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MEMORANDUM

To: Chairman Highland,
Members of the Special Committee on K-12 Student Success

From: Jason B. Long, Senior Assistant Revisor

Date: October 23, 2015

Subject: Statutory review of capital improvement state aid

Kansas law grants school districts the authority to issue bonds in order to raise sufficient funds for capital improvement projects. Such projects typically entail new building construction, additions to an existing building, or extensive remodeling of an existing building. Such projects require a significant amount of financing at the outset which cannot be generated through a property tax levy. Thus, school districts issue bonds and enter into covenants with the bondholders to repay those bond obligations with interest over several years.

Under current law, school districts that have issued bonds can receive financial assistance from the State to aid the district in retiring its bond obligations. This is known as capital improvement state aid. The State Board of Education (KSBE) uses a statutory formula to determine the amount of capital improvement state aid to be distributed to the school districts. This memorandum provides a brief review of how the law has provided this financial assistance over time.

Prior to 1992 House Bill 2835

Prior to the enactment of House Bill 2835 in 1992, there were no statutory provisions that provided state aid to school districts to assist districts in repaying their bond obligations. There were statutory provisions that authorized the issuance of bonds and others that provided some limits on the amount of bonds that a district could issue. The primary school finance law, the School District Equalization Act, did not provide for any capital improvement state aid.

From 1992 to 2014

In 1992, K.S.A. 75-2319 was created as a part of HB 2835.¹ This statute established the school district capital improvements fund in the state treasury. The statute requires KSBE to determine the amount of state aid each school district is to receive from the fund pursuant to a statutory formula. Once KSBE determines the aggregate amount to be distributed as state aid, KSBE certifies this amount to the Director of Accounts and Reports who then transfers the certified amount from the state general fund to the school district capital improvements fund. School districts then receive their state aid at such times as determined by KSBE.

The formula for determining the amount of state aid each school district receives is based on the assessed valuation per pupil (AVPP) of the district. The AVPP is determined by taking the total assessed valuation of all taxable tangible property in the school district and dividing that figure by the total enrollment of the school district. The AVPP for each school district is then rounded to the nearest \$1,000 increment and the rounded figure is the AVPP of the district for purposes of calculating capital improvement state aid.

Once the AVPP of each school district is determined, KSBE must determine the median AVPP of all school districts. This median figure is the baseline for a schedule of AVPP figures for all school districts. The schedule of AVPP amounts ranges both above and below the median point in \$1,000 increments. The highest point on the schedule corresponds to the school district with the highest AVPP, while the lowest point corresponds to the school district with the lowest AVPP.

The amount of capital improvement state aid is then determined by multiplying the aggregate amount of bond payments the school district is obligated to make by the district's applicable state aid percentage factor. The state aid percentage factor is determined by where the school district falls on the AVPP schedule. The state aid percentage factor for the median AVPP is 25% for bond obligations incurred after July 1, 1992.² This percentage decreases 1% for each \$1,000 increment above the median AVPP, and increases by 1% for each \$1,000 increment below the median AVPP as demonstrated below:

¹ While the School District Finance and Quality Performance Act was also enacted in 1992, that Act was established through a different piece of legislation unrelated to the bill that created K.S.A. 75-2319. See 1992 Senate Substitute for Senate Substitute for HB 2892; 1992 Session Laws of Kansas ch. 280.

² For bond obligations incurred prior to July 1, 1992, the state aid percentage factor for the median AVPP was 5%. Currently, there are no outstanding bond obligations that were incurred prior to July 1, 1992.

AVPP for each School District At \$1,000 increments	
USD -----	22%
USD -----	23%
USD -----	24%
USD -----	Median AVPP 25%
USD -----	26%
USD -----	27%
USD -----	28%
...	...

In 1993, K.S.A. 75-2319 was amended by SB 100. The amendment limited capital improvement state aid such that it only applied to those bond obligations that had been issued after being approved by the electorate of the school district.

The statute was amended twice in 2006. First, SB 481 created K.S.A. 75-2319c, which established the state aid percentage factor for school districts resulting from a consolidation or a disorganization. SB 481 made a corresponding amendment to K.S.A. 75-2319 to include a reference to K.S.A. 75-2319c and the state aid percentage factor calculated thereunder.

The second amendment in 2006 was in SB 549. Under SB 549 a new subsection was added to K.S.A. 75-2319 stating that any funds transferred by a school district from its supplemental general fund³ to its capital improvements fund would not be included when calculating the amount of capital improvement state aid for the school district.⁴

2015 House Substitute for Senate Bill No. 7

From its creation in 1992 until the enactment of 2015 SB 7, the formula for determining capital improvement state aid remained unchanged by the Legislature. In SB 7, the formula was bifurcated based on the date of the election approving the bond issuance. For bonds approved at an election held prior to July 1, 2015, the formula for determining capital improvement state aid remains unchanged.

³ The supplement general fund of a school district primarily contained revenues from the district's local option budget levy and supplemental general state aid received from the State.

⁴ Starting in 2002, K.S.A. 75-2319 was also amended on a regular basis to reclassify the money transfer from the state general fund to the school district capital improvements fund as a "revenue" transfer rather than as a "demand" transfer in certain fiscal years. These amendments were irrelevant with respect to determining the amount of capital improvement state aid school districts were to receive under the statute.

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For bonds approved at an election held between July 1, 2015 and June 30, 2017, the formula is modified to use a different schedule of AVPP amounts. Instead of starting with the median AVPP, the new schedule starts with the lowest AVPP. The state aid percentage factor for this amount of AVPP is 75%. The state aid percentage factor is then decreased by 1% for each \$1,000 increment above the lowest AVPP as shown below:

AVPP for each School District At \$1,000 increments	
...	...
USD -----	69%
USD -----	70%
USD -----	71%
USD -----	72%
USD -----	73%
USD -----	74%
USD -----	75%

K.S.A. 75-2319, as it currently reads, contains no provisions for providing capital improvement state aid for any bond issuances approved at an election held after June 30, 2017.⁵

⁵ K.S.A. 75-2319 was amended a second time in 2015 in Senate Substitute for HB 2353 to ensure that the appropriate state aid computation formula was applied to the bond obligations of the school district. This amendment has no bearing on how state aid is calculated.