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MEMORANDUM

To: Chairman Campbell
Members of the House K-12 Education Budget Committee

From: Jason B. Long, Senior Assistant Revisor

Date: February 17, 2017

Subject: HB 2344 – Local foundation budget.

House Bill No. 2344 (HB 2344) provides a framework for generating property tax proceeds for the finance of school districts. This framework has three parts: state-level foundation obligation; local foundation budget; and local option budget. The "foundation" portions are those components which are mandated under the bill to be raised through local property taxes levied by each school district. The "option" portion function very similar to the local option budget that has been utilized by school districts for the past several years.

Section 1 of the bill would require each school district board of the education to adopt a local foundation budget. This budget would be determined by the formula provided in Section 1. The local foundation budget for each district would be the adjusted enrollment of the district multiplied by \$5,000 and then multiplied by 20%.

Section 2 of the bill requires each school district to levy a property tax in the amount of 20 mills in school years 2017-2018 and 2018-2019. HB 2344 states that this levy is to finance the state-level foundation obligation, which is that portion of a school district's general fund budget that is not financed by any other source. This section is very similar to the 20 mill property tax requirement under the SDFQPA. HB 2344 provides that the proceeds of this levy would be deposited in the general fund of the school district.

Section 3 of the bill authorizes local boards of education to adopt a local option budget. The local option budget under HB 2344 functions in much the same way as it did under the SDFQPA. The primary difference is that the LOB under HB 2344 is capped at 5% of the foundation funding for the school district. The foundation funding is the sum of the state-level foundation obligation and the local foundation budget. An LOB of up to 4% could be adopted

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by a simple majority vote of the board of education. An LOB in excess of 4% would require a vote by the electorate of the school district.

Section 4 of the bill requires that each school district levy a property tax to finance the local foundation budget and the local option budget, if any, of the district. The proceeds from this tax would be initially deposited in the school district's supplemental general fund. Each school district would then be required to transfer that portion of the tax proceeds equal to the local foundation budget from the supplemental general fund to the general fund of the district as a reimbursement of general operating expenses.

If enacted the provisions of HB 2344 would be effective on July 1, 2017.