Distribution of State Funds for K–12 Public Education

Office of Performance Evaluations
Idaho Legislature
Office of Performance Evaluations

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Joint Legislative Oversight Committee 2017–2018

The eight-member, equally bipartisan Joint Legislative Oversight Committee (JLOC) selects evaluation topics; OPE staff conduct the evaluations. Reports are released in a public meeting of the committee. The findings, conclusions, and recommendations in OPE reports are not intended to reflect the views of the Oversight Committee or its individual members.

Senators

Representatives
From the director

December 2016

Members
Joint Legislative Oversight Committee
Idaho Legislature

This evaluation found that many of the formulas for distributing funds to special education and other programs in the support budget of K–12 public schools are not based on need or actual costs. In addition, statewide information does not account for the total amount of money spent on these programs.

Knowing the need and actual costs is not only essential for policymakers in establishing and maintaining a uniform and thorough system of public education for Idaho’s children, but also helps prioritize the use of scarce tax dollars.

We offer recommendations for the Legislature and the Department of Education to consider, including a recommendation that reporting of program expenditures be revised to address the unintentional opaqueness that makes it difficult to find the total, statewide spending on a program.

This evaluation can assist the timely efforts of the Public Education Interim Committee as the Legislature reviews and updates how Idaho funds public education. We appreciate being asked to contribute to this important effort.

Finally, our thanks to everyone who assisted us with this study, in particular Superintendent Sherri Ybarra and her staff at the Department of Education.

Sincerely,

Rakesh Mohan, Director
Office of Performance Evaluations
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Executive summary

Legislative interest and evaluation approach

Interest in this report came from the Legislature’s desire to conduct an overall review of funding mechanisms for K–12 public education. The Legislature established a 2016 interim committee to study and make recommendations for the state’s public education funding formula. In addition, the Joint Legislative Oversight Committee directed us to conduct an evaluation of program distributions in the support budget for public schools, particularly of those funded outside of the traditional funding formula.

We narrowed our evaluation to 22 program distributions. These program distributions received $165 million in appropriations from the state general fund for fiscal year 2017.

In speaking with legislators, we learned they wanted to know how much was spent on these 22 program distributions and for what purposes. We looked at the programs’ overall costs by accounting for other funding sources. We also included the special education program based on feedback we received from the interim committee.
Policymakers will be better able to understand how much of a program’s costs are represented by state funds if they have information on all monies contributed to support the 22 program distributions and special education.

**Report message**

Two key findings came from our review of the funding methods for the 22 program distributions and special education:

Statewide information was lacking or incomplete for the total amount of money, from all sources, spent at the district or charter level.

Often stakeholders did not know about the relationship between program need and how funds were distributed. Published information on distribution was either out-of-date or missing for program need.

Our evaluation found that for almost all of the 22 programs and special education, information on the total costs were either absent or obscured. This obscurity was likely because existing financial, budgeting, and reporting systems were not set up to anticipate questions about total spending. Other reasons for this obscurity include the following:

Districts and charters attributed similar expenditures to different accounts. In some cases, what the state categorized as a broad program might be broken into several smaller programs by districts or charters, leaving only a portion of spending attributed to the category defined by the state.

Funding generated for district and charter programs had little direct relation to the number of students being served.

Districts and charters may receive funding from other state agencies that relate to program distributions. When these expenditures are reported, they may not be attributed to the program. Some were not reported for the program because they were counted elsewhere.

The Department of Education and the Legislature do not require districts or charters to report total expenditures for the state distributions they receive.
Included on our website is a supplemental appendix with detailed information on the funding sources, statutory authority, and distribution methods for the 22 program distributions.

We also provide information on the approximately $52 million that other state agencies distribute to districts and charters in appendix C of this report.
Legislative interest and our prior reports

Nearly half (48 percent) of the state general fund is spent on K–12 public education. For fiscal year 2017, the Legislature appropriated approximately $1.9 billion to the support budget of public schools. Approximately $1.5 billion came from the state general fund.

In March 2016 the Joint Legislative Oversight Committee approved an evaluation request from Representative Wendy Horman to examine state funding that districts and charters receive outside of the traditional funding formula. Appendix A is the study request.

In addition to the evaluation request, House Concurrent Resolution 33, adopted by the Idaho Legislature in 2016, established an interim legislative committee “to undertake and complete a study of and make recommendations for the state’s public school funding formula.”

Legislative interest in public education funding has existed for many years. Beginning in 2007, our office has released three evaluations about funding:

- Use of Average Daily Attendance in Public Education, 2007
- Public Education Funding in Idaho, 2009
- Policy Differences between Charter and Traditional Schools, 2013

Many of the issues we raised in these reports are still relevant today. Posted on our website is a summary of the major findings and subsequent follow-ups of these reports.
Evaluation approach and context

After consulting with the Public Education Interim Committee, the study requester, the legislative budget analyst for public education, and the Joint Legislative Oversight Committee, we developed an evaluation approach that addressed the study request and responded to the interim committee’s information needs. Our scope is found in appendix B.

We designed the scope to complement the interim committee’s work and to inform the Legislature and the public about spending levels for various programs and how funds were distributed.

We reviewed 22 of the 39 program distributions that were part of the support budget for public schools. For fiscal year 2017, the Legislature appropriated approximately $165 million from the general fund for these 22 program distributions. Our evaluation focused on the distribution of funds, most of which went to districts and charters through unique formulas established in statute, rule, appropriation bills, or by the Department of Education.

We also examined special education. For fiscal year 2015, the last full fiscal year for which we have estimates, the state appropriated approximately $105 million from the general fund, making special education the largest program outside of regular instruction that received state dollars.¹ Our 2009 report about public education funding contains useful and still relevant findings on the funding formulas for special education. In July 2016, we presented findings from our 2007, 2009, and 2013 reports to the Public Education Interim Committee. The committee asked us to include revenues and expenditures for special education in this report.

We found that special education was a good representation of issues we found in the 22 program distributions for the following reasons. First, special education relies on a variety of formulas to distribute funds among districts and charters. Second, funding for special education comes from several sources, including the state general fund, federal funds, and local district funds. Third, not all funding, spending, and costs of special education are

¹ Most of the special education funding from state dollars was not specified in the support budget for public schools because it was combined with the appropriation for salary-based apportionment.
We also examined special education, which serves as a case study of issues in funding.

captured in existing reporting mechanisms. Fourth, much of the funding distributed to districts for special education is not directly related to an assessment of program need. We found these same issues spread across many of the 22 program distributions. Given the size of the special education program and how the program serves as a case study of issues in funding, we included a review of special education funding as a separate chapter in this report.

In a supplemental appendix on our website, we prepared a summary for the 22 program distributions after receiving input from the interim committee about what information to include. We listed the programs’ funding sources, state mandates, reporting requirements, and distribution formulas.

Schools also received funds through state agencies other than the Department of Education. Appendix C lists the amounts and describes the purposes of these funds.
Special education

Special education is instruction specifically designed to meet the unique needs and abilities of a student with disabilities. It must be provided at no cost to the student or parent. In addition to instruction, related services may be needed to assist the student in benefiting from special education. These services may include transportation, physical and occupational therapy, and other developmental, corrective, or supportive services. The education provided to each eligible student must take place under the guidance of an Individualized Education Program (IEP) in the least restrictive environment possible.

In fiscal year 2015, approximately 29,700 students received special education services in the state’s districts, charters, and state institutions. These students represented approximately 10 percent of all students enrolled that year.

Students receiving special education services are covered by the Individuals with Disabilities Education Act (IDEA) of 2004. IDEA prescribes what states must do to meet the requirements of
Approximately 10% of students enrolled in K–12 public education received special education services in FY 2015.

The education provided to each eligible student must take place under the guidance of an Individualized Education Program (IEP).

the law, and the Department of Education monitors and collects data to meet the general supervisory requirements. IDEA also requires that data be published for programs serving children ages 3–21.

The complex array of federal regulations and Idaho statutes and rules are cited and explained on the department’s special education website, particularly in the 2016 Special Education Manual. Many of the administrative responsibilities carried out by the department’s special education program are driven by federal requirements.

In addition to extensive information on the department’s special education website, our past studies on public school funding had some focus on special education.
Published sources do not capture the complexity or reveal all of the funding related to special education.

Special education funding is one of the most complex and least understood parts of public education funding in Idaho. It is financed by multiple funding streams, which create a complex, convoluted system for tracking funds. It also has numerous, sometimes arcane and arbitrary, ways to generate and distribute dollars—ways mainly outside the control of the department.

Legislators and other stakeholders cannot look to published revenue or expenditure reports for a complete picture of how much money was generated by, and spent on behalf of, students receiving special education services in districts or charters. Reporting mechanisms, some driven by federal reporting requirements, have not been set up to capture the complexity of the funding system.

By working closely with program and fiscal staff at the Department of Education and the Department of Health and Welfare, we identified an estimated $294 million in fiscal year 2015 funding sources that was related to special education students. Statewide financial summaries captured about $208 million of those federal, state, and local dollars. However, the reports did not reflect another approximately $85 million, the bulk of which was (1) support unit dollars generated by students receiving special education services not counted in the special education support unit formula (roughly $46 million) and (2) Medicaid reimbursements paid directly to districts and charters by Health and Welfare ($35 million).

Exhibit 1 shows the components of the $294 million. The gray bars represent expenditures generally captured in the statewide financial expenditure summaries. They are dollars that a legislator or member of the public might find if looking for expenditure data on special education. The blue bars represent the lesser known or unknown sources of funding.

1. Given several simplifying assumptions and use of averages, this approximation indicates the magnitude of the dollar amount. It is not a precise number.
Exhibit 1

Approximately $85 million of funding for special education was not captured in statewide reporting in fiscal year 2015.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative rule K–12</td>
<td>$94.4 million</td>
</tr>
<tr>
<td>Federal IDEA K–12</td>
<td>$51.0 million</td>
</tr>
<tr>
<td>Local and other</td>
<td>$50.5 million</td>
</tr>
<tr>
<td>Regular support units</td>
<td>$46.3 million</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$35.1 million</td>
</tr>
<tr>
<td>Administrative rule preschool</td>
<td>$6.9 million</td>
</tr>
<tr>
<td>Federal IDEA statewide services</td>
<td>$3.9 million</td>
</tr>
<tr>
<td>Emotional disturbance</td>
<td>$2.2 million</td>
</tr>
<tr>
<td>Federal IDEA preschool</td>
<td>$2.1 million</td>
</tr>
<tr>
<td>Contracts or tuition equivalents</td>
<td>$1.2 million</td>
</tr>
</tbody>
</table>

Source: Office of Performance Evaluations’ estimates based on data from the departments of Education and Health and Welfare.
In fiscal year 2015, the Department of Education received $56.9 million in federal Individual with Disabilities Education Act (IDEA) funds. Approximately 91.8 percent was distributed directly to districts and charters. An additional $3.9 million (shown in the exhibit as federal IDEA statewide) was expended on state-level activities, which benefited districts and charters directly and accounted for 6.7 percent of the available IDEA funds. The $3.9 million is not readily visible because it is spent on behalf of special education programs in districts and charters but is not part of their budgets. Another $850,000, or 1.5 percent of IDEA funds, was retained by the department for program administration and is not represented in the chart.

Medicaid is not readily visible as a special education expenditure. Through the Department of Health and Welfare, districts and charters can access school-based Medicaid funds by establishing a provider agreement with the agency. In fiscal year 2015, the Department of Health and Welfare administered approximately $35 million of these funds for reimbursement of medical services required by students served in the special education program. The federal government paid approximately 72 percent of these costs. The remaining 28 percent was paid by local district and charter funds.²

A major, previously missing part of the picture of how state funding was tied to special education is the $46 million for regular support units, as shown in the exhibit. These support units were generated by students in special education who were not counted for purposes of funding special education, but rather were counted as regular students.

These dollars are generated by a portion of students served in special education, but how the dollars are used is not directly tied to special education or students served in special education.

². There are some inconsistencies in how districts and charters report Medicaid expenditures to the state. The Department of Education has identified these inconsistencies and helped us make the appropriate adjustments for reporting expenditures.
The support unit formula for special education does not account for all students served in special education.

The funding formula in administrative rule contradicts and supersedes the formula in statute. This contradiction is a key point in understanding state funding for special education.

**Statute**

Idaho Code § 33-1002 outlines a computation of support units for special education (under the category of exceptional education). The computation is similar to support units for regular students except the divisor and the minimum units for special education are generally lower. Having a lower divisor and lower minimums is intended to generate more dollars for students’ special needs and costs. The divisors and minimums are applied against the average daily attendance (ADA). A smaller divisor or smaller minimum produces a larger number of support units.

Statute clearly states that ADA is the unit for counting exceptional education support units, and special education falls within the category of exceptional education.

**Administrative rule**

In contrast to the formula in statute, the funding formula in Administrative Code, IDAPA 08.02.01.400, is not based on the ADA of students in special education, nor is it actually based on enrollment of students in special education. Instead, it is calculated by multiplying the total enrolled student population (all students, not just special education) by 6 percent for grades K–6 and 5.5 percent for grades 7–12 (for an effective, weighted average of approximately 5.8 percent).

3. In researching our 2009 report *Public Education Funding in Idaho*, we could find no historical record of analysis underlying the choice of the particular divisor and minimums.
Although actual enrollment in special education is approximately 10% of total enrollment, administrative rule applies percentages that average approximately 5.8%.

These percentages are low when compared with actual special education enrollment of approximately 10 percent for all grades. To the extent these percentages can be considered surrogates for the special education population, they heavily understate that population. No explanation for these low percentages is offered in administrative rule.

By default, students in special education who are not counted for purposes of generating special education support units have their ADA counted as regular students. When counted as regular students, these students generate fewer dollars than if they were included in the special education formula, and the dollars they generate are not designated specifically for special education.

For preschool students in special education, support units are based on minutes of instruction and service per week. However, the support units are derived from a calculation that does not consider all the instruction time and services provided for the student receiving special education programming.
Comparison of formulas

If the ADA for all students served by special education had been counted under the statutory formula for special education support units in fiscal year 2015, we estimate the total dollars for special education would have been roughly $60 million rather than the $46 million from counting the students as regular students. And importantly, the $60 million would have been designated as funding for special education.

We emphasize that the $46 million and $60 million are rough estimates given the number of assumptions involved and some of the funding nuances not fully captured. However, they illustrate the general magnitude of the student counting issues.
Most funding for special education is not based on an assessment of need or linked to actual costs of providing services.

Our 2009 report *Public Education Funding in Idaho* described a cyclical approach the state could follow in meeting the educational needs of students. Two initial steps in that approach involve assessing how programs should be structured to meet students’ educational needs, and then determining and providing the amount of state funds necessary to fill any gaps to meet those needs. The second step of this approach, determining and providing the necessary investment, is mostly missing as the basis for the current funding sources for special education. Completing the second step would require legislative action.

The problem with administrative rule is not the only example in special education funding where the link between funding and indicators or assessments of need is weak. Exhibit 2 has the same funding sources as exhibit 1, but breaks some of the sources into broad categories. Each category identifies how much funding was based on an assessment of need or actual costs.

Several funding sources addressed need to some extent:

The state distributed funds to districts that had a higher-than-average number of students served in special education who are challenged with emotional disturbances. This additional funding recognized the exceptional needs in educating these students. The specific amount of funding, however, was not based on an assessment of the actual level of spending required to meet the specific needs.

Medicaid came closest to directly addressing need by combining local and federal payments for authorized medical costs.

The state reimbursed tuition when students receiving special education were served outside of their district or charter.

Funds from the federal Individuals with Disabilities Education Act (IDEA) were used by the department to provide statewide training and education to special education.
**Example of a formula disassociated from actual demographics and cost drivers**

The approximate $53 million from IDEA Part B is based on 75% of what the federal allocation was 17 years ago, with the remaining 25% of the allocation based on (1) the relative number of children enrolled in public and private elementary and secondary schools within a district’s or charter’s jurisdiction and (2) a district’s or charter’s relative number of children living in poverty. The 17-year-old allocation and the two broad demographic measures may have only a tenuous, if any, relationship to current special education demographics and programmatic need.
The remaining sources of special education funding may have been needed where they were spent, but the level of spending did not necessarily equate to need. The sources were either limited (e.g., state funding of preschool was capped) or the formulas were disassociated from actual demographics or other cost drivers.

Altogether, 86 percent of the estimated $294 million funding related to the special education program or students was not directly tied to reimbursement for services rendered, education and training, or a particular recognition of need.
Estimated funding related to special education does not represent actual spending.

Early in our evaluation, we sought to understand the sources of special education funding and identify the dollars associated with those sources. Our estimated $294 million in funding sources for fiscal year 2015 does not represent actual spending on special education for a variety of reasons:

The Boise Independent School District, with additional input from the department, assisted our evaluation by identifying some areas of special education costs that show up in other parts of school budgets. These areas include, but are not necessarily limited to, substitute staff for speech and language pathologists, specially equipped buses and additional bus routes and trips, bus monitors, physical and occupational therapists, nurses, and health technicians.

The state dollars generated by students receiving special education services, when counted as regular students, are not specifically designated for special education services.

State dollars generated by students receiving special education services in preschool covered only a portion of the costs for time that schools spent providing services. The Department of Education estimated that districts and charters were absorbing approximately $10.2 million of the total costs for preschool.

Our previous education funding reports noted that a safety net was not in place for districts and charters that have students with much higher than average special education costs.
Inconsistencies in the meaning of exceptional child creates conflicts in how funding takes place.

The term *exceptional child* causes confusion when funding special education. Statute and administrative rule apply the term to include both those in special education and those in the gifted and talented program. The funding formula for support units and reporting for exceptional child are applied primarily to special education, even though they refer to the broader exceptional child category. This situation creates conflicts between what the language of statute and rule prescribe, and how funding takes place.
We reviewed 22 of the 39 program distributions that received appropriations through the support budget of public schools for fiscal year 2017. We also reviewed special education because of legislative interest.

We describe different methods by which funds are dispersed to districts and charters. Details about special education are in chapter 2, and information for each of the 22 program distributions is on our website in a supplemental appendix.
Funding is made more complex because unique formulas have been used for various program distributions.

When referring to the funding formula for public education, we often think of the salary-based apportionment formula that determines the amount of money districts and charters receive for administrators and classified staff salaries. However, within the support budget for public schools, there are actually several unique formulas used for various program distributions.

Funds appropriated by the Legislature can be distributed in several ways. They can be distributed to districts and charters, kept within the Department of Education for services that benefit districts and charters, or a combination of both.

The appropriateness of a method to distribute funds depends on factors such as the intent of the program, the population targeted by the program, the actual costs involved, and how the funds are being spent. For example, a program that provides students licenses for an online instructional program may appropriately be funded based on the number of students in need. Alternatively, a program such as safe and drug-free schools, which may provide safety equipment for a school or a school resource officer, may be more appropriately funded by providing each school with a minimum amount because those resources may be less dependent on each school’s enrollment.

Because knowledge and information on the relationship between funding and need is often missing for special education and the 22 program distributions, the state may not know whether (1) state funds (or the combination of state and other funds) are adequate and (2) the method of distributing funds is appropriate. Added to the challenge of understanding some formulas and distribution methods, the institutional knowledge about the original rationale for the funding approach is diminishing, or in some cases, may already be lost.

Exhibit 3 shows the appropriation for fiscal year 2017, the distribution method, and the statute or appropriation bill establishing the distribution method.

We found various methods for distributing funds of the 22 program distributions, as outlined in the next sections.
Exhibit 3

The Legislature appropriated about $165 million from the general fund for the 22 program distributions we examined.

<table>
<thead>
<tr>
<th>FY 2017 Appropriation ($)</th>
<th>Distribution method</th>
<th>Source of distribution direction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statutory distributions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pupil transportation</td>
<td>71,152,000</td>
<td>Multiple</td>
</tr>
<tr>
<td>Literacy proficiency</td>
<td>9,100,000</td>
<td>Per student in program</td>
</tr>
<tr>
<td>Advanced opportunities</td>
<td>6,000,000</td>
<td>Set amount</td>
</tr>
<tr>
<td>High school redesign—math and science</td>
<td>5,157,200</td>
<td>Tiered by school enrollment; funding dependent on number of positions</td>
</tr>
<tr>
<td>Academic and college/career advisors and mentors</td>
<td>5,000,000</td>
<td>Enrollment with guaranteed minimum</td>
</tr>
<tr>
<td>Safe and drug-free schools</td>
<td>4,024,900</td>
<td>Base + ADA</td>
</tr>
<tr>
<td>Mastery-based system</td>
<td>1,400,000</td>
<td>Pilot program; determined by the Department of Education</td>
</tr>
<tr>
<td>School district strategic planning (continuous improvement planning)</td>
<td>652,000</td>
<td>Reimbursement; maximum per district</td>
</tr>
<tr>
<td>Innovation schools</td>
<td>100,000</td>
<td>Application by schools</td>
</tr>
<tr>
<td>National board teacher certification</td>
<td>90,000</td>
<td>Set amount</td>
</tr>
<tr>
<td><strong>Nonstatutory distributions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Classroom technology</td>
<td>18,000,000</td>
<td>Guaranteed minimum + ADA</td>
</tr>
<tr>
<td>Professional development (distributed and contracted)</td>
<td>16,388,700</td>
<td>Base + instructional and student service FTE</td>
</tr>
<tr>
<td>Remediation based on Idaho Standards Achievement Tests (ISAT)</td>
<td>5,456,300</td>
<td>Per student in program</td>
</tr>
<tr>
<td>Content and curriculum</td>
<td>4,250,000</td>
<td>Software licenses</td>
</tr>
<tr>
<td>Limited English proficiency</td>
<td>3,870,000</td>
<td>Per student in program</td>
</tr>
<tr>
<td>Instructional management systems (IMS)</td>
<td>3,000,000</td>
<td>Support units</td>
</tr>
<tr>
<td>District IT staffing</td>
<td>2,500,000</td>
<td>Guaranteed minimum based on enrollment + support unit</td>
</tr>
<tr>
<td>Remediation based on Idaho Reading Indicator (IRI)</td>
<td>2,316,200</td>
<td>Per student in program</td>
</tr>
<tr>
<td>Wireless infrastructure (Wi-Fi)</td>
<td>2,100,000</td>
<td>Per student and certified administrative staff</td>
</tr>
<tr>
<td>Math initiative</td>
<td>1,817,800</td>
<td>Contract vendors (not distributed)</td>
</tr>
<tr>
<td>Assessments</td>
<td>1,758,500</td>
<td>Contract vendors (not distributed)</td>
</tr>
<tr>
<td>Gifted and talented</td>
<td>1,000,000</td>
<td>Base + per student in program</td>
</tr>
</tbody>
</table>

Source: 2016 Idaho Legislative Fiscal Report and data from the Department of Education.
Base amount plus additional funding from student counts

Each district and charter receives the same base amount and additional funds are determined by measuring student counts. Student counts can be determined by average daily attendance (or similar measure) or the number of students participating in the program.

For fiscal year 2017, safe and drug-free schools was appropriated $4,024,900. The funding formula provided $2,000 to each district or charter and the remainder of the appropriation was distributed according to students’ previous year’s average daily attendance for each district or charter.

Fiscal year 2017 was the first year of direct funding for the legislatively mandated gifted and talented program since 2010. The distribution formula was $3,000 per district or charter, plus $28 for each gifted and talented student identified from the previous year, limited to 6 percent of total enrollment. The total appropriation for fiscal year 2017 was $1 million.

Identified student count

Districts and charters receive funds according to students who are identified as being in need of program services.

Funds for limited English proficiency are distributed according to the number of students in each district or charter who qualify for the program based on the WIDA ACCESS 2.0 placement test (W-APT). For fiscal year 2017, the appropriation was $3,870,000, and schools were instructed to budget $250 per student. A district or charter receives funding as long as it has at least one limited English proficiency student.

Support units

Districts and charters receive funds according to the support unit calculations in Idaho Code § 33-1002.

For fiscal year 2017, districts and charters were instructed to budget $200 per midterm support unit for instructional management systems. The exact dollar amount distributed per support unit can vary each year depending on the legislative appropriation.
For special education, funds are distributed to districts and charters according to support units, as outlined in Administrative Code, IDAPA 08.02.01.400. However, the actual number of students served by special education, about 10 percent of total student enrollment, is not calculated into the number of support units. Instead, arbitrary low percentages are used (which aggregate to 5.8 percent of total student enrollment). This distribution method conflicts with Idaho Code § 33-1002, which specifies the use of average daily attendance.

**Enrollment with a minimum level**

Districts and charters receive funds according to enrollment, with a minimum distribution regardless of student count.

The academic and college/careers advisors and mentors program distributes funds in two tiers: schools with fewer than 100 students in grades 8–12, and those with more. For smaller schools, the distribution is $100 per student or $5,000, whichever is greater. For larger schools, the remaining funds are distributed on a per student basis, with a minimum amount of $10,000. The appropriation for fiscal year 2017 was $5 million, with per student distribution amounts ranging from $43 to $2,500.

**Enrollment tiers**

Funds are distributed based on enrollment, with equal funding going to each district (or school) and charter having enrollment that falls within a defined range.

The high school redesign—math and science program has five funding tiers based on enrollment in grades 9–12 in each school. Within each tier, funding is based on the number of certain staff positions. The number of staff positions is weighted by a different factor in each tier.

**Multiple methods**

For fiscal year 2017, the nondiscretionary state appropriation for pupil transportation was $71.2 million. Over the past dozen years, the state has been moving further away from
tying pupil transportation funding to an accounting of allowable pupil transportation cost. This trend is the result of setting caps on reimbursement, converting what used to be reimbursement into a block grant, and allocating a portion of dollars as discretionary.

The annual adjustment calculation for the block grant, which accounts for about a third of the appropriation, attempts to recognize changes in the number of units measured and in the costs of the units. The units being measured, however, are support units, which are a weak surrogate for changes in demand for pupil transportation. Support units can vary based on many factors, such as district size and numbers of students in kindergarten, elementary, secondary, and special education. Two districts with relatively similar pupil transportation needs could have quite different funding because of their student population demographics. More relevant measures are available, such as enrollment, ridership, and mileage.
In addition to differences in distribution formulas across programs, districts and charters have variable levels of discretion in how funds are spent.

Districts and charters are given considerable discretion in how they spend funds for professional development, as long as the funds pay for activities that fall under a broad category of professional development.

Safe and drug-free funding must be spent on school safety improvements or substance abuse prevention programs, but the decision on what the money is specifically used for is left to the district or charter.

Other programs have more specific goals but allow for some autonomy in how those goals are reached. For example, the limited English proficiency program requires districts and charters to provide language services for students who are not proficient enough in English to participate fully in the educational system. The implementation of the services, however, is left to districts and charters with the requirement that services be research-based.
Other issues could inform the update of funding mechanisms.

In the supplemental appendix on our website, we provide details about each of the 22 program distributions’ purpose, funding sources, reporting requirements, and distribution method. For some of the distributions, we point out other issues that may be considered by stakeholders.

Our noting of these issues is not intended to indicate that a distribution formula is inappropriate or that funds were actually distributed inappropriately. Rather, it is only to suggest that the issues be considered in efforts to update funding mechanisms, whether at an individual program level or on a larger scale.

Conflicting funding direction

The purpose and funding levels can be specified in statute, appropriation bills, rules, or a combination. We found multiple instances of programs in which either documented direction on funding held contradictory information or actual practice contradicted code (or established direction). The extent and effects of the contradictions varied across programs. In addition to the funding issues in special education, as outlined in chapter 2, we found contradictions in other programs:

Gifted and talented

An area of concern for this program is also a concern of the special education program. Confusion can arise from the term exceptional child. Administrative Code, IDAPA 08.02.01.400 and Idaho Code § 33-1002 apply the term to include students in special education and students in gifted and talented. The support unit funding formula and reporting for exceptional child are applied primarily to special education even though they refer to the broader category of exceptional child. Gifted and talented students who are not also enrolled in special education are left out of the calculation. This situation creates conflicts between what the language of statutes and administrative rule prescribe, and how funding takes place.

Safe and drug-free schools

Idaho Code § 63-2506 establishes a tax on cigarettes. Idaho Code § 63-2506 and § 63-3607 specify the appropriation amount for substance abuse programs from the cigarette tax
and lottery winnings. Both statutes also direct funding to the Department of Juvenile Corrections, and both statutes indicate that funds are to be distributed quarterly based on county populations. The statutes do not agree with the distribution language in the program’s appropriation bill, which directs that each district or charter will receive a $2,000 base and that the remainder be distributed based on the prior year’s average attendance.

Substantial differences in funding between tiers

Several programs have funding distributions based on tiers determined by a measure of student count (e.g., enrollment or daily attendance). Although most such programs have a guaranteed minimum level of funding or a base amount, one distribution formula has the potential for extreme funding differences based on a change in enrollment of a single student.

High school redesign—math and science

Idaho Code § 33-1021 establishes five funding tiers based on high school enrollment. The formula causes potentially large differences in funding based on losing or gaining a single student, resulting in relatively high funding for very small and very large schools and lower funding for medium-sized schools. For fiscal year 2017, the formula led to the following budgeting guidelines:

- Enrollment 1–99: $30,300
- Enrollment 100–159: $2,700
- Enrollment 160–319: $6,900
- Enrollment 320–639: $48,500
- Enrollment 640 or more: $66,700

If a high school had an enrollment of 320 students, it would receive approximately $48,500, but if another high school had one student less, it would only receive approximately $6,900.
District versus charter in formulas using a base amount

Several funding formulas provide a district or charter with a base amount plus additional funding determined by a measure of student count. This type of formula has the potential for charter schools to receive relatively high levels of funding because districts have multiple schools and more students. The existence of such formulas does not necessarily imply funding inequities, but the purpose of the program and the assessment of need may warrant consideration.

Academic and college/career advisors and mentors
Idaho Code § 33-1002(r) establishes that funds are to be distributed based on the number of students enrolled in grades 8–12. For districts and charters with enrollment of fewer than 100, the allotment is $100 per student or $5,000, whichever is greater. For fiscal year 2016, 8 of the 10 highest distribution amounts per enrollment were for charter schools.

Availability of funding

The safe and drug-free school program is funded through taxes on tobacco and lottery winnings. According to department staff, funding was not always available to distribute because revenue varied throughout the year. For fiscal year 2016, sufficient revenue was not available to disburse the allocation until June 2016.

Identified program need not included in the formula

For the literacy proficiency program, Idaho Code § 33-1616(2) establishes different levels of supplemental instruction for students scoring at basic and below basic on the Idaho Reading Indicator. The funding formula does not take into account potential need differences across districts that may have greater numbers of below basic students (and therefore require more supplemental instruction).
We offer the following recommendations for the Legislature and the Department of Education.

**The department and the Legislature should regularly review program funding and distribution methods and revise them to meet present needs.**

Many of the distribution methods were established years ago, and in some cases decades ago, when funding levels and programs needs differed from what they are today. Among the 22 program distributions we examined, many did not distribute funds based on a specific need, as shown in the supplemental appendix. Most of the funding formulas are established in statute, rule, or appropriation bills, and legislative action would be required to make changes. The department’s and the Legislature’s systematic and periodic review of program distribution methods will address issues in a timely manner.

**The department should report district and charter total expenditures by the same program distribution categories within the support budget of public schools.**

The department provides the Legislature with summaries of district financial activities, including the amount of state funds distributed to districts and charters for various programs. Generally, the department does not know or report the extent to which state funds cover districts’ and charters’ costs to operate these programs. Policymakers may find it useful to know whether the amount of money appropriated for a program represents the majority of a district’s or charter’s costs or whether it represents a small portion.
The Legislature should address some of the short- and long-term issues of special education funding.

Within the special education program, we identified problems with how students are counted for funding purposes, ambiguities and conflicts between language in statute and administrative rule, a lack of visibility for how much is being spent on programs, and the absence of a safety net for districts and charters with exceptionally high-cost students. Some of these issues can be addressed in the near future. However, the larger matter of how to meet program needs by combining federal, state, and local funding should be resolved systematically and incrementally over a sufficiently long period of time by assessing program need. Learning how other states have addressed funding for special education and whether these approaches have achieved measurable success could be a starting point.

If the Legislature makes major funding changes to the K–12 program distributions, it should do so over several years to minimize negative consequences.

Funding methods and reporting for public education were not devised overnight. The budgets passed by the Legislature have been shaped and molded over the years to what we see today. The public schools’ budget, as well as those of other state agencies that distribute state and federal funds to districts and charters, have been built around the state’s budgeting and distribution structure. Any major funding changes to program distributions should be phased in over several years to minimize negative consequences.
Study request

Rep. Wendy Horman
March 3, 2016

Senator Clifford R. Bayer
Representative John Rusche

Joint Legislative Oversight Committee
Statehouse
Boise, Idaho 83702

Dear Sen. Bayer and Rep. Rusche:

During the 2016 Legislative Session, HCR 33 created an interim legislative committee to “undertake and complete a study of and make recommendations for the state’s public school funding formula.” In the context of that discussion, it will be important to understand what resources and services that support school districts and charter schools are being funded by the state within the education budgets but outside of the funding formula.

The Joint Legislative Oversight Committee could compliment the work of the interim committee in its study of the public school funding formula by directing the Office of Performance Evaluations (OPE) to conduct an evaluation that would include:

- An inventory of services funded at the state level and delivered to local school districts and charter schools. Examples include Regional Math Labs, Idaho Capacity Builders, Special Education support, Idaho Core Trainers and other professional development contracted for at the state level, etc. To the extent possible, include descriptions of services offered by other state entities outside of the State Department of Education that offer support to local school districts and charter schools. Examples include Idaho Digital Learning Academy and the state’s colleges and universities.

- An analysis of how the resources and services that are currently being funded on behalf of local districts contribute to meeting the statewide needs of different learning modalities, serving Idaho students, and providing fiscal stability to public school districts and public charter schools.
March 3, 2016
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It is recognized that private providers serve local districts and are contracted for at a local level with state funds delivered to local districts. It is not anticipated that this study would include an inventory of such locally contracted services.

Along with the interim committee’s findings, OPE’s evaluation will provide the legislature with a more complete understanding of state support for K-12 public education.

Sincerely,

[Signature]

Representative Wendy Horman
The evaluation will identify all funding sources appropriated by the Legislature for K–12 education. It will also answer the following questions:

1. What funds and services do state agencies provide to school districts?
   a. What state-funded programs do districts deliver to students?
   b. What financial distribution methods are used and what rationale was used to choose those methods?

2. What central services are provided to support school districts at the state level?

3. What funding and expenditure information for public school programs are made available to legislators and the public? What improvements could be made to public education data reporting that would be useful to policymakers?

If feasible to address within the timeframe of the evaluation, we will describe how resources and services funded on behalf of local districts meet statewide needs, serve Idaho students, and provide fiscal stability to public school districts and public charter schools.
Districts and charters receive some funding and services from state agencies other than the Department of Education. In fiscal year 2015, 28 other state agencies or entities had expenditures to at least one district or charter, for a total of more than $52 million. Of this amount, $35 million was in Medicaid payments for medical services needed by students served in the special education program. The $35 million is described in more detail in chapter 2. Of the remaining $17 million, eight agencies made up 99 percent of those expenditures.

This appendix includes only expenditures that went directly to districts or schools, and provides detail on the $17 million not associated with special education. Agencies may have had expenditures that benefited schools but were paid to third parties; those expenditures were not included in this summary.

**Division of Career Technical Education**

Of all agencies other than the Department of Education, the Division of Career Technical Education expended the majority of funding to districts and charters ($12,149,810 in fiscal year 2015). The division’s funding came from both state and federal sources and was expended through three different programs.

**Added-cost funding**
$6,245,439 in state funds were costs for career technical education in regular schools above the funding that schools otherwise received. Funding was program focused rather than based on daily attendance or support units.

**Career technical schools**
$2,170,209 in state funds were for career technical schools that offered specialized education and drew students from at least two districts or charters.

**Perkins grant funding**
$3,734,162 in federal funds were passed through to districts.
Funds were used for improvement and expansion of career technical education programs.

**State Tax Commission**

The Tax Commission makes quarterly payments to districts to replace funding lost when agricultural machinery was exempted from property taxes in 2001. The funds come from the state sales tax and are calculated as described in Idaho Code § 63-3638 (11). Total funding for fiscal year 2015 was $1,972,605.

**Idaho Military Division**

The Military Division operates a school near Orofino called the Youth ChalleNGe Academy. The academy contracts with the Orofino School District for some teaching and food services. The academy receives a $2.4 million federal grant and is required to match 25 percent with state money. In fiscal year 2015, $787,240 in expenditures went to the school district, $545,326 of which came from federal funds.

**Department of Health and Welfare**

The Department of Health and Welfare had expenditures of nearly $36 million in fiscal year 2015, of which more than $35 million was federal Medicaid funding for medical services needed by students served in the special education program. These funds are described in detail in chapter 2. Of the remaining $714,578, approximately half was state dollars for daycare payments to schools for clients in the Idaho Child Care program, and the other half was federal funding for district social workers. The federal funding was based on negotiated contracts with each district and has since ended.

**Office of Drug Policy**

In fiscal year 2015, the Office of Drug Policy distributed $475,057 in federal funds for evidence-based substance abuse prevention programs. The office allocated money to each of the seven Health and Welfare regions using a base amount and a formula for additional funding by population. The office awarded funds to districts and other organizations through a competitive grant process.
Public Employee Retirement System (PERSI)

PERSI had $457,418 in state fund expenditures to four districts in fiscal year 2015. Of that amount, $415,036 went to the Boise School District. The expenditures represent insurance payments for retiree benefits because these four districts are self-funded and administer their own plan.

Board of Education

The Board of Education had $276,518 in expenditures in fiscal year 2015, nearly all of it federal funding ($260,732). The funding was used for the College Access Challenge Grant, which is intended to increase the number of high school graduates who go on to postsecondary education and targets schools with low income populations.

Idaho Commission for Libraries

The Idaho Commission for Libraries awards mini-grants for school library access to districts for the purchase of age-appropriate books by schools, which can be taken home by students, increasing the amount of reading away from school. The grants are awarded for up to $5,000 per qualifying application, and the commission had $200,000 in expenditures for such awards in fiscal year 2015. In addition, the commission passed through federal funding of $7,500 for a pilot program to keep elementary school libraries opened in high poverty schools during the summer months and $1,800 for continuing education grants.
Responses to the evaluation

As your report points out, Idaho’s formula is complicated, and in many cases, it is challenging to determine total expenditures per program and how expenditures are related to student needs. Any changes that are contemplated to the formula should enhance transparency and understanding of how state funding support students.

—Butch Otter, Governor

We recognize funding generated from various programs has little, or no direct relation, to the number of students being served (or their needs).

—Sherri Ybarra, Superintendent of Public Instruction
December 5, 2016

Rakesh Mohan, Director
Office of Performance Evaluations
954 W. Jefferson St.
Boise, ID 83720

Dear Rakesh,

Thank you for the opportunity to comment on the OPE report Distribution of State Funds for K-12 Public Education.

As you know, the 2013 Task Force for Improving Education recommended that the state transition from funding based on seat time to enrollment funding that will support student progress toward mastery and incentivize innovation. The current attendance model of funding does not account for the many options today’s students have to reach their educational goals.

As your report points out, Idaho’s formula is complicated, and in many cases it is challenging to determine total expenditures per program and how expenditures are related to student needs. Any changes that are contemplated to the formula should enhance transparency and understanding of how state funding support students.

Your report will be valuable as the state considers how best to support more personalized, student-centered learning and create a 21st century funding formula. Once again, thank you for your work on this issue and for the opportunity to review your report.

As Always – Idaho, “Esto Perpetua”

C.L. “Butch” Otter
Governor of Idaho
Office of Performance Evaluation  
Director Rakesh Mohan  
954 W. Jefferson St.  
10th St. Entrance, Suite 202  
Boise, Idaho 83702

Friday, December 2, 2016

Dear Rakesh,

First and foremost, thank you for this opportunity to comment on the Distribution of State Funds for Public Education report, and evaluation for the funding mechanisms for K-12. While I recognize this is not the first evaluation report on public education funding, the synopsis of challenges from this report include highlighting contradictory language in statute, appropriation bills, and administrative rule. This is very timely and useful information, especially for the state’s Public School Funding Formula Interim Committee as they move forward in making recommendations.

Additionally, we recognize funding generated from various programs has little, or no direct relation, to the number of students being served (or their needs). When my office became aware of this current pending report, we welcomed the opportunity to work alongside your team in review of the 22 program distributions, including Special Education. It was a pleasure to work on this report on behalf of our public school students and their needs, in an effort to provide fiscal stability and resources for achieving state-set proficiency requirements.

Your report, as well as the research and recommendations from the state’s Public School Funding Formula Interim Committee, will be valuable as the state considers how to move forward on this issue.

Once again, thank you so much for this opportunity to review and provide feedback on this report on behalf of the Idaho’s children.

Sincerely,

Sherri Ybarra

Superintendent Sherri Ybarra