

Senate Committee on Education
January 25, 2012
Hearing on the Excellence in Education Act
Testimony by Landon J. Fulmer, Policy Director, Office of the Governor
On Sections 1-30 of the EEA

Madam Chairman and distinguished members of the Committee, I want to thank you for the opportunity to come before you today and drop off a gigantic stack of paper that is the product of many months of formulation, public meetings, stakeholder outreach, and a lot of hard work by many people. Before I delve into the specifics, which, quite frankly, many of you may already know, I want to thank some other folks without whom there wouldn't be a bill. Period.

First, I want to thank the revisors who worked tirelessly on this project, turning a series of ideas into discernable legalese: Jason Long and Eunice Peters. Second, I want to thank the very helpful folks at the Department of Education, most notably Commissioner DeBacker, Dale Dennis, and Pam Coleman. Their expertise on matters large and small was indispensable for this project.

But this, of course, is only the beginning. Now the true work begins. And it's important work. We have a school finance formula that is 20 years old and was created under different demographic conditions than what we have in Kansas today. It's been the subject of many a lawsuit, and another lawsuit against it is probably going to go to court later this year. It is time we stop this cycle of litigation and begin a cycle of legislation.

How do we do this? First, by passing the Excellence in Education Act! But part and parcel of passing it is enacting something that is unique to a bill of this magnitude: it sunsets after four years, ensuring that the Legislature and the administration will need to revisit its concepts in short order. This is important not only for ensuring that the Legislature can stay ahead of lawsuits, but also for appropriate public discussion at regular intervals on the thing we spend about half of the SGF on year to year. This truly is the Kansas way.

Why do this now? I know that a lot of folks are as enthusiastic about tackling this issue this year as they are about wrestling an alligator. But like I said, the current school finance litigation is likely to go to court later this year. I've heard tell that if the courts rule against the State, we could be stuck with a billion dollar settlement. To put in perspective how much money in new taxes would need to be levied to foot the bill, a billion dollars is roughly equivalent to a 36 mill statewide increase in property taxes, an additional 3 cents on the sales tax, or a 2% increase in everyone's income taxes. We have to act now to head this off.

Most of you have studied the runs that KSDE produced related to the formula change when we nailed down the numbers last month before the state Board of Education. Nothing of significance has changed since then, but we have worked out

a lot of the details. And we have some new acronyms too. I will start by again giving an overview of how the proposed formula would work and move on to some of the details that might be of interest to folks.

The proposed school finance formula is designed to provide stable, equitable, and fair funding to each school district. This is achieved through providing a minimum statutory \$4,492 base aid per pupil, offsetting local property tax inequity through a fund that pays out to school districts with low property tax valuation per pupil, further equalizing district budgets by providing payments to ensure that each district has a stable funding amount year after year, and allowing for unlimited local control of additional property taxes for educational purposes. This bill vests that power in the local boards of education.

The Key to the Formula: the Baseline Amount Requirement (BAR)

Every year under this proposed formula, each school district will have a Baseline Amount Requirement or BAR. This is similar to the concept of “hold harmless.” For school year 2013-14, the first year of the new formula, each district BAR will be equivalent to the greater amount that each school received in either 2011-12 or 2012-13 from the current formula by adding together its General State Aid, Supplemental State Aid, General Fund Local Effort, and the Local Option Budget Local Effort. For following years, the Baseline Aid amount for a school district will be equivalent to its previous year’s BAR 1) plus or minus the district’s FTE count (with the declining enrollment factor) times the previous year’s base aid per pupil, and 2) minus the total dollar amount of any enacted downward adjustments in property tax mills levied for the district’s budget. The BAR for each school district is the starting point for calculating how much total state funding it gets and from which state funds it gets it.

Base State Aid Fund (BSAF)

The proposed formula would set Base State Aid at a statutory minimum of \$4,492 per pupil. It would pay out to school districts by multiplying this number times their full time enrollment. Full time enrollment would be calculated with the declining enrollment factor. The proposed formula eliminates all weightings. The fund from which these payments would be made is the Base State Aid Fund or BSAF.

Local Effort (LE)

Any district’s Local Effort or LE would be, in the first year of the new formula, equivalent to the amount of money collected from the mill rate on the current formula’s Local Option Budget Local Effort. Any downward adjustment in the LE mill rate by any school district would result in a downward adjustment of that school district’s BAR for the following year. This is to ensure that the state doesn’t pick up the tab for decreased local effort. However, if any school district’s mill rate

holds steady but the levy decreases, the state ensures that this loss of assessed valuation doesn't harm a district's budget because its BAR wouldn't decrease.

Property Valuation Equalization Fund (PVEF)

The proposed formula would require that the 20 mills in state mandated property taxes for education be collected by the State in a similar manner to the SBIF and placed into the Property Valuation Equalization Fund or PVEF. The PVEF would pay out to school districts in increasingly greater amounts the lower their property tax valuations per pupil are. The following formula will be used to determine these payments:

$$P=(y-x)(z/x)$$

P) Payment ratio to the school district

x) Value of one mill of assessed valuation per pupil in the school district

y) Value of one mill per pupil in the school district with the highest assessed valuation per pupil in the state

z) The average value of one mill of assessed valuation per pupil in the state.

106% PVEF Payment Cap (Cap)

The Excellence in Education proposes that the amount of any PVEF payment to any school district be capped once its total aid payment from its BSAF, LE, and PVEF amounts to a sum in excess of 106% of its BAR. The bill sets the minimum Cap at 106% , but the Legislature could raise the Cap to a higher percentage, resulting in a higher PVEF payment to any school district who had been previously capped out. The Cap could automatically inflate if the following conditions are met: If a school district that is 1) above average in assessed valuation per pupil and 2) encompasses more than 5% of the entire state's assessed valuation raises their local mill levy for education to the point at which their total aid payment is more than 106% of their BAR, then the Cap will be equivalent to such percentage.

Supplemental Equalization Fund (SEF)

The Supplemental Equalization Fund or SEF will make payments to any school district that does not have its BAR met through the addition of its BSAF, LE, and PVEF payments. Any school district's SEF payment will be at least the amount necessary to cover this delta. The bill stipulates that the total amount of the SEF will be at least large enough to ensure that every school district's BAR is met. If the Legislature appropriates more money for the SEF than is necessary to meet these obligations, then the remaining funds would be paid out on a per-pupil basis according to the following priority guidance: first to each school that has a total aid payment of 100% of its BAR, second to each district with a total aid payment of 101% of its BAR, third to districts at 102% of their BAR, fourth to 103%, and so on.

Affect on SGF

If we assume that \$3780 BSAPP is held in FY2012 and FY2013 and property values hold stable, the proposed formula would cost approximately \$45 million in SGF in FY2014. I'm sure you've seen the runs on how the change would affect your school districts. No district would receive less money under this bill, and approximately half would receive additional amounts.

Flexibility

The EEA keeps in place most of the funds school districts have become accustomed to, but all deposits are made into each district's general fund. From there, each district has the flexibility to move funds in and out of the various funds available to the district. There are limits to this in regard to district funds that are statutorily purposed for other uses, like Bond and Interest, Capital Outlay, or KPERS. The one district level fund that is eliminated by the EEA is the Contingency Reserve Fund. Instead, districts will be allowed to carry forward cash balances in their general funds equal to or less than 7.5% of their annual BAR. If it is determined that a school district is carrying forward more than this level of ending balance, excess funds above 7.5% are credited to the district's KPERS account.

Accountability

This administration believes that governments closest to the people are best prepared to respond to people's needs. Under the EEA, local boards and administrators will have a lot of flexibility to address unique needs in their districts rather than being required to spend money in a particular way as per the current formula. If a district believes that higher teacher salaries are necessary to improve education delivery, they have much more flexibility under the EEA to do this.

Kindergarten

The Excellence in Education Act counts all kindergartners as 1 FTE, and is such figured into the formula. However, since these counts do not necessarily increase the amount of money many school districts get from the formula, we propose keeping in place the current paradigm of requiring districts to provide half-day kindergarten with options to provide all day for an additional fee.

Consolidation

This administration believes that consolidation is a local issue that needs to be fully vetted and considered by local boards and stakeholders, not forced on them by Topeka. To this end, the EEA will provide certain payments to districts that make the decision to consolidate and go through the painful process of combining student populations and facilities. Much of current law is maintained in the EEA in terms of the length of time incentives remain in place, but the calculation is different. For the

appointed length of time, districts that consolidate receive the amount of money equivalent to the addition of their BARs. Once the appointed length of time has expired, the BAR would be reduced by 33% and the new district would go forward like other districts.

Bond and Interest and New Facilities

The EEA suspends the state match on bond and interest for the life of the plan. All payments that the state has already committed to will be made for bond issuances approved by voters prior to July 1, 2012. Also, a New Facilities Fund will be established to ensure that the state meets its obligation to help fund operations in a new facility as per the current formula, but once these commitments have expired the New Facilities Fund will become irrelevant.

Conclusion

Change is hard. But the time has come to change Kansas' school finance formula. The Excellence in Education Act is the product of an extensive period of outreach, and we hope that this Committee gives this bill the full consideration that a problem of this magnitude deserves. Also with me today is my colleague Jon Hummell who has been bird-dogging the Career and Technical Education and Reform sections of the EEA. He will testify shortly on these provisions. Again, thank you for the opportunity, and I look forward to answering any question you might have.