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THE UTAH STATE BOARD OF EDUCATION
Report to Legislative Committee

Necessarily Existent Small Schools Workgroup Recommendations

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Jaime Barrett
Minimum School Program Administrator
Jaime.Barrett@schools.utah.gov

Natalie Grange
Assistant Superintendent of Financial Operation
Natalie.Grange@schools.utah.gov

Scott Jones
Deputy Superintendent of Operations
Scott.Jones@schools.utah.gov

Necessarily Existent Small Schools Workgroup Recommendations

EXECUTIVE SUMMARY

The Utah State Legislature requested that the Utah State Board of Education (the USBE) form a workgroup to make recommendations to the Public Education Appropriations Subcommittee on how to replicate or modify the data utilized in the regression tables, review the carry over formula, and improve reporting of Necessarily Existent Small Schools (NESS) funding. This report contains recommendations from the NESS workgroup to address the concerns raised by the Public Education Appropriations Subcommittee. Implementation of these recommendations require USBE support and Legislative action.

BACKGROUND

The Utah State Legislature provides an annual appropriation for Necessarily Existent Small Schools (NESS), as provided for by UCA 53F-2-304. For fiscal year 2019, the total NESS appropriation is \$32,551,300. Of this amount, \$200,000 is reserved for the priority of funding resident school district students who attend a school in a school district outside of the state. The remaining \$32.3 million is distributed to eligible school districts. Annually, the total amount of the NESS appropriation is increased by the same percentage student enrollment increases and increases to the value of the WPU. This results in an additional 1-2% increase in the overall appropriation each year for enrollment increases plus any increases in the value of the WPU. This appropriation is allocated to school districts by the USBE based on the eligibility of individual school size and regression formulas based on students served.

UCA 53F-2-304 indicates that school districts shall submit an application to the USBE classifying schools in the school district as necessarily existent small schools. WPUs for NESS are computed using regression formulas based on the grade level of students served (elementary, one or two-year secondary, three-year secondary, four-year secondary, or six-year secondary school). School districts receive additional WPUs for eligible NESS schools each fiscal year.

Under statute, the regression formulas allocate a minimum amount of WPUs for schools with an ADM under 10 equal to the amount allocated to a school with an ADM of 10. This minimum level recognizes a certain level of fixed costs in running a school facility, regardless of its size. The regression formula increases WPUs allocated at a school as ADM increases, until the maximum allocation of WPUs is reached. The formula then decreases the WPUs allocated until the school's ADM reaches the maximum allowable ADM for the school type. The maximum size of school is also established in statute. The regression formulas were developed in consideration of the fact

that as ADM increases beyond a certain point at a school, the regular K-12 funding received by the school district may provide economies of scale to cover the costs of operating the school.

During the 2018 legislative session, the Public Education Appropriations Subcommittee received a request to increase funding for NESS in the amount of \$500,000 ongoing over a five-year period, a total increase of \$2.5 million. However, questions were raised regarding how the funding is allocated to school districts, why a carry forward balance is reported in this program year-over-year, and how the funds are tracked and reported by each school district. The Legislature requested that the USBE form a workgroup to make recommendations to the Public Education Appropriations Subcommittee to address the concerns above.

WORKGROUP METHODOLOGY

The USBE worked with the Utah School Superintendents Association and the Utah Association of School Business Officials to ensure that the NESS workgroup was staffed with knowledgeable members and convened this group for several meetings. The NESS committee is made up of the following individuals representing the indicated groups:

School District Superintendents:

Steve Carlsen – Box Elder School District
Sam Ray – North Sanpete School District
Scott Rogers – Tooele School District
Dale Lamborn – Rich School District
Ron Nielson – San Juan School District

School District Business Administrators:

Chad Lloyd – Sevier School District
Dee Miles – Duchesne School District
Bruce Williams – Garfield School District
Cary Reese – Kane School District
Todd Hauber – Park City School District

Representatives from the Legislative Fiscal Analyst Office, the Governor’s Office of Management and Budget, and USBE staff also participated in the workgroup.

Meeting Discussion

Prior to the first meeting, NESS workgroup members were provided a copy of the NESS application, every school district’s NESS application for FY2019, and a video demonstrating how the current NESS appropriation distribution is calculated and demonstrated all of the data inputs used in the calculation. This video is on the USBE YouTube channel, under the financial operations channel or at the following link:

https://www.youtube.com/watch?v=1seJ-Aond-E&list=PL0qOfA_7MRpxCONeclg6MAqFHByvah1Ju

NESS workgroup members were asked to come prepared to discuss the current formula, review the eligibility criteria, review the school district's NESS applications, and make a list of questions. The first meeting of the workgroup answered questions regarding the formula distribution and discussed various questions surrounding the application process, the regression formulas utilized to distribute funding, the purpose of NESS funding, and how to track spending by individual school.

The workgroup was presented with the following questions to consider and discuss:

- 1) What is the purpose of NESS funding?
- 2) What is the definition of a NESS school?
- 3) Should the eligibility criteria remain the same? Should it be adjusted?
- 4) What expenditures/costs should NESS funding cover?
- 5) Are the ADM maximums in statute still reasonable? Do they need to be adjusted? Do they need to be expanded to include grades K-12 or K-8 schools?
- 6) Does a NESS school cost more to administer than a non-NESS school? Can we make this comparison with newly collected school level reporting?
- 7) How are other states funding small or remote schools?

The NESS workgroup discussed the following points throughout the meetings held.

Application Process

53F-2-304(2) indicates that the USBE shall classify schools in the school districts as NESS upon application. In past years, a committee of employees of the USBE has been established for making decisions regarding NESS eligibility. This process has occurred once every couple of years and all schools have been required to resubmit applications on those years. USBE has implemented a system whereby school districts certify that all of the information contained in their prior application is still true and accurate in off-years between applications. Statute is unclear if applications are required of all schools that wish to qualify annually, or just new schools that wish to qualify.

Eligibility Criteria

Currently in statute, the regression tables establish maximum sizes for funding for the NESS program. The existing tables are as follows:

- 1) 160 ADM for elementary school
- 2) 300 ADM for one or two-year secondary school
- 3) 450 ADM for three-year secondary school
- 4) 500 ADM for four-year secondary school
- 5) 600 ADM for six-year secondary school

In addition to the ADM size limitations outlined in statute, the USBE rule adds additional eligibility criteria, as authorized by statute. Additional criteria are as follows:

- One-way bus travel in grades K-6 is more than 45 minutes, or in grades 7-12 is more than one hour and 15 minutes.

- USBE rule offers exceptions under which a school may qualify as a NESS school even if it does not meet the one-way bus travel requirement above (the school must still meet the ADM requirement above to qualify). The Superintendent may qualify a school as NESS if the school is in a school district which has been consolidated to the maximum extent possible, if the school is growing, if consolidation results in undesirable social, cultural, and economic changes in community, etc., or to accommodate for construction or capital costs.

The one-way bus travel section in board rule is not clear. In reviewing school district applications, this eligibility criterion is difficult to demonstrate by applicants and is difficult to verify by USBE. Also, this criterion is not consistently applied between all applicants due to a lack of clarity in USBE rule.

Regression Tables

Workgroup members discussed that the regression tables were revised utilizing self-reported school district data from 2011. The analysis at this time compiled expenditures at a school level for schools in the school districts which receive NESS funding and calculated the difference in costs between NESS schools and non-NESS schools in each school district. General fund expenditures (mostly maintenance and general operation costs) were included in the expenditures reported, but capital, debt, and other similar costs were not. This analysis found that, in total, NESS funding was covering approximately 59.5% of the additional costs that existed (costs above and beyond the average costs for a non-NESS school) in the state.

In 2011, the NESS regression formulas were adjusted as a result of the analysis completed. However, since 2011, data on the school level costs of operating NESS schools has not been collected by the USBE and major changes to the regression formulas have not occurred. USBE is currently collecting its first year of school level expenditure data for fiscal year 2018. USBE is anticipating this data can be utilized to show the increasing cost of administering a NESS school when compared to a non-NESS school. Also, there is a different regression table utilized for each school size stipulated in statute. The USBE does not have the source data utilized in the various scenarios to replicate the regression tables.

As schools consolidate or adjust grade levels served, the current regression models do not provide for a school serving grades K-12, K-8 or K-9. Currently, the practice of the USBE has been to split these schools into two schools for purposes of determining NESS funding. Because regression formulas do not exist for these types of schools, it is difficult to know how much funding each school “should” receive. The USBE is not comfortable with this current practice.

Carry Forward Distribution Formula

In prior years, the current NESS formula has not distributed all of the current year appropriation to eligible school districts. In the 2013 General Legislative session, 53F-2-304 was modified to create the concept of a distribution formula based on “...the tax effort of a local school board.” USBE rule 277-445-3(6b) links the tax effort distribution formula to prior year undistributed carry forward funds. It is unclear how the taxing effort of a school district relates to the distribution of

NESS funds. The workgroup discussed possible alternatives including distributing through the allocation of NESS WPU any carry forward funds in the current year rather than in the next fiscal year.

Reporting of NESS Funding

The USBE has never required the uses of NESS funds be reported on the Annual Program Report (APR) as a separate program. Thus, USBE cannot report to policy makers specific school level expenditures with these funds. Presently, school districts report NESS funding combined with their grades K-12 WPU funds. 53F-2-304(10) and R277-445-3(7) require LEAs to utilize NESS funds for maintenance and operation of NESS programs in the schools where the funds are allocated and to supplement not supplant other funds. Currently, the USBE is not monitoring this requirement.

Summary

The workgroup evaluated different ideas and unanimously agreed to forward the following recommendations to the State Board of Education for approval to present these to the Public Education Appropriations Subcommittee. The recommendations are divided between short-term recommendations (items that can be accomplished within a year) and long-term recommendations (items that will take over a year to accomplished due to required data needed, further evaluation from the workgroup, and possible legislative changes).

RECOMMENDATIONS

Short-Term:

- 1) Clarify the eligibility criteria for the one-way bus travel and consolidation in USBE rule. Proposed language is recommended that the one-way bus travel is measured from the current NESS school to closest available school within the school district that has student capacity requiring students in grades K-6 to travel more than 35 minutes or students in grades 7-12 to travel more than 60 minutes. The consolidation criteria would be simplified to mean the next closest school has reached maximum student capacity; therefore, the NESS school cannot be consolidated further. Adoption would require changes to USBE Rule 277-445 to implement.
- 2) Revise the application process for NESS funding by requiring a school district to apply for NESS funding for all eligible NESS schools once every four years and providing certifications the other three years. This process would occur for the 2020 fiscal year. If a school qualifies for NESS funding in FY2020, the school district then certifies that the school's FY2020 application is still true and accurate for the next three fiscal years. The school district would only need to reapply for previously approved schools once every four years and complete certifications the other three fiscal years. Adoption would require changes to USBE Rule 277-445 to implement.
- 3) Revise the carry forward distribution methodology to distribute any remaining funds from FY2019 in the current fiscal year based on the number of WPUs generated for eligible NESS schools. This would occur before year end 2019. Adoption would require changes to USBE Rule 277-445 to implement and possible statute clarification.

- 4) Create a new NESS program in the APR to be used in combination with school location codes to report school district NESS expenditures to provide better transparency and accountability of NESS funds for decision makers. This could begin in FY2020. Adoption would require changes to the USBE chart of accounts, USBE data reporting system (UPEFS), and to the transparency website.

Long-Term

- 1) Replicate the regression formulas established in statute utilizing school level reported expenditures and create a methodology that governs how to adjust the regression tables to capture increased costs in the future. This could be accomplished by adopting the current regression models in statute and establish regression models for the additional grade levels served (K-12, K-8, or K-9). Also, the work group could consider alternative regression models such as utilizing only one regression model for elementary and one for secondary grades served. This process will take into consideration the school level reported expenditures for FY2018 and FY2019. This process could take until fiscal year 2020 to complete. Adoption would require changes to legislation and USBE Rule 277-445 to implement.