

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

Nicole Galloway, CPA

Missouri State Auditor

Elementary and Secondary Education Funding Trends

Report No. 2021-027

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auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Elementary and Secondary Education Funding Trends

Funding Trends

State funding for elementary and secondary education has kept up with inflation over the past decade, but continues to be significantly less than state funding provided by other states. Missouri also continues to fund elementary and secondary education from local sources at a significantly higher level than the national average.

State Adequacy Target Trends

The State Adequacy Target (SAT) paid to school districts, which is used as the measure of whether the state's Foundation Formula has been "fully funded," has remained relatively level over the past decade in current dollars, but has declined when adjusted for inflation. In addition, state law defining the SAT has changed in recent years to reduce the amount of state funding considered to be "adequate."

Due to the nature of this report, no rating is assigned.

Elementary and Secondary Education Funding Trends

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NICOLE GALLOWAY, CPA **Missouri State Auditor**

Honorable Michael L. Parson, Governor
and
Members of the General Assembly,
and
Charles Shields, Board of Education President
and
Dr. Margie Vandeven, Commissioner of Education
Jefferson City, Missouri

We have audited certain aspects of the Department of Elementary and Secondary Education funding trends. We analyzed historic state and local funding for school districts to determine trends and gaps in funding levels. The objectives of our audit were to:

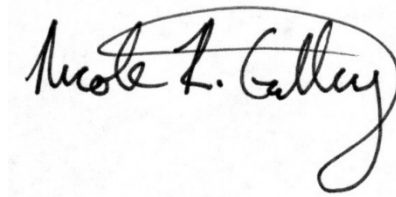
1. Evaluate elementary and secondary education funding trends.
2. Evaluate Missouri elementary and secondary education funding trends relative to other states.

Except as discussed in the following paragraph, we conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

Government Auditing Standards require us to obtain and report the view of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report. Due to the nature of this report, and due to the majority of the findings being legislative in nature, we were unable to obtain views of responsible officials for the findings, conclusions, and recommendations outlined in the Management Advisory Report.

For the areas audited, we identified (1) multiple trends in elementary and secondary education funding, including overall state funding has generally kept up with inflation, but state adequacy targets have not, and (2) state funding for education lags behind state funding levels of other states.

The accompanying Management Advisory Report presents our findings arising from our audit of elementary and secondary education funding trends.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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Elementary and Secondary Education Funding Trends

Introduction

Background

For school year 2019-2020, Missouri had 555 public and charter school districts with a fall enrollment of 875,043 students. School districts receive funding for different programs from different sources (local, state, and federal). The amount of basic state aid distributed to Missouri's public school districts is calculated by what is commonly referred to as the Foundation Formula.

Foundation Formula

The Foundation Formula, which is defined by Section 163.031, RSMo, is a complex computation based on several factors. Funds received through the Foundation Formula must be used primarily to pay teachers' salaries in the school district. Missouri last restructured its funding formula for elementary and secondary education with the passage of Senate Bill 287 in 2005. Minor revisions to the formula have been made since then. The Foundation Formula allocates state funding to school districts based on the districts' average daily attendance (ADA), increased by the weighted categories of free and reduced lunches, Special Education, and limited English proficiency students; multiplied by the State Adequacy Target (SAT); multiplied by the Dollar Value Modifier; and reduced by the local effort. The SAT is the average operating expenditures of the top 25 percent of school districts with the highest scores on the Annual Performance Report, and that component indicates whether the Foundation Formula is "fully funded." The Foundation Formula contains a hold harmless provision, which states no district shall receive less state aid per student under the formula than it received in school years 2005 and 2006.

Following the recession in 2007-2008, the legislature updated Section 163.011, RSMo, by passing Senate Bill 291 in 2009 that removed a 5 percent growth cap on operating expenditures from the SAT calculation, causing a significant increase to the SAT in 2009. The state relied upon funding from the State Lottery to cover the funding gap left by the state appropriations, but it was not enough to fully fund the Foundation Formula. The formula was not "fully funded" from 2013 through 2017. The legislature re-established the 5 percent cap when calculating the SAT with the update to Section 163.011, RSMo, by Senate Bills 586 and 651 in 2016. As a result, the Foundation Formula has been fully-funded in fiscal years 2018 through 2020. See MAR finding number 2 for additional detail.

Other State Funding Mechanisms

Thirty-six states, the District of Columbia, and the United States territory of Puerto Rico use a foundation formula funding mechanism. This mechanism allocates education funding based on various criteria. A state's weighted ADA then gets multiplied by the state adequacy target and dollar value modifier, which then subtracts the amount of local funding to equal the state funding to be distributed.

Eight states use a Resource-Allocation model funding mechanism. States using this mechanism distribute funds based on the cost of resources, such as



Elementary and Secondary Education Funding Trends Introduction

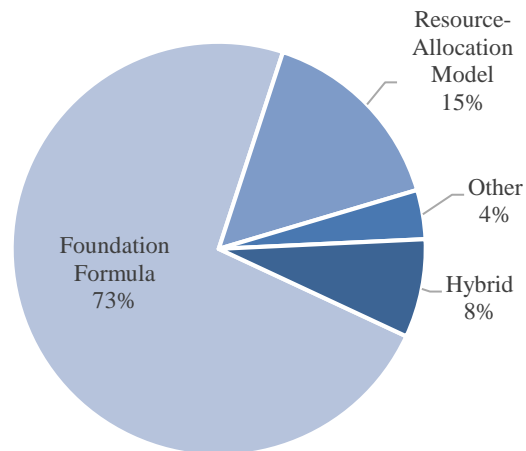
staffing and course materials. For example, the state would provide funding for a set number of teacher positions based on student counts.

Four states use a hybrid of the Foundation Formula and the Resource-Allocation funding mechanisms. States using this mechanism often combine elements of the Foundation Formula and Resource-Allocation models, and various costs factors.

Vermont and Wisconsin each use a unique funding mechanism different than the other mechanisms. Vermont's funding system does not have a fixed funding amount set by the state, but the school districts determine their own funding levels and split the funding between the school district and the state. Wisconsin's funding system uses a combination of formulas to allocate funding to school districts with some distributions performed on the basis of per student value of taxable property or by program cost.

Figure 1 provides the breakdown of the different funding mechanisms in the country.

Figure 1: Usage of funding mechanisms



Source: Prepared by SAO from the Education Commission of the States' 50-State Comparison: K-12 Funding.

Scope and Methodology

Our analysis focused on the funding trends at the state level and per student and district. The scope of our audit included, but was not necessarily limited to, the 10 years ended June, 30, 2020.

Our methodology also included gathering information regarding the funding levels of Missouri's elementary and secondary education, information and statistics of other states' funding of education, and also researching the changes in legislation over the years.



Elementary and Secondary Education Funding Trends Introduction

To evaluate elementary and secondary education trends for the state as a whole, on a per district basis, and on a per student basis; we obtained financial data from the Department of Elementary and Secondary Education.

To evaluate elementary and secondary education trends relative to other states, we used information from the National Education Association's Ranking of States and Estimates of School Statistics, and the Education Commission of the States' 50 State Comparison: K-12 Funding.

Elementary and Secondary Education Funding Trends

Management Advisory Report

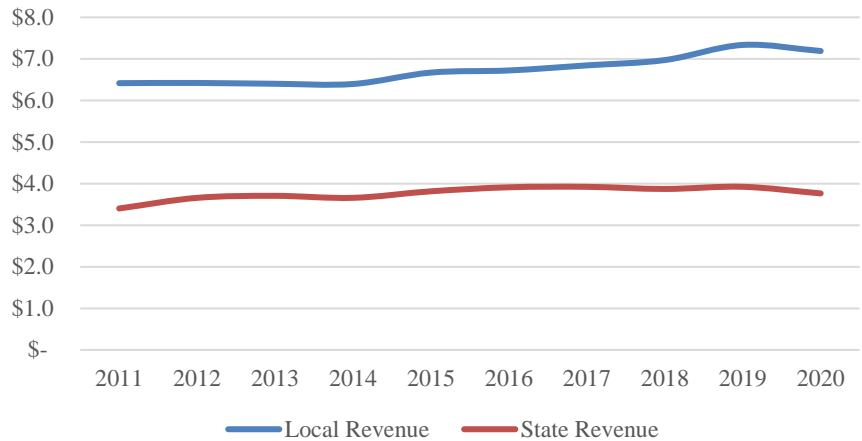
State Auditor's Findings

1. Funding Trends

State funding for elementary and secondary education has kept up with inflation over the past decade, but continues to be significantly less than state funding provided by other states. Missouri also continues to fund elementary and secondary education from local sources at a significantly higher level than the national average.

Figure 2 shows Missouri's elementary and secondary education funding from state and local sources for the past decade, adjusted for inflation.

Figure 2: Missouri's elementary and secondary education funding from state and local sources, adjusted for inflation, fiscal years 2011 to 2020, in billions



Source: SAO prepared from the Missouri Department of Elementary and Secondary Education's (DESE) State Annual Secretary of the Board Reports and adjusted for inflation using Consumer Price Index data from the Bureau of Labor Statistics <<https://data.bls.gov/timeseries/CUUR0000SA0/>>

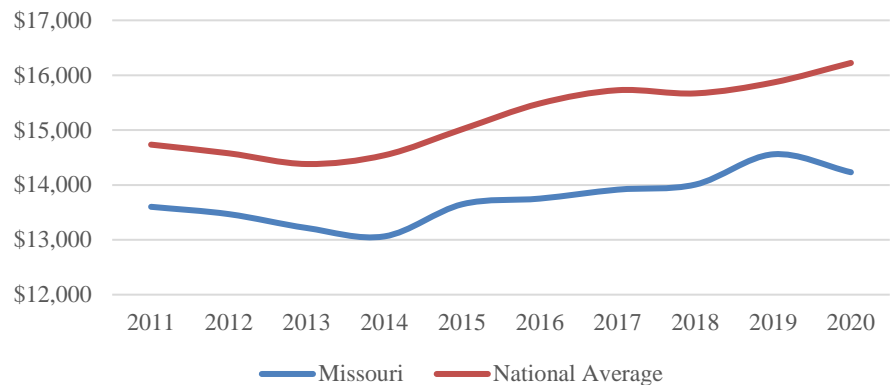
Revenue per ADA

Missouri's total (state, local, and federal) funding per Average Daily Attendance (ADA) and the national average steadily decreased from 2011 to 2014, then significantly increased from 2015 to 2019 with the national average increasing at a higher rate. In 2020, Missouri's total funding per ADA decreased while the estimated national average for 2020 continued to increase. See the trends as shown in Figure 3.



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Figure 3: Missouri's elementary and secondary education funding per ADA compared to the national average, adjusted for inflation, fiscal years 2011 to 2020

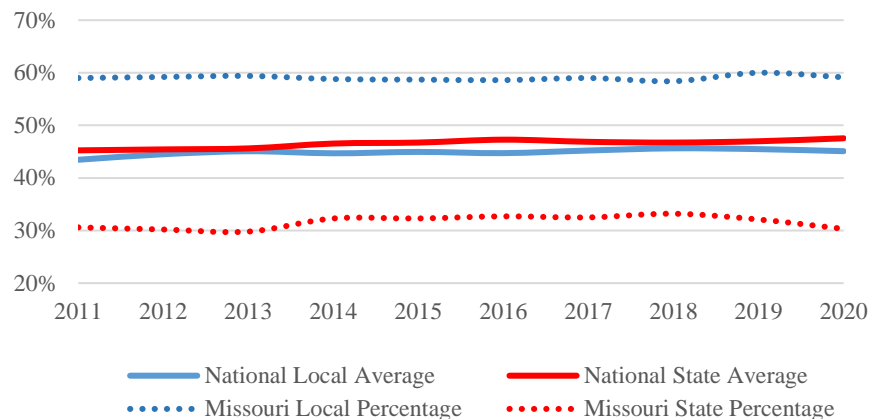


Source: SAO prepared from the National Education Association's (NEA) Ranking of States and Estimates of School Statistics for the National Average, the Missouri Department of Elementary and Secondary Education's (DESE) Annual Secretary of the Board Reports, and adjusted for inflation using Consumer Price Index data from the Bureau of Labor Statistics <<https://data.bls.gov/timeseries/CUUR0000SA0>>

State funding portion significantly less than national averages

In 2020, Missouri was ranked 49th in the nation in the percentage of school funding coming from state resources (32 percent), according to NEA data. As a result, Missouri districts must rely on local funding sources at a significantly higher rate than the national average. Nationally, school districts receive slightly more funding for elementary and secondary education from state sources than they do from local sources. In Missouri, this ratio is significantly different, with districts receiving an average of 60 percent of funding from local sources, versus approximately 30 percent from the state formula. The remaining portion of funding is from federal sources and is consistent from state to state. Figure 4 shows this trend comparison from fiscal year 2011 to 2020. Federal sources are not depicted.

Figure 4: Percentages of source funding, national average and Missouri, fiscal year 2011 to 2020



Source: SAO prepared from the NEA's Ranking of States and Estimates of School Statistics



Conclusion

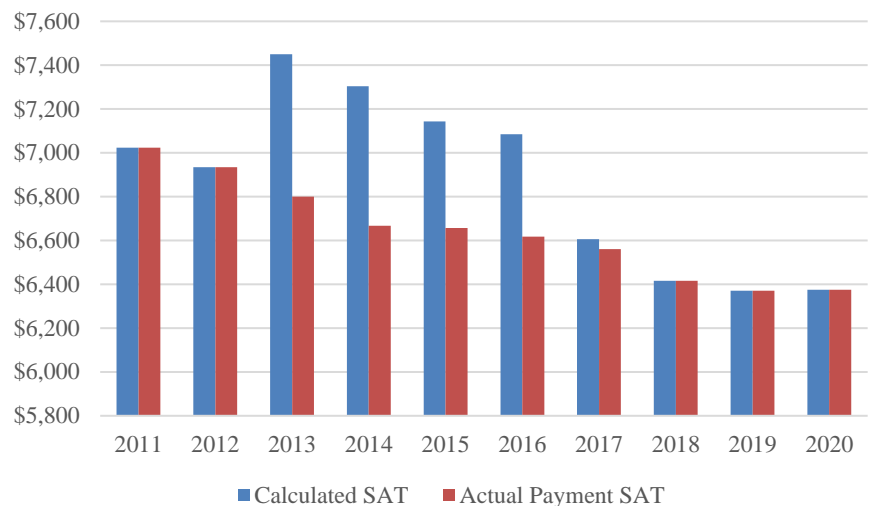
Total state funding provided to Missouri school districts has kept up with inflation over the past decade. However, state funding per-student is consistently lower than the national average, and Missouri school districts consistently rely on local funding at a significantly higher rate than the national average.

2. State Adequacy Target Trends

The State Adequacy Target (SAT) paid to school districts, which is used as the measure of whether the state's Foundation Formula has been "fully funded," has remained relatively level over the past decade in current dollars, but has declined when adjusted for inflation. In addition, state law defining the SAT has changed in recent years to reduce the amount of state funding considered to be "adequate."

The SAT is the calculated amount of state funding paid per student, based on the average operating expenditures of the top 25 school districts with the highest Annual Performance Report¹ scores. The SAT paid to schools districts ranged from \$6,117 (2011) to \$6,375 (2020) per student. Figure 5 shows the calculated SAT amount compared to the actual amount distributed, on average, per student for fiscal years 2011 through 2020, adjusted for inflation.

Figure 5: Comparison of calculated SAT to actual SAT, adjusted for inflation, fiscal year 2011 to 2020



Source: Prepared by SAO from the DESE's State Aid Payments Data - Basic Formula Actual Payments Report, and adjusted for inflation using Consumer Price Index data from the Bureau of Labor Statistics <<https://data.bls.gov/timeseries/CUUR0000SA0>>

As shown in Figure 5, the Foundation Formula was not fully funded for 5 of 10 years from 2011 to 2020. In 2016, Senate Bills 586 and 651 reinstated a 5

¹ The Annual Performance Report evaluates the performance standards set by the Missouri School Improvement Program.



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percent cap on school districts' operating expenditures for the purpose of calculating the SAT that had been removed from state law in 2009. The implementation of the 5 percent cap resulted in the reduction of the SAT for the 2017 and subsequent school years. As shown in Figure 5, since the reinstatement of the 5 percent growth cap, the SAT has not kept up with inflation. The state target for funding per student has steadily decreased over the last 10 years, when adjusted for inflation.

The SAT is intended to ensure the adequacy of state funding to the state's school districts, however, the current formula to calculate the amount distributed has not kept up with inflation.

Recommendation

The General Assembly continue to monitor and evaluate the state's Foundation Formula to ensure the SAT keeps up with inflation and is providing the desired level of funding to school districts.

Auditee's Response

Due to the legislative nature of the recommendation, no management response can be obtained.