KANSAS ASSOCIATION OF SCHOOL BOARDS

Serving Educational Leaders, Inspiring Student Success

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Testimony before the

House Committee on Appropriations

on

HB 2403 - Classroom Learning Assuring Student Success Act

by

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Mr. Chair, Members of the Committee:

Thank you for the opportunity to comment on **HB 2403** on behalf of the Kansas Association of School Boards. As always, our position is guided by policies our member school boards adopt in our Delegate Assembly. I have provided the policies positions concern funding for student success from the resolutions approved by our members in December, in italics below.

A. State Responsibility

1. Base Funding. We support increasing statewide education funding and the per pupil amount for each district, based upon the statutory level approved by previous legislatures and the Kansas Supreme Court and recommended by the State Board of Education, studies of educational costs, funding levels in the highest achieving states; traditional levels of educational funding compared to state income; and annual increases in operating costs and state requirements.

The following page contains a chart showing changes in major components of school funding. These include the actual amounts in 2011 to 2014. For the current year (2015) are amounts budgeted by school districts under current law, the impact of the Governor's proposed budget with allotments, and the funding proposed in this bill. Last are proposed amounts for 2016 and 2017 in the bill.

The first line shows the total of school district general funds, with virtual state aid and three special weightings funded by local property taxes calculated separately for the block grant.

The next three lines show local option budget (or supplemental) state aid, LOB local revenues, and the total for local option budgets. Note that LOB state aid was budgeted to increase by $144 million this year but local revenues declined by $90 million, which means that $90 million was property tax reduction, not additional district funding. Under **HB 2304**, the state aid would be reduced by about $33 million in the current year, which would reduce district revenues by that same amount.

Likewise, districts budgeted $45 million for capital outlay aid this year under current law. **HB 2304** reduces that amount by $17.7 million. These three components – the previous general fund, local option budget state aid, and capital outlay state aid, plus local LOB revenues – represent state and local funds school districts can use for general operations, and are totaled on line 7. (This is based on our understanding of the LOB portions of the law, which we will explore later.)

Next, the table shows three state aid programs that cannot be used for ***general*** education operations: special education aid, KPERS contributions for school districts (adjusted to remove funding for employers that are not school districts) and bond and interest state aid, which are totaled on line 11.

Major Components of Kansas School Funding

Block Grant Components Shaded

	2011	2012	2013	2014	2015			2016	2017
	Actual	Actual	Actual	Actual	Budgeted	Allotment	HB2403	HB2403	HB2403
1 General State Aid (inc. 20 mills, SDFF)	$2,610.5	$2,535.0	$2,585.7	$2,613.2	$2,622.4	$2,588.2	$2,545.6	$2,549.6	$2,566.6
2 Plus Virtual Aid							$25.7	$25.6	$23.4
3 Plus Special Weightings							$45.7	$45.7	$45.7
4 LOB State Aid	$339.2	$339.2	$339.2	$339.2	$483.8	$483.8	$450.3	$450.3	$450.3
5 *LOB Local Funding (Estimated FY16,17)*	*$618.7*	*$623.1*	*$653.8*	*$670.8*	*$579.2*	*$579.2*	*$579.2*	*$619.7*	*$624.7*
6 Legal LOB (Estimated FY16, 17)	$957.9	$962.3	$993.0	$1,010.0	$1,063.0	$1,063.0	$1,029.5	$1,070.0	$1,075.0
6 Capital Outlay State Aid					$45.0	$45.0	$27.3	27.3	27.3
7 Total General Operating	$3,568.4	$3,497.3	$3,578.7	$3,623.2	$3,730.4	$3,696.2	$3,673.8	$3,718.2	$3,738.0
8 Special Education Aid	$441.6	$428.1	$430.4	$428.7	$428.4	$428.4	$428.4	$434.9	$434.0
9 KPERS for school districts	$254.0	$345.4	$323.1	$343.5	$314.8	$314.8	$314.8	$394.6	$436.6
10 Bond and Interest Aid	$96.1	$104.8	$111.6	$128.0	$147.0	$147.0	$147.0	$155.0	$165.5
11 Total SPED, KPERS, Bond	$791.7	$878.3	$865.1	$900.2	$890.2	$890.2	$890.2	$984.5	$1,036.1
12 Total Operating % Change		-2.0%	2.3%	1.2%	3.0%	2.0%	1.4%	1.2%	0.5%
13 Other Funds % Change		10.9%	-1.5%	4.1%	-1.1%	-1.1%	-1.1%	10.6%	5.2%
14 FTE Enrollment	454,866	456,001	457,897	458,324	459,700	459,700	459,700	461,100	462,500
15 Operating Per Pupil	$7,845	$7,670	$7,816	$7,905	$8,115	$8,040	$7,992	$8,064	$8,082
16 Operating PP % Change		-2.2%	1.9%	1.1%	2.7%	1.7%	1.1%	0.9%	0.2%
17 Consumer Price Index		2.1%	1.5%	1.5%	1.8%	1.8%	1.8%	2.0%	2.0%
18 Total Funds	$4,360.1	$4,375.6	$4,443.8	$4,523.4	$4,620.6	$4,586.4	$4,564.0	$4,702.7	$4,774.1
19 Total Funds % Change		0.4%	1.6%	1.8%	2.1%	1.4%	0.9%	3.0%	1.5%

Lines 12 and 13 compare the annual percent increase in each area. Districts budgeted a three percent increase operating funds this year (including capital outlay), but this would be reduced to 1.5 percent under the Governor's allotment, and to 1.4 percent under **HB 2403**. Under the block grant, these funds would increase just 1.2 percent in 2016 and 0.5 percent in 2017 – depending on use of the LOB.

Restricted funding will actually decrease this year because KPERS aid was temporarily reduced, but it increases by over 10 percent next year and five percent the following year when KPERS funding is restored to scheduled increases. Except for this year and 2013 –when KPERS aid was also temporarily reduced – restricted funding for special education, KPERS and bond and interest aid has increased much more than general operating funding every year since 2011, and will continue through 2017.

Line 14, 15 and 16 provides statewide FTE enrollment, which has increased every year since 2011; general operating funds on a per pupil basis, and the annual percentage change in per pupil funding. Line 17 is the annual change in the consumer price index. Note that per pupil operating funds increased *less* than the CPI in 2012 and 2014; will be *less* than the CPI in 2015 under either the allotment or ***HB 2403***, and will be *less* than inflation (as projected by the November Consensus Revenue Estimate) in both 2016 and 2017. Even total funding, which slightly exceeded inflation in 2013 and 2014, will be less than the projected rate of inflation this year and in 2017.

As a result, we believe that funding in this bill falls short of ANY of the measure established in the KASB resolution for base educational funding.

*2. **Cost Differences.** We believe the school finance system should provide additional funding through weightings or other mechanisms for higher cost students, including at-risk, ELL and technical education; districts and programs, particularly those required by the state.*

Based on this position, KASB must oppose the block grant concept because it does not take into account differences in educational costs that we believe are critical to any school finance formula. Fundamentally, this bill says that most school districts must operate in the next two years as though nothing in their costs have changed, when we know that for many districts, costs change every year.

The bill seeks to address this in part by providing a pool of funding for extraordinary needs, which appears to be funded by reducing 0.4 percent in every district's block grant calculation. However, this is really what happens under the current formula when state funding is not adequate – the base per pupil is reduced and funds are shifted to districts with higher costs; or LOB state aid is prorated. We do not see how the block grant approach is preferable to current law.

Although the plan is proposed as a two-year temporary measure while a new formula is developed, as we understand the bill the block grant approach is **not** temporary. Page 18, new section 6, line 10 begins: "(a) For school year 2015-2016 and each school year thereafter..." There is no guarantee that a new plan will be developed and passed within two years, nor is any process for doing so provided in the bill. If the goal is to develop a new plan, we suggest a new plan can be developed without changing to block grant. At a minimum, we suggest the block grant approach should be "sunset" after one or two year and revert to the current formula – already found to be constitutional – if a new system is not developed.

*3. **Special Education.** We support full funding of special education as required by state law.*

HBS 2304 does ***NOT*** fully fund the special education formula according to state law.

*4. **Long-Term Funding.** We support continuation of multi-year funding for school districts.*

KASB ***DOES*** support the two-year funding approach to this bill. We recognize the importance of greater stability in school funding for efficient planning. However, we believe this can be accomplished without adopting a block grant approach.

B. Funding Equity

*1. **State and Local Balance.** We support a balanced plan for school funding increases that provides both increases in base aid and local option budget authority, contingent upon full funding of LOB state aid.*

HB 2403 reduces LOB state aid in the current year, effectively penalizing over 80 percent of lower wealth districts while holding harmless the highest 18.8 percent. Both groups adopted their LOB as provided by state law. The additional LOB state aid this year under the current formula did NOT provide districts any additional spending authority – the additional funding simply lowered property taxes. Cutting state aid this year effectively cuts funding for districts simply because they have lower valuation for pupil. We can think of no educational, constitutional, or moral reason for this action.

If reductions must be made in the current year, we believe they should be applied to all districts equally, through a base reduction such as the allotment process, rather than prorating equalization aid.

We have numerous questions about the LOB provisions of the bill under the block grant. New section 12, page 22, beginning on line 42, says: "(a) For school year 2015-2016 and each school year thereafter, the board of any school district may adopt a local option budget which does not exceed the greater of: (1) The local option budget adopted by such school district for school year 2014-2015 pursuant to K.S.A. 72-6433, prior to its repeal; or (2) the local option budget such school district would have adopted for school year 2015-2016 pursuant to K.S.A. 72- 6433, prior to its repeal." It further allows districts to levy a property tax for the purpose of "Financing that portion of the school district's local option budget which is not financed from any other source provided by law."

First, is the intent to allow districts to adopt an LOB equal to the actual LOB budgeted for the current year, or for the actual amount of the LOB after LOB state aid is prorated? If the former, state aid districts apparently would be able to increase their budgets next year, while non-aid districts will be capped. If the latter, state aid districts will have this year's reduction "locked in" to the next two years and non-aid districts will be able to maintain their budget without reduction. (This an additional reason not to cut LOB aid this year.)

Second, how will the amount of LOB a district "would have adopted" for 2016 be determined? Will districts that have been using less than the full amount of LOB be able increase to that level? For example, if a district has a 20 percent LOB in the current year, can it go up to 30 next year?

Third, is a district allowed to add the full amount of its LOB "on top of" the block grant and raise the entire amount from local revenues, or is it reduced by current state aid included in the block grant?

For example, consider district A with a $10 million general fund and a 30 LOB, equal to $3 million, funded 50 percent from state aid ($1.5 million) and 50 percent from local property taxes ($1.5 million). A literal reading of the bill suggested that district A will received a block grant of $11.5 million ($10 million to replace the general fund plus LOB state aid), and be able to adopt a $3 million LOB (what it has currently) as long as the board is willing to double property taxes.

On the other hand, a similar district B that does not receive state aid would receive only a $10 million block grant and the same LOB would be $3 million. This means district A could increase its combined operating budget from $13 million to $14.5 million, while district B would be limited to $13 million.

*2. **Capital Costs.** We support continued state equalization aid for capital improvement bonds and capital outlay aid and support the current authorized uses of capital outlay funds.*

HB 2403 cuts $17.7 million from capital outlay state aid in the current year. As with the LOB, this only affects districts with lower local wealth per pupil. Unlike the additional LOB state aid, these districts ***DID*** expect to receive additional funding. However, these are districts which have gone five years without constitutionally required assistance for capital costs – an accumulated loss of at least $100 million under the current formula.

Once again, we can think of no educational, constitution or moral reason to disproportionately cut districts funding purely on the basis of district wealth.

HB 2403 adds capital outlay state aid into the block grant, but continues to allow the capital outlay levy outside of the block grant without equalization. We believe this is clearly unconstitutional under the ***Gannon*** decision. It means lower wealth districts to use their (reduced) capital outlay aid in the block grant for general education purposes, while higher wealth districts do not receive similar flexibility. Yet higher wealth districts will continue to benefit from higher revenues for capital expenditures purely on the basis of local wealth.

Finally, **HB 2403** reduces the future state aid amounts for bond and interest state aid. Remember, every school construction bond issue has been approved by local voters. The impact of this change would reduce assistance to the districts with the least local property wealth, meaning students in these districts will either have reduced funding for buildings and equipment, or taxpayers will have higher costs compared to higher-wealth districts.

C. Targeted Aid
1. At-Risk Students. *To help all students achieve state education goals, we support the use of income-based measures of student needs as the primary factor for at-risk funding in order to provide stable revenues for these successful programs. We support supplementing these measures with other non-income-based factors. We oppose reductions in at-risk funding.*
2. Early Childhood. *We support full funding for students in all day kindergarten and strengthening funding for other early childhood programs.*
3. Instruction. *To improve instruction, we support full funding of Professional Development State Aid, Teacher Mentoring and National Board Certification.*
4. Graduation. *To improve the graduation rate, we support state funding for the Communities in Schools.*
5. Innovation. *To promote new ways to achieve these goals, we support creating a grant program for innovative programs and strategies.*
6. Career Interest Development. *We support state funding to support implementation of student plans for postsecondary preparation.*

Not all of these issues are addressed by **HB 2403** and the block grant concept. However, when general funding per pupil will not even keep up with the rate of inflation for a three-year period, it will be extremely difficult for districts to expand or even maintain programs for at-risk students, encourage graduation, promote innovation or implement career interest development.

In addition, the block grant approach creates dis-incentives for initiatives such as early childhood education. Districts will receive no additional funding for all day kindergarten or preschool; in fact, from a budget viewpoint they would be better off reducing such programs if they have them because they would still receive the same amount of funding.

D. Efficiency
1. Consolidation and Cooperation. *We support maintaining current incentives for voluntary school district consolidation, and support additional incentives for consolidation and cooperation.*

Another likely unintended consequence of the bill is that by guaranteeing each district the same funding for a two-year period, the bill also effectively eliminates current incentives for voluntary school district consolidation. Current incentives are based on allowing districts to maintain current budget levels for several years if they consolidation. Under **HB 2403**, all districts are in this situation.

Other Issues

KASB believes the current formula has generally worked well, and contains the key principals any successful – and constitutional – system must contain. However, we do not object to efforts to improve the current system. Such efforts should be open, transparent and involve, at a minimum, the three entities given responsible for public education under article six of the Kansas Constitution: the Legislature, the State Board of Education, and local school boards.

We do not believe the current formula needs to be repealed to study and develop a new one.

We understand the Legislature's desire to avoid "surprises" in the current budget year. This could be done by using the previous year's data for Local Option Budgets and Capital Outlay Aid. The Legislature could also provide limits on capital outlay as is now done on the LOB.

There are also other ways to equalize the LOB and capital outlay without placing these demands on the general fund; for example, through the statewide mill levy.

We appreciate the additional flexibility to fund transfer provided in this bill, which we have supported in the past. However, we would note that under this bill, restricted funding such as special education, KPERS and bond and interest aid will continue to increase, while general operating expenditures will continue to be restricted.

Because there continues to be discussion of school district cash balances, KASB would note that the amount of money on July 1 in school district "flexible funds under this bill has been lower as a percentage of school district operating budgets (general fund plus local option budgets) than the combined state general fund under balance plus certificates of indebtedness (which is the SGF barrowing from other funds). Local school boards deal with the same issues of cash flow and contingency as the Legislature, other local units of government and the private sector.

We appreciate that this bill, while falling short of what KASB believes to be adequate or equitable, will require an increase in state revenue to be funded. KASB has already testified in support of the Governor's revenue plan, and will support other proposals to provide the resources to maintain our quality education.

Conclusion

Thank you for your consideration of our comments. We encourage you to take the time to carefully consider all of the ramifications of this proposal, to hear from local school leaders and others as they study this bill.

Kansas has been able to build and sustain one of the top-achieving public school systems in the nation, as well as one of the most efficient. Only eight states have better academic results across multiple measures of achievement. None spend less per pupil. All have a lower percentage of low-income, at-risk students. At a time when educational attainment is crucial to individual and state economic prosperity, our goal is a school finance system that continues to improve those outcomes. Before we repeal as system that has worked well, whatever its shortcoming, we must make sure we have a better one to take its place.