



TOPEKA

HOUSE OF REPRESENTATIVES

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K-12 BUDGET
RULES AND JOURNAL

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House K-12 Budget Committee

HB 2344

February 17, 2017

Chairman Campbell and Committee members,

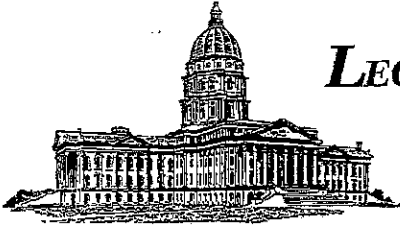
Thank you for the opportunity to address the Committee.

Although the structure of this bill is somewhat complicated, the purpose is quite simple. HB 2344 will mandate that a certain percentage of the current LOB will move from being optional to being mandatory. This will put the state in a better position in regard to the school funding court case.

I have attached a letter dated April 21, 2006, from Legislative Post Audit which explained to how LOB money would have been handled. I would refer you to page three where the report states that if the law "had made parts of the LOB mandatory, we would have felt we had to count the applicable funds as covering part of the estimated \$3.151 billion cost."

There can be arguments made about how much this change might affect the ongoing court case, however, I would argue it could very well help.

Thank you for your consideration in this matter.



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Date: April 21, 2006
 To: All Legislators
 From: Barb Hinton, Legislative Post Auditor
 Subject: How we handled the Local Option Budget in our school cost study

Over the past several weeks, a number of legislators have contacted our office with questions about how we handled State funding for districts' local option budgets in our school cost study, and about how we would have handled it under various proposals being considered by the Legislature. I thought it might be helpful to share this information with all legislators.

How We Handled the Local Option Budget

In short, we did not count State Supplemental Aid (State funding used to help equalize districts' LOBs) as covering part of the cost of achieving performance outcome standards. We felt we had to treat that funding the same way the current school finance formula treats it; State Supplemental (Equalization) Aid is paid on top of State funding for districts' basic operating costs.

What we did is summarized in the following matrix; the text that follows it provides a bit more explanation.

| Estimated Foundation-Level Costs | 2006-07 | |
|--|------------------|--|
| Our estimate of the cost of achieving performance outcome standards adopted by the Board <i>(our focus was on identifying basic operating costs, excluding districts' costs for KPERS, which the State pays separately on districts' behalf)</i> | \$3.151 billion | This figure was computed for each district, then totaled. Note: Increasing districts' general fund budgets <u>also</u> would increase State Supplemental (Equalization) Aid (our estimate = \$38 million; latest estimate = \$35 million) and KPERS (our estimate = \$23 million) |
| MINUS (-) an estimate of what the State would pay under the current formula <u>for basic operating costs</u> <i>(Under the current formula, this is called General State Aid. It's also often called districts' general fund budgets. We referred to it generically as foundation-level funding.)</i> | -\$2.752 billion | |
| EQUALS (=) an estimate of the additional amount of foundation-level funding needed to cover basic operating costs. | = \$399 million | |

| | | |
|--|-----------------------|---|
| <p>Other sources of State funding that weren't counted as covering part of the estimated \$3.151 billion cost (and the reasons why not)</p> | <p>Our estimate =</p> | <p>Under the current formula, this State aid isn't used as a source of funding for General State Aid (basic operating costs). It's paid <u>on top of</u> that funding. (Current estimate = \$239 million)</p> |
| <p>State Supplemental (Equalization) Aid (State funding to help equalize districts' LOBs)</p> | <p>\$222 million</p> | <p>These funds weren't counted because the <u>costs</u> for KPERS were never included in our cost estimates.</p> |
| <p>State funding for districts' KPERS contributions</p> | <p>\$175 million</p> | |

Summary of How the School Finance Formula Treats State Aid for School Districts

Kansas has a two-tiered funding system for K-12 education (described on pages 3-4 of the cost study, and shown graphically in the attached graphic):

Tier I: A basic operating aid program funded through the General State Aid formula. The State's share of funding for the basic operating aid program comes from SGF dollars; the local "effort" or share comes primarily from the mandatory Statewide 20-mill property tax. General State Aid in Kansas (often referred to as districts' general fund budgets) is a variation on the "foundation program" that's used in most states. Funding for foundation programs often is called "foundation-level" funding, which is partly why we used that term in the cost study.

Tier II: An optional enhancement program funded through the local option budget. The LOB was created to allow districts to raise money locally for enhancing their educational programs beyond the basic operating level. It's funded primarily with additional property taxes levied at the local level (under current law, up to 29% of districts' general fund budgets for 2006-07). To equalize districts' ability to raise these additional local property taxes for enhancing their programs, the State gives less wealthy districts State Supplemental (Equalization) Aid.

We didn't include the State aid paid to help equalize districts' LOBs in our calculation of the additional amount of foundation-level funding needed for 2006-07 (Figure 1.7-1 of the cost study) for the following reasons:

1. In the K-12 cost study, our charge was to estimate the costs of providing what's mandated by statute, and of achieving the outcomes adopted by the State Board. Our goal was to identify basic operating costs under both approaches (those costs the State would be obligated to fund).
2. Our framework for thinking about and compiling these costs was the current **General State Aid** formula (Kansas' basic operating aid program). The components of the General State Aid formula include the BSAPP, all the various weights used to adjust enrollments (i.e., at-risk, bilingual, low enrollment, Special and Vocational Education, transportation, etc.), and the "local effort"—primarily the mandatory Statewide 20-mill property tax.

3. The costs and weights estimated as part of the cost study were plugged into the General State Aid formula to allow comparisons between basic operating costs under the current formula, and under our cost study models.
4. Under the current school finance formula, the State aid that's given to help equalize districts' LOBs isn't used as a source of funding for General State Aid (basic operating costs)—it's paid on top of that funding. We felt we had to treat it the way current law treats it, even if districts may have been using some of that funding for their basic operating costs.
5. We showed the impact of increasing foundation-level funding on State funding for State Supplemental (Equalization) Aid and KPERS contributions in Figure 1.7-4 of the cost study.

On page 83 of the cost study, we also pointed out that the Legislature should consider whether to take any actions "to limit the growth in school districts' local option budgets. If the Legislature adopts any of our cost study estimates, the resulting increase in foundation-level funding would allow districts' local option budgets—and the State's Supplemental (Equalization) Aid—to significantly increase, unless local boards of education act to reduce them."

How Would We Have Handled LOB Funding Under Various Proposals Being Considered By the Legislature

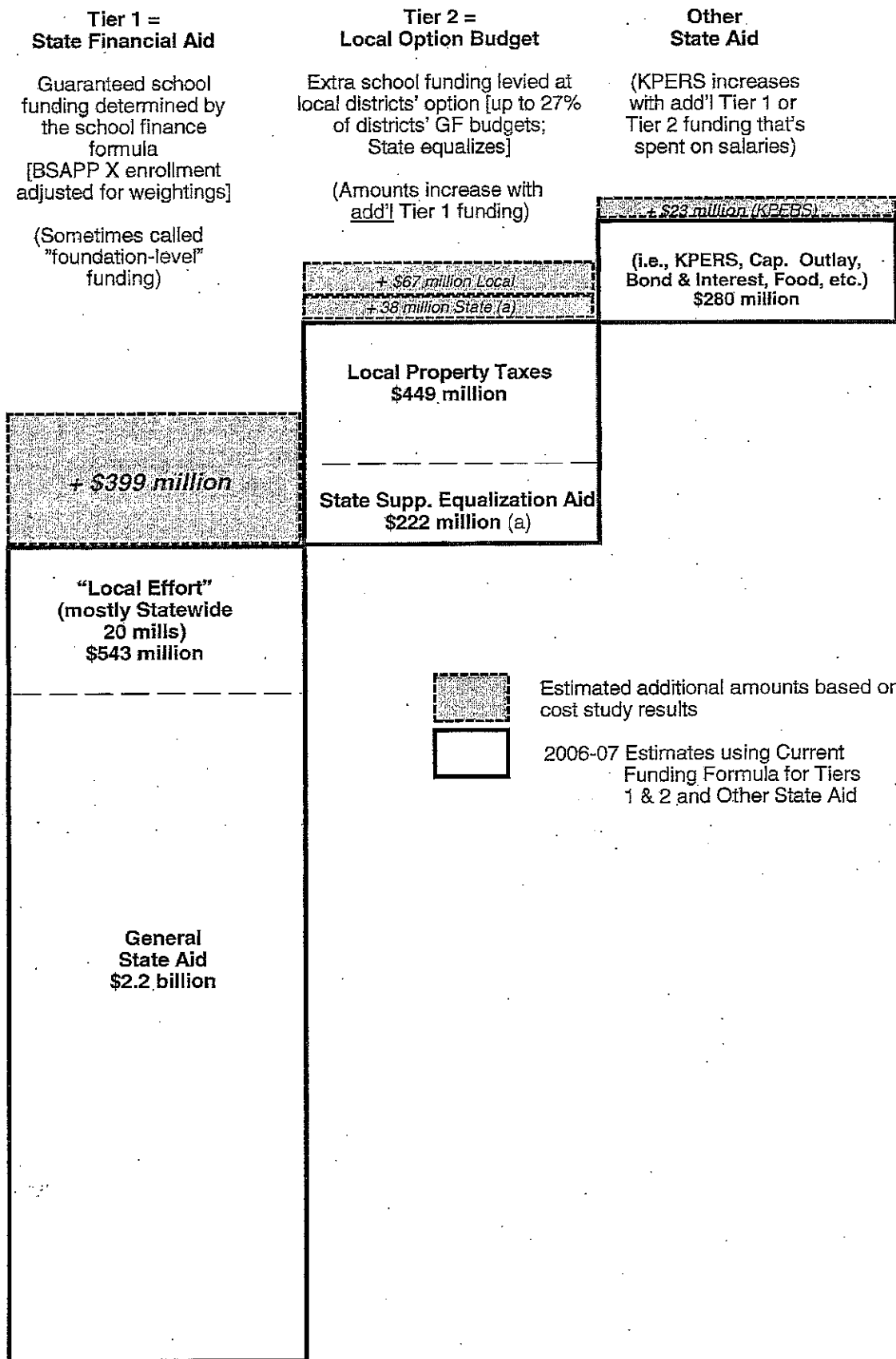
I can only respond to this at the conceptual level. For example, if the laws on the books last year had mandated that State Supplemental (Equalization) Aid had to be used for districts' basic operating costs, or had made parts of the LOB mandatory, we would have felt we had to count the applicable funds as covering part of the estimated \$3.151 billion cost for achieving the performance audit standards for 2006-07. We would have applied those funds on a district-by-district basis, and shown the total in the table on page 77. At this point, of course, we can't know whether the Court would have agreed with that decision.

I hope this information is helpful. If you have any questions about what I've provided here or about any aspects of the school cost study, please let me know.

attachment

cc: Kathie Sparks, Legislative Research Department
Carolyn Rampey, Legislative Research Department

2006-07 Est. Add'l Funding Needed Based on Cost-Study Results (Outcomes-Based Approach)



Tier 1 = State Financial Aid

Guaranteed school funding determined by the school finance formula [BSAPP X enrollment adjusted for weightings]

(Sometimes called "foundation-level" funding)

Tier 2 = Local Option Budget

Extra school funding levied at local districts' option [up to 27% of districts' GF budgets; State equalizes]

(Amounts increase with add'l Tier 1 funding)

Other State Aid

(KPERS increases with add'l Tier 1 or Tier 2 funding that's spent on salaries)

Estimated additional amounts based on cost study results

2006-07 Estimates using Current Funding Formula for Tiers 1 & 2 and Other State Aid

**COMPARISON OF LAW PREVIOUS TO BLOCK GRANT
TO HB 2344 (REVISED)**

| | Law Previous to Block Grant | HB 2344 | |
|----------------|--|---|----------------|
| | 3% Election | 3% Election | |
| \$5,200 | <p align="center">Local Option Budget</p> <p align="center">30% (\$1,200)</p> | <p align="center">Local Option Budget</p> <p align="center">4% = \$200</p> | \$5,200 |
| | | <p align="center">Local Foundation Funding</p> <p align="center">20% (\$1,000) of Foundation Funding</p> | \$5,000 |
| | \$4,000 | \$4,000 | |
| | <p align="center">State Financial Aid</p> | <p align="center">State Foundation Funding</p> <p align="center">(80% of Foundation Funding)</p> | |