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300 SW TENTH AVENUE ■ SUITE 24-E ■ TOPEKA, KS 66612 ■ (785) 296-2321

MEMORANDUM

To: Chairman Abrams
Members of the Senate Committee on Education

From: Jason B. Long, Senior Assistant Revisor

Date: March 24, 2015

Subject: SB 294 – Education Finance Act of 2015

Senate Bill No. 294 creates the Education Finance Act of 2015 (Act). The Act establishes a new system for financing school districts beginning in school year 2015-2016. For school year 2015-2016, the Act serves as a pilot and is limited only to those school districts that are public innovative districts. These districts would not be subject to the School District Finance and Quality Performance Act, or any successor act, such as the CLASS Act.

The bill also makes amendments with respect to the determination of capital improvement state aid and the accounting procedures utilized by school districts. These amendments would apply to all school districts.

Forms of State Aid

The Act contains four forms of state aid: Enrollment state aid; sparsity state aid; poverty state aid; and success state aid. The amount of each type of state aid is based on the demographics of the school district and is determined by means of a formula calculation.

1. Section 4 of SB 294 provides enrollment state aid. Enrollment state aid is solely based on the enrollment of the school district. Under the Act, enrollment is determined by the number of pupils enrolled in the district on December 15 of the immediately preceding school year. The enrollment is then multiplied by \$3,820 to determine the amount of enrollment state aid.

$$\text{Enrollment State Aid} = \text{Enrollment of USD} \times \$3,820$$

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2. Section 5 provides sparsity state aid. Sparsity state aid is based on the population density of the school district using federal census bureau data. The calculation involves the population of individuals age 5 to 17 in the district and the area of the school district in square miles. The state aid multiplier is \$1,500.

$$\text{Sparsity State Aid} = \frac{\text{USD Area (in sq. mi.)}}{\text{USD Population (ages 5-17)}} \times \text{Enrollment of USD} \times \$1,500$$

3. Section 6 of the bill provides poverty state aid. Poverty state aid is based on the poverty rate of the school district using federal census bureau data. The calculation involves the poverty rate of the individuals age 5 to 17 in the school district. The state aid multiplier is \$6,600.

$$\text{Poverty State Aid} = \text{USD Poverty Rate (ages 5-17)} \times \text{Enrollment of USD} \times \$6,600$$

4. Section 7 provides success state aid. Success state aid is based on achievements of the school district's high school graduates. The calculation involves determining the number of successful graduates from the school district in the school year five years prior to the current school year. A successful student is one, who within two years after graduation, has:

- a. Enrolled in a third consecutive semester at a college or university;
- b. Obtained an industry-recognized credential;
- c. Entered basic training in one of the branches of the armed services;
- d. Been employed with an annual income at or above 250% of the federal poverty level; or
- e. Been employed not less than 30 hours per week and graduated from high school with an individualized education program (IEP).

After the number of successful students is determined, this number is adjusted by subtracting the number of graduates who enroll in a remedial course at a college or university. The formula then determines the ratio of successful students to total students using the 9th grade cohort for the graduating class. For school year 2015-2016, this ratio calculation is based on fixed success factors for each school district. Finally, the relative poverty of the school district is taken into account by using the ratio of the poverty of the school district for ages 5 to 17 compared to the state poverty rate for the same age range. The state aid multiplier is \$5,600.

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$$\text{Success State Aid} = \frac{(\text{Success Students} - \text{Remedial Students})}{9^{\text{th}} \text{ Grade Cohort}} \times \frac{\text{USD Poverty Rate (ages 5-17)}}{\text{State Poverty Rate (ages 5-17)}} \times \text{Enrollment of USD} \times \$5,600$$

Forms of Tax Levies

The Act authorizes various property tax levies. First, the statewide 20 mill property tax levy is continued under section 8 of the bill. As with current law, the proceeds of this tax are to be remitted to the State to fund the various forms of state aid described above.

Second, sections 9 and 10 authorize school districts to adopt a local portion levy budget and levy a property tax to fund such budget. This budget and the tax levy are similar to the current local option budget. However, the local portion levy budget has no maximum limit. Also, there is no provision for approval of the budget by a vote of the local electorate.

Any school district that adopts a local portion levy budget may be entitled to receive equalization state aid. The determination of who is eligible to receive equalization state aid is similar to that used currently to determine eligibility for supplemental general state aid. Under section 11, to determine eligibility, the state board must multiply together the following: (1) The assessed valuation per pupil of the school district; (2) the mean federal adjusted gross income per tax return for the school district; and (3) the average appraised value of single family residences in the school district. Then the cube root of the product is calculated and the result is the equalization base of the district. The equalization bases for all school districts are then ranked from low to high (similar to AVPP under current law) and the equalization base at the 81.2 percentile is the equalization cutoff. The district's equalization base is divided by the equalization base at the 81.2 percentile and the result is the district's percentage factor. If the percentage factor is positive, then the district receives equalization state aid equal to the district's local portion levy budget times its percentage factor.

Under section 12, if a school district has a negative percentage factor, then the district is required to levy an additional property tax that is equal to the district's local portion levy budget multiplied by its percentage factor. All proceeds from this mandatory levy are remitted to the State to be used to fund equalization state aid payments.

Additionally, section 13 provides that if a school district has a negative percentage factor, then the district *may* levy an additional property tax which cannot exceed 75% of the district's enrollment state aid multiplied by the percentage factor. The proceeds of this permissive levy are retained by the school district. No additional equalization state aid is calculated based on this additional permissive levy.

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Under section 21 of SB 294, the provisions of the capital outlay statutes, K.S.A. 72-8801 et seq., do not apply to school districts that are subject to the Act. These school districts are not authorized to levy a property tax for capital outlay expenses under K.S.A. 72-8801, and are not eligible to receive capital outlay equalization state aid under K.S.A. 72-8814.

Other Funding Sources

School districts would continue to receive special education and related services funding through the Special Education for Exceptional Children Act, K.S.A. 72-962 et seq. There is no change under SB 294 in how that state aid is calculated.

School districts would also continue to receive KPERS employer contributions as under current law. There is no change under SB 294 in how school districts receive and pay KPERS employer contributions.

Legislative Post Audit Review

Section 23 of SB 294 requires an LPA audit of the school districts receiving funding under the Act. The audit is to focus on the funding for the districts under the Act and the expenditures of the districts for school year 2015-2016.

Scope of the Act

Section 18 of the bill provides that only public innovative districts are subject to the Act for school year 2015-2016. These would be the following six school districts: USD 210, Hugoton; USD 229, Blue Valley; USD 333, Concordia; USD 364, Marysville; USD 418, McPherson; and USD 500, Kansas City. Those districts that are subject to the Act are not subject to the School District Finance and Quality Performance Act, or any successor act, such as the CLASS Act.

For school year 2016-2017, the Act is to apply to the six original school districts and 100 additional districts selected by the State Board of Education. Then, in school year 2017-2018 the Act is to apply to 286 school districts.

Section 1 of the bill contains appropriations for school year 2015-2016 for the six school districts to which the Act will apply for that school year. This includes appropriations for the four forms of state aid, equalization state aid, and KPERS employer contributions.

Bond and Interest State Aid Changes

SB 294 would change the amount of state aid for capital improvements determined under K.S.A. 75-2319. These changes would apply to all school districts beginning in school year 2015-2016. For any bond issuances that have been approved at an election prior to July 1, 2015, there is no change in the determination of state aid. For bond issuances that *have not been*

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approved by July 1, 2015, the school district must submit an application for state aid to the School District Bond Project Review Board (Board) that is created by section 22 of the bill.

The Board would have six members. These members would consist of the chairs and ranking minority members of the House Committee on Appropriations and the Senate Committee on Ways and Means, and two members appointed by the State Board of Education. The Board is charged with reviewing all applications and either approving or denying capital improvement state aid for the school district based on whether the facility that is the subject of the bond project is for instruction. If the Board approves an application, then it must determine the extent to which the facility will be used for instruction as a percentage of the total use of the facility.

The state aid for bond obligations approved after July 1, 2015, would be determined using the same calculations as current law, except that the state aid amount a school district would have received under current law is further multiplied by the percentage of instructional use as determined by the Board. The resulting product is the amount of state aid for such bond obligations.

School District Accounting Procedures

SB 294 makes another policy change with respect to all school districts. K.S.A. 75-1120a is amended to require school districts to utilize financial accounting principles and procedures that conform to generally accepted accounting principles (GAAP) as adopted by the Governmental Accounting Standards Board. Under current law a school district is generally required to use GAAP for financial accounting, but may request a waiver from such requirement. SB 294 would remove a school district's ability to request such waiver.

Effective Dates

If enacted, SB 294 would be effective on publication in the Kansas Register. However, only section 1 of the bill would take effect on that date. All other provisions of the bill, including the Act, and other substantive amendments to current law, would take effect on July 1, 2015.

