

**Joint Legislative Committee on Performance  
Evaluation and Expenditure Review (PEER)**

Report to  
the Mississippi Legislature



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# **A Review of the Mississippi Adequate Education Program Funding Process**

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PEER sought to determine whether the Mississippi Adequate Education Program (MAEP) funding process produces a reasonable computation of the amount of funding each school district needs to provide an "adequate education" (defined in MISS. CODE ANN. Section 37-151-5 [1972] as meeting the State Department of Education's Level 3 accreditation standards).

The MAEP funding formula requires that the Mississippi Department of Education (MDE) first select representative school districts based on six factors, including the district's accreditation level (districts included in the evaluation must be Level 3). MDE then calculates the base student cost of the representative Level 3 districts using instructional, administrative, operation and maintenance of plant, and ancillary cost components. To be included in the averaging of costs, a district must be within one standard deviation of the mean for the applicable cost component. Finally, to compute district allocations, MDE multiplies the base student cost by the district's average daily attendance and makes adjustments for the number of at-risk students, the local millage contribution, and add-on programs such as transportation and special education.

With the information it has had available, the Department of Education has implemented a method of selecting districts and analyzing costs that produces a reasonable computation of the amount of funding each school district needs to provide an "adequate education." The formula does not account for school district efficiency, a factor that could, over the long term, affect funding levels. The formula does not allow for unusual growth or loss in districts' enrollments. Also, neither state law nor departmental regulations require an accountability mechanism to ensure that at-risk funds added to district allocations are actually targeted for the at-risk student population.

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The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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December 3, 2002

Honorable Ronnie Musgrove, Governor  
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Honorable Tim Ford, Speaker of the House  
Members of the Mississippi State Legislature

On December 3, 2002, the PEER Committee authorized release of the report entitled **A Review of the Mississippi Adequate Education Program Funding Process.**

A handwritten signature in cursive script, appearing to read "William Canon".

Senator William Canon, Chairman

**This report does not recommend increased funding or additional staff.**

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# A Review of the Mississippi Adequate Education Program Funding Process

## Executive Summary

### Introduction

PEER focused this review on the methodology of the Mississippi Adequate Education Program (MAEP) funding formula and the process the Mississippi Department of Education (MDE) uses to select school districts to calculate the funding base. PEER's review sought to determine whether MDE's method of selecting districts and analyzing costs produces a reasonable computation of the amount of funding each school district needs to provide an "adequate education" (defined in MISS. CODE ANN. Section 37-151-5 [1972] as meeting MDE's Level 3 accreditation standards).

In making its determination, PEER reviewed:

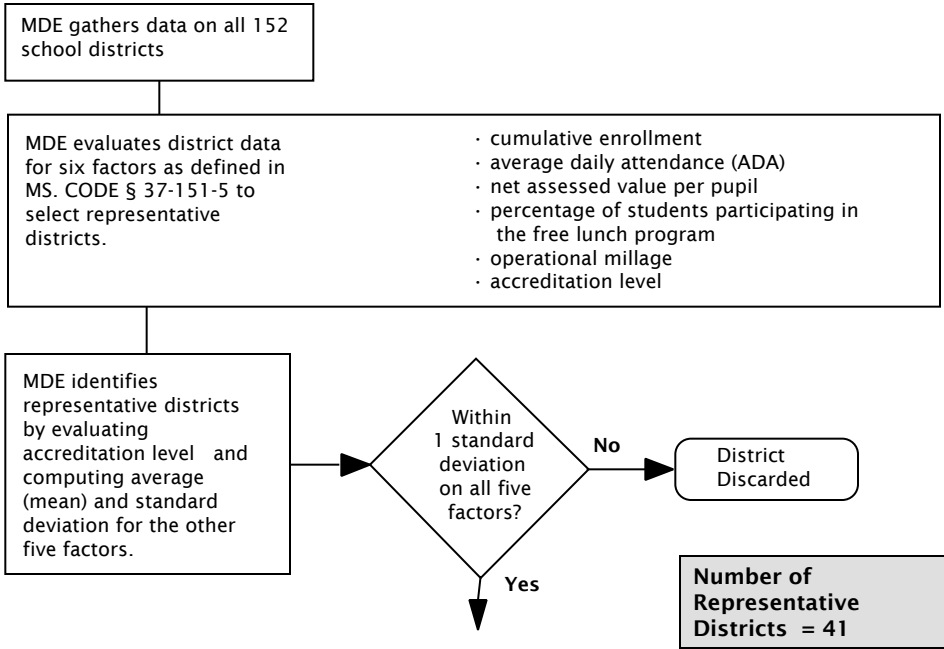
- how MDE chooses school districts for analysis;
- how MDE derives costs of school districts; and,
- how MDE uses derived average costs to allocate funds to school districts.

### Description of the MAEP Fund Allocation Process

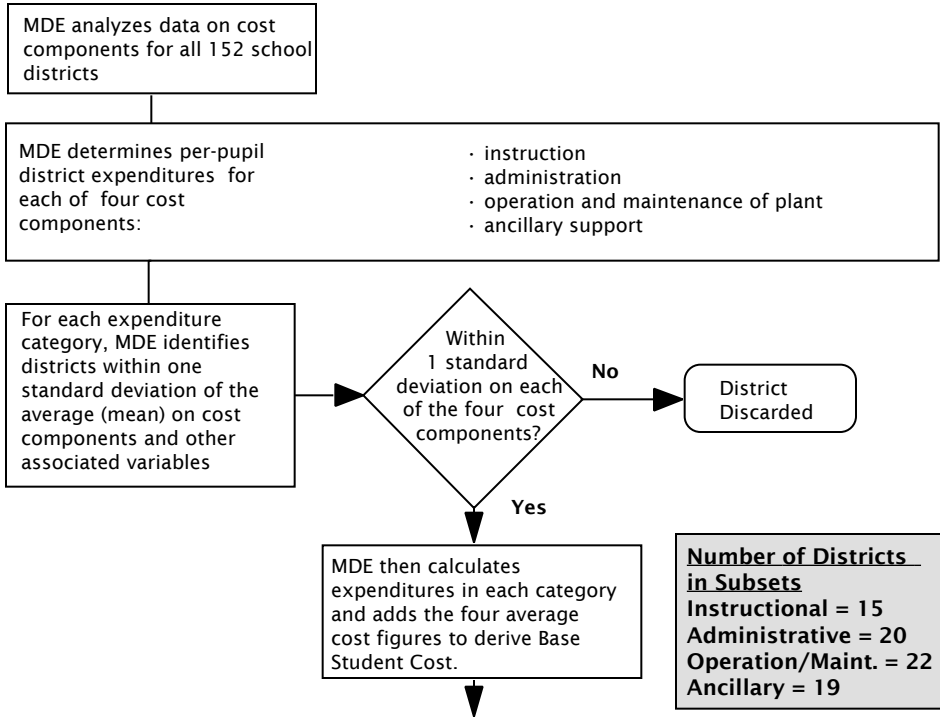
The MAEP funding formula requires that MDE first select representative school districts based on six factors, including the district's accreditation level (districts included in the evaluation must be Level 3). MDE then calculates the base student cost of the representative Level 3 districts using instructional, administrative, operation and maintenance of plant, and ancillary support cost components. To be included in the averaging of costs, a district must be within one standard deviation of the mean for the applicable cost component. Finally, to compute district allocations, MDE multiplies the base student cost by the district's ADA and makes adjustments for the number of at-risk students, the local millage contribution, and add-on programs such as transportation and special education.

# Exhibit: Flow Chart of MAEP Annual Fund Allocation Process For Fiscal Year 2003

## PHASE I: Identification of Representative Districts



## PHASE II: Computation of Base Student Costs for Representative Districts



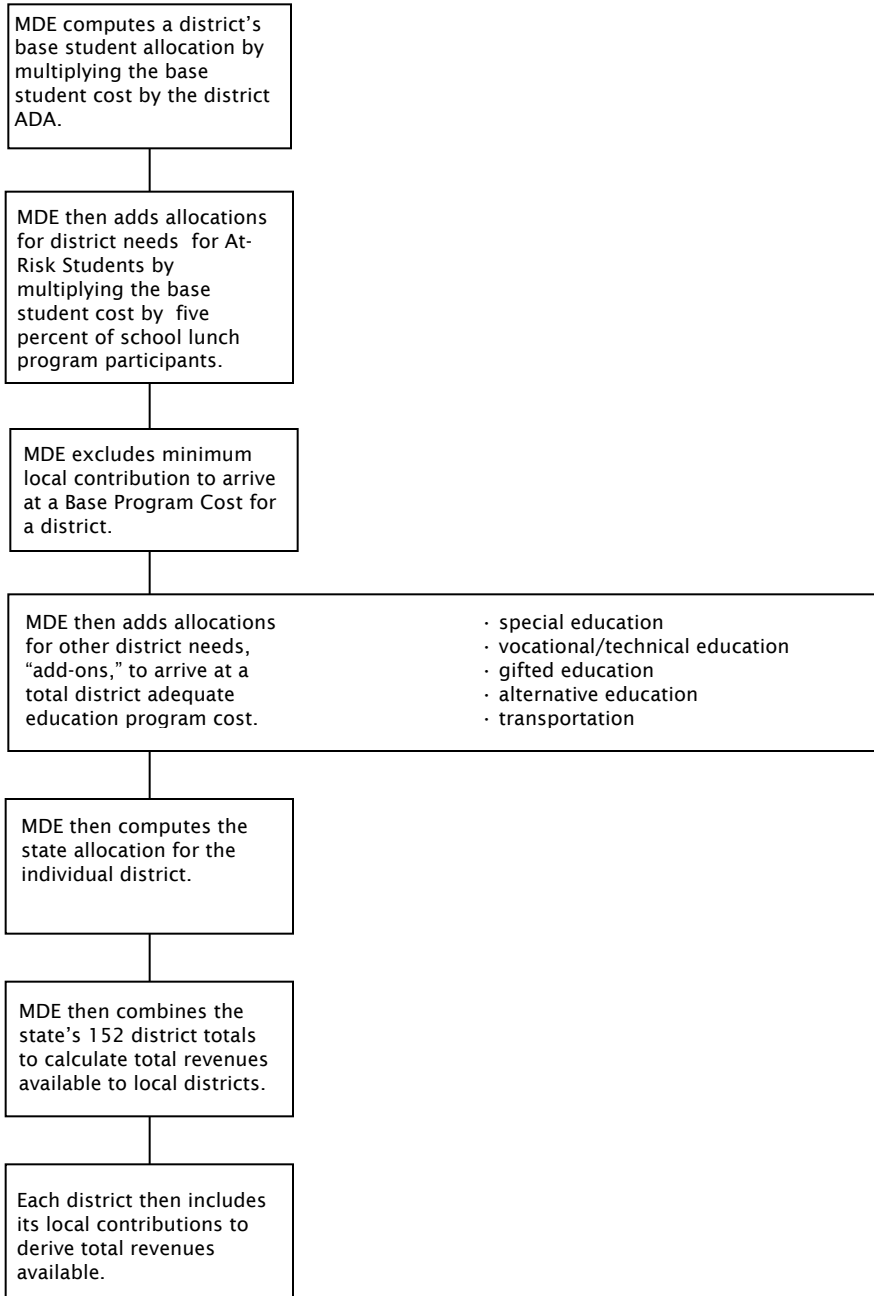
SOURCE: Compiled by PEER.

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## Exhibit: Flow Chart of MAEP Annual Fund Allocation Process For Fiscal Year 2003 (Continued)

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### PHASE III: Computation of District Allocations Using Base Student Cost and Adjusting District Allocations For At-Risk Students, Local Millage Contribution, and Other Add-On Programs



SOURCE: Compiled by PEER.



The Exhibit, pages viii-ix, contains a flow chart of the MAEP annual fund allocation process.

## **Conclusions Concerning the MAEP Allocation Process**

With the information it has had available, the Department of Education has implemented a method of selecting districts and analyzing costs that produces a reasonable computation of the amount of funding each school district needs to provide an "adequate education."

However, the formula does not account for school district efficiency, a factor that could, over the long term, affect funding levels. The formula does not allow for unusual growth or loss in districts' enrollments. Also, neither state law nor departmental regulations require an accountability mechanism to ensure that at-risk funds added to district allocations are actually targeted for the at-risk student population.

## **Recommendations**

1. MDE should develop a voluntary performance review pilot program for school districts that examines broad school district management and operational areas.

The four major areas should include administrative, instructional, operation and maintenance of plant, and ancillary support and under each category criteria should denote efficient and effective practices. Each area should have associated criteria to evaluate management and fiscal practices. For example, in the instructional area, MDE might examine district practices such as:

- District administrators compare student academic assessments to state accountability standards and peer districts.
- The district identifies and implements initiatives to address district-wide achievement gaps.
- To ensure efficient use of resources, the district regularly compares central office staffing levels, including administrators and resource/curriculum specialists, to peer districts and/or state or national standards, and at a minimum, the district compares favorably using these standards.

For the first year of program implementation, the Legislature should appropriate funds for a management consulting firm to conduct three performance reviews. The review process should be monitored by PEER to finalize the scope of the review

and provide feedback on the final report. The reviews should begin no earlier than November 1 of the school year and the results should be reported to the House and Senate Education committees and State Board of Education no later than July 1 of the preceding year.

In designing the efficiency review process, MDE should consider elements of Florida's Best Financial Management Practices Reviews for schools. Florida law requires that each school district undergo one of these reviews once every five years. During these reviews, the Florida Office of Program Policy Analysis and Government Accountability and the Auditor General examine school district operations to determine whether schools are using the Best Practices to evaluate programs, assess operations and performance to identify cost savings, and link financial planning and budgeting to district policies.

Although Florida's Best Financial Management Practices Reviews represent a strong model for incorporating efficiency reviews at the district level, that state's process would be difficult to implement in Mississippi because of the number of districts in Mississippi and the amount of resources that would be required.

2. In order to ensure school districts are able to perform as a Level 3 accredited school, MDE should include in its budget request a proposal for the development of a growth reserve to meet the immediate needs of the districts having an increasing number of students. One possible option involves a growth model that examines growth over a five-year period and projects statewide needs. The model would include first performing a trend analysis on the last five years of ADA data to constitute MDE's projection for growth. The model would provide a formula for calculating a growth projection for each of the 152 districts and statewide.

The total projected growth rate would establish a pool (growth reserve) that would fund fast-growing districts. The total projected growth could be multiplied by last year's base student cost to calculate the growth reserve.

$$\begin{array}{r} \text{TOTAL PROJECTED GROWTH IN ADA} \\ \times \\ \text{LAST FISCAL YEAR'S BASE STUDENT COST} \\ = \\ \text{GROWTH RESERVE} \end{array}$$

During the school year, if districts discover and document growth above and beyond their projected

growth, they could request funds from the growth reserve. In the second and third month of the fiscal year, districts would calculate their ADA. If this exceeded MDE's projected growth for a particular district, that district could request additional funds. The funds received from the growth reserve would be proportional to the district's growth.

For example, if the state wanted to establish a growth reserve for FY 2004, average daily attendance data from FY 1998-FY 2003 would be used to perform a trend analysis. After the projected growth was determined, the department would calculate the growth reserve for the state using the base student cost from FY 2003. For example, if DeSoto County's growth represented ten percent of the total growth, the district would be able to receive up to ten percent of the growth reserve.

3. In order to meet the needs of the at-risk population, it is vital that school districts design programs, materials, curricula, or educational resources with at-risk monies to ensure that the district and community needs for at-risk students are incorporated in the programs. MDE should take an advisory role in the process, similar to the assurance reviews the Special Education and Vocational-Technical offices perform, and assist the districts with implementation and evaluation. In addition, MDE should modify its accreditation system to include an assessment of the use of at-risk resources.

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# A Review of the Mississippi Adequate Education Program Funding Process

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## Introduction

### Authority

The PEER Committee authorized a review of the Mississippi Adequate Education Program (MAEP) funding process pursuant to the authority granted by MISS. CODE ANN. Section 5-3-57 et seq. (1972).

### Scope and Purpose

Legislators have expressed concerns that the MAEP funding requests the Mississippi Department of Education (MDE) presents to the Legislature may not reflect actual district resource needs as determined by the MAEP funding formula. In particular, some are concerned about the process MDE uses to arrive at the annual cost per student figure that drives MAEP funding. Legislators have also expressed concern about how very high- and/or very low-spending districts may affect the district cost computations on which funding is based.

To address these concerns, PEER focused the review on the methodology of the MAEP funding formula and the process MDE uses to select school districts to calculate the funding base. PEER's review sought to determine whether MDE's method of selecting districts and analyzing costs produces a reasonable computation of the amount of funding each school district needs to provide an "adequate education" (defined in MISS. CODE ANN. Section 37-151-5 [1972] as meeting MDE's Level 3 accreditation standards).

In making its determination, PEER reviewed:

- how MDE chooses school districts for analysis;
- how MDE derives costs of school districts; and,

- how MDE uses derived average costs to allocate funds to school districts.

## Method

In conducting this review, PEER:

- reviewed relevant sections of state law, rules and regulations, and policies and procedures regarding the Mississippi Adequate Education Program;
- interviewed staff from the Mississippi Department of Education and the Florida Office of Program Policy Analysis and Government Accountability;
- analyzed annual reports and budgetary information from MDE; and,
- analyzed MDE's computation method for allocating funds for FY 2003.

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## Background

### Mississippi's Recent Change in Education Fund Allocation Methods

In Mississippi, the Minimum Education Program, established in 1953, operated as the state's school funding formula for over forty years. In the early 1990s, equity funding for education became an issue in many states. Variations in spending and tax effort across communities with different levels of wealth created inequitable conditions at schools in many states.

The Mississippi Department of Education determined that the Minimum Education Program did not adequately address educational equity funding in the state because the system relied to a large extent on local funds. A task force consisting of state legislators and MDE staff and a consulting firm developed a pupil-based system for financing schools in Mississippi that utilizes factors associated with the performance of pupils—e.g., output factors such as number of teachers, administrators, and students.

**State law defines "adequate education" as meeting at least Level 3 accreditation standards.**

The Mississippi Adequate Education Program, passed by the Legislature in 1994, was designed to provide funding levels necessary for school districts to provide an adequate education. MISS. CODE ANN. Section 37-151-5 (1972) defines "adequate education" as meeting at least Level 3 accreditation standards of the state's accountability accreditation model (see Appendix A, page 25). MDE uses these accreditation standards to assign a performance index rating annually to every school district.

MISS. CODE ANN. Sections 37-151-5 and 37-151-7 (1972) set forth the funding formula for allocating funds to individual school districts. Exhibit 1 of this report, page 4, defines many of the terms used in the discussion of the MAEP formula.

### Implementation Status of the MAEP

The MAEP was first introduced into the budgetary process in 1997 and a five-year implementation phase allowed for school districts to use the funding formula on a limited basis to correct potential problems and to train staff on how to implement the formula correctly. FY 2003 was the first year the MAEP was used as the basis of the state's financial assistance to local school districts.

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# Exhibit 1: Glossary

**Add-on Program Costs**--items that are included in the adequate education program appropriations and are outside program calculation: transportation, vocational or technical education, special education, gifted education, alternative school program, and extended school year programs

**Alternative school program**--a public elementary/secondary school that addresses needs of students that typically cannot be met in a regular school, provides nontraditional education, serves as an adjunct to a regular school, and falls outside of categories of regular education, special education, or vocational education

**Average Daily Attendance (ADA)**--the figure that results when the total aggregate attendance during the period or months counted is divided by the number of days during the period or months counted upon which both teachers and pupils are in regular attendance for scheduled classroom instruction

**At-risk student**--individual participating in the free lunch program

**Base Student Cost**--the funding level necessary for providing an adequate education program for one student

**Carnegie unit**--a standard measure of high school work indicating the minimum amount of time that instruction in a subject has been provided. Awarding of one Carnegie unit indicates that a minimum of 140 hours of instruction has been provided in regular and laboratory classes over a school year; awarding of 1/2 Carnegie unit indicates that a minimum of 70 hours has been provided.

**Free lunch program**—eligible children are those whose families have a household income at or below 185% of the federal poverty level

**Mean**—the common average, obtained by adding together all of the scores in a set and dividing by the number of scores

**Net assessed value per pupil**--gross assessed value of property within the school district, excluding property owned by individuals sixty-five and older and disabled, divided by average daily attendance

**Operational millage**--the minimum local tax support required by law to maintain local education programs

**Standard deviation**—is a statistic that displays how tightly a set of data is clustered around the set's mean. Many data sets are normally distributed, which implies that most examples in a set of data are close to the average, while few examples tend to be to one extreme or the other. The standard deviation measures how far the observations are from their mean. When a data set is normally distributed, about 68% of the data falls within one standard deviation of the mean.

**Transportation Density**--the number of transported children in average daily attendance per square mile of area served in a school district

SOURCE: MISS. CODE ANN. Section 37-151-7 (1972), Mississippi Department of Education's Glossary for Accreditation Standards, and Mississippi Department of Education's Office of Child Nutrition.

**Due to FY 2003 budget constraints, the Legislature used an alternative method to determine districts' funding for the 2002-03 academic year.**

Due to FY 2003 budget constraints, the Legislature chose to appropriate \$60 million less than the formula required and had to use an alternative method to determine districts' funding for the 2002-03 academic year.

First, MDE calculated the Adequate Education Program's cost without considering the shortfall. The department then reduced the fully funded program figure by 3.77%, which yielded an amount equal to the amount available for the program.

For comparison purposes, the department then computed what each district's allocation would have been under both the Minimum Education Program and the MAEP (because of the shortfall, this was the amount resulting from the MAEP formula minus 3.77%). For those districts that would have had a greater allocation under MAEP than under the Minimum Education Program, the department allocated the MAEP amount minus twenty-one percent of the MAEP gain. For those districts that would have had a greater allocation under the Minimum Education Program than under MAEP, the department allocated the MAEP amount plus an amount determined by the department (depending on the size of the difference between the Minimum Education Program and MAEP amounts). Amounts resulting from the 21% reduction were pooled and used to supplement those districts that would have had a greater allocation under the Minimum Education Program. The supplements varied based on the amounts "lost" by the district as the difference between Minimum Education Program and MAEP.

For example, MDE could have calculated allocations for four districts with the following results:

	Minimum Education	MAEP
District W	\$ 1,000,000.00	\$ 1,100,000.00
District X	\$ 1,000,000.00	\$ 1,200,000.00
District Y	\$ 1,200,000.00	\$ 1,100,000.00
District Z	\$ 1,300,000.00	\$ 1,100,000.00

Both District W and X had a higher allocation under MAEP; therefore, MDE would have reduced District W's gain of \$100,000 by \$21,000 and would have reduced District X's gain by \$42,000. MDE would then have distributed \$63,000 among Districts Y, Z, and all other districts with Minimum Education calculations higher than their MAEP calculations.



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# Description of the MAEP Fund Allocation Process

The MAEP funding formula requires that MDE first select representative school districts based on six factors, including the district's accreditation level (districts included in the evaluation must be Level 3). MDE then calculates the base student cost of the representative Level 3 districts using instructional, administrative, operation and maintenance of plant, and ancillary cost components. To be included in the averaging of costs, a district must be within one standard deviation of the mean for the applicable cost component. Finally, to compute district allocations, MDE multiplies the base student cost by the district's ADA and makes adjustments for the number of at-risk students, the local millage contribution, and add-on programs such as transportation and special education.

PEER reviewed the MAEP fund allocation process by examining the method MDE employs to collect data, select representative districts, and analyze cost components to compute base student costs. (See Exhibit 2, page 8, for a flow chart of the process.) The process is structured around three phases:

- identifying representative districts;
- computing base student costs for representative districts; and,
- computing district allocations using base student cost and adjusting district allocations for at-risk students, local millage contributions, and other add-on programs.

## Phase I: Identifying Representative Districts

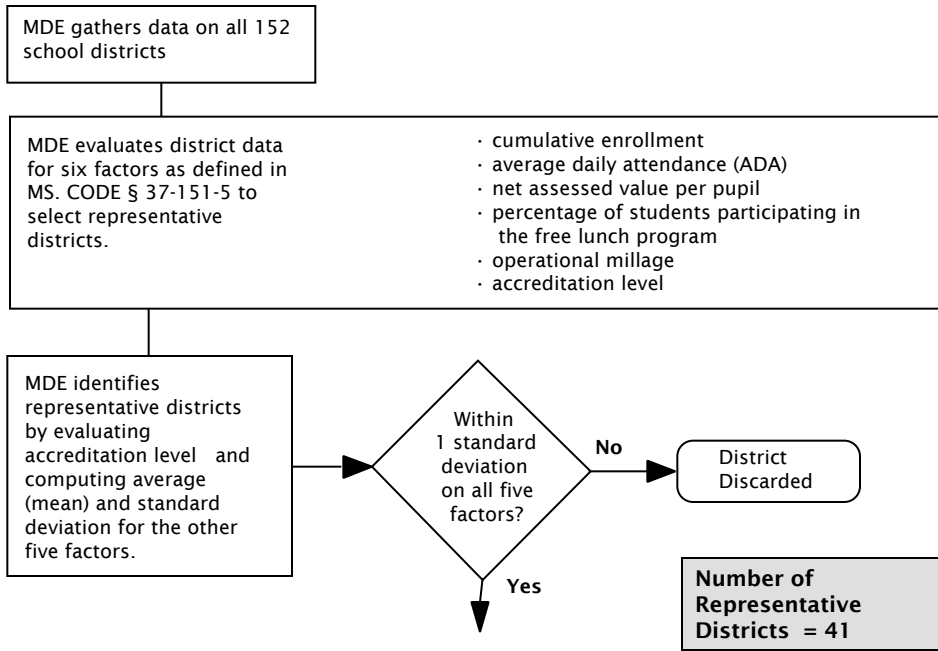
*MDE begins its calculation by evaluating school districts based on six factors, including the district accreditation level.*

MISS. CODE ANN. Section 37-151-7 (1972) prescribes that the department shall utilize a statistical methodology that considers such factors as, but not limited to, (i) school size; (ii) assessed valuation per pupil; (iii) the percentage of students receiving free lunch; (iv) the local district maintenance tax levy; (v) other local school district revenues; and (vi) the district's accreditation level, in the selection of representative Mississippi school districts for which cost information shall be obtained for each of the cost areas. The department utilizes all six factors prescribed by law to identify representative school districts. MDE gathers and analyzes data for all districts in order to identify those districts most closely representing the norm.

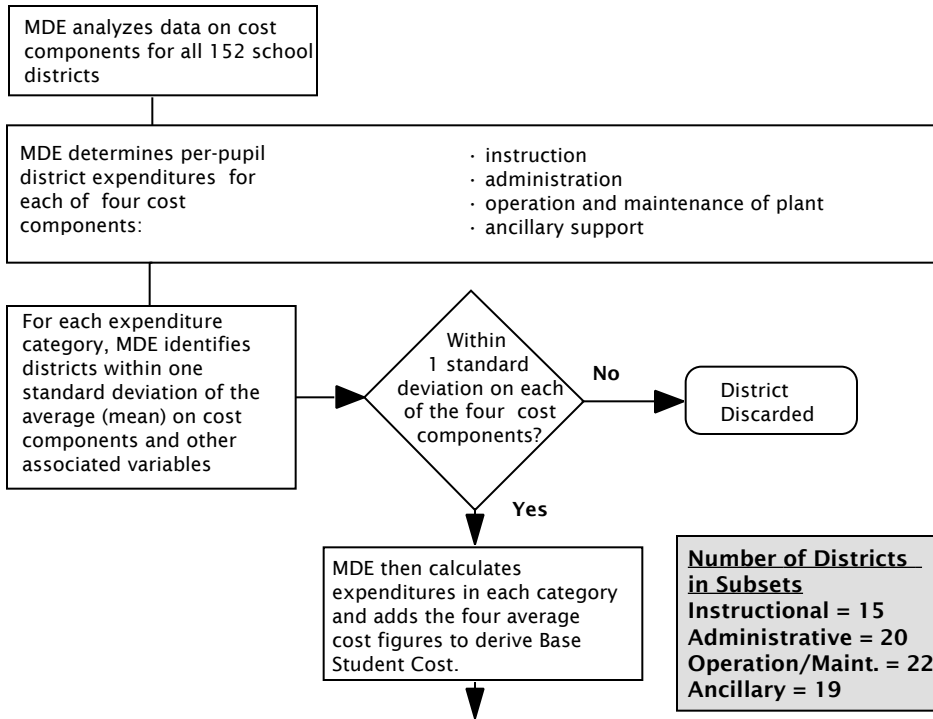
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## Exhibit 2: Flow Chart of MAEP Annual Fund Allocation Process For Fiscal Year 2003

### PHASE I: Identification of Representative Districts



### PHASE II: Computation of Base Student Costs for Representative Districts



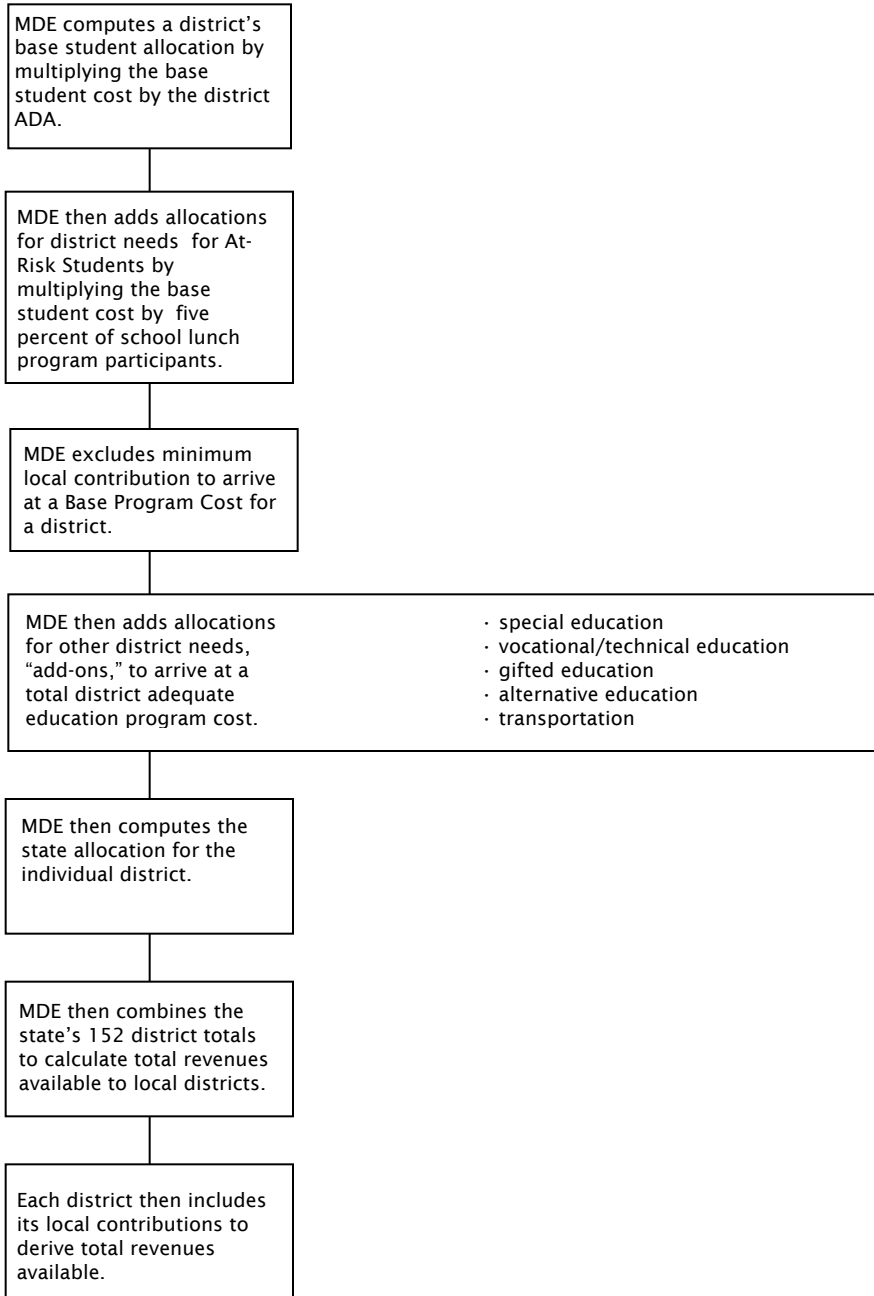
SOURCE: Compiled by PEER.

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## Exhibit 2: Flow Chart of MAEP Annual Fund Allocation Process For Fiscal Year 2003 (Continued)

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### PHASE III: Computation of District Allocations Using Base Student Cost and Adjusting District Allocations For At-Risk Students, Local Millage Contribution, and Other Add-On Programs



SOURCE: Compiled by PEER.

### ***School Size (Cumulative Enrollment) and Average Daily Attendance***

***Cumulative enrollment is the total number of students enrolled in the district for the previous year.***

MDE uses districts' previous year's cumulative enrollment and ADA figures as factors for selecting a representative district. Cumulative enrollment is the total number of students enrolled in the district for the previous year. For the average daily attendance, the formula allows use of either the district's current academic year's second and third month (October and November) or an average of months one through nine of the previous academic year, whichever is greater. (See page 18 for a discussion of how this may affect district allocations.)

### ***Net Assessed Value Per Pupil***

***Net assessed value per pupil=district's gross assessed property value divided by previous year's ADA***

The net assessed value per pupil is the gross assessed value of property within the boundaries of the school district, excluding property owned by individuals over sixty-five and disabled, divided by the previous year's ADA.

### ***Percentage of Students in the Free Lunch Program***

***At-risk students are those students participating in the federal free lunch program (their families have a household income at or below 185% of the federal poverty level).***

The last factor represents at-risk students, defined as those students participating in the federal free lunch program. Children eligible for the free lunch program include those families whose household income is at or below 185% of the federal poverty level. MISS. CODE ANN. Section 37-151-7 (1972) defines students participating in the free lunch program (not in the reduced lunch program, which has higher income requirements) as the at-risk population.

### ***Operational Millage***

***A district's operational millage is the millage rate available from the revenues from ad valorem tax on property.***

In terms of the MAEP formula, a district's operational millage is the millage rate available from the revenues from ad valorem tax on property. Each school district is required to levy twenty-eight mills of the yield of the school ad valorem tax or twenty-seven percent of the prior academic year's basic adequate education program cost (the basic amount expended for current operation, which includes the base student cost, district ADA and at-risk component), whichever is the lesser amount. In addition to the twenty-eight mills, school districts are limited to a

maximum local millage rate of 55 mills without an election if they choose to levy additional revenue tax rates.<sup>1</sup>

### ***Accreditation Level***

**State law requires that all districts used for the base student cost calculation possess Level 3 district accreditation.**

MISS. CODE ANN. Section 37-151-7 et seq. (1972) requires that all districts used for the base student cost calculation possess a Level 3 district accreditation. The accreditation process, separate from the MAEP calculation process, incorporates evaluation of districts on *performance* standards, which include components of the statewide testing program or other measures related to performance, and *process* standards, which address accepted educational principles and practices believed to promote educational quality. (See Appendix A, page 25, for additional information on the accreditation process). The Legislature has defined Level 3 districts to be adequately performing school districts. (In 1999, Mississippi had eighty-two Level 3 districts.)

### **Analysis of Data**

**Phase I of the MAEP calculation produces a subset of school districts that the Department of Education considers to be adequately performing and that are within one standard deviation of the average on the other five factors.**

Once MDE collects the data for all 152 school districts, it calculates the mean for each factor. To remain in the base student cost calculation, a school district must have a Level 3 accreditation rating and the district's statistics must fall within one standard deviation of the mean on the other five factors. Phase I of the MAEP calculation produces a subset of school districts that the Department of Education considers to be adequately performing and that are within one standard deviation of the average on the other five factors. For FY 2003, MDE evaluated all 152 districts and chose forty-one to be within one standard deviation of the mean on all six factors.

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<sup>1</sup> If a district's proposed budget shows an increase in total ad valorem tax receipts of between four percent and seven percent over the previous year's total receipts, the school board must publish notice in a local newspaper of a property tax increase. Also, if twenty percent of qualified voters or 1,500 individuals, whichever is less, petition for such, then the school board must hold an election. If the proposed budget shows an increase of more than seven percent, the school board must hold an election on the question of raising ad valorem taxes, with three-fifths of the qualified voters voting in the affirmative needed to pass the measure. (See MISS. CODE ANN. Section 37-57-105 and 37-57-107 (1972).)

## Phase II: Calculating the Base Student Cost

***MDE calculates the base student cost of the identified representative districts using instructional, administrative, operation and maintenance of plant, and ancillary cost components.***

During the next phase, MDE determines total and per-pupil expenditures in four cost categories for the districts remaining in its calculation:

- instructional costs;
- administrative costs;
- cost of operation and maintenance of the physical plant; and,
- ancillary support costs.

**MDE defines each of the cost categories based on the expenditure function codes in the *Financial Accounting Manual for the Mississippi Public School Districts*.**

MDE defines each of these categories based on the expenditure function codes in the *Financial Accounting Manual for the Mississippi Public School Districts*. All expenditures a district has within that category are added and are the total costs for that category. For example, the instructional cost category includes costs for kindergarten programs, elementary programs, middle school-junior high programs, high school programs, vocational education programs, and other regular programs. For each of the four cost components, MDE calculates the mean and the standard deviation of the following associated factors:

- instructional costs— per pupil instructional costs, number of Carnegie units provided and average years of teaching experience;
- administrative costs— per pupil administrative costs, number of sites within the district, attendance per site, average principal's salary;
- cost of operation and maintenance of the physical plant— per pupil operation and maintenance of the physical plant costs, number of sites, attendance per site; and,
- ancillary support costs—per pupil ancillary support costs, total number of librarians/media specialists, average librarian/media specialist salary.

As in Phase I, the department determines the means for each of the four major cost categories and for each of the associated factors (the total or average number for each of these factors, whichever is applicable). When calculating the average cost figure for each of the four major cost

categories, the department considers the associated factors related to that cost category. MDE evaluates each cost component and its associated variables separately from the other cost components. The department calculates the mean and standard deviation for the associated variables on all 152 districts, not just those districts selected in the first subset of the six prescribed factors. For example, under instructional costs, the mean of the Carnegie units is calculated using all districts, not only the districts that qualified for the first subset. Although MDE used all districts to calculate the mean and standard deviation of the associated variables, in order to be selected in one of the four cost components, a district had to have been one of the forty-one districts selected above.

For FY 2003, MDE selected fifteen districts to compute instructional costs, twenty districts for administrative costs, twenty-two districts for operation and maintenance of plant costs, and nineteen districts to compute ancillary support costs. Each of these districts was also included in the sub-group of forty-one.

## Utilizing the Four Cost Components to Calculate the Base Student Cost

**MDE calculates a per pupil amount for each cost component and adds these amounts to obtain the base student cost.**

After MDE identifies school districts under each cost component, the department totals all costs for the representative districts in that particular cost category. For example, under administrative costs, MDE calculates the total administrative cost for all twenty districts. MDE also adds the ADA from each of the twenty districts to produce an overall ADA figure. MDE divides the total administrative cost for all twenty districts by the total ADA figure to produce a per pupil administrative cost. MDE performs the same process with each of the other three cost components. After MDE calculates a per pupil amount for each component, the amounts are summed, producing the base student cost.

## Phase III: Computing District Allocations

*To compute district allocations, MDE multiplies the base student cost by the district's ADA and makes adjustments for the number of at-risk students, the local millage contribution, and add-on programs such as transportation and special education.*



## Applying ADA to Compute a District's Base Allocation

In computing the MAEP allocation for a district, MDE first multiplies the base student cost by the school district's ADA. The formula allows use of either the district's current academic year's second and third month (October and November) average daily attendance or an average of months one through nine of the previous academic year, whichever is greater. (See page 18 for a discussion of how this may affect district allocations.)

## Adjusting for At-Risk Students

MDE then adjusts the base student cost for at-risk students (i.e., students participating in the federal free lunch program). The department computes the at-risk adjustment amount by multiplying the base student cost for the appropriate year by five percent and multiplying that product by the number of pupils participating in the federal free lunch program.

## Adjusting for Local Millage Contributions

MDE then excludes the minimum local millage (twenty-eight mills of the yield of the school ad valorem tax or twenty-seven percent of the basic adequate education program, whichever is less) from the adequate education program cost. The state does not adjust the adequate education program cost if the district levies an amount above the required 28 mills or 27 percent.

## Adjusting for Add-on Program Costs

***Add-on programs include transportation, special education, gifted education, alternative education, vocational and technical education, extended school year programs, and university-based programs.***

Next, MDE adjusts for the school district's add-on program costs. (Add-on programs include transportation, special education, gifted education, alternative education, vocational and technical education, extended school year programs, and university-based programs.)

State funds are the only monies used for add-on programs; districts do not contribute local resources to these programs. Individual school districts calculate add-on program costs and report the amounts to MDE. Costs for special, gifted, and vocation-technical education programs are based on an estimate of the previous year's teacher units.

The alternative education formula that was used for the Minimum Education Program is also used for the MAEP. The formula is:

ADA (grades 1-12 by district) x .0075 x ADA

=

alternative school unit

**For transportation add-ons, MDE provides greater amounts per pupil to districts in rural areas.**

After calculation, if the district's number of alternative school units is less than twelve, the district automatically receives twelve units, the minimum number of alternative school units a district can receive. The department multiplies the number of alternative units by the statewide average to derive the expenditure per pupil. The district determines transportation costs through a density formula (the number of ADA transported per square mile). MDE provides greater amounts per pupil in districts with fewer students transported per square mile--i.e., more money per child is allotted to rural areas.

### **Adjustment for Local Millage Contributions Above Minimum Requirements**

MDE makes adjustments for additional millage that the district collects beyond the minimum.

### **Finalizing the District Allocation**

**MDE totals all 152 districts' adequate education program costs with add-on costs to establish the total state program cost. MDE submits this figure in its annual budget request to the Legislature.**

MDE subtracts the local contribution from the adequate education program cost, but includes all add-on costs in the final allocation because school districts do not fund these programs. MDE then totals all 152 districts' adequate education program costs with add-on costs to establish the total state program cost. MDE submits this figure in its annual budget request to the Legislature.

Exhibit 3, page 16, gives an example of calculation of a district's allocation.

**Exhibit 3: MAEP Funding Formula and FY 2003 Cost for District X  
(Steps for Computing District Allocation)**

<b>MAEP Formula</b>	<b>FY 03 at Full Funding</b>
Base Student Cost	\$3,427.00
X	x
District ADA	1,638.45
+	+
At-Risk Student Add-on	\$129,198
=	=
Adequate Education Program Cost	\$5,744,166
-	-
Local Contribution (28 mill local levy capped at 27%of Program Cost)	\$1,550,925
=	=
Basic Program Cost	\$4,193,241
+	+
Add-ons:(special education, transportation, vo-tech, gifted education, alternative education)	\$1,469,451
=	=
<b>State Program Cost</b>	<b>\$5,662,692</b>
+	+
All Local Contributions	\$2,757,292
=	=
Revenues Available to Local Districts	<u><b>\$8,419,984</b></u>

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## Conclusions Concerning the MAEP Allocation Process

With the information it has had available, the Department of Education has implemented a method of selecting districts and analyzing costs that produces a reasonable computation of the amount of funding each school district needs to provide an "adequate education." The formula does not account for school district efficiency, a factor that could, over the long term, affect funding levels. The formula does not allow for unusual growth or loss in districts' enrollment. Also, neither state law nor departmental regulations require an accountability mechanism to ensure that at-risk funds added to district allocations are actually targeted for the at-risk student population.

### Efficiency is Not Factored Into Calculation of the Base Student Cost

*The MAEP funding formula selects average school districts to calculate the base student cost, but does not determine whether these districts are performing efficiently.*

The MAEP funding formula is driven by cost incurred by individual districts. As noted earlier, the formula uses means and standard deviations to determine which districts are included in calculating the base student cost. This eliminates high- and low-cost schools, but does not determine whether the districts selected are performing efficiently. The formula only addresses whether the money spent falls within one standard deviation of the mean; it never determines if the money spent by districts is adequate for a Level 3 accredited district.

**The MAEP has the potential of funding more than "an adequate education" because it relies on data from all districts that produce adequate outcomes, including those that produce them inefficiently.**

The MAEP has the potential of funding more than "an adequate education" because it relies on data from all districts that produce adequate outcomes, including those that produce them inefficiently. The definition of efficiency is the ratio of the effective use of output to total input in any system. In this case, "efficient" is defined as a district expending less to provide adequate instruction, administration, operation and maintenance, and ancillary support to produce students that perform adequately on Functional Literacy Test, the Performance Assessment for the Iowa Test of Basic Skills, and the Tests of Achievement and Proficiency, and for the Algebra I and U.S. History subject area tests.

Although the MAEP funding formula incorporates a process to review school performance (see Appendix A, page 25), the accreditation review does not examine efficiency. The review only assesses compliance with requirements and guidelines districts must meet in order to receive a specific accreditation rating. Although the

review process does instruct districts on all the elements necessary for a Level 3 school, it does not evaluate these elements for efficiency and effectiveness. For example, under the categories of Effective Instruction and Instructionally Focused Organization used during the accreditation process, requirements are provided regarding instructional time and teacher planning and preparation. These guidelines list time and planning standards, but in no way guide the teacher nor the accreditation auditor on the most efficient way to use this time.

## No Allowance for Unusual Growth or Loss in Enrollment

*The formula does not allow for unusual growth or loss in districts' enrollment during the period between calculation and the academic year being funded.*

According to MISS. CODE ANN. 35-151-7 (1972), the formula uses one of two options for the districts' ADA: the average of months one through nine of the previous year's data or the average of the second and third months of the current academic year, whichever is greater. Both of these are actual figures and accurately reflect the per-pupil funding needs of the district at a selected point in time.

However, the period between ADA calculation and the time at which the district actually receives its MAEP allocation is at least one year. In cases in which the district experiences unusual growth or loss during that interval, the allocation would not have allowed for additional or reduced funding, depending on the district's situation.

If a school district were growing at a substantial rate due to new industry or changing demographics, the funds provided by the MAEP allocation would not be sufficient to provide the school with the per-pupil funding established for Level 3 districts.

For example, in 2001 in DeSoto County, between the time of the calculation of the district's MAEP allocation and the next academic year, the district's ADA grew by 792 students. Using the current MAEP base student cost, for that year the district's allocation would have been approximately \$148 less per pupil than the amount recommended to provide a Level 3 education.

**The period between ADA calculation and the time at which the district actually receives its MAEP allocation is at least one year. If a school district were growing at a substantial rate, the funds provided by the MAEP allocation would not be sufficient to provide the school with the per-pupil funding established for Level 3 districts.**

## Lack of Accountability Mechanism Supporting At-Risk Funds

*PEER does not take exception to the 5% increase calculated into the formula for at-risk students, but no accountability mechanism exists to assure that the at-risk allocation targets at-risk students.*

**Currently there is no way to ensure that at-risk funds are being spent for those students or programs because the district's funds are discretionary.**

When developing the MAEP, the task force felt it was vital to adjust the base student cost to allocate additional MAEP funds for at-risk students. The Legislature subsequently enacted MISS. CODE ANN. Section 37-151-7 (d)(1972) to provide funding for at-risk students. During the development stage, the state did not operate a program for at-risk pupils. Therefore, the department identified at-risk students as those participating in the federal free lunch program. The mean percentage of children participating in the free lunch program for all 152 school districts in FY 2001 was 60.85.

Even with a large percentage of school children deemed at-risk, MDE has no accountability mechanism to review how individual districts are meeting these students' needs. Currently there is no way to ensure these funds are being spent for at-risk students or programs because the district's funds are discretionary. There is no statute or departmental regulation that requires an accountability mechanism be used to review at-risk funds. Each district determines, with its current at-risk population and community needs, how best to assist its students. Although MDE has the resources to provide guidance regarding at-risk programs and curriculum, districts are not required by statute or MDE policy to institute these programs or report on any measures currently in use.

Although the department has established no guidelines for the at-risk cost component, the other add-on programs have accountability mechanisms in place to assure that students' needs are being addressed and more precise student numbers are used when funding these special programs. For each add-on program, a tracking system gathers data on the number of teacher units funded. Both special education and vocational-technical education have state level offices with quality assurance divisions to address development, implementation, evaluation of effective curriculum frameworks, and educational resources, but no state-level oversight exists for expenditure of funds for at-risk programs.

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# Recommendations

## Efficiency Reviews

1. MDE should develop a voluntary performance review pilot program for school districts that examines broad school district management and operational areas.

The four major areas should include administrative, instructional, operation and maintenance of plant, and ancillary support and under each category criteria should denote efficient and effective practices. Each area should have associated criteria to evaluate management and fiscal practices. For example, in the instructional area, MDE might examine district practices such as:

- District administrators compare student academic assessments to state accountability standards and peer districts.
- The district identifies and implements initiatives to address district-wide achievement gaps.
- To ensure efficient use of resources, the district regularly compares central office staffing levels, including administrators and resource/curriculum specialists, to peer districts and/or state or national standards, and at a minimum, the district compares favorably using these standards.

For the first year of program implementation, the Legislature should appropriate funds for a management consulting firm to conduct three performance reviews. The review process should be monitored by PEER to finalize the scope of the review and provide feedback on the final report. The reviews should begin no earlier than November 1 of the school year and the results should be reported to the House and Senate Education committees and State Board of Education no later than July 1 of the preceding year.

In designing the efficiency review process, MDE should consider elements of Florida's Best Financial Management Practices Reviews for schools. Florida law requires that each school district undergo one of these reviews once every five years. During these reviews, the Florida Office of Program Policy Analysis and Government Accountability and the Auditor General examine school district operations to determine

whether schools are using the Best Practices to evaluate programs, assess operations and performance to identify cost savings, and link financial planning and budgeting to district policies.

Although Florida's Best Financial Management Practices Reviews represent a strong model for incorporating efficiency reviews at the district level, that state's process would be difficult to implement in Mississippi because of the number of districts in Mississippi and the amount of resources that would be required. (See Appendix B, page 27, for more information on the Florida program.)

## Growth Reserve

2. In order to ensure school districts are able to perform as a Level 3 accredited school, MDE should include in its budget request a proposal for the development of a growth reserve to meet the immediate needs of the districts having an increasing number of students. One possible option involves a growth model that examines growth over a five-year period and projects statewide needs. The model would include first performing a trend analysis on the last five years of ADA data to constitute MDE's projection for growth. The model would provide a formula for calculating a growth projection for each of the 152 districts and statewide.

The total projected growth rate would establish a pool (growth reserve) that would fund fast-growing districts. The total projected growth could be multiplied by last year's base student cost to calculate the growth reserve.

$$\begin{array}{r} \text{TOTAL PROJECTED GROWTH IN ADA} \\ \times \\ \text{LAST FISCAL YEAR'S BASE STUDENT COST} \\ = \\ \text{GROWTH RESERVE} \end{array}$$

During the school year, if districts discover and document growth above and beyond their projected growth, they could request funds from the growth reserve. In the second and third month of the fiscal year, districts would calculate their ADA. If this exceeded MDE's projected growth for a particular district, that district could request additional funds. The funds received from the growth reserve would be proportional to the district's growth.



For example, if the state wanted to establish a growth reserve for FY 2004, average daily attendance data from FY 1998-FY 2003 would be used to perform a trend analysis. After the projected growth was determined, the department would calculate the growth reserve for the state using the base student cost from FY 2003. For example, if DeSoto County's growth represented ten percent of the total growth, the district would be able to receive up to ten percent of the growth reserve.

### **Accountability Mechanism for At-Risk Funds**

3. In order to meet the needs of the at-risk population, it is vital that school districts design programs, materials, curricula, or educational resources with at-risk monies to ensure that the district and community needs for at-risk students are incorporated in the programs. MDE should take an advisory role in the process, similar to the assurance reviews the Special Education and Vocational-Technical offices perform, and assist the districts with implementation and evaluation. In addition, MDE should modify its accreditation system to include an assessment of the use of at-risk resources.

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# Appendix A: Mississippi's School District Accreditation System

## **Mississippi's Performance-Based Accreditation System**

In conjunction with the passage of the MAEP formula, legislation enacted in 1994 maintained the emphasis on student achievement and mandated that the MDE examine the performance-based accreditation system in order to strengthen and expand it. The legislation created Bulletin 171 containing the public school accreditation performance and process standards. These standards assign accreditation levels to school districts. The districts are assigned accreditation Levels 1 through 5, with Level 3 being deemed an adequately performing school district. The accreditation process has two parts, the first part, performance standards, addresses the components of the statewide testing program or other measures related to the performance of school district. The second part, process standards, addresses accepted educational principles and practices believed to promote educational quality.

### ***Performance Standards***

Implementation of performance standards for public school occurs in two phases. Phase One applies thirty-six Level 3 performance standards to each public school district. Districts must net 90% of Level 3 performance standards or the district will receive an accreditation assignment of Level 1 or 2. Districts that meet the criteria for performance Level 3 then enter Phase Two of the system. Thirty-nine Level 5 performance standards are applied to these districts and based upon the percentage of Level 5 performance standards met, a district will either remain at Level 3 or be assigned as Level 4 or 5. Level 3 schools are termed successful schools and their financial and program data is utilized in the MAEP Funding Formula.

### ***Process Standards***

Process standards are a set of requirements broken into five main categories and districts must comply with 100% of the standards. The categories include active educational leadership, instructionally focused organization, effective instruction, professional development, and school climate. Accreditation occurs after each district meets specific process standards criteria. The standards guide districts on subject matter such as district staff, instructional staff, and student/teacher ratio to ensure each schools is able to provide an adequate education for all students.

## **Future Public School Accountability Standards**

MDE is currently developing a new accreditation system in which the accreditation levels no longer rate school districts, but instead rate individual schools. The new accreditation system requires school accreditation levels to be based on two criteria: (1) meeting an annual growth expectation in student achievement and (2) the percentage of students proficient at grade level.

The new accreditation system differs from the old system because school districts will only receive an accreditation status for process standards and not performance. Performance standards will be evaluated at the individual school level and then a performance classification given to schools. This change is problematic for the MAEP because funding is based on both performance and process standards for school districts, not individual schools. The change in accreditation will have to be addressed by MDE to ensure both performance and process standards are incorporated in the funding system.

SOURCE: PEER review of MDE accreditation information.

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# Appendix B: Florida's School District Performance Reviews

## Florida's Implementation of Best Financial Management Practices Reviews

Florida utilizes Best Financial Management Practices Reviews to study the fiscal management practices of the district and to improve school district management and identify cost savings.

The 1996 the Florida Legislature created the School District Performance Reviews to assist Florida school districts in identifying ways to save money and increase efficiency and effectiveness. Performance reviews examine eleven broad school district management and operational areas. Florida's Office of Program Policy Analysis and Government Accountability (OPPAGA) works with the school districts to the tailor the reviews to the particular needs of each school district. The first year of the program, the Legislature appropriated \$750,000 to fund performance reviews of a large, a medium, and a small school district. A consulting firm performed each review and the firm determined decisions regarding criteria and research methods of the review. OPPAGA monitored the process through observing on-site, attending key meetings, and providing feedback on report drafts.

In 1997, Florida's Legislature determined that the performance review process was not stringent enough and the development of a standard process that applied to all districts was necessary. The Legislature directed the development of a system for reviewing fiscal and operational practices of the districts. OPPAGA and Auditor General developed the Best Financial Management Practices Reviews. The best practices are designed to encourage districts to

- use performance and cost-efficiency measures to evaluate programs;
- assess their operations and performance using benchmarks based on comparable school districts and government agency and industry standards
- identify potential cost savings through privatization and alternative service delivery; and,
- link financial planning and budgeting to district priorities, including student performance.

The Best Financial Management Practices Reviews were voluntary and the district and the state split the cost of the review. The districts first performed a self-assessment and then OPPAGA compared its review to the self-assessment performed by the district. The Best Financial Management Practices Reviews were voluntary until 2001, when the legislature enacted the Sharpening the Pencil Act, making the reviews mandatory for all school districts. The act requires each school district to undergo a review once every five years. Under these reviews, OPPAGA and the Auditor General examine the school district operations to determine whether schools are using the Best Practices to evaluate programs, assess operations and performance to identify cost savings, and link financial planning and budgeting to district policies.

The Best Financial Management Practices Review areas include: Management Structure, Performance Accountability Systems, Educational Service Delivery, Administration and Instructional Technology, Personnel Systems and Benefits, Facilities Construction, Facilities Maintenance, Student Transportation, and Food Services Operation. For each school district review, the members of the review team must make site visits to four schools in a district. The review process consisted of interviews, on-site visitation and observation, public forums, peer district benchmarking, and teacher surveys. Timelines for most reviews involve a four- to five-month fieldwork stage and roughly a three-month writing stage. On average Florida performs thirteen audits a year with eight conducted in-house and five contracted out.

## **The Structure and Breadth of the Best Financial Management Practices Reviews**

The Best Financial Management Practices Reviews consist of evaluating the best practices and their associated indicators. The associated best practice indicators provide definitions of how to effectively or efficiently perform that standard. For example, under Performance Accountability Systems, one practice states that the district formally evaluates the performance and cost of its major educational and operational programs and uses evaluation results to improve program performance and cost-efficiency. The associated indicators include:

- The district periodically conducts evaluations of its educational and operational programs, functions, or activities using performance information and other reasonable criteria.
- At minimum, the district's evaluations examine whether the program or activity is meeting its goals and objectives in a cost-effective manner.
- The district issues evaluation reports that include findings and recommendations to improve the effectiveness and/or efficiency of the program or evaluated activity.
- The findings and recommendations of the district's evaluation reports are clearly and directly stated, understandable, and do not require undue assistance to interpret their meaning or significance.
- The district provides evaluation reports to school board members and top-level administrators.
- The district can demonstrate specifically how its uses evaluation results to improve performance and cost-efficiency.

The best practices and indicators are a concrete way for districts to evaluate their costs and streamline their operations. Review teams determine the amount and the degree of best practices and indicators the districts are using. Once the fieldwork is complete, OPPAGA and the Auditor General, in conjunction with the district, make recommendations and create an action plan to assist the district in making needed improvements.

## **Cost Savings Associated with Action Plan**

Each action plan includes an associated cost savings figure under each review area. For example, under Management Structure, the plan lists unmet practices and the

cost savings associated with each practice. Osceola County School District, the most recently published school report, had a projected five-year net fiscal impact of \$5,617,199.

In 1998, the Manatee County School District Board voted to implement an action plan developed by OPPAGA. Since 1998, the district has made progress in improving its management practices, increasing efficiency and effectiveness and reducing costs. As of March 2002, the district has implemented all of the best practices listed in the action plan. The district estimates that it has saved \$14,760,238 to date by implementing report action plans.

Florida's reviews do offer recommendations and cost savings to improve district efficiency, but OPPAGA does not tie the state appropriation process to the reviews. The state instead awards the district the Seal of Best Fiscal Management if and when it meets all required best practices. If the district chooses not to comply with the action plan, its administrators can be called in front of the Legislature to explain why the improvements cannot be assimilated into the district's operational and fiscal system.

## **Barriers to Implementation in Mississippi**

Although Florida's Best Financial Management Practices Reviews represent a strong model for incorporating efficiency reviews at the district level, this process is very resource intensive and potentially problematic because of the high number of districts in Mississippi. For the two-year period between 1996-1998, the Florida Legislature appropriated \$2 million to fund nine school district performance reviews. OPPAGA contracted out all nine reviews, but OPPAGA analysts spent staff hours monitoring the projects. Florida has a total of sixty-seven districts and the state reviewed only nine.

Best Financial Management Practices Reviews are more resource intensive, requiring more staff and time to complete a review. OPPAGA is conducting eight reviews in-house this fiscal year. OPPAGA assigns an average of seven staff members to each review for a four- to five-month period. OPPAGA has a staff of seventy legislative analysts and twenty of those individuals are with the education policy division. OPPAGA received funding for ten extra staff positions to assist with the reviews. As noted above, Florida's educational system consists of sixty-seven districts and Mississippi has 152 districts. Although many of Mississippi's districts are considerably smaller, the reviews will continue to be labor intensive and resource driven.

# Agency Response



## Mississippi Department of Education

Richard L. Thompson, State Superintendent of Education

Office of Educational Accountability • Judy C. Rhodes • Director  
601-359-2038 • Fax: 601-359-1748

November 21, 2002

Dr. Max Arinder, Director  
Joint Legislative Committee on Performance  
Evaluation and Expenditure Committee  
P.O. Box 1204  
Jackson, Mississippi 39215-1204

Dear Dr. Arinder:

Thank you for the opportunity to respond to the report on the Mississippi Adequate Education Program (MAEP) Funding Process. The survey conducted by your staff was performed in a professional manner and brought to light several points. The Department's comments on these points are listed below:

The suggested plan for establishing a reserve fund to assist school districts experiencing excessive growth appears to offer a solid tool for making equitable adjustments. The Department will recommend this concept in the upcoming session.

In regard to funds allocated for 'at-risk' students the general philosophy of the Department, based upon legislative input, has been to provide the school districts with the proper resources, but to leave the 'use of funds' decisions to those at the local level. The Department has, and will continue to provide the school districts with information and guidelines to address the needs of 'at-risk' students. We feel that the new accountability system will insure that districts implement the proper remediation programs.

We agree that monitoring efficiency at the school districts could help to maximize the dollars that are going toward the education of our children. As indicated by your report, the implementation of a monitoring system for our vast numbers of school districts would most likely be cost prohibitive. We will continue to seek opportunities and methodologies that would provide positive efficiency results without diverting necessary educational dollars to administrative tasks.

The report also brought forth the impending necessary revisions to the formula when the Department no longer establishes ratings for the school districts but rather evaluates individual schools. This is an area that we have been reviewing and will continue to seek a solution that will maintain the concepts and principles that have been established within MAEP.

Again, thank you for the professional manner in which this review was conducted. If I may be of further assistance, please contact me at 359-2038.

Sincerely,

A handwritten signature in black ink, appearing to read "Judy Rhodes", is written over a horizontal line.

Judy Rhodes, Director  
Office of Educational Accountability

JR/sm

*"Quality Education for Every Child"*

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