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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

March 17, 2011

The Honorable Clay Aurand, Chairperson
House Committee on Education
Statehouse, Room 174-W
Topeka, Kansas 66612

Dear Representative Aurand:

SUBJECT: Fiscal Note for HB 2177 by House Committee on Vision 2020

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2177 is respectfully submitted to your committee.

HB 2177 would make the following changes to current law regarding school finance:

1. Require school districts to pay an additional 2.0 percent employer contribution rate to KPERS;
2. Change the definition of "adjusted enrollment" to include the additional KPERS contributions, which would have the effect of increasing the Local Option Budget (LOB) authority of school districts;
3. Increase the LOB state aid percentile from 81.20 percent to 95.14 percent;
4. Reduce the cap for the LOB from 30.0 percent (or 31.0 percent with an election) to 25.0 percent (or 26.0 percent with an election) and make permanent the current method of computing the LOB budget authority with a base state aid per pupil (BSAPP) of $4,433; and
5. Increase the school district general fund mill levy from 20 to 25 mills in the 2011-2012 school year and to 35 mills in the 2012-2013 school year.

Under current law, the state makes an annual State General Fund appropriation to the Department of Education in an amount equal to the statutory State/School rate applied to the projected total School Group payroll. The Department of Education allocates this funding to each school employer, and in turn, the school employers are required to submit the contributions to KPERS. State Group employers pay the combined State/School rate on state employee payrolls. If the statutory State/School combined rate is greater than the State Group's ARC rate, the state employer contributions in excess of the State Group ARC rate are credited to the School Group. HB 2177 would not change this relationship between the funding for the State Group and the School Group. Likewise, the procedures for determining the amount of state funding for the School Group and distributing it through the school employers would not be altered by HB 2177.

However, HB 2177 would increase the employer contributions credited to the School Group by requiring each school employer to pay an additional employer contribution in the amount of 2.0 percent in FY 2012 and each subsequent fiscal year. By requiring additional contributions funded directly by school employers, additional revenues to the KPERS plan in the near term would improve its funded status over the long term. KPERS estimates that the additional 2.0 percent contribution to KPERS by school employers would cost school districts approximately $70.0 million in FY 2012, $71.5 million in FY 2013 and increasing to $138.3 million in FY 2033. This additional 2.0 percent KPERS employer contribution by school districts would reduce State/School contributions made by the State General Fund by $3,349.1 million from FY 2025 through FY 2033. However, the amount paid by the state from FY 2012 through FY 2024 would not change.

Because HB 2177 would have the KPERS School employer contribution paid through the general fund of a school district, the bill would have the effect of increasing the LOB authority of school districts. In addition, the bill would increase the LOB state aid percentile from 81.2 percent to 95.14 percent. The Department of Education estimates that this would increase LOB state aid to school districts by approximately $360.0 million, all from the State General Fund. Without an additional appropriation made for LOB state aid, total LOB state aid would be prorated among school districts based upon the new state aid equalization percentile of 95.14 percent.

The Kansas Department of Revenue estimates that increasing the school finance levy from the current 20 mills to 25 mills for school year 2011-2012 would increase property tax revenues available to schools by $143.0 million in FY 2012. The increase from 25 mills to 35 mills in school year 2012-2013 would generate an additional $292.0 million in FY 2013 from FY 2012 levels. In total, the bill would generate an additional $435.0 million in additional funding from the local mill levy in FY 2012 and FY 2013. If it is assumed that the base state aid per pupil (BSAPP) would be $3,780, as recommended in *The FY 2012 Governor's Budget Report*, any additional funds generated from the additional mill levy would be reduced in the same amount from general state aid, and could be used to offset the additional costs for LOB state aid. However, if the statutory BSAPP amount of $4,492 would be assumed, local school general fund budgets would increase, and local expenditures would increase accordingly. Because HB 2177 does not appropriate additional funding for general state aid, payments would be prorated among school districts.

KPERS notes that the agency would incur an estimated $26,400 in costs for modifications to its employer contribution reporting and accounting systems that would be required to calculate and process the additional KPERS school employer contributions. Any fiscal effect associated with HB 2177 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Dale Dennis, Education
Steve Neske, Revenue
Faith Loretto, KPERS