To: The Honorable Randy McNally, Speaker of the Senate
    The Honorable Cameron Sexton, Speaker of the House of Representatives
    The Honorable Dolores Gresham, Chair, Senate Education Committee
    The Honorable Mark White, Chair, House Education Committee
    The Honorable Bo Watson, Chair, Senate Finance, Ways, and Means Committee
    The Honorable Susan Lynn, Chair, House Finance, Ways, and Means Committee

From: Justin P. Wilson, Comptroller of the Treasury

Date: December 4, 2019

Subject: Fiscal year 2019-20 Basic Education Program (BEP) calculation

The Comptroller’s Office has completed its annual review of the BEP calculation, and I am exceedingly pleased with the results. We identified only two points for revision, and both were negligible.

All in all, these revisions amounted to a net overallocation of $6,000 in state funding. When corrections were made, one district generated an additional $1,000, and four districts’ funding decreased by $7,000 in total. The remaining 137 districts had no change in funding.

Out of a total calculation of over $4.8 billion, a discrepancy of $6,000 is about as close to zero as you can get. The misallocations average out to an error of 1.2 cents per $10,000 distributed, and I commend the Department of Education on the accuracy of this year’s BEP calculation.

Summaries of the revision points and two policy items for consideration are attached.

cc: The Honorable Penny Schwinn, Commissioner, Department of Education
    The Honorable Stuart McWhorter, Commissioner, Department of Finance and Administration
    Dr. Sara Morrison, Executive Director, State Board of Education
    Mr. Blake Harris, Chief of Staff to the Governor
Attachment A: Summary of revision points

Individually and taken together, the revision points identified for fiscal year 2019-20 are negligible.

Adult students in 9th grade
Every component in the BEP depends on student enrollment. While most students are “traditional” students progressing through each grade, a small number of districts also enroll adult students who previously dropped out of school.

Due to a technical issue, two districts ended up with a fraction of negative adult students in 9th grade. These -0.125 students were subtracted from the districts’ total 9th grade enrollment and, correspondingly, their total enrollment for all grades. As a result, the districts generated approximately $646 less in state and local funding than they should have. A later part of the calculation cancelled out this issue for one district; after making adjustments, this amount rounded up to an additional $1,000 of state funding for the other district.

Minimum funding adjustments for select districts
As set in state law, each district is guaranteed a minimum amount of state funding. This minimum depends on a base amount that is tied to the district’s funding in fiscal year 2015-16. If the district does not generate enough state funding in the current year to meet that minimum level of funding, it receives additional state money to make up the difference.

After calculating this year’s base amount for all districts, one district updated its enrollment figures, and the base amounts were not recalculated. Because many components of the BEP are interrelated, updating this district’s enrollment changed the base amounts for five districts.

When these revised base amounts were fed into the minimum level of state funding guaranteed in the current year, those minimum amounts dropped slightly. As such, the five districts affected essentially had a lower threshold to clear: the state funding they generated this year was closer to the low, newer minimums. Consequently, four of those five districts received smaller adjustments to make up the difference, and their total state funding decreased by $1,000 to $4,000.
Attachment B: Policy items for consideration

The Comptroller’s Office does not consider the two items below as errors, but rather matters that may merit further discussion. Both points relate to the adjustments in the final stage of the BEP calculation that provide supplemental state funding to some districts.

As outlined in the second revision point in Attachment A, each district is guaranteed a minimum amount of state BEP funding. This threshold – in a sense, a floor on the BEP – is tied to the amount of state funding the district received in fiscal year 2015-16. If a district does not generate enough state funding in the current year to meet that threshold – typically because it is losing students – it receives additional state funding to make up the difference.

Unlike previous minimums in the BEP, however, state law requires that this threshold “be adjusted to reflect decreases in enrollment” since fiscal year 2016-17.

Updated count of at-risk students and English learner students

To find a district’s minimum level of state funding, the Department of Education calculates a base amount related to the district’s funding in fiscal year 2015-16.

First, the department checks whether the district has lost students overall since fiscal year 2016-17, as outlined in state law. If a district’s total enrollment has gone down over this time, the department adjusts the district’s enrollment figures to reflect the loss of these students.

The department then reruns the BEP calculation with the unit costs from fiscal year 2015-16 (e.g., teacher salaries, insurance premiums, textbooks). For districts that have lost students, the resulting figure is essentially how much BEP funding the district would have generated in fiscal year 2015-16 with that lower number of students. This figure then serves as the foundation of the district’s guaranteed amount of state funding in the current year.

In the process of adjusting the district’s enrollment, the counts are not changed for English language learner students and students identified as at-risk (those whose families receive assistance from SNAP or TANF, for example). Instead, these counts remain at their levels in fiscal year 2015-16, regardless of whether the district has lost students over that period. The Department of Education may wish to consider updating these counts each year to be consistent with the rest of the calculation.

Rare scenario for districts losing students overall

As outlined above, the Department of Education calculates each district’s base amount by checking whether it has lost students since fiscal year 2016-17. There are two main scenarios:

- **Gaining students overall.** If a district has enrolled more total students in recent years, the base calculation will use the lower enrollment figure from fiscal year 2015-16. As a result, the district’s base will be the amount of state funding it received in fiscal year 2015-16.
- **Losing students overall.** If a district has lost students overall, the base calculation will instead use the more recent enrollment figures with these students subtracted. Because fewer students feed into the calculation, the district’s base will be less than the amount of state funding it received in fiscal year 2015-16.

Due to the complexity of this calculation, a third, more unusual situation also occurs. In rare cases, a district may lose students overall, yet at the same time enroll significant numbers of new career and technical education (CTE) and special education students. In other words, although the district has lost students in total, a higher proportion of its current students take CTE classes or are identified as special education.
Because the BEP provides more funding for these components – additional teachers per student, and higher-than-average costs for equipment and materials – these students generate more funding than a normal student. As such, there are two competing forces: while losing students in total decreases the district’s base funding, the additional funding for new CTE and special education students increases its base funding. Depending on which happens faster – losing students overall or gaining new, more expensive students – the district’s base funding may ultimately decrease or increase.

And in limited cases, the new, more expensive students “win.” In short, the new CTE and special education students generate enough extra funding to cancel out the money lost from students leaving in the aggregate. As a result, the district’s base may in fact go up – the one scenario where its base is adjusted upward, rather than decreasing or holding at the level from fiscal year 2015-16.

The department may wish to consider whether these rare cases of a district’s base amount increasing are consistent with its minimum level of state funding being “adjusted to reflect decreases in enrollment,” as specified in state law.