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MEMORANDUM

To: Senate Select Committee on Education Finance
From: Tamera Lawrence, Assistant Revisor of Statutes
Date: May 18, 2017
Subject: Senate Bill 251—The Kansas School Equity and Enhancement Act

Senate Bill 251 (SB 251) would enact the Kansas School Equity and Enhancement Act (Act). It is very similar in structure to the School District Finance and Quality Performance Act (SDFQPA) that was in law prior to its repeal in 2015. The Act would calculate each school district's foundational financial need using a base aid per student amount that is then multiplied by the enrollment of the school district adjusted by weightings to account for changing student demographics. This calculation is done by multiplying the base aid for student excellence (BASE aid) by the school district's adjusted enrollment. The resulting product is the school district's total foundation aid. The Act then calculates the portion of the total foundation aid that is to be funded by state aid (state foundation aid) by subtracting the school district's local revenue sources (local foundation aid) from its total foundation aid. Through this structure, the total foundation aid of each school district is funded by a combination of moneys provided by the State and tax proceeds collected from mandated local tax levies. The following is a mathematical description of this structure:

$$\text{BASE aid} \times \text{Adjusted enrollment} = \text{Total foundation aid}$$

$$\text{Total foundation aid} - \text{Local foundation aid} = \text{State foundation aid}$$

Appropriations

Sections 1 and 2 of SB 251 provide appropriations for the Kansas Department of Education for fiscal years 2018 and 2019. The Act begins on page 17 with Section 3.

BASE Aid

The base aid for student excellence or BASE aid for SY 2017-2018 would be \$4,006 and for SY 2018-2019 would be \$4,080. For SY 2019-2020 and each school year thereafter, the BASE aid would increase by the average CPI for the Midwest region for the three immediately preceding school years.

Enrollment

“Enrollment” would be defined in section 4(m) of the Act. The enrollment of a school district would be a determination of the actual full-time equivalent (FTE) enrollment of the school district for the school year. Enrollment would be calculated by determining the number of students regularly enrolled in kindergarten and grades one through 12 in the school district on September 20 of the preceding school year plus the number of preschool-aged at-risk students enrolled on September 20 of the current school year. If the enrollment of the district has decreased, the enrollment would be the enrollment of the school district in the second preceding school year. For any district that received federal impact aid for the preceding school year and had decreased enrollment, the enrollment of the school district is the average enrollment of the school district for the three preceding school years. Students who live outside the state would not be counted as a student for the purposes of enrollment.

The adjusted enrollment of each school district would be the enrollment of the school district modified by various weightings to account for differing student demographics among school districts.

Weightings

The weightings would be applied to the foundation enrollment of each school district to determine the adjusted enrollment of the school district. The adjusted enrollment would then be multiplied by the BASE aid to find the total foundation aid for the school district.

Transportation Weighting—Section 20

The transportation weighting would be determined in a similar manner as under the SDFQPA. However, the algebra in the transportation weighting formula has been corrected per the recommendation of the Legislative Post Audit study. The formula would also have an adjustment to the assumed cost of transporting students who live 2 1/2 or more miles from their

school. The assumed cost factor under the Act would be 2.8. In addition, for school years 2018-2018 and 2018-2019, school districts would be allowed to use the greater of their calculation under this formula or the transportation weighting amount of the school district for SY 2016-2017.

Low and High Enrollment Weighting—Section 21

The low enrollment weighting would be available to districts with less than 1,622 students and is calculated on a linear transition. For school districts with less than 100 students, the enrollment would be multiplied by 1.014331. That amount transitions approximately 3.5% as the school district's enrollment increases up to 1,621 students.

The high enrollment weighting would be available to districts with 1,622 students or more. The enrollment would be multiplied by 0.03504.

Bilingual Weighting—Section 22

The bilingual weighting would be determined by using the greater of the following two calculations: (1) the contact hours of students in bilingual programs multiplied by 0.361; or (2) the number of students (by headcount) in bilingual programs multiplied by 0.185. The provisions of this subsection would expire on July 1, 2020.

At-Risk Weighting—Section 23(a)

The at-risk student weighting would be determined by multiplying the number of at-risk students of a school district would by 0.456. For districts that have less than 10% at-risk students, there is a 10% floor. The 0.456 weighting would be multiplied by 10% of the enrollment of the school district. An at-risk student is defined in section 4 as a student who is eligible for free lunch. The provisions of this subsection would expire on July 1, 2020.

High-Density At-Risk Weighting—Section 23(b)

For school districts that have at least 35% at-risk students, but less than 50% at-risk students, the high-density at-risk student weighting factor would be 0.7. For school districts that have more than 50% at-risk students, the high-density at-risk student weighting factors would be 0.105. The provisions of this subsection would expire on July 1, 2020.

Virtual School Programs—Section 27

Virtual school state aid would be calculated in the same manner as under current law. Under HB 2410, the number of full-time students enrolled in virtual school would be multiplied by \$5,000. The number of part-time students enrolled in virtual school would be multiplied by \$1,700. The number of courses passed by adult students enrolled in virtual school would be multiplied by \$709. The provisions of this subsection would expire on July 1, 2020.

School Facilities Weighting—Section 28

The school facilities weighting of a school district would be determined by multiplying the number of students enrolled in a new school facility by 0.25 for the first two years the new school facility is in operation. A school would qualify as a new school facility if it was financed primarily with bonds approved at election held on or before July 1, 2015.

Ancillary School Facilities Weighting—Section 30

The ancillary school facilities weighting would be determined in the same manner as under the SDFQPA. School districts may levy a property tax at a rate approved by the state board of tax appeals to fund the costs of operating new school facilities for two years. This levy may be extended for up to six additional years at decreasing tax rates. The tax proceeds are remitted to the state and are then received by the school district via the weighting.

Cost-of-Living Weighting—Section 31

The cost-of-living weighting would be determined in the same manner as under the SDFQPA. School districts may levy a property tax at a rate approved by the state board of tax appeals to fund the higher cost of living in certain school districts. The tax proceeds are remitted to the state and are then received by the school district via the weighting.

Declining Enrollment Weighting—Section 32

The declining enrollment weighting would be a one year weighting declining that is determined in the same manner as under the SDFQPA with one exception. For school year 2017-2018, school districts who were grandfathered into this weighting will only receive ½ of the grandfathered amount. This weighting would then expire on July 1, 2018.

Financing Sources

Statewide Mill Levy—Section 14

SB 251 would reauthorize and require each school district to levy a property tax at a rate of 20 mills. The proceeds from this tax are remitted to the state to be used to help fund the state foundation aid.

Utility Fee—Section 51

A monthly school funding fee of \$2.25 for each residential utility retail customer and \$10 for every industrial utility retail customer. The fee would be paid to the utility that would remit the fees to the state treasurer. For water right owners or those with a permit to appropriate for irrigation use, an annual school funding fee in the amount of \$120 would be imposed. The fee would be collected by the chief engineer who would remit the fees to the state treasurer. The state treasurer would deposit the fees to the credit of the state school district finance fund. The duty to collect the fee would begin on September 1, 2017.

Local Option Budget (Sections 15-17)

The local option budget would be named, calculated and equalized the same as it was under the SDFQPA, with three exceptions. (1) For equalization purposes, the assessed valuation per student for SY 2017-2018 is calculated using preceding year data and for SY 2018-2019 and each school year thereafter, it is calculated using the average for each of the three immediately preceding school years. (2) The local school board could increase its local option budget authority subject only to protest petition. (3) The artificial BASE aid amount would increase based on a three-year CPI average.

Capital Outlay

Mill Rate—Sections 49 and 87 (K.S.A. 72-8801)

The statutorily prescribed mill rate would be increased from eight mills to 10 mills.

Allowable Uses—Sections 87-88 (K.S.A. 72-8801 and 72-8803)

Utility expenses and property and casualty insurance would be included in the allowable uses of capital outlay funds. In addition, the allowable uses would be expanded beyond just

acquisition of certain property and equipment to include construction, reconstruction, repair, remodeling, additions to, furnishing and maintaining such property and equipment.

Other Substantive Provisions

Accreditation—Section 42

The State Board of Education would be required to design and adopt a school district accreditation system based upon improvement in performance that reflects the educational goal set forth in K.S.A. 2016 Supp. 72-1127(c), and is measurable. The state board would also annually report to the Legislature on its school district accreditation system.

KSDE Reports—Sections 43 & 48

The state department of education would be required to prepare and submit reports on school district funding for each school district to the governor and the legislature. Also, the department would conduct a study of the cost of career technical education programs offered by school districts and submit a report to the legislature and the governor on or before January 15, 2018.

Legislative Reviews—Section 44

On or before July 1, 2020, the Legislature would be required to review the school year 2019-2020 BASE aid amount and evaluate if it is reasonably calculated. The evaluation would be based on a successful school model using certain indicators of successful school districts.

The Senate standing committee would be required to review the low and high enrollment weighting and alternatives for those weightings, including, but not limited to a sparsity weighting, during the 2018 regular legislative session.

LPA Studies—Section 45

Legislative Post Audit would be directed to conduct a series of performance audits on the following: (1) Transportation services funding in FY 2018; (2) At-risk education funding in FY 2020; (3) Bilingual education funding in FY 2023; (4) Virtual school programs of other states in FY 2024; cost of providing educational opportunities to every student in FY 2019, FY 2022 and FY 2025; and (5) best practices in successful schools in FY 2021 and FY 2026.

These audits would replace the school district efficiency audits currently conducted pursuant to K.S.A. 46-1133. K.S.A. 46-1133 is repealed by SB 251.

Economic Development—Sections 50, 54 and 88 (K.S.A. 12-1770a and 72-8803)

Beginning in school year 2017-2018, new property tax exemptions granted by the State Board of Tax Appeals for property financed by industrial revenue bonds or for economic development purposes pursuant to Article 11, Section 13 of the Kansas Constitution, for which the public hearing was not held prior to May 1, 2017, would no longer apply to the 20 mills statewide levy or the capital outlay levy. Property exempted prior to May 1, 2017, would continue to be eligible for an exemption from the 20 mills statewide levy and the capital outlay levy. The capital outlay levy would be excluded from TIF and neighborhood revitalization.

Virtual School Programs—Section 63-64 (K.S.A. 72-3712 & 72-3715)

Virtual school state aid would be calculated in the same manner as under current law. Under SB 251, the number of full-time students enrolled in virtual school would be multiplied by \$5,000. The number of part-time students enrolled in virtual school would be multiplied by \$1,700. The number of courses passed by adult students enrolled in virtual school would be multiplied by \$709.

Tax Credit for Low Income Students Scholarship Program—Sections 93-95

Beginning July 1, 2018, students who attend any of the lowest 100 performing public schools could apply for a scholarship to attend a qualified school. Current law provides that students must attend a title I focus or priority school in order to apply for a scholarship. The definition of qualified school is amended to require a nonpublic school that offers grades 9-12 to meet certain criteria relating to the school's postsecondary effective rate or ACT scores. If a qualified school does not offer grades 9-12, the school must be accredited by the state board. Any qualified schools that participated in the program prior to July 1, 2017, would be grandfathered in. At least 50% of scholarships must be awarded to students who are directly certified by DCF as meeting a certain poverty level.

Capital Improvement State Aid—Section 99 (K.S.A. 75-2319)

Capital improvement state aid would be calculated in the same manner as under current law, except that the assessed valuation would be based on the preceding school year. SB 251 would also require that those school districts with less than 260 students receive State Board approval to be eligible for capital improvement state aid for bonds issued to construct new school facilities.