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MEMORANDUM

To:	Chairman Campbell
	Members of the House K-12 Budget Committee
From:	Jason B. Long, Senior Assistant Revisor
Date:	February 14, 2017
Subject:	HB 2270 – Education Finance Act.

House Bill No. 2270 (HB 2270) enacts the Education Finance Act (Act) as a new school district finance formula. The Act is largely modeled on the School District Finance and Quality Performance Act (SDFQPA), which was in statute prior to 2015.

First, Sections 1 and 2 of the HB 2270 make appropriations for FY 2018 and 2019 for the Department of Education. These sections authorize the Department to distribute state aid in accordance with the formula established by the Act.

Sections 3 through 46 are the Education Finance Act. Most of the provisions are similar to those that were previously in law under the SDFQPA prior to its repeal. This memorandum will focus primarily on the substantive differences between the two acts.

Enrollment is defined in Section 4 of the bill. Under the Act the enrollment of each school district for finance purposes will be based on the immediately preceding school year's enrollment. Kindergarten students will be counted as 1 full-time student. Section 10 allows for adjustments to enrollment if there was a decrease in enrollment due to a disaster. Section 11 allows for adjustments to enrollment if there was a net increase in the number of military students from September 20 to February 20.

Similar to the SDFQPA, state financial aid is determined by multiplying the adjusted enrollment of the school district by a fixed amount per student. Under the Act, this is called the foundation state aid per student (FSAPS) for that school year. Section 4(l) provides a graduated increase in the FSAPS over the next four school years as follows:

- $4,253 for SY 17-18
- $4,467 for SY 18-19

- $4,681 for SY 19-20
- $4,895 for SY 20-21

Starting in school year 2021-2022 the FSAPS will increase by the consumer price index increase for the Midwest region.

The general state aid for each school district is determined by subtracting the school district's school financing sources (certain local funding revenue sources) from the state financial aid amount. The school financing sources (previously referred to as "local effort") once again include the tax proceeds from the 20 mill tax each school district is required to levy. Under the Act those proceeds are retained by the school district instead of being remitted to the state treasury.

Section 15 authorizes school districts to adopt a local option budget (LOB). The LOB maximum percentage remains the same as under the SDFQPA, which is 33% of the state financial aid of the district. An LOB of 30% or less does not require an election for approval. An LOB of over 30% requires an election to be effective, unless the school district previously adopted an LOB above 30% that was approved at an election and does not exceed the LOB authority for the current school year.

Similar to the SDFQPA, Section 16 contains the an alternative calculation for LOB authority based on a higher FSAPS. Under the Act the alternative FSAPS for LOB purposes is $4,490.

Section 17 provides for supplemental general state aid to equalize the LOB authority. For school year 2017-2018 the supplemental general state aid will be determined as it was under the SDFQPA prior to its repeal. This calculation uses the 81.2 percentile method for determining the eligibility for and amount of supplemental general state aid. Starting in school year 2018-2019 supplemental general state aid will be calculated using a three-year average of assessed valuation per student for each school district.

The weightings used to determine the adjusted enrollment of each school districts are largely the same as those under the SDFQPA. This includes the low and high enrollment weightings, bilingual weighting, high-density low-income student weighting, school facilities weighting, and special education weighting.

The transportation weighting is modified so that the distance from the school building used in the formula is graduated down 0.5 miles each school year to 1 mile for school year 2020-2021 and remains at 1 mile for each school year thereafter. Also, the weighting only applies to those students for whom transportation was actually provided; not merely living within the specified distance from the school building.

The career technical education weighting is 0.5 for school year 2017-2018, which is the same as under the SDFQPA. The Department will study the costs of career technical education programs and recommend changes for financing such programs to the Legislature in 2018.

At-risk students are now termed "low-income" students. However, the term "at-risk" is still applied to the programs and services provided because those programs and services target at-risk students regardless of income level.

The low-income student weighting is 0.456 for school years 2017-2018 and 2018-2019, which is the same as under the SDFQPA. That weighting will be multiplied by the number of students receiving free lunch. Starting in school year 2019-2020 the weighting will be determined multiplying the poverty rate of the school district for children aged 5 to 17 by 0.912.

The SDFQPA contained three special weightings that were only applicable to qualifying school districts. They were the ancillary school facilities weighting, the cost-of-living weighting, and the declining enrollment weighting. The parameters for qualifying for each weighting and the calculation of the weighting are the same as under the SDFQPA.

Section 63 amends K.S.A. 72-3715 regarding virtual school state aid. Under the Act virtual school state aid will be determined as follows:

- Multiply the full-time students (at least 6 hours) who are under 20 by the FSAPS.
- Multiply the part-time students (less than 6 hours) who are under 20 by $1,700.
- Multiply the number of credit courses for students who are at least 20 by $709; no more than 6 courses per student per school year.

Additionally, Section 48 directs the Division of Legislative Post Audit to conduct a study of statewide virtual school programs utilized in other states.

Section 49 provides capital outlay state aid using the same formula as current law for school year 2017-2018. Starting in school year 2018-2019, the formula will use a three-year average of assessed valuation per student for each school district. Also, starting in school year 2018-2019, only those school districts that levy at least a 4 mill capital outlay tax will be eligible to receive capital outlay state aid.

Sections 52, 55, and 87 amend existing statutes to exclude capital outlay tax levies from TIF district financing and neighborhood revitalization district financing for districts established after July 1, 2017.

Section 96 amends K.S.A. 75-2319 regarding capital improvement state aid. The formula for determining capital improvement state aid would be same as that under statute prior to the 2015 amendments. However, bonds approved at an election after July 1, 2016, would be subject to a six-year rolling average cap on the total amount of capital improvement state aid for such bonds. If the amount of state aid determined under the formula will exceed that cap, then the State Board will prioritize state aid payments pursuant to the four listed priorities with school districts having a lower assessed valuation per student being given higher priority for state aid than those with a higher assessed valuation per student.

If enacted HB 2270 would become effective on July 1, 2017.