



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

September 10, 2015

Honorable Phil Bryant, Governor
Honorable Tate Reeves, Lieutenant Governor
Honorable Philip Gunn, Speaker of the House

Dear Gentlemen:

As required by Section 37-151-7(1)(g), Miss. Code Ann. (1972), the Office of the State Auditor (OSA) has reviewed the FY 2017 preliminary estimate calculation of the Mississippi Adequate Education Program (MAEP). ***OSA finds the data entered into the MAEP formula are not reliable nor do the data support the requests for MAEP funding made on behalf of the State's school districts.*** As you are aware, I have several concerns about the Mississippi Department of Education (MDE) data; however, I want to present my overarching concerns OSA has with the formula structure itself and the appropriation process. This November, Mississippians across this state will have an opportunity to vote on a Constitutional Amendment that purports to fully fund schools based on a formula—MAEP, which is not currently defined in the Mississippi Constitution. This means that even if this amendment passes, the Legislature can still change the formula itself at any time through legislative action. OSA has more than a decade of evidence that the MAEP formula does not serve its intended function, regardless of the many emotional arguments to the contrary. The following are key points describing OSA's position on the State MAEP formula and the appropriation of education funding; not the often flawed local data used in the formula.

- (a) In a full recalculation year, the MAEP formula calculates Base Student Cost (BSC) in order to determine the per student costs for every Mississippi K-12 student before the statutorily defined Add-On Program Costs and Other Program Costs. BSC makes up a bulk of the formula—\$2.44 billion in the preliminary FY 2017 MAEP Cost Estimate. As defined in 37-151-7, §MS Code of 1972, for each of the components of the BSC: Instructional Cost; Administrative Cost; Operation and Maintenance of Plant; and Ancillary Support Cost, the MAEP formula only takes into consideration the expenditures from what is considered an “instructionally successful” school district. An “instructionally successful” school district is defined by MDE as a “C” level school based on the MDE adopted Accountability Model. An “instructionally successful” district can be further defined in the State Accountability Model if it meets the criteria for a successful school based on achievement, growth, and graduation rates in Mississippi classrooms.

To further emphasize this thought, the formula ineffectively uses MDE's “C” level schools as the starting point for efficiency—not performance. ***In fact, to state this point very clearly, district educational performance is not actually measured as an outcome, in the MAEP formula.*** The sole ***outcome*** of the formula is the amount of money each district gets for their approved share of the total statewide K-12 education appropriation—not what the districts' educational performance will be or even what their educational needs are. The biggest example of this in the MAEP formula is salary and benefits for classroom teachers. The components of the BSC all utilize historical expenditure

information rather than actual costs. This means that *each* of the 149 districts' projected salaries and benefits are based on the historical expenditures of essentially the classroom salaries and benefits of *only* the 30, or so "C" rated schools—\$3,007.22/per student in those districts (in the last full recalculation year.) It is also worth mentioning that the definition of a "C" rated school changes frequently, conceivably every year. Therefore, it is very difficult to establish a reasonable rationale of why it is used in the MAEP formula. To further complicate this component of the formula, the Legislature codifies the minimum salary level based on a teacher's experience and level of education. ***To sum up, the Legislature requires a school district to pay their teachers a prescribed amount, but only gives them funds based on what "C" rated schools' costs were in the past year;*** and what the formula calculates as the districts portion of the total statewide instructional costs amount appropriated, the formula fails here. ***In over 55% of local school districts, in the last year of full recalculation, the formula did not calculate enough in the instructional cost component to cover the costs of salaries and benefits for classroom teachers.*** This takes place before a single dollar is appropriated to school districts. To be clear, this is not a situation that can be corrected by fully funding the formula, because at least 55% of all school districts will still not have the resources to satisfy the instructional costs necessary to fulfill their budgeted needs, based on the way the current formula is designed.

- (b) From a public policy perspective, educational need is far more important than budgeted need. Quality education, without question, is the main driver of our Mississippi economy. In order for K-12 public schools to fulfill this very important obligation, they have to receive funding based on educational needs. These needs are much more than just what is necessary to educate all Mississippi children. In fact, there are probably several different definitions for educational need within the K-12 public education system.

It goes without saying that the MAEP formula's initial intention was to put all Mississippi school districts on a level playing field when it came to educational funding, with rising concern based on a growing trend of lawsuits around the country. ***However, the MAEP formula absolutely does not distribute funds according to educational need.*** Directing education dollars to where they are most needed should always be a primary goal and should be evaluated and re-assessed regularly and constantly. Education funds should always be directed where they do something good. Educational need should be defined in terms of the dollars required to produce a given desirable outcome, and thus should be linked to performance in some way.

OSA staff has reviewed over ten years of school district expenditures, provided by MDE, and found no correlation between past MAEP educational funding and school district or children's education performance or achievement, based on the Statewide Accountability Model. This is the same model that has been changed conceivably every year. "No correlation" means that the idea of giving more funding to low performing districts will somehow improve their performance does not happen. In fact, because the formula contains no measurement or adjustment for outside factors, ***it once again only serves the purpose of dictating what each district gets in educational funding—not what they actually need.***

- (c) Accountability and transparency are necessary to ensure that the State appropriated funding is being utilized as intended by the Legislature using the outputs from the MAEP formula. The MAEP appropriation no longer line-items educational expenditures and does not penalize poor management decisions related to expenditure of funds. Regardless of how a district performs, they get basically their full appropriated amount each year—with no monetary penalty. The practice of line-iteming expenditures would benefit all districts, children, and taxpayers. School Districts already identify what they need for each program while developing their educational needs for the formula. Each program or educational cost is evaluated at each district to determine needs and wants and that information is forwarded to MDE to develop an aggregate amount for all Mississippi K-12 public education funding—currently the request is \$2.46 billion. The information from the local districts needed to line-item educational funding is already being done and could very easily be implemented with legislative action. Line- iteming the MAEP would not only add clarity to the needs of education,

but would also strengthen the arguments for basing funding on current and not historical expenditures that no longer have context. Mississippi tax payers deserve the ability to see and identify where exactly the money is being spent and this practice will also give a deeper argument to school districts that ask for additional funding. Line-iteming would also remove the perception that school districts don't spend the money in the classroom, because everyone would know where the money is going and where it is spent. ***It is also worth mentioning that if this recommendation was put into practice, it would become much easier in the future to analyze and possibly establish which educational costs could impact educational performance and actual educational need.***

Recap of MAEP Preliminary Estimate Amounts

Senate Bill 2604, passed during the 2006 regular legislative session, changed the year-to-year calculation for funding MAEP. Under the amended law, BSC is only completely recalculated every four years. In all intervening years, a percentage of the prior year per pupil BSC is multiplied by the applicable annual inflation rate (as determined by the State Economist) and then further adjusted according to law to provide a total MAEP amount. For the FY 2017 budget, this calculation contains an annual inflation rate of 0.891%, as determined by the State Economist. The total preliminary estimate for FY 2017 MAEP proposed by the MDE, and based on data they submitted to an independent CPA is **\$2,461,918,612**. The MAEP Base Cost (before Add-on programs) – **\$1,958,599,516**, and the total MAEP estimated total are calculated below:

CALCULATION OF MAEP BASE COST (Before Add-On Cost)	
Base Student Cost (BSC)	\$ 5,374.07
Estimated ADA X BSC:	\$ 2,444,240,644
At-Risk Student Portion	\$ 88,560,908
Deduction for Required Local Contributions	\$ (576,882,025)
Additional Funding <i>(to meet statutory minimum funding guarantee of 2% above the 2001-2002 funding)</i>	\$ 2,679,989
Total MAEP Cost (Before Add-On Cost)	\$ 1,958,599,516
MAEP PRELIMINARY ESTIMATED TOTAL	
MAEP Base Cost, before Add-on Programs	\$ 1,958,599,516
Add-on Program Costs of consisting :	
Special Education	\$ 285,261,821
Vocational Education	\$ 53,069,990
Gifted Education	\$ 44,829,822
Transportation	\$ 70,867,344
Alternative School	\$ 32,010,523
Other Programs	\$ 17,279,596
Total Final MAEP Cost	\$ 2,461,918,612

Conclusion Regarding the MAEP FY 2017 Preliminary Estimate

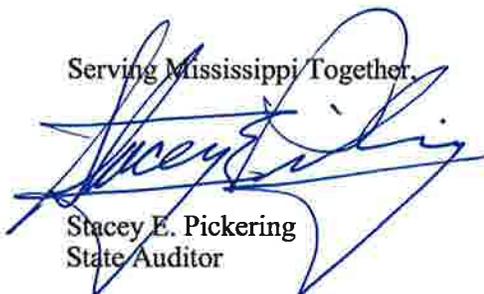
As this is a preliminary estimate, the final estimate will differ from this amount once actual expenditures are available and adjustments are made to the computations. ***In order for the MAEP formula to show an accurate picture of the needs of Mississippi's students, notwithstanding accurate and reliable data, it will require legislative action. I recommend the Legislature mandate a needs assessment to truly understand each district's requirements necessary to provide classroom resources that offer children an exemplary education. Also, I recommend the Legislature should consider returning to the practice of line-iteming certain key expenditures—like textbooks. Such designations not only provide accountability and transparency to taxpayers it also ensures that scarce dollars are being best used to educate children.*** Before any legislative action is taken regarding adjustments made to MAEP formula directly, I believe it is imperative to complete a rigorous objective third party analysis, in order to achieve desired results. This office stands ready to provide any analysis or research efforts that would be beneficial in helping educational leadership create a better, more effective education system for Mississippi.

Methodology and Use of the OSA Report

In conducting this review, OSA relied on the following: (1) our understanding of the agency and significant departments' operations; (2) our experience gained in previous audits of various segments of the Mississippi Department of Education; (3) analytical reviews of detailed financial data; and (4) thorough review of current and historical laws related to MAEP and their application in K-12 public education in Mississippi.

I realize that this is a detailed breakdown and explanation of MAEP and if additional information is needed, please do not hesitate to contact me.

Serving Mississippi Together.



Stacey E. Pickering
State Auditor

SEP/sa

cc: Honorable Eugene Clarke, Chairman, Senate Appropriations Committee
Honorable Herb Frierson, Chairman, House Appropriations Committee
Honorable Gray Tollison, Chairman, Senate Education Committee
Honorable John Moore, Chairman, House Education Committee
Honorable Nancy Adams-Collins, Chairman, Senate Accountability, Efficiency, Transparency Committee
Honorable Jerry Turner, Chairman, House Accountability, Efficiency, Transparency Committee
Legislative Budget Office Staff
Honorable Delbert Hosemann, Secretary of State
Honorable Mike Chaney, Commissioner of Insurance
Honorable Jim Hood, Attorney General
Honorable Lynn Fitch, State Treasurer
Honorable Cindy Hyde-Smith, Commissioner of Agriculture
Carey Wright, PhD, Superintendent of Education
Members of the Mississippi Board of Education
Todd Ivey, Chief Operating Officer, Mississippi Department of Education
Laurie Smith, PhD, Governor's Office
Lucien Smith, Chief of Staff, Governor's Office
Erica Barry, Lt. Governor's Office