

Approved \_\_\_\_\_

2/15/89  
Date

MINUTES OF THE HOUSE COMMITTEE ON EDUCATION

The meeting was called to order by Chairman Don Crumbaker at \_\_\_\_\_  
Chairperson

3:30 a.m./p.m. on February 6, 1989 in room 519-S of the Capitol.

All members were present except:  
Representative Ramirez, excused.

Committee staff present:

Avis Swartzman, Revisor of Statutes' Office  
Ben Barrett, Legislative Research  
Dale Dennis, Department of Education  
Thelma Canaday, Secretary to the Committee

Conferees appearing before the committee:

The meeting was called to order by Chairman Crumbaker.

Representative Amos asked the committee to introduce a bill that would allow school district to donate excess equipment to needy schools in disaster areas.

Representative Empson moved a bill be introduced that would allow Kansas school districts to donate excess equipment to needy schools in disaster areas. Representative Lane seconded the motion. Motion carried.

Chairman Crumbaker drew attention to the minutes of January 31, 1989 and February 2, 1989.

It was moved by Representative Amos and seconded by Representative Empson that the minutes for January 31 and February 2 be approved. Motion carried.

The chairman introduced Ben Barrett of Legislative Research to give a review of School Finance. Mr. Barrett gave a brief history of how the present school finance formula developed from the time when schools were funded entirely by local property taxes to the present method. In the beginning schools were funded by local property taxes. In 1937 the state sales tax was imposed to help finance education. The beginning of equalization methods occurred in 1949 and in 1965 the modern era of school finance in Kansas began. The overhaul of school finance in 1973 resulted in SDEA (School District Equalization Act). Mr. Barrett related how courts became involved in the 70's and cited the Rodriquez case as one example.

Mr. Barrett explained the school district power equalization philosophy (Attachment 1) which is a concept of using state resources to "equalize" the capacity of local school districts to finance their educational programs.

Following a period of discussion in which Mr. Barrett and Mr. Dale Dennis responded to questions from the committee, Mr. Barrett gave an explanation of the basic general state aid formula for 1988-89. (Attachment 2)

Another period of discussion followed Mr. Barrett's presentation.

The meeting was adjourned by the chair at 4:58 p.m.

The next meeting will be February 8, 1989 in Room 519-S at 3:30 p.m.



SCHOOL DISTRICT POWER EQUALIZATION PHILOSOPHY

At the heart of the 1973 legislative effort to revise the main school finance program was the concept of using state resources to "equalize" the capacity of local school districts to finance their educational programs. This approach to financing schools is commonly referred to as district power equalizing.

Under a "pure" power equalizing formula, spending for education in a district is not a function of district wealth, but of the wealth of the state as a whole. The budget per pupil may be determined locally, but when the local board decides to increase expenditures it also must make a commensurate increase in its taxing effort. The local board knows that at whatever level it chooses to spend, the district will be making the same taxing effort as other districts spending at the same level, regardless of the wealth of the various districts.

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Formula

USD General Fund Budget minus (District Wealth x Local Effort Rate) = State Aid

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Illustration

	<u>Enrollment</u>	<u>Budget Per Pupil</u>	<u>Total Budget</u>	<u>District Wealth</u>	<u>Local Effort Rate</u>	<u>Local Effort</u>	<u>State Aid</u>
<u>Assumption A</u>							
District 1	500	\$2,000	\$1,000,000	\$80,000,000	1.0%	\$ 800,000	\$ 200,000
District 2	500	2,000	1,000,000	40,000,000	1.0	400,000	600,000
<u>Assumption B</u>							
District 1	500	\$4,000	\$2,000,000	\$80,000,000	2.0%	\$ 1,600,000	\$ 400,000
District 2	500	4,000	2,000,000	40,000,000	2.0	800,000	1,200,000
<u>Assumption C</u>							
District 1	500	\$1,000	\$ 500,000	\$80,000,000	0.5%	\$ 400,000	\$ 100,000
District 2	500	1,000	500,000	40,000,000	0.5	200,000	300,000

*Attachment 1  
House Education  
2/6/89*

**BASIC GENERAL STATE AID FORMULA 1988-89**  
(Ignoring the "Hold Harmless" Aid)

$$\begin{array}{l}
 \text{USD} \\
 \text{General} \\
 \text{Fund} \\
 \text{Budget}
 \end{array}
 \begin{array}{l}
 \text{Minus} \\
 \boxed{\text{District} \\
 \text{Wealth}^1}
 \end{array}
 \times
 \begin{array}{l}
 \boxed{\text{Local} \\
 \text{Effort} \\
 \text{Rate}^2}
 \end{array}
 +
 \begin{array}{l}
 85\% \text{ of} \\
 \text{Income} \\
 \text{Tax} \\
 \text{Rebate}^3
 \end{array}
 +
 \begin{array}{l}
 \text{P.L. 874}^{4,5} \\
 \text{Receipts}
 \end{array}
 +
 \begin{array}{l}
 \text{Motor} \\
 \text{Vehicle} \\
 \text{Tax}^5
 \end{array}
 +
 \begin{array}{l}
 \text{Motor} \\
 \text{Vehicle} \\
 \text{Dealer} \\
 \text{Stamp} \\
 \text{Tax}^{5,6}
 \end{array}
 +
 \begin{array}{l}
 \text{Revenue} \\
 \text{Bond} \\
 \text{In-Lieu} \\
 \text{Payments}^5
 \end{array}
 \begin{array}{l}
 \text{Equals} \\
 \text{General} \\
 \text{State} \\
 \text{Aid}
 \end{array}$$

Attachment 2  
 Kansas Education  
 2/6/89

1) Sum of adjusted property valuation and resident taxable income in the USD for the most recent year both such figures are available. For 1988-89, "district wealth" is determined by dividing by 1.75 the sum of (a) adjusted valuation and taxable income in the district for the most recent year for which such data are available and (b) 75 percent of such data for the second preceding year.

2) DISTRICT'S BUDGET PER PUPIL (BPP)  
BPP "NORM" FOR THE DISTRICT'S ENROLLMENT CATEGORY

x 1.928% (EST.) =

LOCAL EFFORT RATE

ESTIMATED 1988-89 BPP "NORMS"

<u>ENROLLMENT (E)</u>	<u>"NORM" BPP</u>	<u>ADJUSTMENTS</u>
Under 200	\$ 4,864 <sup>a</sup>	NONE
200-399	4,864 <sup>b</sup>	\$1.925 (E-200)
400-1,899	4,479 <sup>c</sup>	.9647 (E-400)
1,900-9,999	3,032 <sup>d</sup>	NONE
10,000 and Over	3,316 <sup>e</sup>	NONE

\* Set by State Board of Education within the limits of appropriations for state school equalization act.

- a) Median of 200-399 enrollment category
- b) Median of 200-399 enrollment category to median of 400-499 enrollment interval
- c) Median of 400-499 enrollment interval to median used for the fourth enrollment category
- d) Median in category, increased by 1.5 percent
- e) Median in category

- 3) Twenty percent of resident individual income tax liability after credits, except credits for income taxes paid to another state, withholding, and estimates.
- 4) Applicable amount determined under federal rules and regulations based upon a ratio of USD operating revenues that are "equalized."
- 5) Amount of prior year's receipts from these sources credited to the USD general fund.
- 6) Motor vehicle dealer stamp tax expires after December 31, 1988.

## SUMMARY OF MAIN FEATURES OF THE SCHOOL DISTRICT EQUALIZATION ACT (SDEA)

The general state aid formula of the SDEA is based upon a modification of the "power equalization" principle. This approach to school finance was adopted in 1973. The formula is applied to a school district's general operating fund. A summary of the main provisions of the SDEA follows:

### I. Budget Controls

USD general fund budgets are subject to statutorily imposed controls. There are no tax levy or tax rate controls for the general fund.

The law permits a USD to increase its general fund budget per pupil (BPP) to the lesser of the "determinable percentage" (6 percentage points above 103 percent, i.e., 109 percent) of the district's BPP in the preceding school year or 103 percent of the median BPP for the previous year of districts in the same enrollment category, whichever is lower. Any district may budget up to 103 percent of its BPP in the preceding year.

The budget control is reviewed each year by the Legislature; it often is modified for the succeeding school year. For 1988-89 the applicable budget control range is 102 percent to 104 percent, plus 1 percent, subject to a 5 percent protest petition election.

Budget controls are made more flexible by other provisions of the SDEA re inordinate increases in social security and utilities (water, heat, electricity) and insurance expenditures; elections to exceed basic limitations; accumulation of unused budget authority; enrollment declines; and appeals to the State Board of Tax Appeals.

### II. General State Aid Computation

A USD's entitlement of general state aid is determined by subtracting its "local effort" from the legally authorized general fund budget. Local effort consists of the sum of "district wealth" times the USD's local effort rate (LER); 85 percent of USD receipts in the school year from the income tax rebate, and amounts received in the general fund in the prior year from federal impact aid (based on federally qualified percentage), from the motor vehicle tax, from the motor vehicle dealer stamp tax (tax expires 12-31-88), and from revenue bond in-lieu payments.

1. District Wealth. District wealth is the sum of the taxable income of resident individuals within a district and the adjusted valuation (30 percent level) of the district for the most recent year for which such data are available. For 1988-89, district wealth is determined by dividing by 1.75 the sum of adjusted valuation and taxable income for the most recent year and 75 percent of such data for the second preceding year.
2. Local Effort Rate (LER). The LER is a percentage which is determined by the State Board of Education in accord with legislative appropriations and applied to a specified "norm" BPP, as such norm BPPs are determined under a schedule which divides USDs into enrollment categories based upon an analysis of operating costs per pupil. The LER of a USD is more or less than the LER norm for the district's enrollment category in the same proportion that a district's BPP is more or less than the norm BPP for the enrollment category.
3. Income Tax Rebate. Each district receives from the state an amount equal to 20 percent of the state individual income tax liability after all credits, except for credits for taxes paid to another state and except for withholding and estimates, of the residents of the district.
4. Impact Aid. Impact aid funds are federal P.L. 874 funds paid to USDs to offset the adverse effects of certain federal activities on the tax base of school districts. Impact aid funds received for major disasters and for the low-rent housing program are excluded from the local effort computation.
5. Motor Vehicle Tax. The special tax on motor vehicles based on value (in lieu of a property tax) is allocated by the county treasurer proportionately to taxing units, including school districts.
6. Motor Vehicle Dealer Stamp Tax. A stamp tax (in lieu of a property tax on inventories) is imposed on motor vehicle dealers. A total of 98 percent of those tax receipts are apportioned proportionately by the county treasurer to taxing units, including school districts. (This tax expires 12-31-88.)
7. Revenue Bond In-Lieu Payments. In some instances, school districts receive payments in lieu of property taxes relative to properties that are off the tax rolls due to the issuance of industrial or port authority revenue bonds.

### III. Hold Harmless Aid

For 1988-89 only, if a district's general state aid and income tax rebate (combined) in 1988-89 is less than the amount received in 1987-88, the district receives "hold harmless" aid equal to 75 percent of the difference -- if the district has a sufficiently high general fund tax rate.

### IV. Income Tax Rebate

As noted above, each USD receives from the state an amount equal to 20 percent of the state individual income tax liability after all credits, except for credits for taxes paid to another state and except for withholding and estimates, of the residents of the district. 85 percent of this amount is treated as "local effort" and is deducted in computing a district's general state aid entitlement.

### V. Transportation Aid

State transportation aid is paid to all districts that transport pupils who live 2.5 miles or more from the school they attend. Aid entitlements are determined by a cost-density formula, which recognizes the higher costs of transporting pupils in low-density districts. This aid is based on the lesser of 100 percent of the computed actual cost or 100 percent of the amount per pupil computed under the cost-density formula. For FY 1989, the formula is funded at 98 percent.

Kansas Legislative Research Department  
December 28, 1988