

## MINUTES OF THE SENATE EDUCATION COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 1:40 p.m. on March 3, 2004 in Room 123-S of the Capitol.

All members were present except:  
Senator John Vratil (excused)

Committee staff present:  
Carolyn Rampey, Legislative Research  
Kathie Sparks, Legislative Research  
Theresa Kiernan, Office of the Revisor of Statutes  
Judy Steinlicht, Committee Secretary

Conferees appearing before the committee:  
Carolyn Rampey, Legislative Research  
Theresa Kiernan, Office of the Revisor of Statutes

Others attending:  
See Attached List

### **Overview of the Augenblick and Myers Study**

Carolyn Rampey, Legislative Research gave the committee an overview of the Augenblick and Myers Study (A&M) to prepare for the hearing on **SB465** tomorrow which implements recommendations of A&M. Theresa Kiernan, Revisor of Statutes, showed the committee where the recommendations of the study were implemented in the bill.

Legislation was passed in 2001 directing the Legislative Coordinating Council (LCC) to provide for a professional evaluation of school district finance to determine the cost of a suitable education for Kansas children. The study was to address inadequacies and inequities in the School District Finance and Quality Performance Act, and other items listed in the statute. It would include a determination of the funding necessary for a suitable education in typical schools of various sizes and locations and determine the additional support needed for special education, at-risk, limited English proficient pupils and pupils impacted by other special circumstances.

The sum of \$225,000 was appropriated to LCC to hire consultants and the LCC designated the Legislative Education Planning Committee (LEPC) to oversee the study. Only one proposal was received from Augenblick & Myers to complete the study along with a team composed of staff from the National Conference of State Legislatures (NCSL) and Education Commission of the States (NCS). This team met with the LEPC four times during the study. In an early meeting, the definition of a suitable education was expanded to include student and staff safety, early childhood programs, extended learning time, alternative schools, technical education, technology training, library media services, foreign language, fine arts, nursing and counseling services, activities programs, student transportation, and a qualified teacher in each classroom.

Two methodologies were used to do the study. The Professional Judgement method used teams of experienced educators to specify the resources prototype schools needed in order to assure that school districts could meet state expectations. The second method was the Successful School District model. A&M identified 85 school districts in Kansas that were deemed as "successful" using criteria set by the LEPC. Expenditure patterns were analyzed and a base cost per pupil was determined. The Professional Judgement approach identified a base cost per student of \$5,811, plus adjustments for school size, special education and at-risk and bilingual students. The Successful School District approach identified a base cost of \$4,547, but did not provide information about adjustments necessary for special needs students. A&M observed that most of the difference between the two base cost figures was attributable to the fact that some school districts that were being identified as being "successful" might not, in fact, meet all of the standards associated with the definition of suitability used and by the fact that the Professional Judgement approach included more services than actually was necessary to meet the definition. The consultants also noted that the 27.8 percent difference between the two numbers was close to the 25

CONTINUATION SHEET

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percent cap on the local option budgets (LOB's).

The original recommendations of the A&M study were:

- Kansas should continue to use a foundation program in combination with the LOB as the primary basis for distributing public school support.
- The foundation level (base cost) should be raised in the future to a level that would be equivalent to \$4,650 in 2000-01. (Adjustment for inflation, the base cost in **SB465** is \$5,033.)
- The foundation level should be adjusted by a regional cost factor using figures from the National Center for Education Statistics until such time as the state conducts its own study. **SB465** directs the State Board of Education to make recommendations to the Governor for adjustments to
- The foundation level should be adjusted in recognition of the higher costs associated with (1) the operation of moderate size and small school districts; (2) the needs of students in special education programs; (3) the needs of at-risk students (based on the number of students participating in the free lunch program); (4) the needs of bilingual students. The adjustments should be based on formulas that are sensitive to the enrollment level of school districts. **SB465** contains several adjustments to the base costs concerning higher costs of serving special education, at-risk and bilingual students.
- There should be no pupil weight specifically for vocational education; rather, the cost of vocational education should be included in the base cost figure. Provision eliminated in **SB465**.
- The weight for students in newly opened schools should continue to be used although it should be used for three years, not two years, and the weight should decrease each year. **SB465** applies a new facilities weight of .25 for the first year (current law), .16 the second year, and .08 for the third year.
- School districts should be expected to contribute to the foundation program based on a property tax rate of 25 mills. **SB465** would raise the school district property tax levy to 35 mills.
- The second tier (Local Option Budget) should permit districts to raise up to 25 percent more than the revenue generated by the foundation program (based on the foundation level and the adjustment of size, special education, at-risk students, and bilingual students). The state should continue to equalize the second tier in the same manner as it does currently. **SB465** continues local option budgets, as in current law.
- The foundation level should be restudied every 4-6 years or when there is either a significant change in the state student performance expectations or a significant change in the way education services are provided. In intervening years, the foundation level should be increased based on the work of a committee designated by the legislature to determine an annual rate of increase, which should consider annual changes in the Consumer Price Index (CPI) in Kansas. **SB465** provides that the BSAPP would be increased annually by a 2 percent inflation factor.
- The state should continue to use its density-based formula for transportation support but include the full cost of serving students living 1.25 miles from school as part of the analysis. **SB465** would accomplish this change.

In addition, **SB465** would equalize school district capital outlay, using the same formula used to calculate supplemental general state aid, except equalized to the 95<sup>th</sup> percentile instead of the 25<sup>th</sup>. The bill would reimpose the 4 mill limit on the capital outlay mill levy. A&M did not consider school district outlay funds in its study. Another policy in **SB465**, not recommended by A&M, is to eliminate the Ancillary School Facilities Weight.

Other than the school district property tax levy being increased from 20 to 25 mills, the A&M report did not address any revenue to fund changes it recommended. **SB465** includes a sales tax increase from 5.3 to 6.3 percent, effective July 1, 2004. Under current law, the 5.3 percent rates are to be reduced to 5.0 percent on July 1, 2006. In addition, a 15 percent permanent individual income tax surcharge would be implemented without regard to applicable income tax credits beginning in the tax year 2004. The State Department of Education estimates the fiscal impact of **SB465** at \$995,384,677 in FY 2005. (Attachment 1) A motion to approve the minutes of February 23 and February 24 was made by Senator Teichman. Seconded by Senator Schodorf. Motion carried.

The meeting was adjourned at 2:33 p.m. The next meeting is scheduled for March 4, 2004.



# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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March 2, 2004

**To:** Senate Education Committee

**From:** Carolyn Rampey, Principal Analyst

**Re:** The Augenblick and Myers Study of the Cost of a Suitable Education and HB 465

This memorandum describes the Augenblick and Myers (A&M) Study and identifies major components of SB 465, which would implement the A&M recommendations.

## Origins of the Study

The Augenblick and Myers study of the cost of a suitable education<sup>1</sup> had its origins in legislation enacted by the 2001 Legislature. The legislation (KSA 2003 Supp. 46-1225) directed the Legislative Coordinating Council (LCC) to provide for a professional evaluation of school district finance to determine the cost of a suitable education for Kansas children. The study was to address inadequacies and inequities inherent in the School District Finance and Quality Performance Act, as well as other items listed in the statute. They included a determination of the funding needed to provide a suitable education in typical schools of various sizes and locations and a determination of the additional support needed for special education, at-risk, limited English proficient pupils, and pupils impacted by other special circumstances.

For purposes of the study, the legislation defined "suitable" to mean a curricular program consisting of courses that were statutorily required, those additional courses required to qualify for a State Scholarship, and the courses included in the precollege curriculum prescribed by the State Board of Regents for purposes of meeting qualified admissions eligibility requirements. The sum of \$225,000 was appropriated to the LCC to hire consultants and the LCC designated the Legislative Educational Planning Committee (LEPC) to oversee the study.

The LEPC issued a request for proposals in August 2001. The proposal that was received was from the Denver-based firm headed by Dr. John Augenblick and John Myers. The proposal envisioned a team composed of staff from the National Conference of State Legislatures and the Education Commission of the States to work with A&M personnel on the project. Members of the team met with the LEPC and, based on the recommendation of the Committee, a contract between the LCC and A&M was signed October 2001, with a completion date of May 2002.

A&M met with the LEPC three times during the course of the study and a fourth time to present the final report. At one of the early meetings, the LEPC, with input from the State Board of Education, expanded the definition of "suitable education" to include the following programs and services: student and staff safety, early childhood programs, extended learning time, alternative schools, technical education, technology training, library media services, foreign language, fine arts, nursing and counseling services, activities programs, student transportation, and a qualified teacher in each classroom.

*Senate Education  
3-3-04  
Attachment 1*

## **Methodologies Used**

A&M used two methodologies to do the study. The Professional Judgment method used teams of experienced educators to specify the resources prototype schools need in order to assure that school districts could meet state expectations. Panels composed of six to eight people were assigned to identify resources needed for elementary, middle, and high schools in four prototype school districts (very small, small, moderate, and large) and for central service resources needed for two prototype districts. An expert panel reviewed the work of the other panels and helped synthesize information. The Professional Judgment method has the advantage of being able to identify resources associated with students with special needs and tends to result in higher costs than other methods that can be used. According to A&M, this is because experienced educators tend to recommend higher staffing levels and the addition of programs, such as professional development for teachers and full-day kindergarten.

The second methodology used was the Successful School District model. Using this approach, A&M identified 85 school districts in Kansas that were deemed to be "successful" using criteria set by the LEPC. "Successful districts" were those that met Quality Performance Accreditation requirements and whose students performed well on the basis of statewide achievement tests for 2000. Expenditure patterns for these districts were analyzed and a base cost per pupil determined. The analysis included only those costs needed to educate an average student and excluded costs associated with special education, bilingual education, or services related to being at-risk. Expenditures for capital outlay, food service, and transportation also were excluded. Partly because of these reasons, the Successful School District model usually results in a lower cost per pupil figure than the Professional Judgment model. A&M discovered that the successful schools approach showed higher performing districts in Kansas spend more than lower performing districts and concluded that, to improve overall performance in the state, spending might have to be increased.

## **Base Cost and Modifications**

When the analyses and activities associated with the two methods were complete, the result was two different base cost figures. The Professional Judgment approach identified a base cost of \$5,811 per student, plus a series of adjustments associated with school size, special education and at-risk and bilingual students. The Successful School District approach identified a base cost of \$4,547, but did not provide information about adjustments necessary for special needs students. (The method was not designed to do that.) The figures were \$1,264 apart (27.8 percent) and both were higher than the "foundation level" that existed at the time—\$3,820 (Base State Aid Per Pupil).

A&M observed that most of the difference between the two base cost figures was attributable to the fact that some school districts that were identified as being "successful" might not, in fact, meet all of the standards associated with the definition of suitability used and by the fact that the Professional Judgment approach included more services, or a more enhanced approach to service delivery, than actually was necessary to meet the definition. The consultants noted that the 27.8 percent difference between the two numbers was close to the 25 percent cap on local option budgets (LOBs). That is, if one wanted to be consistent with the current structure of the school finance system, the successful school base of \$4,547 could be considered the basic foundation level which, augmented by additional 25 percent due to a "second tier" (or LOB), would result in a number close to the Professional Judgment base of \$5,811.

## A&M Recommendations and SB 465

The material that follows lists the original recommendations (in italics) made by A&M in May 2002. Additional material is included that pertains to 2004 SB 465, which would implement the recommendations.

- *Kansas should continue to use a foundation program in combination with the LOB as the primary basis for distributing public school support.* Based on its work in Kansas, including interviews and responses to questionnaires from teachers, school and school district administrators, school board members, members of the business community and others about the Kansas school finance program, A&M concluded that there is strong support for the way state aid is allocated to schools in Kansas, as well as for the use of pupil weights to recognize the high costs of service for students with special needs. However, interviewees and questionnaire respondents believed the foundation level and weights were too low and that the local contribution to the foundation program (the 20 mill property tax) should be increased. Interviewees and respondents also generally supported the concept of the LOB.
- *The foundation level (base cost) should be raised in the future to a level that would be equivalent to \$4,650 in 2000-01.* Adjusted for inflation, the base cost in SB 465 is \$5,033. (New Section 1.)
- *The foundation level should be adjusted by a regional cost factor using figures from the National Center for Education Statistics until such time as the state conducts its own study.* A&M observed that the "cost of doing business" may vary from district to district, based on factors over which the district has little control, such as staff salaries and certain supplies and materials. (For example, the consultants found that the average teacher salary in large districts is about 14 percent higher than the average salary in small districts.) A&M discuss using an index that measures geographic price factors within the state, such as an index developed by the National Center for Education Statistics (NCES), to adjust state aid within the school finance system to recognize that some districts need to pay more in order to deal with factors that they do not control. However, the consultants acknowledge that, in the last 20 years, few states have used regional cost indicators because the methodologies that measure price variations tend to be complex, difficult to understand, and often are not consistent with conventional wisdom. SB 465 directs the State Board of Education to make recommendations to the Governor for adjustments to BSAPP, based on data from the NCES, or other sources the State Board deems appropriate, including studies conducted by the State Board. (New Section 3.)
- *The foundation level should be adjusted in recognition of the higher costs associated with (1) the operation of moderate size and small school districts; (2) the needs of students in special education programs; (3) the needs of at-risk students (based on the number of students participating in the free lunch program); and (4) the needs of bilingual students. The adjustments should be based on formulas that are sensitive to the enrollment level of school districts.* SB 465 contains several adjustments to the base cost. One adds weights for higher costs of serving special education (excluding gifted), at-risk, and bilingual students. With regard to at-risk and bilingual students, the change recommended is to increase the weights and recognize increasing costs for larger

districts. With regard to special education, the recommended change would eliminate the present categorical aid program, which is based on a per-teaching unit distribution of resources, and replace it with a weight in the basic school finance formula that also is sensitive to school district size. The recommended weights were based on information derived from the Professional Judgment approach and were closely tied to school district size, the relationship being that costs associated with providing services to these special needs students generally increase with the size of the district. When the report was presented to the LEPC, Dr. Augenblick explained that smaller school districts tend to have smaller classes and teachers are able to devote more time to students with special learning needs, thus eliminating the need for additional staff or special services that tend to drive costs up. SB 465 would eliminate the low enrollment and correlation weighting adjustments in current law. (Special education and bilingual education weights are in Section 10, KSA 72-6413. At risk weights are in Section 11, KSA 72-6414.)

- *There should be no pupil weight specifically for vocational education; rather, the cost of vocational education should be included in the base cost figure.* According to the consultants, the current .50 weight for vocational education was unjustified. In their view, costs associated with providing vocational education courses were no different from costs associated with providing laboratory science courses or any number of other courses for which no special funding was provided. (Eliminated in Section 10.)
- *The weight for students in newly opened schools should continue to be used although it should be used for three years, not two years, and the weight should decrease each year.* Presently, pupils enrolled in school facilities whose operation began in the past two years are assigned an additional weight of .25, in recognition of special costs associated with starting up a new building. Only districts that are levying their full LOB authority are eligible to receive the weight. A&M recommended that the weight be applied for three, not two, years, but that it decrease over time as the costs of starting operations in a new building decrease. A&M suggested that the weight decrease from .25 to .10 over a three-year period. SB 465 applies a new facilities weight of .25 the first year (current law), .16 the second year, and .08 the third year. (Section 12, KSA 72-6415.)
- *School districts should be expected to contribute to the foundation program based on a property tax rate of 25 mills.* The rationale for this recommendation is that the foundation level recommended was nearly 22 percent higher than the one in use when the study was done and implementation of the recommendations would require a significant increase in state aid. One way to reduce the impact to the state would be to require a greater local contribution. SB 465 would raise the school district property tax levy to 35 mills. (Section 15, KSA 72-6431.)
- *The second tier (Local Option Budget) should permit districts to raise up to 25 percent more than the revenue generated by the foundation program (based on the foundation level and the adjustments for size, special education, at-risk students, and bilingual students). The state should continue to equalize the second tier in the same manner as it does currently.* A&M found support for the concept of the LOB (a "second tier") among the people who were interviewed about the current formula and did not recommend a change. SB 465 continues local option budgets, as in current law.
- *The foundation level should be restudied every 4-6 years or when there is either a significant change in the state student performance expectations or a significant change in the way education services are provided. In intervening years, the*

*foundation level should be increased based on the work of a committee designated by the legislature to determine an annual rate of increase, which should consider annual changes in the Consumer Price Index (CPI) in Kansas. SB 465 provides that BSAPP would be increased annually by a 2 percent inflation factor. (New Section 1.)*

- *The state should continue to use its density-based formula for transportation support but include the full cost of serving students living 1.25 miles from school as part of the analysis. SB 465 would accomplish this change. (Section 16, KSA 72-8302.)*

## **Other**

SB 465 would equalize school district capital outlay, using the same formula used to calculate supplemental general state aid (the state match for local option budgets), except equalized to the 95<sup>th</sup> percentile instead of the 25<sup>th</sup>. In addition, the bill would reimpose the 4 mill limit on the capital outlay mill levy. A&M did not consider school district capital outlay funds in its study. (New Section 2.)

Another policy that would be implemented by SB 465, which was not recommended by A&M, is the elimination of the Ancillary School Facilities Weight. This weight, begun in the 1997-98 school year, authorizes a school district that has begun operation of one or more new school facilities in the preceding or current school year, or both; has adopted the maximum LOB; and has had extraordinary enrollment growth to apply to the State Board of Tax Appeals (SBOTA) for authority to levy a property tax for an amount equal to the cost of operating the new facility that is not financed from any other source provided by law. This additional levy authority is limited to two years, with an option to extend it for an additional three year, under certain exceptions. The amount of the levy authority approved by SBOTA is converted to a weight in the school finance formula in the amount of the levy authority.

## **Revenue Increases**

Other than the recommended increase in the school district property tax levy from 20 to 25 mills, A&M did not address any revenue increases that might be necessary to fund its recommendations. However, SB 465 proposes to increase income and sales and compensating (use) taxes in order to general additional revenue to fund changes that would be implemented by SB 465.

- Sales Tax. SB 465 would increase sales and compensating (use) taxes from 5.3 to 6.3 percent, effective July 1, 2004. Under current law, the 5.3 percent rates are scheduled to be reduced to 5.0 percent on July 1, 2006. (Section 20, KSA 79-3730.)
- Income Tax. A permanent individual income tax surcharge of 15 percent, computed without regard to any applicable income tax credits, would be imposed starting in tax year 2004. (Section 17, KSA 79-32.110.)

## **Fiscal Impact**

The State Department of Education estimates that the fiscal impact of SB 465 on the state would be \$995,384,677 in FY 2005. The components of the total are the following:



BSAPP	\$ 817,468,000
At-Risk Weight	296,725,813
Bilingual Weight	37,126,000
Special Education Weight	132,093,000
New Facilities Weight	3,398,664
Transportation	21,647,200
Capital Outlay Equalization	18,000,000
Deletion of Low Enrollment and Correlation Weight	(301,074,000)
Deletion of Vocational Weight	<u>(30,000,000)</u>
NET INCREASE	<u>\$ 995,384,677</u>

The impact of the enhanced revenue provisions contained in SB 465 in FY 2005 is estimated by the Kansas Legislative Research Department to be as follows:

Sales Tax Increase to 6.3 %	\$ 346,702,000
Mill Levy Increase to 35 Mills	329,492,000
15% Individual Income Tax Surtax	292,500,000
15% Corporate Income Tax Surtax	<u>11,200,000</u>
TOTAL	<u>\$ 979,894,000</u>

<sup>1</sup> *Calculation of the Cost of A Suitable Education in Kansas in 200-2001 Using Two Different Analytic Approaches*, by John Augenblick, John Myers, Justin Silverstein, and Anne Barkis of Augenblick & Myers, Inc., May, 2002

CR/dg