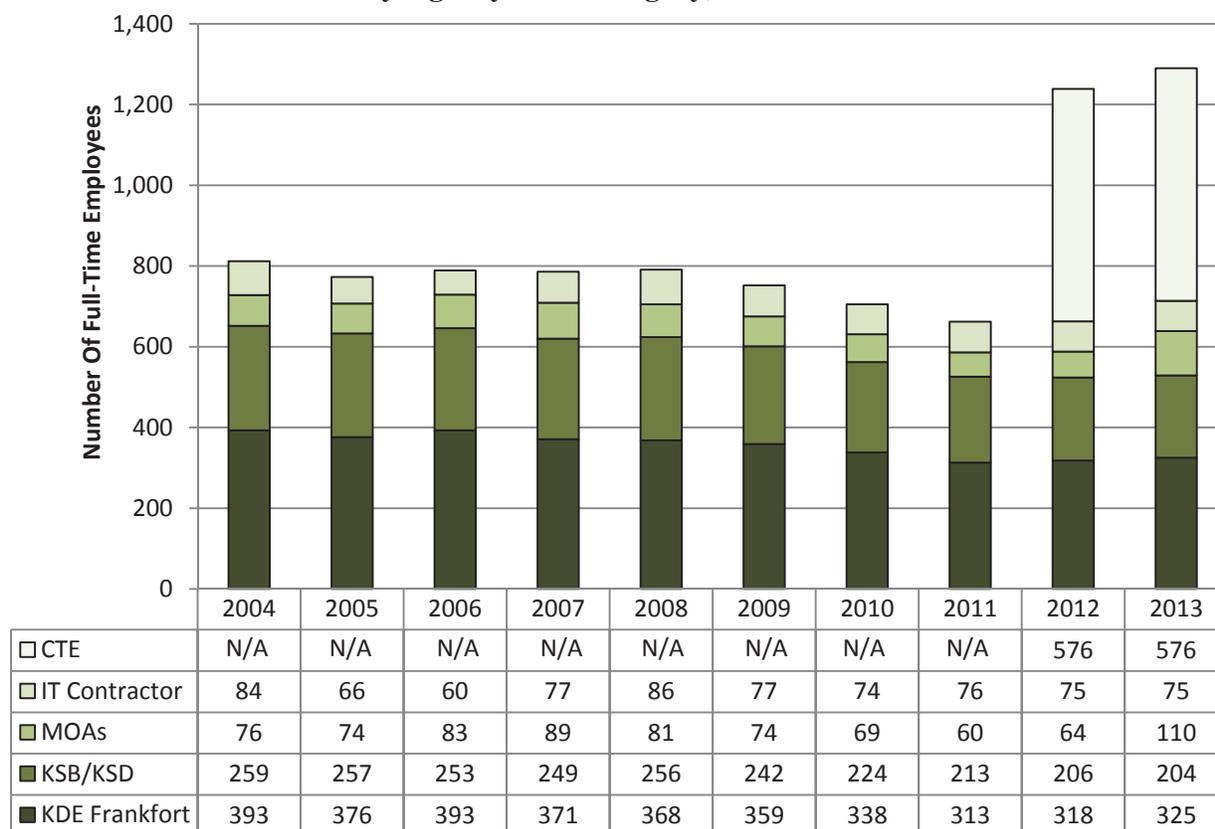
Overall KDE staff decreased from 736 to 604 (18 percent) when excluding CTE and MOAs.

Overall KDE staff decreased from 736 to 604 (18 percent) when excluding CTE and MOAs. Because MOAs are now being utilized at KDE with companies to provide more than one staff member in the agreement, tracking increases or decreases in the MOA category are not accurate.

**Recommendation 2.1****Recommendation 2.1**

**The Kentucky Department of Education should track all staff provided through memoranda of agreement annually by full-time equivalent for internal and external reporting.**

**Figure 2.F**  
**Staff By Agency And Category, FY 2004-FY 2013**



Note: N/A = not available. 2012 CTE staff count is estimated. Staff counts are for June 30 of each year.  
Source: Staff compilation based on data from the Kentucky Department of Education.

Generally, memoranda of agreement increased due to the implementation of KDE assisting priority schools and districts defined in 703 KAR 5:001. Also, the federal and agency funds paying for these MOAs increased 2,276 percent. The increase in federal funds is due to KDE retaining some Title 1 funds that used to go to local districts.

Table 2.2 shows a more detailed analysis of the MOA category along with funding sources. Generally, MOAs increased due to the implementation of KDE assisting priority schools and districts defined in 703 KAR 5:001. Federal Title 1 1003(a) funds are for the most part utilized at the state level to pay for the KDE education recovery staff that works with priority schools. Because KDE is paying for these positions with federal funds, the increase in cost is primarily due to employee benefits being paid with federal funds.

Total costs of MOAs increased by 62 percent from \$6,485,275 million in FY 2004 to \$10,531,013 million in FY 2013. Also, funding from federal and agency sources have increased

2,276 percent from FY 2004 to FY 2013 from \$302,544 to \$7,187,937. The increase of MOAs is the result of Title 1 funds being retained by KDE in lieu of these funds being used at the local level to assist with increasing test scores in the low-performing schools.

In addition, local grants recorded in KDE’s agency funds have also increased. For example, in 2011, KDE received a 2-year grant from the Bill & Melinda Gates Foundation in the amount of \$1 million. The grant supported the implementation of the new Common Core Academic Standards (CCAS).

**Table 2.2**  
**Percentage Changes Of MOA Funding Sources**

<b>Fiscal Year</b>	<b>Number Of MOAs</b>	<b>Federal Costs</b>	<b>State Costs</b>	<b>Agency Costs</b>	<b>Total Costs</b>
<b>2004</b>	76	\$204,770	\$6,182,731	\$97,774	\$6,485,275
<b>2013</b>	110	\$5,973,727	\$3,343,076	\$1,214,210	\$10,531,013
<b>% Change 2004-2013</b>	45%	2,817%	-46%	1,142%	62%

Source: Staff compilation of Kentucky Department of Education Staffing Data.

Table 2.3 provides a more detailed breakout of KDE and KSB/KSD staff. This breakout does not match the numbers in Figure 2.F because it reports numbers as of the end of June whereas Table 2.3 reports numbers as of April 2004.

As seen from Table 2.3, the KDE support staff increased from 63 employees in FY 2004 to 96 in FY 2013, which is a 52.4 percent increase. The professional staff decreased 37.5 percent from 291 in FY 2004 to 182 in FY 2013, while leadership staff increased 4.4 percent, from 45 in FY 2004 to 47 in FY 2013.

KSB and KSD experienced a 30.8 percent decline in professional staff from 143 in FY 2004 to 99 in FY 2013. The support staff also declined by 10.3 percent from 116 in FY 2004 to 104 in FY 2013, while leadership staff declined from 3 to 1 during this same period.

**Table 2.3**  
**Change In KDE Staff By Location And Category, FY 2004-FY 2013**

KDE Office/ Bureau	Leadership			Professional			Support			Total		
	2004	2013	% Change	2004	2013	% Change	2004	2013	% Change	2004	2013	% Change
Frankfort-Based												
Commissioner	4	5	25.0	0	1	N/A	4	4	0.0	6	10	66.7
Assessment & Accountability	2	5	150.0	11	14	27.3	2	4	100.0	15	23	53.5
Legal - Guiding Support Service	1	4	300.0	3	15	400.0	2	12	500.0	6	31	416.7
Education Technology - KIDS	3	5	66.7	26	24	-7.7	3	4	33.3	32	33	3.1
District & Admin. Support	14	7	-50.0	92	72	-21.7	17	38	123.5	123	117	-4.9
Other	21	21	0.0	159	56	-64.8	35	34	-2.9	217	111	-48.8
<b>Total Frankfort</b>	<b>45</b>	<b>47</b>	<b>4.4</b>	<b>291</b>	<b>182</b>	<b>-37.5</b>	<b>63</b>	<b>96</b>	<b>52.4</b>	<b>399</b>	<b>325</b>	<b>-18.5</b>
<b>State School Branch</b>												
Schools Administration	0	0	N/A	0	3	N/A	0	5	N/A	0	8	N/A
Kentucky School for the Blind	2	0	-100.0	51	36	-29.4	53	47	-11.3	106	83	-21.7
Kentucky School for the Deaf	1	1	0.0	92	60	-34.8	63	52	-17.5	156	113	-27.6
<b>Total State School Branch</b>	<b>3</b>	<b>1</b>	<b>-66.7</b>	<b>143</b>	<b>99</b>	<b>-30.8</b>	<b>116</b>	<b>104</b>	<b>-10.3</b>	<b>262</b>	<b>204</b>	<b>-22.1</b>

Note: Staff counts are for April 30, 2004, and June 30, 2013, and include 18A employees only. CTE employees are excluded because they are 151B. Because the department was extensively reorganized between 2004 and 2013, changes could not be determined for offices in the "Other" group. In 2004, the "Other" group consisted of the offices of Communications, Results Planning, Special Instruction Services, Leadership and School Improvement, Supportive Learning Environment, and Academic and Professional Development. In 2013, the "Other" group consisted of the offices of Next-Generation Schools and Districts, and Next-Generation Learners.

Source: Staff compilation of data from Kentucky Department of Education.

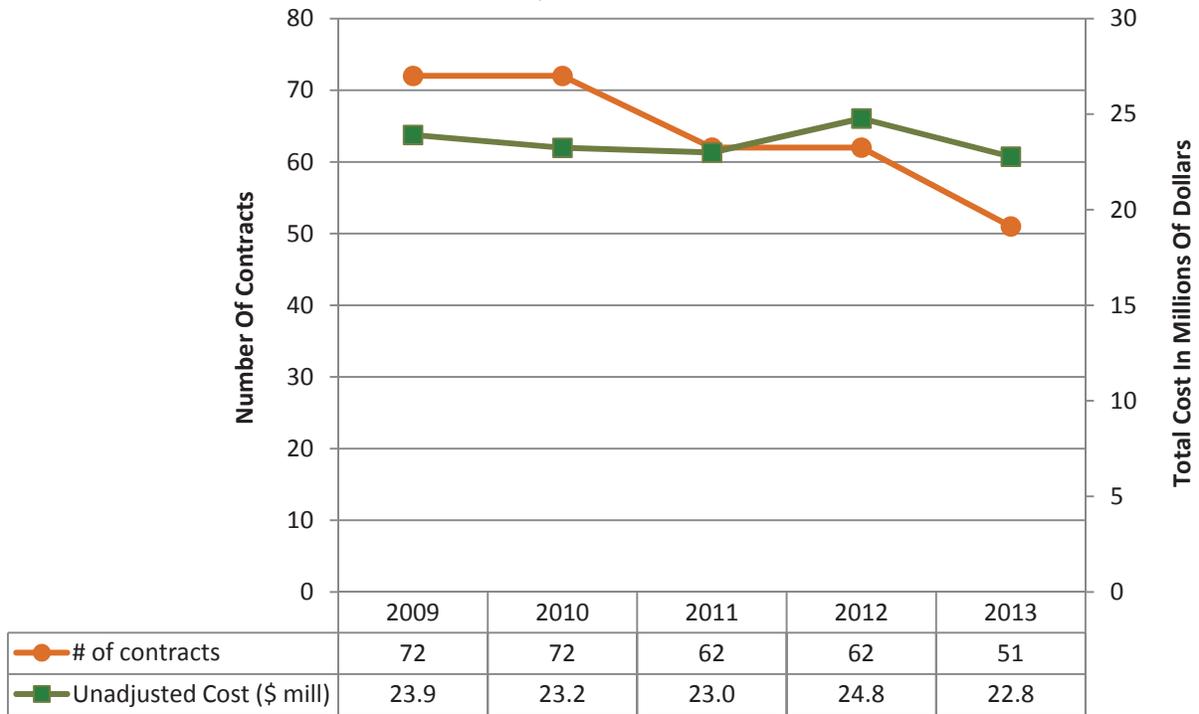
### Personal Service Contracts

Figure 2.G provides information on PSCs from FY 2009 through FY 2013, in terms of both the total dollar cost and total number of contracts.

The number of contracts decreased 29 percent from 72 in FY 2009 to 51 in FY 2013. However, the average cost per contract increased.

The number of contracts decreased 29 percent from 72 in FY 2009 to 51 in FY 2013. The cost of contracts also decreased from \$23.9 million to \$22.8 million or by 5 percent. The average cost of a contract was \$332,132 per contract in FY 2009 and \$446,573 per contract in FY 2013.

**Figure 2.G**  
**Kentucky Department Of Education Personal Service Contracts**  
**Total Cost, FY 2009–FY 2013**



Source: Staff analysis of data from the Kentucky Department of Education.



## Chapter 3

### School Districts

#### Revenue

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Revenue received by local districts comes from Kentucky Department of Education allocations, which include state and federal sources.

Revenue received by local districts comes from KDE allocations, which include state and federal sources. Districts also receive revenue from local taxes, local grants and donations, and federal and state on-behalf payments.

Tax revenue is received as a result of levies approved by local boards of education. Grants are received from sources such as the YMCA and Crusade for Children, while donations are given by individuals or clubs such as the PTA/Boosters.

On-behalf payments are recorded in the Munis accounting system. Although districts do not receive actual money from the state or federal government for on-behalf payments, they post general journal entries to the Munis accounting system. This allows districts to record funds received from other state and federal agencies for their benefit.

#### State On-Behalf Revenue

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Two state agencies receive revenue in their budgets to pay for education expenses at the district level.

Two state agencies receive revenue in their budgets to pay for education expenses at the district level: KDE and SFCC.

KDE provides payments for district full-time employees' health insurance and life insurance and the majority of the employer's match of KTRS. It also provides payments to support technology software for systems such as Munis, Career Cruising (Web-based software that maintains student individual learning plans), and the McAfee virus protection and Internet security software. It is able to reduce the state's overall cost bidding for the purchase of these technology items for all districts versus each district negotiating prices for them individually.

The School Facilities Construction Commission also receives revenue from the General Assembly for debt service payments on behalf of school districts. These debt service revenues are to be used for SFCC bonding payments on facilities and the Kentucky

Interlocal School Transportation Association (KISTA) related to debt payments on energy savings.

Although state agencies make these payments on a district's behalf, it is important for districts to record general journal entries in the Munis system before submitting AFRs to KDE. This allows for an accounting of actual revenue and expenditures at the district level.

However, because districts inconsistently and incorrectly captured revenue and expenditures on AFRs during the period reviewed for this report, OEA did not use these revenue and expenditure figures reported on the AFRs. Instead, OEA used data from KDE spreadsheets (2006 and forward), which show figures that districts should have recorded earlier.

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KDE posts guidance to ensure districts correctly record on-behalf payments.

Currently, KDE posts guidance to ensure districts correctly record on-behalf payments. In 2014, KDE determined that on-behalf payments for the state-run vocational schools should not have been recorded as on-behalf payments, because the districts were actually receiving revenue directly from KDE for this program. For this reason, staff excluded the vocational school on-behalf payments from this study.

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Total technology on-behalf payments were more than \$13.2 million; however, districts recorded \$336.7 million less in expenditures and \$247.6 million less in revenue attached to the recommended project code.

Also, for FY 2013, KDE required districts to record on-behalf payments for technology and debt service from SFCC. For these types of payments, KDE recommends districts record the expense to an actual expense code, instead of the normal on-behalf expense code attached to a project number for tracking reasons. The total technology on-behalf payments were more than \$13.2 million; however, districts recorded \$336.7 million less in expenditures and \$247.6 million less in revenue attached to the recommended project code.

---

Not only did districts record more than \$375,000 too much, but more than \$3 million was recorded to actual state revenue codes.

SFCC recorded more than \$95.6 million using the on-behalf revenue code and actual expenditure codes for debt service payments and interest. Not only did districts record more than \$375,000 too much, but more than \$3 million was recorded to actual state revenue codes. An additional \$711,000 was coded to federal revenue codes, and the rest was recorded in beginning balance, interest, and fund transfers. Also the SFCC expenditures were overstated by \$10.5 million. The SFCC KISTA payments were much closer, with revenue being understated by \$117,000 and expenses by understated by a little more than \$214,000.

### Recommendation 3.1

#### Recommendation 3.1

**The Kentucky Department of Education should continue to work with districts to ensure that on-behalf revenue and expenditures are recorded correctly and that districts follow KDE guidance.**

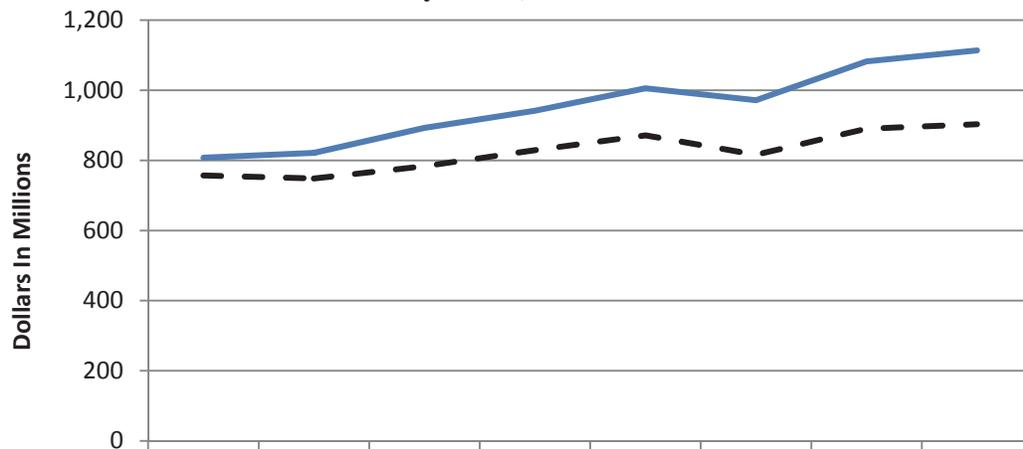
#### Total On-Behalf Payments

Total state on-behalf payments in FY 2006 were almost \$808 million and increased by an additional \$306 million by FY 2013, for a total unadjusted amount of \$1.1 billion.

As shown in Figure 3.A, total state on-behalf payments in FY 2006 were almost \$808 million and increased by an additional \$306 million by FY 2013, for a total unadjusted amount of \$1.1 billion. In constant 2004 dollars, the increase from FY 2006 through FY 2013 was \$146 million.

This figure also shows that unadjusted on-behalf payments dropped to approximately \$971.6 million in FY 2011 and then increased 15 percent by FY 2013. Part of the increase since FY 2011 resulted from KDE requesting that districts record their SFCC debt service payments. Beginning in FY 2014, KDE required districts to record SFCC and KISTA payments.

**Figure 3.A**  
**Total State On-Behalf Payments, FY 2006–FY 2013**



	2006	2007	2008	2009	2010	2011	2012	2013
Unadjusted \$ (Mill.)	807.6	821.3	892.8	941.5	1,005.6	971.6	1,082.2	1,113.7
Constant 2004 \$ (Mill.)	756.7	748.4	783.3	829.0	871.2	816.0	890.4	903.1

Source: Staff compilation of data from the Kentucky Department of Education.

Figure 3.B includes a breakdown of each on-behalf payment. The on-behalf amount that grew the most over this period was for health insurance. During this period it grew by almost \$164 million. It peaked in 2010 at \$592 million and then decreased

to \$558.9 million in FY 2011. By FY 2013, it was still under the FY 2010 level at \$589 million.

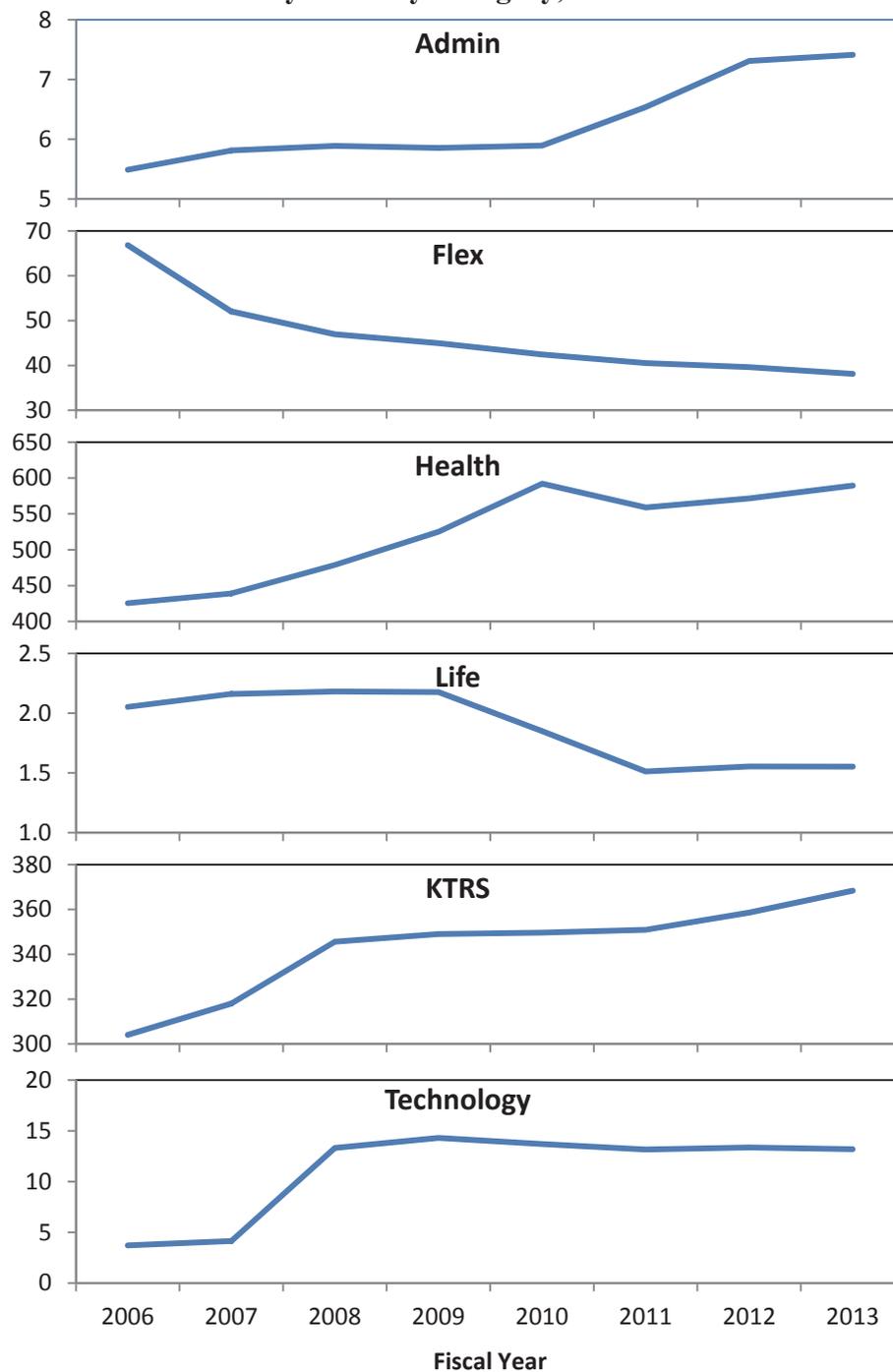
Employees who opt out of the state health insurance plan receive \$2,100 per year for their flexible spending accounts. Prior to calendar year 2007, district employees who opted out of the state's health insurance and chose flexible spending accounts received \$2,808 per year. Starting in calendar year 2007, that amount decreased to \$2,100 per year. These reductions could account for some of the decrease in flexible spending figures shown in Figure 3.B.

It also appears that since FY 2008, more employees are opting to enroll in the state's health insurance plan. In FY 2006 the state was paying \$67 million to fund flexible benefit accounts. For FY 2013, the amount was a little more than half that amount, at \$38 million.

Technology in FY 2006 was at \$3.7 million and by FY 2008 had grown to \$13 million. The reasons for this increase were KEN upgrades (which are a recurring expense each year) along with the additional KDE cost of implementation to convert Jefferson County Public Schools (JCPS) from its own accounting software to the Munis financial software.

The KTRS on-behalf amounts have also increased over time. In FY 2006 they were \$304.1 million. By the end of FY 2013 these payments were \$368.4 million, a change of \$64.3 million.

**Figure 3.B**  
**On-Behalf Payments By Category, FY 2006–FY 2013**



Notes: Not adjusted for inflation. Admin=administration fee; Flex=flexible benefit accounts; Health=health insurance; Life=life insurance; KTRS=Kentucky Teachers' Retirement System; Technology=information technology.

Source: Staff compilation of data from the Kentucky Department of Education.

### Federal On-Behalf Revenue

Districts do not receive as much on-behalf revenue from federal sources as they do from the state. Note that in FY 2009 only 4 districts reported these numbers, and by FY 2013 all but 10 districts reported these figures.

Table 3.1 shows that federal on-behalf payments grew from about \$0.5 million in FY 2009 to more than \$34 million in FY 2013.

**Table 3.1**  
**Federal On-Behalf Payments, FY 2009–FY 2013**

	Fiscal Year				
	2009	2010	2011	2012	2013
<b>Payment</b>	\$509,923	\$14,378,018	\$17,282,406	\$24,351,992	\$34,060,872

Source: Staff compilation of data from Kentucky district annual financial reports.

### School District Revenue

This section discusses all revenue received by local school districts. It includes local, state, federal, other, and combined state and federal on-behalf payments and also shows adjustments to constant 2004 dollars for each year.

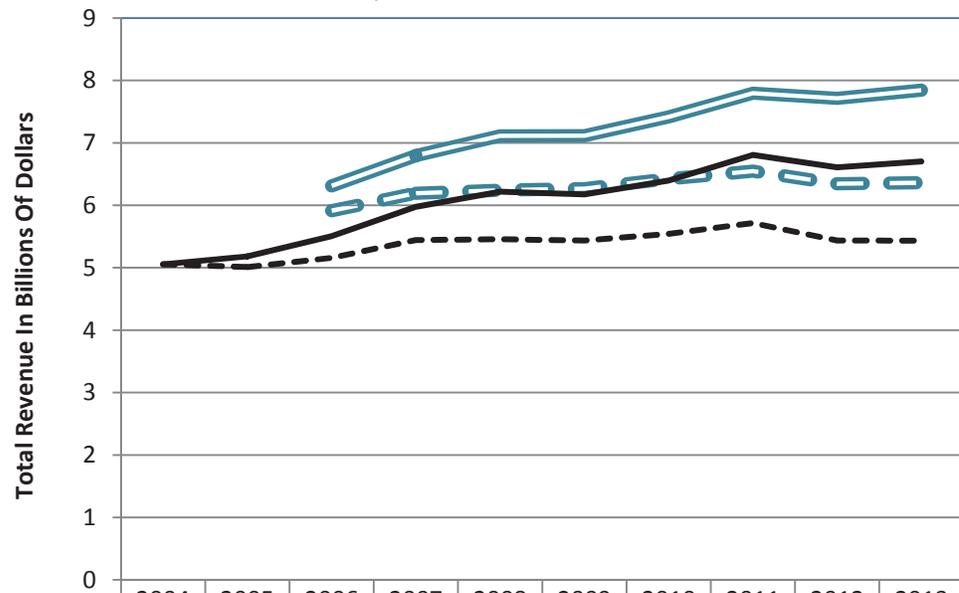
#### Total Revenue

Total revenue, excluding on-behalf funds, increased 31 percent from \$5.1 billion to \$6.7 billion from FY 2004 through FY 2013.

Figure 3.C shows trends in revenue received by districts, with and without on-behalf funds. Total revenue, excluding on-behalf funds, increased 31 percent from \$5.1 billion to \$6.7 billion from FY 2004 through FY 2013.

However, after adjusting for inflation using constant FY 2004 dollars, total revenue without on-behalf funds was \$5.4 billion in FY 2013, an increase of about \$300 million. The inflation-adjusted percentage increase was about 5.9 percent. The unadjusted on-behalf payments accounted for \$1.1 billion in FY 2013.

**Figure 3.C**  
**Total District Revenue, FY 2004–FY 2013**



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
— With on-behalf, unadjusted	N/A	N/A	6.3	6.8	7.1	7.1	7.4	7.8	7.7	7.8
- - With on-behalf, inflation-adjusted	N/A	N/A	5.9	6.2	6.2	6.3	6.4	6.5	6.3	6.4
— No on-behalf, unadjusted	5.1	5.2	5.5	6.0	6.2	6.2	6.4	6.8	6.6	6.7
- - - No on-behalf, inflation-adjusted	5.1	5.0	5.2	5.4	5.5	5.4	5.5	5.7	5.4	5.4

Note: Inflation-adjusted figures are constant 2004 dollars.  
Source: Staff analysis of data from the Kentucky Department of Education.

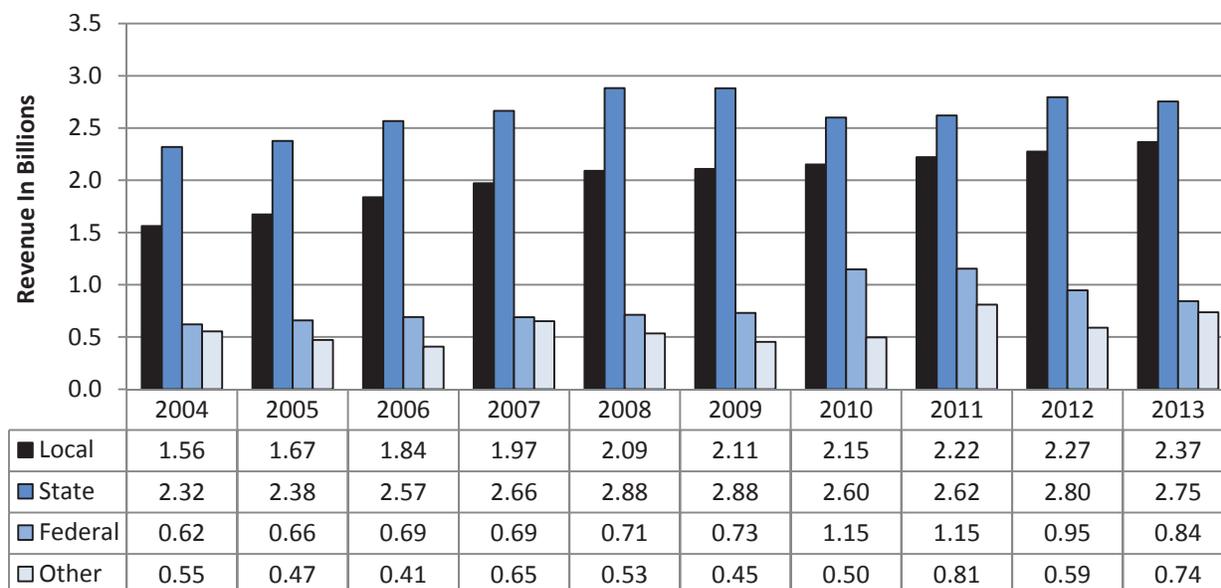
### Revenue By Source

Further analysis revealed the cause of the approximately \$1.6 billion increase during these past 10 years (without including the on-behalf payments).

The largest increase in revenue occurred as a result of local tax increases.

As reflected in Figure 3.D, the largest increase in revenue occurred as a result of local tax increases. Between FY 2004 and FY 2013, districts increased local revenue by \$805.1 million (52 percent) whereas the state revenue increased by only about half as much as the local taxes did. Also, state revenue dropped in FY 2010 and FY 2011, while federal revenue increased due to the federal ARRA funds that were discussed in Chapter 2 to keep SEEK at the guaranteed base level from FY 2009.

**Figure 3.D**  
**Revenue By Source, Excluding On-Behalf**  
**FY 2004–FY 2013**



Note: Not adjusted for inflation.

Source: Staff analysis of data from the Kentucky Department of Education.

“Other” revenue includes receipts for bond sales; surplus items such as land/buildings, buses, and equipment; and one-time money from insurance companies for physical plant losses due to fire or tornado. Table 3.2 shows that in FY 2004 the other revenue was \$554.6 million and increased to 736.6 million by the end of FY 2013.

Another way to look at total revenue is by per-pupil amounts. The per-pupil local revenue grew by \$1,237 between FY 2004 and FY 2013, while the per-pupil state revenue grew by only \$561. However, by adding state on-behalf revenue for FY 2013, the per-pupil state amount shows an increase of more than the local amount, at \$2,430 per pupil.

**Table 3.2**  
**District Revenue By Source, FY 2004 And FY 2013**

	FY 2004 Revenue		FY 2013 Revenue	
	Total	Per Pupil	Total	Per Pupil
Local	\$1,561,274,598	\$2,735	\$2,366,382,216	\$3,972
State	2,318,771,114	4,063	2,754,758,050	4,624
Federal	620,273,136	1,087	843,136,708	1,415
Other	554,623,608	972	736,574,178	1,236
<b>Total</b>	<b>5,054,942,456</b>	<b>8,857</b>	<b>6,700,851,152</b>	<b>11,247</b>

Note: Not adjusted for inflation. Revenues per pupil were based on end-of-year adjusted average daily attendance, which was 570,749 in 2004 and 595,793 in FY 2013.

Source: Staff compilation based on data from the Kentucky Department of Education.

### District Variations In Revenue Sources

The maps in Figures 3.E through 3.J illustrate the wide variation across districts in the sources of revenue.

**Local Revenue As A Percentage Of Combined Local, State, And Federal.** In Figure 3.E, the darker the shade, the higher the percentage of revenue from local sources.<sup>a</sup> The midpoint among all 174 districts was 23.6 percent, indicating that local revenue made up roughly one-fourth of the revenue for a typical district. However, as the map shows, local revenue made up about one-sixth or less in 44 districts. At the other extreme, local revenue made up about one-third or more of revenue in 44 other districts, many of which were in northern and central Kentucky.

**Change In Dollar Amount Of Local Revenue.** Figure 3.F shows change in the dollar amount of local revenue between FY 2004 and FY 2013 (not adjusted for inflation). The midpoint among all districts was a 45.3 percent increase. In the 44 districts with the lowest increases (shaded the lightest), local revenue grew by less than 32 percent. At the other extreme, 43 districts had increases of about 60 percent or more.

<sup>a</sup> In keeping with the approach used by the National Center for Education Statistics, revenues from other sources are omitted because they are highly volatile, consisting primarily of one-time events, such as proceeds from the sale of bonds for construction projects. For this map, districts were sorted by the percentage of revenue from local sources and divided into quartiles (four groups of about the same size). Each was assigned a shade on the map, with darker shades indicating higher percentages. A similar approach was used for the other maps in this section.



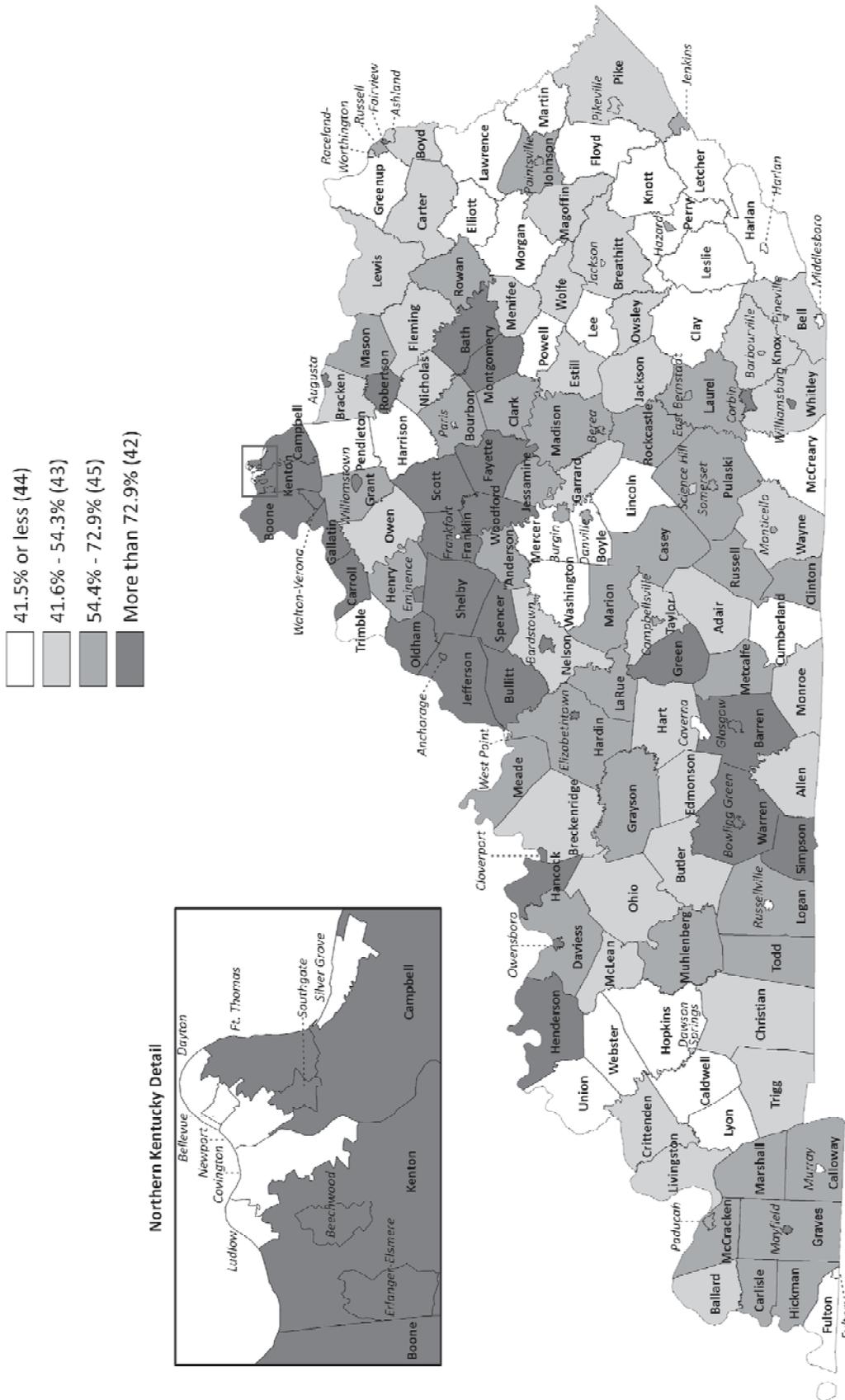


**State Revenue As A Percentage Of Combined Local, State, And Federal.** In Figure 3.G darker shading indicates higher percentages of revenue from state sources. The midpoint among all districts was about 62 percent, indicating that state revenue made up almost two-thirds of the revenue of a typical district. In the 44 districts with the lowest percentages, state revenue made up less than 55.5 percent of revenue. In the 41 districts with the highest percentages, state revenue made up 67.5 percent or more.

**Change In Dollar Amount Of State Revenue.** Between FY 2004 and FY 2013, a typical district experienced a 54.3 percent increase in state revenue (without adjusting for inflation). As Figure 3.H shows, 44 districts had increases of 41.5 percent or less, while 42 had increases of more than 72.9 percent.



**Figure 3.H**  
**Percentage Change In State Revenue Between FY 2004 And FY 2013**



Note: Not adjusted for inflation.  
Source: Staff compilation of data from Kentucky Department of Education.

**Federal Revenue As A Percentage Of Combined Local, State, And Federal.** In Figure 3.I, darker shades indicate higher percentages of revenue from federal sources. In a typical district, indicated by the midpoint, 13 percent of revenue was from federal sources. In the 46 districts with the lowest percentages, federal revenue was 10.5 percent of revenue or less. In the 40 districts with the highest percentages, federal revenue made up 16 percent or more of revenue.

**Change In Dollar Amount Of Federal Revenue.** Between FY 2004 and FY 2013, a typical district experienced about a 30 percent increase in federal revenue (not adjusted for inflation). However, as Figure 3.J shows, 44 districts saw increases of less than 15 percent, while 43 had increases of 52 percent or more.





## Local, State, And Federal Revenue By Category

Districts' AFRs can also be analyzed by specific revenue categories. The following section provides an analysis at that level to illustrate which specific revenue categories have changed the most from FY 2004 through FY 2013.

### Local Revenue By Category

---

Local revenue increased by \$805 million with the biggest increase coming from general property taxes.

Table 3.3 shows that local revenue increased by \$805 million with the biggest increase coming from general property taxes. From FY 2004 to FY 2013, districts have received \$573 million more (67 percent) in property tax revenue. Overall, districts received more than 61 percent of their local revenue from property taxes in FY 2013 compared to 55 percent in FY 2004.

The second biggest increase during this time was in the sales and use tax category. The majority of this revenue is from districts' utility levies, which are taxes generated from items such as electric and phone bills. In FY 2013 there were 57 districts that assessed a utility tax. All but one district levied a 3 percent rate. From FY 2004 to FY 2013 the sales and use tax generated an additional \$53.8 million.

Only two categories of local taxes showed a decrease from FY 2004 to FY 2013: investment income and child nutrition fees from students buying breakfasts and lunches from schools. Investments dropped about half or \$11 million since FY 2004, while the child nutrition fees were down by \$8.3 million during this period.

The drop in child nutrition fees could be influenced by the 51 districts that had one or more schools enrolled in the Community Eligibility Option, which offers free meals to all students, regardless of income.

**Table 3.3**  
**Local Revenue By Category, FY 2004 And FY 2013**

Local Revenue Category	FY 2004		FY 2013		Change FY 2004– FY 2013	
	\$ (Mil.)	% Of	\$ (Mil.)	% Of	\$	%
		Total		Total		
General property tax	860.4	55.1	1,433.7	60.6	573.3	66.6
Public service company (PSC) property tax	49.4	3.2	63.3	2.7	13.9	28.1
Delinquent property tax	24.9	1.6	30.0	1.3	5.1	20.5
Distilled spirits tax	3.8	0.2	5.6	0.2	1.8	47.4
Motor vehicle tax	113.6	7.3	146.2	6.2	32.6	28.7
Unmined minerals tax	4.7	0.3	11.0	0.5	6.3	134.0
Franchise tax	0.0	0.0	21.6	0.9	21.6	N/A
Sales and use taxes	171.4	11.0	225.2	9.5	53.8	31.4
Occupational tax	132.2	8.5	183.5	7.8	51.3	38.8
Penalties and interest on taxes	0.7	0.0	1.0	0.0	0.3	42.9
Other taxes	0.0	0.0	0.5	0.0	0.5	N/A
Omitted property tax	9.2	0.6	21.9	0.9	12.7	138.0
Excise tax	0.0	0.0	0.0	0.0	0.0	0.0
Revenue from local government unit other than school district	19.5	1.2	38.8	1.6	19.3	99.0
Tuition	5.0	0.3	6.5	0.3	1.5	30.0
Transportation fees	3.1	0.2	3.3	0.1	0.2	6.5
Investment income	21.8	1.4	10.8	0.5	-11.0	-50.5
Child nutrition	100.6	6.4	92.3	3.9	-8.3	-8.3
District activity funds	0.8	0.1	1.2	0.1	0.4	50.0
Revenue from community service activities	1.2	0.1	1.2	0.0	0.0	-3.3
Other revenue from local sources	38.9	2.5	68.9	2.9	30.0	77.1
<b>Total local revenue</b>	<b>1,561.2</b>	<b>100.0</b>	<b>2,366.5</b>	<b>100.0</b>	<b>805.3</b>	<b>51.6</b>

Note: Not adjusted for inflation. Percentages may not sum to 100 percent due to rounding.

Source: Staff analysis of data from the Kentucky Department of Education.

### State Revenue By Category

When looking at changes in state revenue, there are not as many categories as there are with the local taxes. As shown in Table 3.4, overall state revenue grew by \$436 million, with SEEK revenue showing the largest increase. From FY 2004 through FY 2013, SEEK grew by almost \$382 million; however, as a percentage of all local revenue, SEEK made up only a half percentage point more in 2013 than it did in 2004 (84.9 percent of revenue compared to 84.4 percent in 2004).

**Table 3.4**  
**State Revenue By Category, FY 2004 And FY 2013**

State Revenue Category	2004		2013		Change 2004–2013	
	\$ (Mil.)	% Of Total	\$ (Mil.)	% Of Total	\$ (Mil.)	%
State SEEK program	\$1,957.5	84.4%	\$2,339.1	84.9%	\$381.6	19.5%
Other funding	8.6	0.4	8.1	0.3	-0.5	-5.8
National board-certified teacher and miscellaneous reimbursements	1.8	0.1	3.3	0.1	1.5	83.3
Restricted	350.8	15.1	396.1	14.4	45.3	12.9
In lieu of taxes	0.0	0.0	8.0	0.3	8.0	N/A
<b>Total state revenue</b>	<b>2,318.7</b>	<b>100.0</b>	<b>2,754.6</b>	<b>100.0</b>	<b>435.9</b>	<b>18.8</b>

Note: Not adjusted for inflation. Percentages may not sum to 100 percent due to rounding. Other funding includes vocational school, bus driver training, and KSB/KSD transportation.

Source: Staff analysis of data from the Kentucky Department of Education.

### Expenditures

This section discusses local school districts' expenditures reported by function, K-12 current expenses, object codes, and program level. Object codes provide information on the specific commodity or service that is purchased.

#### Total Expenditures

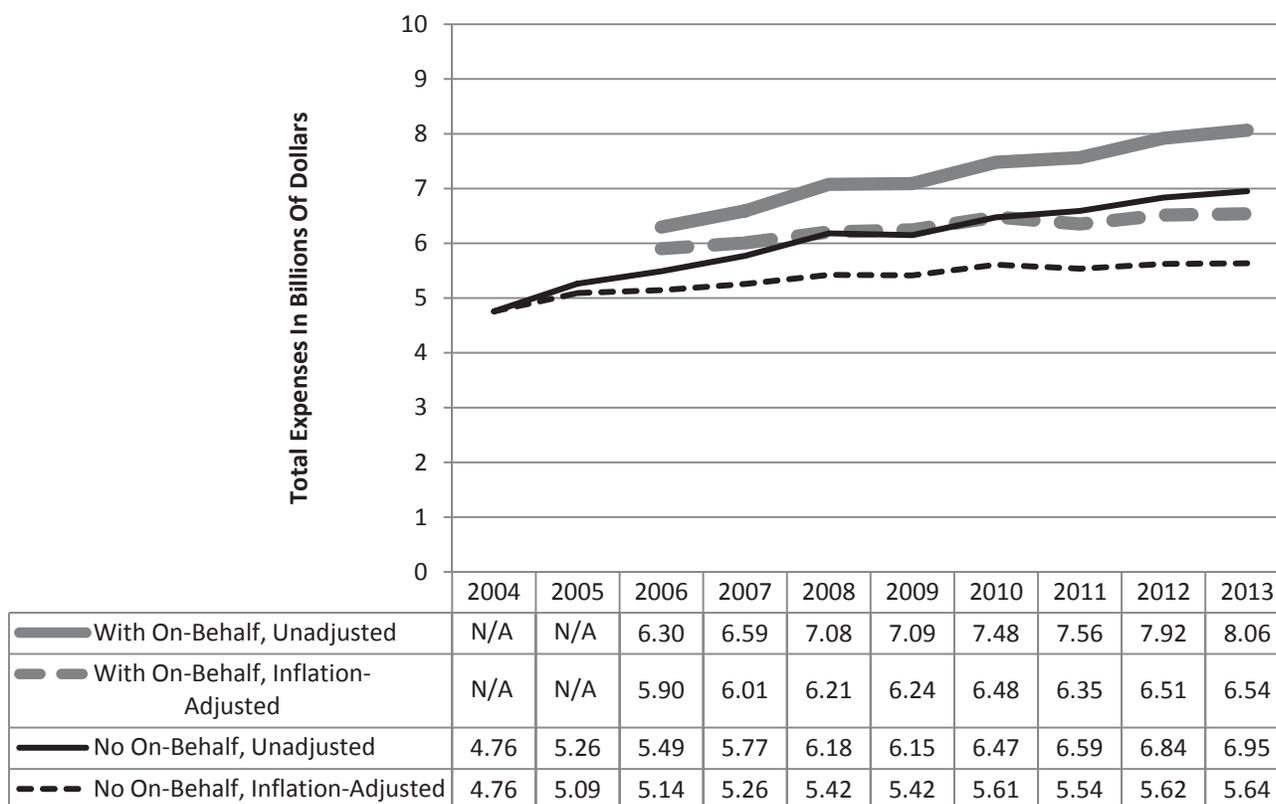
School district expenditures increased from \$4.76 billion in FY 2004 to \$6.3 billion in FY 2006.

School districts had \$4.76 billion in total expenditures in FY 2004 as shown in Figure 3.K. Two years later, they increased their spending to \$5.49 billion and after adding in the state and federal on-behalf payments, expenses amounted to \$6.3 billion in FY 2006.

By the end of FY 2013, total spending at the district level increased to almost \$7 billion and the addition of on-behalf payments increased spending to a high of \$8.06 billion.

After controlling for inflation using 2004 constant dollars, the FY 2013 expenditures without on-behalf were \$5.64 billion.

**Figure 3.K**  
**Total District Expenditures, FY 2004–FY 2013**



Note: Inflation-adjusted figures are constant 2004 dollars.

Source: Staff analysis of data from the Kentucky Department of Education.

### Expenditures By Function

Districts' AFRs include expenditures that are reported in several classifications of expenses. One of these classifications is at the function level. This section reports how much districts are spending by classifications such as instruction, district and school administration, transportation, etc.

As shown in Table 3.5, the percentages of total budget spent on the different function categories have changed during this period. Percentages of total expenditures decreased for function categories instruction, district and school administration, business support, plant operations, food service, and other non-instructional services. The percentage of total budget functions that showed increases were student and instructional staff support, transportation, facilities/construction, and debt service.

The largest category of spending was in instruction.

By far the largest category of spending was in instruction, which is where classroom learning occurs. In FY 2004, instruction made up 49.7 percent of total spending, which was about \$2.4 billion. Nine years later, the percent of total instructional spending declined to 43.3 percent of total expenditures.

The decline in instruction as a percentage of total expenditures was largely due to districts spending more on debt service. In FY 2004, debt service was 4.8 percent of the total budget, but had grown to 12.1 percent of the total budget by FY 2013.

Another way to look at the data is by the percentage change from FY 2004 to FY 2013 along with the dollars associated with these changes. For example, debt service's percent change was the largest increase at 266 percent or an additional \$611 million in spending.

In contrast, the instructional expenditures increased by 27 percent or an additional \$647 million. Transportation expenditures increased by an additional \$136 million, and facilities and construction added an additional \$195 million in expenses from FY 2004.

**Table 3.5**  
**Expenditures By Function, FY 2004 And FY 2013**

Function	FY 2004		FY 2013		Change FY 2004–FY 2013	
	\$ (Mil.)	% Of Total	\$ (Mil.)	% Of Total	\$ (Mil.)	%
Instruction	\$2,365.8	49.7%	\$3,012.9	43.3%	\$647.1	27.3%
Student support	161.9	3.4	244.7	3.5	82.8	51.2
Instructional staff support	219.5	4.6	327.6	4.7	108.1	49.1
District administration	112.2	2.4	135.0	1.9	22.8	20.5
School administration	223.2	4.7	304.5	4.4	81.3	36.3
Business support	107.4	2.3	149.8	2.2	42.4	40.2
Plant operations	383.1	8.1	537.5	7.7	154.4	40.2
Transportation	246.4	5.2	382.0	5.5	135.6	55.3
Food service	257.0	5.4	368.0	5.3	111.0	43.2
Other noninstructional	60.5	1.3	63.2	0.9	2.7	5.0
Facilities and construction	389.3	8.2	583.9	8.4	194.6	50.1
Debt service	230.4	4.8	841.5	12.1	611.1	265.7
<b>Total expenses</b>	<b>4,756.7</b>	<b>100.0</b>	<b>6,950.6</b>	<b>100.0</b>	<b>2,193.9</b>	<b>46.1</b>

Note: Not adjusted for inflation. Calculations used rounded numbers for consistency within the table.

Source: Staff analysis of data from the Kentucky Department of Education.

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K-12 current expenses include regular or ordinary operating expenses.

**K-12 Current Expenditures By Function.** K-12 current expenses include regular or ordinary operating expenses. They exclude expenditures for debt, construction, property and program-level spending for non-public students, adult and continuing education, community service, along with welfare, cocurricular and extracurricular activities.

To show the K-12 current expenditures by function, the expenses mentioned above were excluded, as well as expenses for preschool, head-start and even-start in order to show a more accurate per-pupil expenditure amount. As mentioned in Chapter 1, the report uses end-of-year AADA, which does not include attendance of students attending school before kindergarten.

The K-12 current expenditures show a slightly different picture than total expenditures. As shown in Table 3.6, instruction was the largest percentage of K-12 current expenses in FY 2004 (58.1 percent). By FY 2013, it dropped to 55.1 percent of K-12 current expenditures and amounted to more than \$2.8 billion.

Plant operations were the second largest K-12 current expenditure in FY 2004, costing districts \$372 million. They increased from 9.7 percent of K-12 current expenditures to 10.2 percent by FY 2013. Transportation spending had the largest percentage change during this 10-year period, increasing by 61 percent from \$209 million to \$336 million.

The K-12 current expenditures for district administration were 2.8 percent of the current expenses and dropped slightly by FY 2013 to 2.5 percent. The school administration current expense percentage held at 5.8 percent in both FY 2004 and FY 2013.

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Total K-12 current per-pupil cost was \$6,687 in FY 2004 and \$8,638 in FY 2013.

The total K-12 current per-pupil amount shown in Table 3.6 was \$6,687 in FY 2004 and increased to \$8,638 by FY 2013. The K-12 instructional function expenses were \$3,883 per pupil in FY 2004 and increased to \$4,760 per pupil by FY 2013.

**Table 3.6**  
**K-12 And Per-Pupil Current Expenditures By Function, FY 2004 And FY 2013**

	FY 2004			FY 2013			Change FY 2004–FY 2013		
	Total \$ (Mil.)	\$ Per Pupil	% Of Total	Total \$ (Mil.)	\$ Per Pupil	% Of Total	Total \$ (Mil.)	\$ Per Pupil	% Change
Instruction	\$2,224	\$3,883	58.1%	\$2,836	\$4,760	55.1%	\$612	\$877	27.5%
Student support	157	274	4.1	236	396	4.6	79	122	50.3
Instructional staff	194	340	5.1	291	489	5.7	97	149	50.0
District administration	108	188	2.8	131	220	2.5	23	32	21.3
School administration	221	387	5.8	300	504	5.8	79	117	35.7
Business support	98	171	2.6	130	219	2.6	32	48	32.7
Plant operations	372	649	9.7	527	884	10.2	155	235	41.7
Transportation	209	364	5.4	336	563	6.5	127	199	60.8
Food service	247	432	6.5	359	603	7.0	112	171	45.3
<b>Total current expenses</b>	<b>3,830</b>	<b>6,687</b>	<b>100.0</b>	<b>5,146</b>	<b>8,638</b>	<b>100.0</b>	<b>1,316</b>	<b>1,951</b>	<b>34.4</b>

Note: Excludes on-behalf payments. Not adjusted for inflation. Percentages may not sum to 100% due to rounding. Calculations used rounded numbers for consistency within the table.

Source: Staff analysis of data from the Kentucky Department of Education.

### Expenditures By Object Code

Total expenses for local school districts are broken out by object codes to show how much is expended on salaries, benefits, purchased services, supplies and other items. Districts' largest investments in education are salaries paid to staff.

In FY 2004, salaries cost more than \$3 billion and increased almost \$1 billion by FY 2013.

Table 3.7 shows in FY 2004 that salaries cost more than \$3 billion and increased almost \$1 billion by FY 2013. As a percentage of total spending, salaries were 64.7 percent in FY 2004 and by FY 2013 had decreased to about 57.4 percent of total spending.

Debt payments cost \$134 million in FY 2004 and were 2.8 percent of total expenditures. This changed by FY 2013, when debt payments cost districts \$669 million and had increased to 9.6 percent of total expenditures.

Employee benefits have almost doubled in cost to districts for this 10-year analysis. In FY 2004, total benefits were \$242 million, which was 5.1 percent of total expenses. By FY 2013, benefits cost districts \$471 million and added an additional 1.7 percent of the total budget compared to FY 2004.

Coding errors were noted.

KDE has made great strides in ensuring the accuracy of data reported on district AFRs; however, during staff analysis some

coding errors were noted. For instance in FY 2012 JCPS had some revenue codes attached to expenditure object codes. For purposes of this report, however, they are coded as expenditure codes.

Data errors were noted when excluding some of the projects for the K-12 current expenditure analysis. For example in FY 2013 districts coded more than \$1.3 million out of the adult education grants, \$12.6 million out of the 21<sup>st</sup> Community Learning grants, and almost \$96,000 from the family resource/youth services grants into instructional function codes.

Also, when analyzing the debt service expenditures by function and object code, districts recorded expenses in object codes not normally associated with the debt service function codes. Examples include salaries and benefits, purchased professional services, purchased property services, other purchased services along with supplies and property and the total dollar amount in these object codes was a little more than \$1.7 million in FY 2013.

### Recommendation 3.2

#### Recommendation 3.2

**The Kentucky Department of Education should ensure that districts are coding expenditures correctly on annual financial reports.**

**Table 3.7  
District Expenditures By Object Code, FY 2004 And FY 2013**

Object Code	FY 2004		FY 2013		Change FY 2004– FY 2013	
	\$ (Mil.)	% of Total	\$ (Mil.)	% of Total	\$ (Mil.)	% Change
Salaries	\$3,077	64.7%	\$3,993	57.4%	\$916	29.8%
Employee benefits	242	5.1	471	6.8	229	94.6
Purchased professional and technical services	128	2.7	152	2.2	24	18.8
Purchased property services	362	7.6	593	8.5	231	63.8
Other purchased services	96	2.0	105	1.5	9	9.4
Supplies	427	9.0	596	8.6	169	39.6
Property	163	3.4	172	2.5	9	5.5
Debt service and miscellaneous	134	2.8	669	9.6	535	399.3
Other items	129	2.7	201	2.9	72	55.8
<b>Total</b>	<b>4,758</b>	<b>100.0</b>	<b>6,952</b>	<b>100.0</b>	<b>2,194</b>	<b>46.1</b>

Note: Excludes on-behalf payments. Not adjusted for inflation. Percentages may not sum to 100% due to rounding. Calculations used rounded numbers for consistency within the table.

Source: Staff analysis of data from the Kentucky Department of Education.

### Salaries By Category

Salaries are broken out even further by salary category. As shown in Table 3.8, the percentage of each category of salary remained about the same from FY 2004 to FY 2013, although dollars expended increased.

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In FY 2004 certified salaries were more than \$2.2 billion and grew to more than \$2.8 billion by FY 2013.

In FY 2004 certified salaries were more than \$2.2 billion and grew to more than \$2.8 billion by FY 2013. Similarly, classified salaries cost districts a little more than \$787 million in FY 2004 and by FY 2013 had increased to more than \$1 billion, although percentages remained constant.

Among the percentage increases from FY 2004 to FY 2013, the largest increase was in paraprofessional, which increased \$5 million. Normally, districts use this particular code for expenses related to classified coaches.

KRS 160.280 provides parameters with respect to board per diem and expenses. It states, "Members of boards of education shall receive no salaries, but members of boards of education may receive a per diem of seventy-five dollars (\$75) in any calendar year." More specifically, it states, "In no case shall the expenses incurred within the district or per diem of any member exceed three thousand dollars (\$3,000) in any calendar year."

However, in FY 2013 OEA identified four districts that exceeded the \$3,000 limit for total per-diem. In addition, out of 23 districts with no expenditures coded to the per diem account, 12 have policies that require payments for board member per diem. For these districts however, no per diem expenses were recorded.

### Recommendation 3.3

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Recommendation 3.3

**Districts should ensure that they are not violating KRS 160.280 for board per diem payments as well as update their board policies to conform with statutory requirements.**

**Table 3.8**  
**Salaries By Category, FY 2004 And FY 2013**

Category Of Salary	FY 2004		FY 2013		Increase FY 2004–FY 2013	
	\$ (Mil.)	% Of Total	\$ (Mil.)	% Of Total	\$ (Mil.)	%
Certified salaries	\$2,204.2	71.6%	\$2,852.9	71.5%	\$648.7	29.4%
Certified substitutes	48.6	1.6	64.1	1.6	15.5	31.9
Classified salaries	787.3	25.6	1,023.7	25.6	236.4	30.0
Classified overtime	8.1	0.3	8.9	0.2	0.8	9.9
Classified substitutes	22.3	0.7	31.9	0.8	9.6	43.0
Paraprofessionals	4.9	0.2	9.9	0.2	5.0	102.0
Board per diem	1.1	0.0	1.2	0.0	0.1	9.1
<b>Total</b>	<b>3,076.5</b>	<b>100.0</b>	<b>3,992.6</b>	<b>100.0</b>	<b>916.1</b>	<b>29.8</b>

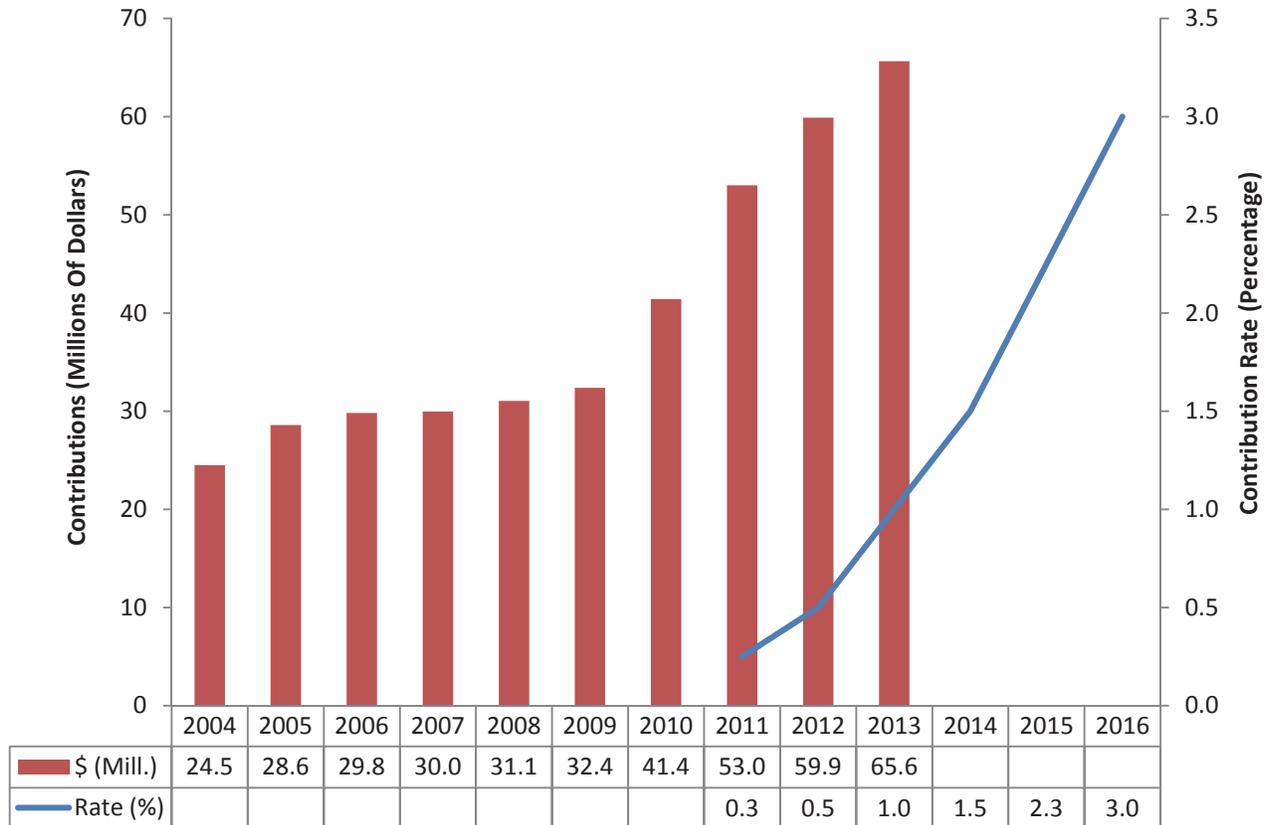
Note: Not adjusted for inflation. Calculations used rounded numbers for consistency within the table.

Source: Staff compilation based on data from Kentucky Department of Education.

**Retirement Benefits Changes.** Districts’ share of retirement benefits have greatly increased during this time period. As Figure 3.L shows, in FY 2004 districts were paying \$24.5 million for the teacher retirement employer portion for federally funded employees. During the 2010 Regular Session, the General Assembly passed HB 540, which was a long-term, sustainable method of funding medical insurance for retired teachers, commonly referred to as a shared responsibility.

Starting in FY 2011, districts began contributing 0.25 percent to the KTRS retiree medical insurance fund, with a 3 percent rate to be phased in the shared cost by 2016. The shared contribution has increased the costs to districts. By the end of FY 2013, districts expended a total of \$65.6 million for retirement contributions.

**Figure 3.L**  
**Kentucky Teachers' Retirement System Contributions**  
**Total Dollar Amount And Contribution Rate**



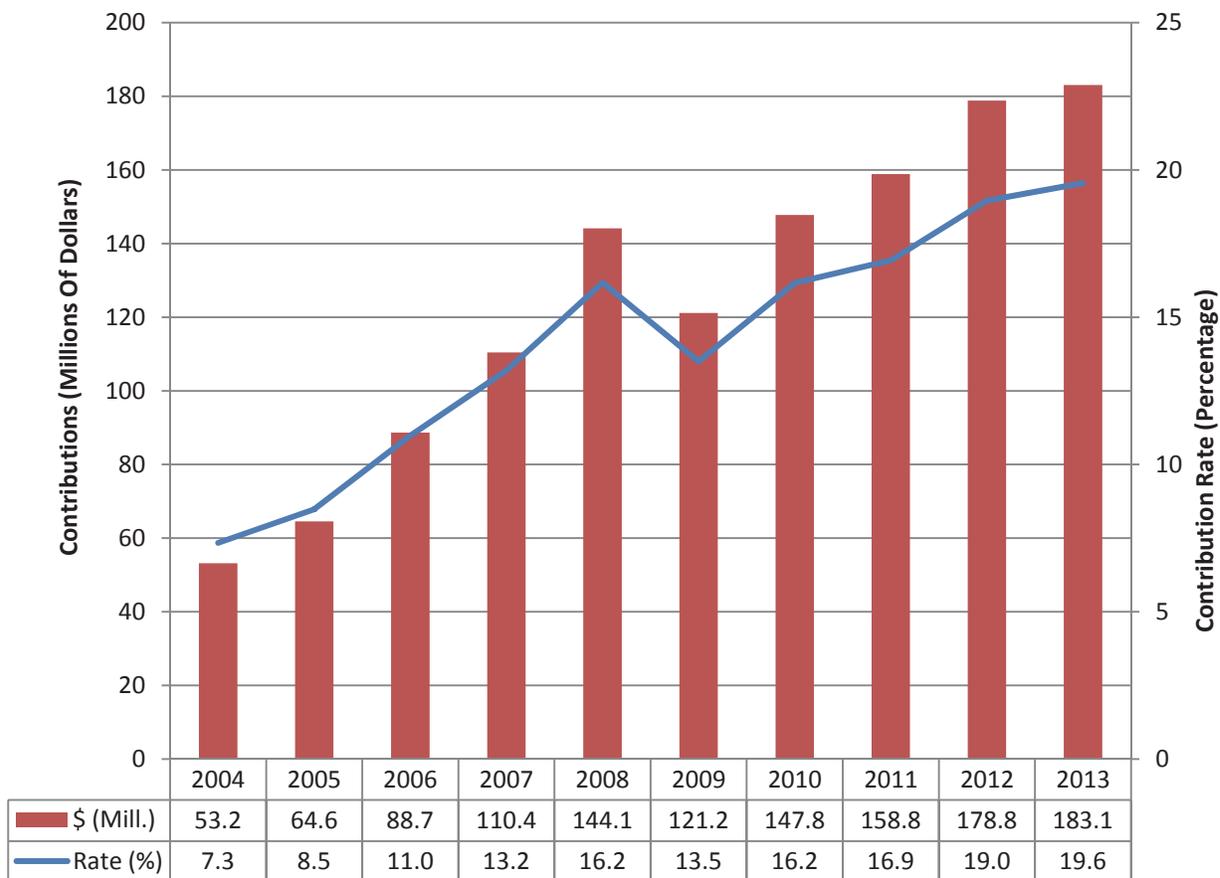
Note: Not adjusted for inflation.

Source: Staff analysis of data from the Kentucky Department of Education.

For classified employees, districts are responsible for paying all of the employer cost of retirement, unlike the KTRS system where the state pays for the employers cost, with the exception of federally funded certified employees.

Figure 3.M shows how much districts paid in CERS contributions along with the nonhazardous rate for each year. In FY 2004, districts were paying \$53.2 million at a rate of 7.3 percent. However by FY 2013, districts were paying \$183.1 million for CERS employees at a rate of 19.6 percent.

**Figure 3.M**  
**County Employee Retirement System Contributions**  
**Total Dollar Amount And Contribution Rate**



Note: Not adjusted for inflation.

Source: Staff analysis of data from the Kentucky Department of Education.

**K-12 Current Expenditures By Object Code.** The final analysis by object code reports what has changed when looking at K-12 current expenses at the expense object code level.

As displayed in Table 3.9, one of the largest percentage increases from FY 2004 to FY 2013 was in the employee benefits category. It increased 94.6 percent or \$212 million.

The next largest percentage increase was in the purchased professional and technical services category, which is where districts spend money on professional development, education consultants, and tax collection fees. During this period the purchased professional and technical services expenditures increased by \$35 million or 48.6 percent.

Table 3.9 also shows the per-pupil amounts in FY 2004 and FY 2013. Salaries were approximately \$5,120 per pupil in FY 2004 and increased to \$6,393 by FY 2013. Supplies cost about \$709 per pupil in FY 2004 and grew to \$949 per pupil by FY 2013, a 39.4 percent increase.

**Table 3.9**  
**K-12 And Per-Pupil Current Expenditures By Object Code, FY 2004 And FY 2013**

Object Code	FY 2004			FY 2013			Change FY 2004–FY 2013		
	Total \$ (Mil.)	\$ Per Pupil	% Of Total	Total \$ (Mil.)	\$ Per Pupil	% Of Total	Total \$ (Mil.)	\$ Per Pupil	% Change
Salaries	\$2,933	\$5,120	76.6%	\$3,809	\$6,393	74.0%	\$876	\$1,273	29.9%
Employee benefits	224	391	5.8	436	732	8.5	212	341	94.6
Purchased professional and technical services	72	126	1.9	107	179	2.1	35	53	48.6
Purchased property services	78	137	2.0	112	188	2.2	34	51	43.6
Other purchased services	90	156	2.3	96	161	1.9	6	4	6.7
Supplies	406	709	10.6	566	949	11.0	160	240	39.4
Miscellaneous	25	43	0.7	22	36	0.4	-3	-7	-12.0
Other items	2	4	0.1	0	0	0.0	-2	-4	-100.0
<b>Total</b>	<b>3,830</b>	<b>6,687</b>	<b>100.0</b>	<b>5,148</b>	<b>8,638</b>	<b>100.0</b>	<b>1,318</b>	<b>1,951</b>	<b>34.4</b>

Note: Excludes on-behalf payments. Not adjusted for inflation. Percentages may not sum to 100% due to rounding. Calculations used rounded numbers for consistency within the table.

Source: Staff analysis of data from the Kentucky Department of Education.

### Special Education

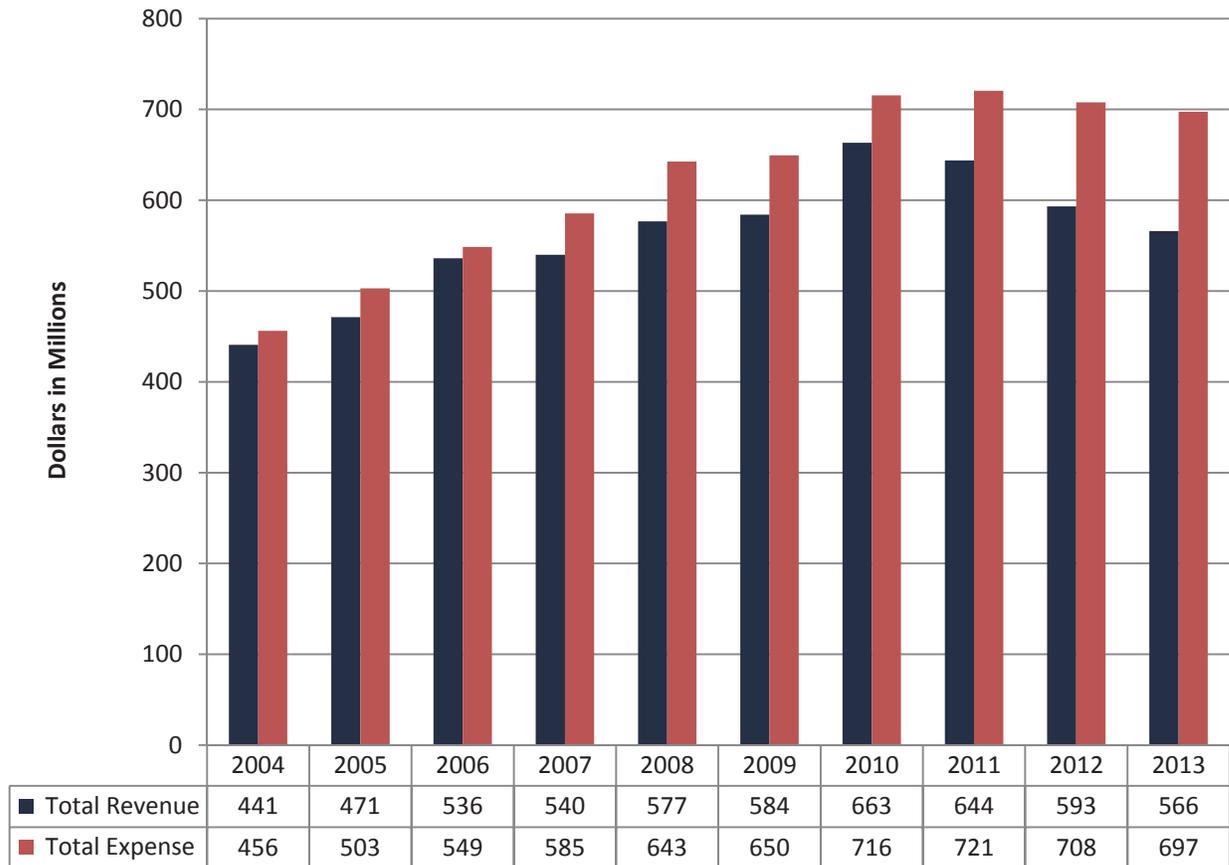
Districts receive special education revenue from state and federal sources. The revenue analysis includes revenue received from the special education add-on in the SEEK formula, which is above the guaranteed base SEEK amount and the additional funds districts receive for transporting these students. Federal funds are from IDEA B grants, excluding preschool, and revenue from Medicaid for providing health services to children with disabilities at school.

Special education expenditures present challenges to local school districts with respect to outpaced revenue.

As shown in Figure 3.N, revenue and expenditures were fairly close to each other for FY 2004. Local school districts received about \$441 million to educate these students and spent about \$456 million. However by FY 2013, the expenditures had significantly outpaced revenue; the expenditure gap grew from about \$15 million in FY 2004 to \$131 million by the end of

FY 2013. Thus the difference in revenue being received is costing districts more to provide services to special education students.

**Figure 3.N**  
**Special Education Revenue And Expenditures, FY 2004–FY 2013**



Note: Not adjusted for inflation.

Source: Staff analysis of data from Kentucky Department of Education.

## Transportation

Another financial challenge for districts is the cost of transporting students.

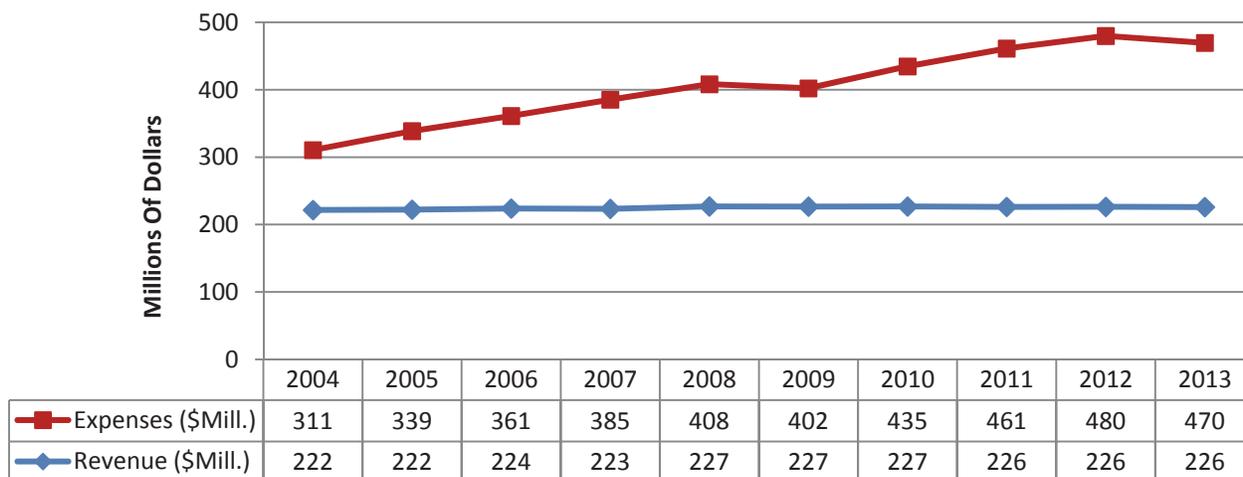
Another financial challenge for districts is the cost of transporting students. While transportation purchases for buses, diesel, and personnel cost have increased, the revenue has remained flat during this period.

Revenue for this analysis include SEEK transportation, funds received to transport vocational and KSB/KSD students, and revenue received for any local fees the districts charged for use of buses outside the school day. Currently the state reimburses districts only for students who live more than a mile from the school they are attending.

The gap in funds received and expended in transportation at the district level has increased significantly. Figure 3.O shows that in FY 2004 districts were expending \$89 million more than what they received in revenue. The gap more than doubled by FY 2013, with expenses \$244 million more than the revenue generated.

Three districts were not included in this analysis because they were not providing transportation services to their students. Also another school district decided to not provide transportation services for its students for FY 2014. This district stated the reason for cutting transportation services was budget problems and the lack of revenue received versus the actual cost of providing this service.

**Figure 3.O**  
**Transportation Revenue And Expenses, FY 2004–FY 2013**



Note: Not adjusted for inflation.

Source: Staff analysis of data from Kentucky Department of Education.

## District Staffing

### Full-Time-Equivalent Staff

Local district FTE staff data for professional staff data and classified staff data were used to show the staffing changes over time. This information, along with trends in student membership, is shown in Figure 3.P.

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The number of students grew by 5 percent, from 621,300 in FY 2004 to 652,600 in FY 2013.

The number of students grew by 5 percent, from 621,300 in FY 2004 to 652,600 in FY 2013. The number of classified staff grew by 2 percent, from about 46,400 to 47,500. K-12 classroom teachers grew by almost 4 percent, from about 40,600 to about 42,100.<sup>b</sup> Other certified staff grew by 11 percent, from 7,900 to 8,800. The change in other certified staff was mainly due to an increase at JCPS.

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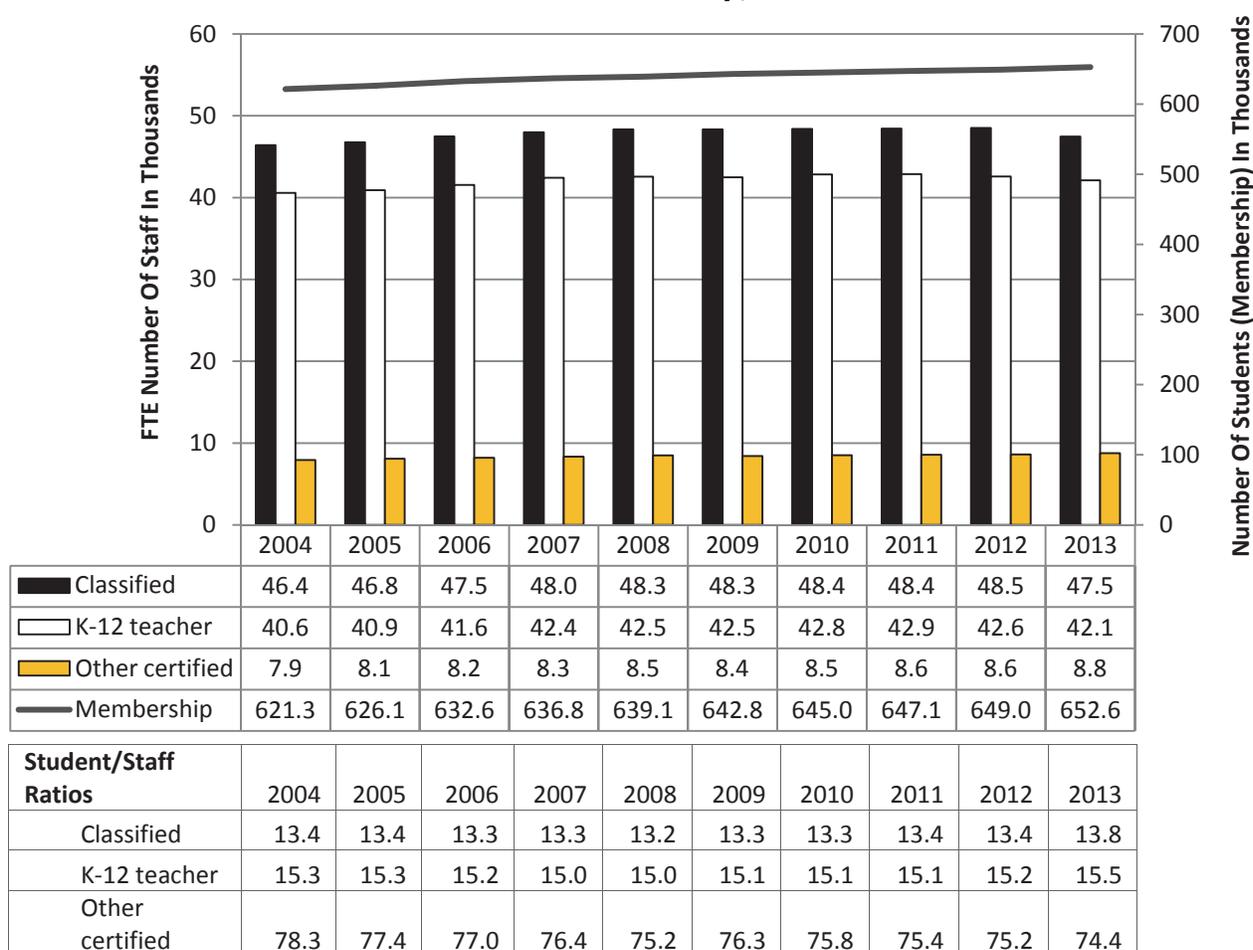
Student/staff ratios show that the increase in students was slightly more than increases in classified staff and K-12 teachers.

Figure 3.P also shows student/staff ratios, which reflect the fact that the increase in students was slightly more than increases in classified staff and K-12 teachers but less than the increase in other certified staff. As a consequence, compared to FY 2004, FY 2013 student/staff ratios were slightly higher for classified staff (13.8 vs. 13.4) and for K-12 teachers (15.5 vs. 15.3) but lower for other certified staff (74.4 vs. 78.3).

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<sup>b</sup>For student/teacher ratios and other analyses, K-12 classroom teachers exclude the following job classifications: preschool, MOA, and technology resource teachers. Preschool teachers were excluded because end-of-year membership does not include preschool students. MOA staff are on contract with KDE and do not work for the district. Technology resource teachers are not classroom teachers but work with teachers on how to use technology in the classroom.

**Figure 3.P**  
**FTE Staff And Student Membership, FY 2004–FY 2013**



Note: FTE=full-time equivalent. The K-12 teacher count is classroom teachers only and excludes preschool teachers, technology research teachers, substitute teachers, and teachers working under a memorandum of agreement; those excluded teachers are in the other certified count.

Source: Staff analysis of data from Kentucky Department of Education.

Related to classified employees, the secretarial staff component decreased by 177.36 or 3.9 percent between FY 2004 and FY 2013, as shown in Table 3.10. Other areas of decline included classified instructional support (down by 1.2 percent) and food service workers (down by 1.1 percent).

The FTE for transportation staff was up by 843.11, an 8.7 percent increase. Also, health (nurses, speech, and occupational therapist/physical therapist) increased 42 percent. And, FTEs for operations (custodian/maintenance) were up 2.7 percent.

Table 3.10 provides additional information on change in classified staff by category.

**Table 3.10**  
**Change In Classified Staff By Category FY 2004–FY 2013**

<b>Category</b>	<b>FY 2004</b>	<b>FY 2013</b>	<b>% Change FY 2004–FY 2013</b>
Health	550.20	780.54	41.9%
Personnel	111.72	148.26	32.7
Management	827.30	951.01	15.0
Management information services	616.94	686.66	11.3
Purchasing	46.83	51.99	11.0
Security/law enforcement	246.91	269.36	9.1
Transportation	9,702.88	10,545.99	8.7
Student services	362.14	383.93	6.0
Fiscal	933.89	982.12	5.2
Operations	4,929.27	5,063.25	2.7
Maintenance	1,231.44	1,234.76	0.3
Food services	7,059.70	6,981.89	-1.1
Instructional	14,709.30	14,535.84	-1.2
Secretarial/clerical	4,599.64	4,422.28	-3.9
Communications	72.52	69.34	-4.4
Library/media	292.09	262.78	-10.0
Warehouse	122.34	98.51	-19.5

Note: Counts are full-time equivalent (FTE).

Source: Staff analysis of data from the Kentucky Department of Education.

702 KAR 3:120 states that districts shall follow a uniform financial account system.

As stated in Chapter 1, 702 KAR 3:120 states that districts shall follow the uniform financial account system detailed in KETS District Administrative System Chart of Accounts. OEA originally wanted to include a detailed analysis of funding source and percentage change related to full-time PSD and CSD staff across all districts from FY 2004 through FY 2013. However, because KDE and JCPS set up payroll differently in Munis than the other 173 districts, the analysis could not be completed.

Jefferson County Public Schools are making manual adjustments to data in respect to funding sources, expense object codes and location codes.

OEA was informed that JCPS exports PSD and CSD staff data from Munis. Once the data is exported from Munis, manual adjustments are made with respect to funding sources, expense object codes and location codes. These adjustments are made prior to sending the data to KDE.

OEA attempted to work with staff at KDE and JCPS to obtain corrected PSD/CSD data files; however, this attempt was unsuccessful. As a result of data adjustments outside the Munis system, all CSD staff reported to KDE is shown being paid from

general fund dollars, with none being paid from the special revenue or the enterprise funds.

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For FY 2013, JCPS' 7,241 classified staff is reported as general fund employees in the amount of \$220 million.

For example, in FY 2004 JCPS had 4,647 classified employees being paid from the general fund in the amount of \$117 million, 1,596 classified staff being paid from the special revenue funds in the amount of \$31.1 million, and 828 being paid from the enterprise funds in the amount of \$13.3 million. For FY 2013, however, all 7,241 classified staff are reported as general fund employees in the amount of \$220 million.

See Appendix H for an additional analysis of total staffing numbers with and without JCPS data, as well as total staffing and cost figures for JCPS.

### Recommendation 3.4

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#### Recommendation 3.4

**The Kentucky Department of Education and Jefferson County Public Schools (JCPS) should work together to ensure JCPS's chart of accounts is set up correctly in Munis to ensure data is pulled correctly into the Professional Staff Data/Classified Staff Data (PSD/CSD) module.**

#### Total Staff To Administrators

The last staffing data being presented in this report is the ratio of total staff to district and school administrators working in local school districts. The data used for this analysis includes FTE numbers for classified and certified staff classification codes used by KDE for federal nonacademic reporting.

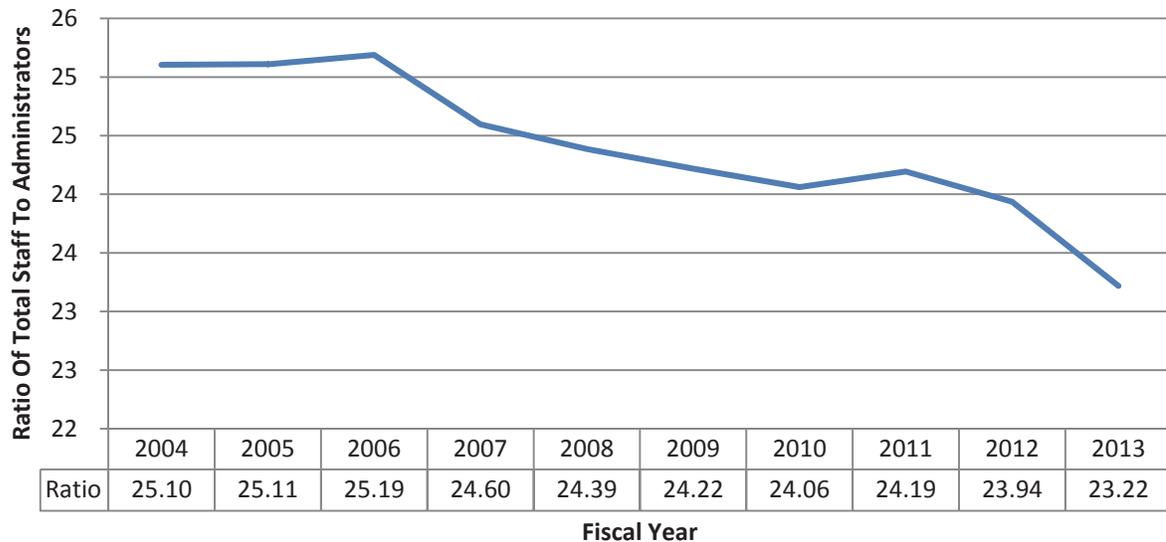
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The ratio of total staff to administrators has declined during the previous 10 years from 25.1 to 23.2.

According to Figure 3.Q, the ratio of total staff to administrators has declined during the previous 10 years. In FY 2004 there were 25.1 FTE staff to total FTE administrators, and by FY 2013 this number dropped to 23.2 FTEs.

As shown in Table 3.11, in districts in FY 2004, the largest FTE ratio of staff to administrators was at 44.63 and by FY 2013 this FTE ratio dropped to 39.06. In contrast, the lowest district ratio was 6.27 in FY 2004 and dropped to 5.56 by FY 2013.

**Figure 3.Q**  
**Ratio Of Total Staff To Administrators, FY 2004–FY 2013**



Source: Staff analysis of data from the Kentucky Department of Education.

**Table 3.11**  
**Ratio Of Total Staff To Administrators: District Variations, FY 2004–FY 2013**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Highest district	44.63	43.89	41.66	42.32	41.80	42.06	41.80	42.06	43.09	39.06
Median district	21.24	21.25	21.78	21.18	21.23	20.89	20.56	21.06	20.92	20.00
Lowest district	6.27	6.25	4.80	5.49	6.06	6.06	5.12	5.14	5.40	5.56

Note: The median indicates the midpoint among all districts; half of all districts have a staff/administrator ratio at or below the median.

Source: Staff analysis of data from the Kentucky Department of Education.

OEA staff reviewed the Education Data Exchange Network classifications that KDE uses to report staffing data to the federal government and questions some of the classifications, especially at the administrator level.

The Kentucky Department of Education may not be classifying all classified and certified administrators properly.

For example, currently the certified employees coded to Director of Exceptional Children, Director of Federal Programs, and Director of Districtwide Programs are not being reported as Local Education Agency (district) Administration. Similarly, on the classified staff data the Chief Information Officer School Administration Manager and School Food Service Director are not being captured as administrators either.

### **Recommendation 3.5**

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**Recommendation 3.5**

**The Kentucky Department of Education should review the nonacademic reporting requirements to ensure that certified and classified staff numbers are reported correctly to the United States Department of Education.**

## Appendix A

### Chart Of Accounts Coding Methodology

Data from district annual financial reports (AFRs) were modified in this study to maintain accuracy in revenue and expenditure comparisons for FY 2004 through FY 2013. In addition, this report uses end-of-year adjusted average daily attendance (AADA) when comparing per-pupil expenditures and end-of-year membership when comparing district staffing changes.

This report also includes an analysis of K-12 current expense but excludes the codes for current expenditures, pre-kindergarten expenditures for preschool, head start, early childhood, and private school grants. The end-of-year AADA includes only students registered in kindergarten through 12<sup>th</sup> grade and is commonly used to report current expenses per student at each district, so staff wanted to include only expenditures associated with these students for a more accurate analysis.

A 2012 Office of Education Accountability (OEA) study (*Reporting Total Revenue: On-behalf Payments and Local Activity Funds*) noted that districts were not recording on-behalf revenues and expenditures accurately. The data for each district excludes the on-behalf revenue object code 3900 in each year, along with the on-behalf expenditure object code 0280. The AFR data were then adjusted to include the amount the Kentucky Department of Education posted on its website for each on-behalf type of revenue and expenditure.

Also in 2012, KDE's instructions on how to record debt service and on-behalf payments for School Facilities Construction Commission (SFCC) stated that revenue amounts should be recorded in the restricted state revenue object code 3200 instead of the 3900 on-behalf revenue code. To avoid inflated revenues and expenses, OEA made some adjustments to the district raw AFR files to exclude some revenue and expense codes in data analysis.

Below is a list of all revenue and expenditure coding changes made for this report.

**Table A.1**  
**Data Adjustments Related To District Annual Financial Reports**

<b>Year</b>	<b>Reason</b>	<b>Coding Adjustments</b>
2012	Correct SFCC debt payments	Exclude in fund 400 expense object codes starting with 08 and 32 with project number SF for all districts
2012	Correct SFCC debt payments	Exclude from district number 041 and 445 fund 400 revenue object code 3200
2012	Correct SFCC debt payments	Exclude from district number 231 fund 400 revenue object code 3200 and reduce object code 4300 by \$15,497.00
2012	Correct SFCC debt payments	Exclude from district number 017 fund 400 revenue object code 4500 and 5210
2012	Correct SFCC debt payments	Exclude from district number 305 fund 400

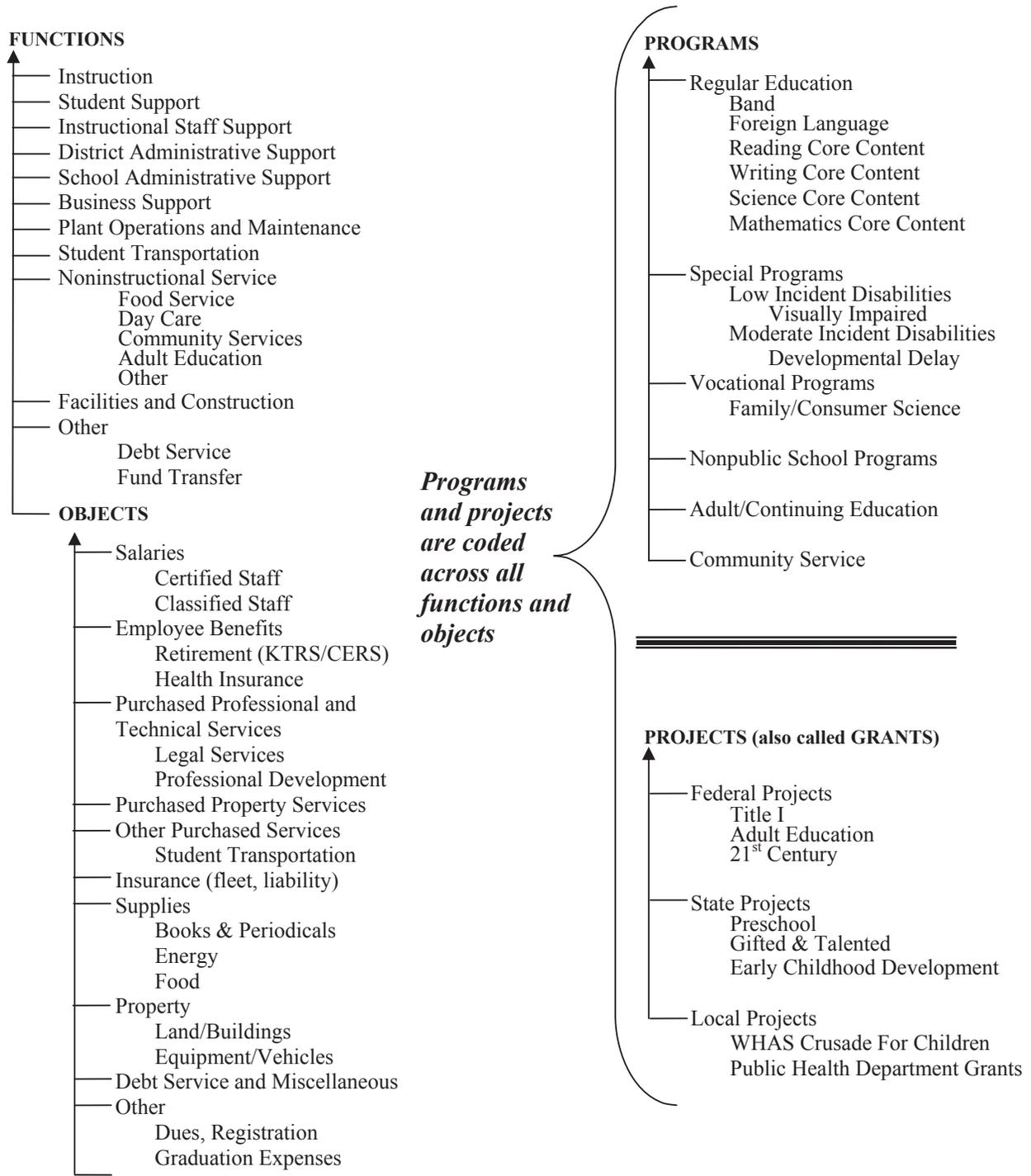
<b>Year</b>	<b>Reason</b>	<b>Coding Adjustments</b>
2013	Correct AFR to match KDE revenues	Replace 1,731,693/49 in revenue object code 4300 in fund 400 for district number 445
2013	Correct SFCC debt payments	Exclude fund 400 revenues and expenses coded to project beginning with SF for all districts
2013	Correct energy savings debt payments	Exclude fund 400 revenues and expenses coded to project beginning with ENE for all districts
2013	Correct technology on-behalf payments	Exclude expense object code 0533 with project 16MX for all districts
All years	Correct total revenue and expenditures for on-behalf	Exclude revenue object code 3900 and expense object code 0280 for all districts
All years	Not overstate revenue and expenditures with fund transfers	Exclude function 5200 and revenue object codes 5200-5299 and expense object codes 0930-0939 for all districts
All years	Include all functions for expenses	Include function 2800 and 2900 with function 2500 expenses for all districts
All years	Include revenue and expenses	Include fund 50 for district number 134
All years	Include food service revenue and expenses	Include fund 51A for district number 525
All years	Capture K-12 current expense	Exclude from project numbers with first 3 digits 187, 188, 16D, 126, 114, 13B, 13E, 10N, 110, 14A, 113, 14E, 132, 109, 125, 129, 128, 19F, 135, 197, 19S, 183, 550, 409, 503, 373, 455, 542, 375, 301, 422, 208, 658, 323, 419, 650, 690, 655, 555, 336, 343, 423, 337XP, 369, 382, 622, 585, 381, and project 424XP from all districts
All years	Capture K-12 current expense	Exclude function 3200-5999 from all districts
All years	Capture K-12 current expense	Exclude from all districts program codes 160, 161, 500-699, and 800-899
All years	Capture K-12 current expense	Exclude object code 0700-0799, 0830-0839, and 0930-0939 from all districts
2010	Correct federal SFSF funds	Reclassify state revenue to federal revenue for district numbers 15, 26, 35, 45, 72, 95, 101, 135, 147, 157, 161, 191, 195, 241, 291, 385, 415, 425, 445, 476, 485, 491, 533, 536, 541, 545, 561, 575, and 591
2011	Correct federal SFSF funds	Reclassify state revenue to federal revenue for district numbers 26, 35, 45, 72, 95, 101, 105, 121, 147, 161, 186, 241, 385, 415, 425, 445, 476, 485, 491, 536, 541, 561, 575, and 591
2013	Correct expense to match KDE AFR	Exclude expense object code starting with 093 for district 275
2009	Correct membership numbers	Included an adjustment to district number 491 and 251 to the KDE Summary SAAR report to accurately reflect the students counted in membership

<b>Year</b>	<b>Reason</b>	<b>Coding Adjustments</b>
2004, 2005, and 2006	Combine merged districts	Harrodsburg Independent and Mercer County merged in FY 2007, and Providence Independent and Webster County merged in FY 2008. Any time change over time is shown at the district level date for these districts, data are merged to show trend analysis
2004	Invalid object code	State revenue for intermediate sources was a code that Kentucky did not use on chart of accounts; however district number 115 did use this account. Staff moved this revenue into object code 3200 restricted state revenue
2004	Invalid object code	Local revenue for 1112 for district number 472 and 501 used this code that didn't exist. Staff added this code to object code 1113 Public Service Company Property Tax
2004	Invalid object code	Local revenue for 1114 for district number 472 used this code that didn't exist. Staff added this code to object code 1115 Delinquent Property Tax.
2004	Local revenue object codes no longer used	Local Revenue object codes 1122 Franchise Fees-Real Estate and 1123 Franchise Fees-Personal Property for district number 251, 132, and 275 were merged with 1121 Utility Tax and will now be referenced at the higher level code of sales and use taxes
2004	Correct local revenue object code	District number 335 used higher-level object code 1100. Staff called finance officer and was told that it should be motor vehicle taxes object code 1117
2004, 2005, and 2006	Include KDE total number of IT contract staff	This data could not be provided by current KDE staff in the Division of Budget and Financial Management office; however, OEA staff received this information in a prior OEA request from staff in the Division of Budget and Financial Management office in 2008



## Appendix B

### Kentucky Expenditure Chart Of Accounts (Excerpt)



Notes: The list of functions and the higher-level lists of objects, programs, and projects are complete. Lower-level objects, programs, and projects are selected examples because they are too numerous to list here in their entirety.



## Appendix C

### Descriptions Of On-Behalf Payments

This appendix provides a brief description of state on-behalf payments, which are paid by the Kentucky Department of Education or the School Facilities Construction Commission, and federal on-behalf payments. Districts are responsible for paying employee benefits for employees paid from federal grants. This is explained below as well.

Revenues	Description
Health insurance	Employees of local boards of education are included in the state health insurance benefits under the Kentucky Employees' Health Plan. Full-time employees are eligible for the state-paid portion of the health insurance plan.
Kentucky Teacher Retirement	The Kentucky Teachers' Retirement System (KTRS) was established by law in 1938. KTRS is an actuarial reserve, joint-contributory system. Members pay contributions, and any earnings from these investments are placed in a reserve to pay for their annuity obligation. Eligible members require a certificate from a 4-year college or university as a condition of employment. Substitute teachers filling in for certified positions that require a 4-year degree shall also be members.
Flexible spending	Employees of local boards of education may opt out of the single health insurance plan covered by the state. In these cases, the state will put \$2,100 each year in a flexible benefit plan for these employees. They can use these funds to pay for items such as dental expenses, eye exams, and medicine and doctor copays.
Administration fee	KDE also pays the Department of Employee Insurance an administrative fee to manage the applications and waivers for local school districts' health insurance plans. This is normally a per-person fee of about \$6 per employee.
Life insurance	District employees of local boards of education receive a basic life insurance plan paid by the state in the amount of \$20,000 per year. The same rule applies to employees paid from federal grants.
Federal reimbursement	Districts are responsible for paying employees' health insurance or flexible spending funds, teacher retirement, life insurance, and administration fees on any employee paid from federal grants, such as Title 1, Special Education, Title II, etc.  The Department of Education pays for all employees, but school districts must submit a check to the department for reimbursement. If the employee only works part time on a

Revenues	Description
	<p>federal grant and works part time as a regular teacher or another job that is paid from local and state funds, then the district pays only for the full-time equivalent the employee works under the grant.</p> <p>When recording the on-behalf payments on district annual financial reports, districts are required to subtract the on-behalf payment amount, since the grant expenditures have already recorded the expense.</p>
KY Educational Network	<p>In FY 2007 KDE needed to increase the bandwidth for Internet usage for schools and districts. The General Assembly appropriated \$8.9 million in bond funds for this project. Kentucky was the first state to provide this high-speed connection for all districts. This was accomplished because the network capacity was at its maximum level and made it hard for teachers to incorporate technology instruction in the classroom. All districts were implemented by April 2008.</p>
Munis	<p>Since 1994, the financial management software used by all districts in Kentucky is The Municipal Information System (Munis). The system is used to track personnel, payroll, budgeting, fixed assets, and financial data. Reporting financial information to the local board of education and the Kentucky Department of Education is generated from this system.</p>
McAfee	<p>KDE also pays for McAfee, which is the virus protection and Internet security software used for all the computers at each district in Kentucky.</p>
Career Cruising	<p>To help students plan for their futures, Kentucky has purchased a Web-based career and planning system. While Career Cruising is the web application that is used in Kentucky, it is referred to as the Individual Learning Plan. This Web application replaced the paper-based individual graduation plan. Resources available to students include</p> <ul style="list-style-type: none"> <li>• Help with short- and long-term career goals</li> <li>• Skill assessments</li> <li>• Standardized tests and assessment results</li> <li>• Recording of extracurricular activities and hobbies</li> <li>• Tracking of community service and work experience</li> <li>• Tracking completed and planned student courses</li> <li>• Listing awards and recognitions</li> <li>• Storage for essays, artwork, and letters of reference</li> <li>• Help with creating résumés</li> <li>• Information on colleges and universities</li> <li>• Financial aid database</li> </ul>

Infinite Campus	Kentucky, unlike most states, has only one student information system that every school uses. This system includes unique student identifiers that track enrollment and attendance, grades, behavior, special education plans, and program participation in items such as ESS and Gifted and Talented. It started in July 2007 and was fully implemented by the end of fiscal year 2009. The General Assembly approved \$10 million in bonding to implement this system. Once implementation was completed, IC became a shared cost between the state and districts.
Microsoft Exchange	The technology budget at the Kentucky Department of Education pays for each district's Microsoft Exchange license. This software includes items such as Microsoft Word, Excel, PowerPoint, and the Outlook e-mail program. Currently the cost for all districts in Kentucky is \$10,000 per year.
Bond principal and interest	<p>The School Facilities Construction Commission operates under an independent agency attached to the Finance and Administration Cabinet. The General Assembly appropriates funds to SFCC to pay for debt service payments on behalf of districts.</p> <p>SFCC acts on behalf of school districts to issue bonds in its name and enter into lease agreements with local boards of education to finance construction of new facilities and major renovation of existing school facilities. SFCC also provides the information for KISTA Energy Savings Capital Leases On-Behalf Payments.</p>
Federal on-behalf	Revenue includes contributions such as food donations by the federal government to the school district for the food service operation.



## Appendix D

### Kentucky School For The Blind And Kentucky School For The Deaf Revenue And Expenditures FY 2004–FY 2013

**Table D.1**  
**Revenue In Thousands Of Dollars, Not Adjusted For Inflation**

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General	15,178.3	13,980.2	14,265.9	15,444.6	15,961.3	17,120.1	17,224.8	17,640.2	17,216.8	15,609.6
Restricted	335.3	354.3	386.8	288.4	289.7	780.4	180.5	287.7	520.2	739.8
Federal	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tobacco	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>15,514.1</b>	<b>14,335.0</b>	<b>14,652.7</b>	<b>15,733.0</b>	<b>16,251.0</b>	<b>17,900.5</b>	<b>17,405.3</b>	<b>17,927.9</b>	<b>17,737.0</b>	<b>16,349.4</b>

Source: Staff compilation of data from the Kentucky Department of Education.

**Table D.2**  
**Expenditures In Thousands Of Dollars, Not Adjusted For Inflation**

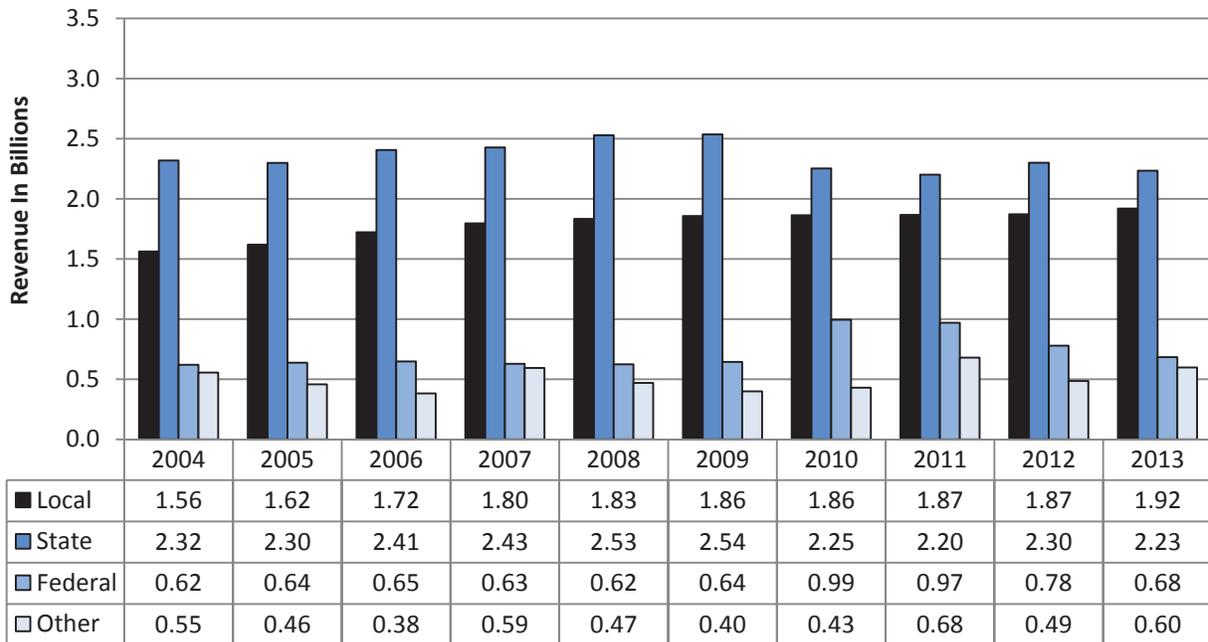
	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Personnel	13,774.0	12,610.4	12,901.9	14,087.5	14,459.3	16,178.9	15,655.5	14,485.8	14,350.7	13,950.0
Operating	1,557.4	1,494.8	1,693.9	1,616.0	1,739.6	1,687.9	1,557.7	2,120.1	1,899.5	1,771.7
Grants	12.5	6.7	4.4	3.9	2.8	0.7	14.0	7.5	0.0	0.0
Capital outlay	0.0	7.5	0.0	0.6	13.8	11.2	0.0	0.0	0.0	0.0
Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	0.0
Debt service	0.0	0.0	0.0	0.0	0.0	0.0	28.9	115.5	0.0	0.0
<b>Total</b>	<b>15,343.9</b>	<b>14,119.4</b>	<b>14,600.2</b>	<b>15,708.0</b>	<b>16,215.5</b>	<b>17,878.7</b>	<b>17,256.1</b>	<b>16,728.9</b>	<b>16,255.8</b>	<b>15,721.7</b>

Source: Staff compilation of data from the Kentucky Department of Education.



## Appendix E

### District Revenue By Source, Excluding On-Behalf, FY 2004–FY 2013 Inflation-Adjusted (Constant 2004) Dollars



Source: Staff analysis of data from the Kentucky Department of Education.



## Appendix F

### District Expenditures By Function, Excluding On-Behalf FY 2004–FY 2013 Inflation-Adjusted (Constant 2004) Dollars

Function	FY 2004		FY 2013		Change FY2004–FY2013	
	\$ (Mil.)	% Of Total	\$ (Mil.)	% Of Total	\$ (Mil.)	% Change
Instruction	\$2,365.8	49.7%	\$2,443.2	43.3%	\$77.4	3.3%
Student support	161.9	3.4	198.5	3.5	36.6	22.6
Instructional staff support	219.5	4.6	265.6	4.7	46.1	21.0
District administration	112.2	2.4	109.5	1.9	-2.7	-2.4
School administration	223.2	4.7	246.9	4.4	23.7	10.6
Business support	107.4	2.3	121.5	2.2	14.1	13.1
Plant operations	383.1	8.1	435.8	7.7	52.7	13.8
Transportation	246.4	5.2	309.7	5.5	63.3	25.7
Food service	257.0	5.4	298.4	5.3	41.4	16.1
Other noninstructional	60.5	1.3	51.3	0.9	-9.2	-15.2
Facilities and construction	389.3	8.2	473.5	8.4	84.2	21.6
Debt service	230.4	4.8	682.3	12.1	451.9	196.1
<b>Total expenses</b>	<b>4,756.7</b>	<b>100.0</b>	<b>5,636.3</b>	<b>100.0</b>	<b>879.6</b>	<b>18.5</b>

Note: Not adjusted for inflation. Calculations used rounded numbers for consistency within the table.

Source: Staff analysis of data from the Kentucky Department of Education.



## Appendix G

### K-12 Current Expenditures By Function, Excluding On-Behalf FY 2004–FY 2013 Inflation-Adjusted (Constant 2004) Dollars

	2004			2013			Change 2004–2013		
	Total \$ (Mil.)	\$ Per Pupil	% of Total	Total \$ (Mil.)	\$ Per Pupil	% of Total	Total \$ (Mil.)	\$ Per Pupil	% Change
Instruction	\$2,224	\$3,883	58.1%	\$2,300	\$3,860	55.1%	\$76	-\$23	3.4%
Student support	157	274	4.1	191	321	4.6	34	47	21.7
Instructional staff	194	340	5.1	236	396	5.7	42	56	21.6
District administration	108	188	2.8	106	178	2.5	-2	-10	-1.9
School administration	221	387	5.8	243	408	5.8	22	21	10.0
Business support	98	171	2.6	105	176	2.5	7	5	7.1
Plant operations	372	649	9.7	427	717	10.2	55	68	14.8
Transportation	209	364	5.4	272	457	6.5	63	93	30.1
Food service	247	432	6.5	291	488	7.0	44	56	17.8
<b>Total current expenses</b>	<b>3,830</b>	<b>6,687</b>	<b>100.0</b>	<b>4,171</b>	<b>7,001</b>	<b>100.0</b>	<b>341</b>	<b>314</b>	<b>8.9</b>

Note: Excludes on-behalf payments. Percentages may not sum to 100 percent due to rounding. Calculations used rounded numbers for consistency within the table.

Source: Staff analysis of data from the Kentucky Department of Education.



## Appendix H

### District Staff By Fund, FY 2004 And FY 2013

#### All Districts

Fund	Classified Staff Data				Professional Staff Data			
	Total FTE		Change		Total FTE		Change	
	2004	2013	#	%	2004	2013	#	%
General	30,202	35,614	5,412	17.9	42,783	44,671	1,888	4.4
Special Revenue	8,485	5,166	-3,319	-39.1	5,669	6,169	500	8.8
Enterprise	7,563	6,676	-887	-11.7	41	26	-15	-36.6
Fiduciary	158	5	-153	-96.8	10	3	-7	-70.0
<b>Total</b>	<b>46,408</b>	<b>47,461</b>	<b>1,053</b>	<b>2.3</b>	<b>48,503</b>	<b>50,869</b>	<b>2,366</b>	<b>4.9</b>

#### All Districts Except Jefferson County

Fund	Classified Staff Data				Professional Staff Data			
	Total FTE		Change		Total FTE		Change	
	2004	2013	Number	%	2004	2013	Number	%
General	25,555	28,373	2,818	11.0%	36,733	38,111	1,378	3.8%
Special Revenue	6,889	5,166	-1,723	-25.0	5,260	5,407	147	2.8
Enterprise	6,735	6,676	-59	-0.9	41	26	-15	-36.6
Fiduciary	158	5	-153	-96.8	10	3	-7	-70.0
<b>Total</b>	<b>39,336</b>	<b>40,220</b>	<b>884</b>	<b>2.3</b>	<b>42,044</b>	<b>43,547</b>	<b>1,503</b>	<b>3.6</b>

#### Jefferson County

Fund	Classified Staff Data				Professional Staff Data			
	Total FTE		Change		Total FTE		Change	
	2004	2013	Number	%	2004	2013	Number	%
General	4,647	7,241	2,594	55.8%	6,050	6,560	510	8.4%
Special Revenue	1,596	0	-1,596	-100.0	409	762	353	86.3
Enterprise	828	0	-828	-100.0	0	0	0	N/A
Fiduciary	0	0	0	N/A	0	0	0	N/A
<b>Total</b>	<b>7,071</b>	<b>7,241</b>	<b>169</b>	<b>2.4</b>	<b>6,459</b>	<b>7,322</b>	<b>863</b>	<b>13.4</b>

#### Jefferson County: Dollar Amounts, In Millions, Associated With Above Staff

Fund	Classified Staff Data		Professional Staff Data	
	\$ Millions		\$ Millions	
	2004	2013	2004	2013
General	\$117	\$220	\$304	\$422
Special Revenue	31	0	20	47
Enterprise	13	0	0	0
Fiduciary	0	0	0	0
<b>Total</b>	<b>161</b>	<b>220</b>	<b>324</b>	<b>469</b>

Note: 2013 dollar amounts are not adjusted for inflation. FTE=full-time equivalent number of staff.

Source: Staff analysis of Munis CSD (classified staff data) and PSD (professional staff data) obtained from the Kentucky Department of Education.

