

SESSION OF 2004

SUPPLEMENTAL NOTE ON SENATE BILL NO. 550

As Recommended by Senate Committee on
Education

Brief*

SB 550 would implement a revised version of the Governor's education plan for Kansas, "Education First." Unlike the earlier version contained in SB 403, which would have been implemented over a three-year period, the plan contained in SB 550 would be implemented in one year. Like SB 403, SB 550 contains proposed revenue enhancements from increased sales, compensating (use), and individual income taxes. Major provisions of SB 550 are as follows:

Education Components

- ! **Base State Aid Per Pupil (BSAPP).** BSAPP would increase by \$100 (from \$3,863 to \$3,963).
- ! **At-Risk Weighting.** At-risk weighting would increase from 10 percent to 15 percent.
- ! **Bilingual Weighting.** Bilingual weighting would increase from 20 percent to 22 percent.
- ! **Correlation Weighting.** The correlation weighting threshold would be lowered from 1,725 students to 1,700 students.
- ! **Voluntary All-Day Kindergarten.** Schools would be able to count students whose parents or guardians choose to enroll them in all-day kindergarten as 1.0 FTE pupil under the school finance formula (currently they are counted as 0.5 FTE pupil), based on the number of pupils in the school who are eligible for free or reduced price lunches. The qualifying percentage of students eligible for free or reduced price lunches would be 60 percent.

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

! **Capital Outlay State Aid Program.** SB 550 would create a new program that would provide state aid to school districts that make up to a four-mill property tax levy for capital outlay. The aid would be equalized on the same basis as the current school district capital improvements state aid program. School districts would be able to levy more than four mills, but would not receive state equalization aid for the additional amount.

! An audit team would be created in the Division of the Budget to conduct performance reviews of school district operations, at the request of the school district board.

Revenue Components

! **Sales Tax.** SB 550 would increase sales and compensating (use) taxes from 5.3 to 5.5 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.

! **Income Tax.** A permanent individual income tax surcharge of 3.5 percent, computed without regard to any applicable income tax credits, would be imposed starting in tax year 2004.

Background

The Governor's original "Education First" plan was intended to address student and parent needs at all levels of the system and keep decision-making at the local level. The revised plan, contained in SB 550, would be implemented in one year and would be financed with an increase in the sales and compensating use tax rate and an increase in individual income taxes imposed for FY 2005.

Primary differences between the Governor's original and revised versions are the following:

! The original plan would have been phased in over a three-year period, during which time BSAPP and the at-risk and bilingual education weightings would have continued to increase in FY 2006 and FY 2007.

- ! The original proposal would have required the board of education of each school district to develop, implement, and administer a district health care benefits program for district employees. The program would have had to provide benefits comparable to the benefits provided to state employees under the State Health Care Program. SB 550 contains no school district health care proposal.
- ! The creation of an audit team in the Division of the Budget to conduct performance reviews of school district operations, at the request of the school district board, is provided for in SB 550. The Governor also made this recommendation in the original proposal, but creation of the team was not statutory.
- ! The original proposal contained in SB 403 included an increase in the mandatory school district general fund property tax, which is not included in the revision contained in SB 550.
- ! The original proposal would have increased the sales tax each year over a three-year period. SB 550 proposes a one-time increase.
- ! The original proposal would have imposed an income tax surcharge of 5 percent beginning in tax year 2004. The revised proposal reduces the surcharge to 3.5 percent.

The table below shows the fiscal impact of SB 550.

<u>Program</u>	<u>SB 550</u>
BSAPP increased by \$100 (from \$3,863 to \$3,963)	\$ 58,200,000
At-risk weighting increased from 10% to 15%	27,100,000
Bilingual weighting increased from 20% to 22%	1,200,000
Correlation weighting threshold lowered from 1,725 to 1,700	13,900,000
All-day kindergartners counted as 1.0 FTE pupil, based on 60% of students at school on free or reduced price lunch	17,000,000

Capital outlay equalized, up to four-mill limit	14,000,000
USD efficiency audits	<u>250,000</u>
TOTAL	\$ 131,650,000

The combined fiscal impact of the tax changes, as computed by the Legislative Research Department, would be as follows:

(\$ in thousands)

Fiscal Year	Sales and Use Tax Rate Increase	Individual Income Tax Surtax	Total Tax Changes
2005	\$ 69,340	\$ 68,250	\$ 137,590
2006	78,292	70,000	148,292
2007	192,450	71,750	264,200
2008	209,670	73,500	283,170
2009	217,008	75,250	292,258
5-Year Total	\$ 766,760	\$ 358,750	\$ 1,125,510