



Division of Fiscal and Administrative Services

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TO: Senate Select Committee on Education Finance

FROM: Dale M. Dennis, Deputy
 Commissioner of Education

SUBJECT: State Board of Education Budget Recommendations

The purpose of this memorandum is to review how the State Board of Education determined its recommendations on the Base Aid for Student Excellence (BASE).

The process began with the following chart submitted to the Supreme Court by the state attorneys.

Year	Prior Year Amount	Inflation Percent	Inflation Adjustment Amount	New Amount
2011	\$ 3,108,690,821	3.22	\$ 100,099,844	\$ 3,208,790,665
2012	3,208,790,665	2.03	65,138,451	3,273,929,116
2013	3,273,929,116	1.40	45,835,008	3,319,764,124
2014	3,319,764,124	1.47	4,880,533	3,368,564,656
2015	3,368,564,656	(0.54)	(18,190,249)	3,350,374,407
2016	3,350,374,407	0.85	28,478,182	3,378,852,590
2017	3,378,852,590	1.66	56,088,953	3,434,941,542

Following discussion, the State Board increased the inflation factor by 1.44 percent. This decision was based on the following quote from the Kansas Supreme Court Opinion, June 25, 2018.

“Toward that end, we observe that the average of all the years of inflation shown in the State’s chart from its April 23, 2018 memo (SY 2010-11 through SY 2016-17) is 1.44%. Inflation adjustments for SY 2017-18 and SY 2018-19 obviously enlarge the State’s principal figure of \$522 million. That enlarged principal amount then needs to be adjusted gain (for inflation) until the new principal is paid in full over time—as the State’s chosen remediation plan provides.”

INFLATION ADJUSTMENT

Year	Prior Year Amount	Inflation Percent	Inflation Adjustment Amount	Net Amount
2010-11	\$3,108,690,821	3.22	\$100,099,844	\$3,208,790,665
2011-12	\$3,208,790,665	2.03	\$ 65,138,451	\$3,273,929,116
2012-13	\$3,273,929,116	1.40	\$ 45,835,008	\$3,319,764,124
2013-14	\$3,319,764,124	1.47	\$ 48,800,533	\$3,368,564,656
2014-15	\$3,368,564,656	(0.54)	(\$18,190,249)	\$3,350,374,407
2015-16	\$3,350,374,407	0.85	\$ 28,478,182	\$3,378,852,590
2016-17	\$3,378,852,590	1.66	\$ 56,088,953	\$3,434,941,542
2017-18	\$3,434,941,542	1.44	\$ 49,463,158	\$3,484,404,700
2018-19	\$3,484,404,700	1.44	\$ 50,175,428	\$3,534,580,128
2019-20	\$3,534,580,128	1.44	\$ 50,897,954	\$3,585,478,076
2020-21	\$3,585,478,076	1.44	\$ 51,630,884	\$3,637,108,960
2021-22	\$3,637,108,960	1.44	\$ 52,374,369	\$3,689,483,329
2022-23	\$3,689,483,329	1.44	\$ 53,128,559	\$3,742,611,889

SUMMARY

Target Aid To Schools -- FY 2023	\$ 3,742,611,889
Less: Current Aid	(\$ 2,817,090,821)
Less: Scheduled Increase in Aid -- FY 2019	(\$ 146,105,000)
Total Target Additional Aid	\$ 779,416,068

ANNUAL SUMMARY	2019-20	2020-21	2021-22	2022-23	TOTAL
Four-Year Average	\$ 194,854,017	\$ 194,854,017	\$ 194,854,017	\$ 194,854,017	\$ 779,416,068
Five-Year Plan Amount	(\$ 102,195,000)	(\$ 105,195,000)	(\$ 105,195,000)	(\$ 103,195,000)	(\$ 415,780,000)
Additional Required	\$ 92,659,017	\$ 89,659,017	\$ 89,659,017	\$ 91,659,017	\$ 363,636,068

The State Board increased the amount by 1.44 percent as outlined by the Supreme Court, subtracted current aid plus the amount approved in 2018-19 and then divided by four (four-year period) and subtracted from that amount the amount already approved by the Legislature.

They then adjusted the BASE only on the amounts that would be needed for the next four years that is approximately \$90 million per year. The State Board's BASE recommendations are provided below.

	<u>Sub. for SB 61</u>	<u>KSBE</u>
2018-19	\$ 4,165	
2019-20	4,302	\$ 4,436
2020-21	4,439	4,569
2021-22	4,576	4,706
2022-23	4,713	4,846
2023-24	CPI	

K-12 Education Funding Proposal

Governor's Recommendation School Finance Plan State Expenditures Perspective <i>(Dollars in Thousands)</i>											
	FY 2018 Actuals	FY 2019 Gov. Rec.	Prior Year Difference	FY 2020 Gov. Rec.	Prior Year Difference	FY 2021 Gov. Rec.	Prior Year Difference	FY 2022 Est.	Prior Year Difference	FY 2023 Est.	Prior Year Difference
BASE	\$ 4,006	\$ 4,165	\$ 159	\$ 4,436	\$ 271	\$ 4,569	\$ 133	\$ 4,706	\$ 137	\$ 4,846	\$ 140
State Foundation Aid (SFA)											
State General Fund	\$ 2,001,554	\$ 2,109,651	\$ 108,098	\$ 2,317,775	\$ 208,123	\$ 2,395,360	\$ 77,585	\$ 2,478,217	\$ 82,857	\$ 2,563,937	\$ 85,720
20-Mill Local Prop. Tax	641,068	678,357	37,289	711,953	33,596	738,735	26,782	764,347	25,612	788,968	24,621
School Dist. Fm. Fund	55,447	56,000	553	56,000	--	56,000	--	56,000	--	56,000	--
Mineral Production Fund	7,197	9,233	2,036	11,100	1,867	10,326	(774)	10,326	--	10,326	--
State Highway Fund	96,600	45,000	(51,600)	--	(45,000)	--	--	--	--	--	--
Total-SFA	\$ 2,801,866	\$ 2,898,241	\$ 96,376	\$ 3,096,828	\$ 198,586	\$ 3,200,421	\$ 103,593	\$ 3,308,890	\$ 108,469	\$ 3,419,231	\$ 110,341
Special Education											
State General Fund	\$ 435,982	\$ 490,381	\$ 54,399	\$ 497,881	\$ 7,500	\$ 505,381	\$ 7,500	\$ 512,881	\$ 7,500	\$ 520,381	\$ 7,500
State Highway Fund	10,000	--	(10,000)	--	--	--	--	--	--	--	--
Total-Special Education	\$ 445,982	\$ 490,381	\$ 44,399	\$ 497,881	\$ 7,500	\$ 505,381	\$ 7,500	\$ 512,881	\$ 7,500	\$ 520,381	\$ 7,500
Subtotal--USD General Funds	\$ 3,247,847	\$ 3,388,622	\$ 140,775	\$ 3,594,709	\$ 206,086	\$ 3,705,802	\$ 111,093	\$ 3,821,771	\$ 115,969	\$ 3,939,612	\$ 117,841
Supp. General State Aid (LOB)											
State General Fund	\$ 454,500	\$ 494,300	\$ 39,800	\$ 503,300	\$ 9,000	\$ 519,300	\$ 16,000	\$ 532,300	\$ 13,000	\$ 545,300	\$ 13,000
Total-Governor's Plan	\$ 3,702,347	\$ 3,882,922	\$ 180,575	\$ 4,098,009	\$ 215,086	\$ 4,225,102	\$ 127,093	\$ 4,354,071	\$ 128,969	\$ 4,484,912	\$ 130,841
% Chg. from Prior Yr.			4.9%		5.5%		3.1%		3.1%		3.0%

**KANSAS STATE DEPARTMENT OF EDUCATION
BUDGET APPEAL TO THE LEGISLATURE**

FISCAL YEAR 2020

	<u>Agency Requested Expenditures</u>	<u>Governor's Recommendation</u>	<u>Amount of Appeal</u>	<u>Page No.</u>
<u>State Operations</u>				
<u>State General Fund</u>				
1. KPERS and Group Health Insurance	\$ 124,222	\$ 0	\$ 124,222	1
Total	\$ 124,222	\$ 0	\$ 124,222	
 <u>State Aid to Local School Districts and Other Assistance</u>				
<u>State General Fund</u>				
1. Special Education Services Aid	\$ 547,581,417	\$ 497,880,818	\$ 49,700,599	2
Total	\$ 547,581,417	\$ 497,880,818	\$ 49,700,599	

FISCAL YEAR 2020

**STATE OPERATIONS – KPERS and GROUP HEALTH INSURANCE
EMPLOYER CONTRIBUTIONS**

As shown below, rates included in this year’s Budget Cost Indices for KPERS and group health insurance for FY 2020 increased significantly in comparison to rates assessed for the current year.

	FY 2019	FY 2020
KPERS Composite Rate	14.21%	15.41%
Group Health Insurance (State Contribution)		
Full-Time Single Member (Annual)	\$ 7,050.24	\$ 7,282.56
Full-Time Dependent (Annual)	\$ 3,334.56	\$ 3,444.00
Full-Time Healthy Kids (Annual)	\$11,012.16	\$11,374.80

For FY 2020, the higher rates result in an increase to the state general fund portion of our salaries and wages budget in the amount of \$88,532 for KPERS and \$35,690 for group health insurance, for a total increase of \$124,222. In some previous years’ state general fund allocations, additional funds were provided for employer contribution increases. However, no adjustments were made to our FY 2020 allocation to offset the rate increases.

To absorb the increases for KPERS and group health insurance, it will be necessary to increase our shrinkage rate by holding two to three positions vacant. Since approximately half of our salaries are funded from the state general fund, holding these additional positions vacant will have a negative impact on our operations. Depending on which positions are not filled, this action could result in fewer audits of USDs, delays in distributing state aid payments and other miscellaneous payments, delays or reductions in the number of school districts accredited, delays in the review and approval of new curricular standards, delays in the review and/or approval of teacher preparation programs, delays in maintaining computer programs and increased IT security breaches, or the potential loss of federal funds by not meeting state administrative maintenance of effort requirements.

In order to allow the Department of Education to continue to provide high quality service to school districts and their patrons, the Governor’s Office, the Legislature, and the numerous other customers we serve, we strongly urge the Legislature to support this request.

STATE GENERAL FUND

FY 2020 <u>Request</u>	Governor’s <u>Recommendation</u>	Amount of <u>Appeal</u>
\$124,222	\$0	\$124,222

FISCAL YEAR 2020

SPECIAL EDUCATION SERVICES AID

The federal Individuals with Disabilities Education Act (IDEA) requires states to provide a free appropriate public education to all children with disabilities between the ages of 3 and 21. This Act defines “children with disabilities” as those children who need special education and related services because of conditions such as mental retardation, hearing or visual impairment, emotional disturbance, or autism. The Kansas Special Education for Exceptional Children Act augments federal law by requiring school districts to provide special education services to gifted children as well.

In response to the Supreme Court’s ruling in the *Montoy v. Kansas* school finance court case, the Legislature made several adjustments in the funding formula including those aimed at increasing funding for special education. Specifically, the Legislature amended K.S.A. 72-3422, which mandates that state aid for special education be equal to 92 percent of the estimated excess costs of educational services provided to students with disabilities.

To coincide with the new five-year school funding plan approved by the Legislature, the State Board of Education recommends increasing Special Education Services Aid incrementally to 92 percent of excess costs by the 2022-23 school year. Under this request, Special Education Services Aid would be funded at 86 percent of excess costs for FY 2020, 88 percent of excess costs for FY 2021, 90 percent of excess costs for FY 2022 and 92 percent of excess costs for FY 2023.

Since both state and federal laws mandate that schools provide students with disabilities a free appropriate public education, school districts must absorb the percentage of excess costs not funded by the state, which reduces the amount of funding available to spend for general education students. **Under current state law, the amount of unfunded special education excess costs is estimated to be \$87.9 million for FY 2020. Under the State Board’s recommendation, that amount drops to \$38.2 million (\$87.9 million minus \$49.7 million additional funding requested).**

Not funding special education excess costs compounds the problem of school districts not having available resources to adequately fund K-12 public education in our state.

Based on the November 7, 2018 education consensus estimates prepared by the Division of the Budget, the Legislative Research Department and the Department of Education, the projected cost to fund 86 percent of special education excess costs is \$547,581,417 for FY 2020. Under the Governor’s recommendation, it is estimated that the percent of special education excess costs funded will drop from 81.4 percent in the current year to 78.2 percent for FY 2020.

In its December 2018 audit report on K-12 Education: Evaluating Special Education Costs, the Legislative Division of Post Audit recommended the Legislature consider funding special education at the statutory amount or changing the law.

The State Board urges the Legislature to recommend funding special education at 86 percent of excess costs for FY 2020, with a goal of reaching the statutory level of 92 percent by FY 2023.

STATE GENERAL FUND

FY 2020 Request	Governor’s Recommendation	Amount of Appeal	KSBE Recommendation
\$547,581,417	\$497,880,818	\$49,700,599	86% of excess costs

Estimated Special Education Excess Costs--FY 2019, FY 2020, & FY 2021			
FY 2018 Actual Expenditures		\$	899,723,699
FY 2019 Estimate			
FY 2018 Actual			899,723,699
Percent Change (Based on teacher salary increase av	4.00%		35,988,948
Added Teachers No./Amount	200	\$ 66,994	13,398,800
Estimated Total FY 2019 Expenditures			949,111,447
Excess Cost Computation:			
Projected Total Expenditures			949,111,447
Less Ave per Pupil Cost of Regular Ed. \$ 7,230			
times FTE special ed pupils exc. SRS residents	27,952		202,092,960
Less Federal Aid			106,000,000
Less Medicaid Reimbursements			37,939,756
Less SRS Administrative Costs (State Hospitals)			300,000
FY 2019 Excess Costs		\$	602,778,731
State Aid at 92.0%		\$	554,556,433
FY 2020 Projection			
FY 2019 Estimate			949,111,447
Percent Change (Based on teacher salary increase av	3.50%		33,218,901
Added Teachers No./Amount	175	\$ 69,674	12,192,950
Estimated Total FY 2020 Expenditures		\$	994,523,298
Excess Cost Computation:			
Projected Total Expenditures			\$ 994,523,298
Less Ave per Pupil Cost of Regular Ed. \$ 7,520			
times FTE special ed pupils exc. SRS residents	28,300		212,816,000
Less Federal Aid			106,000,000
Less Medicaid Reimbursements			38,684,720
Less SRS Administrative Costs (State Hospitals)			300,000
FY 2020 Excess Costs		\$	636,722,578
State Aid at 92.0%		\$	585,784,772
FY 2021 Projection			
FY 2019 Estimate			994,523,298
Percent Change (Based on teacher salary increase av	3.50%		34,808,315
Added Teachers No./Amount	150	\$ 72,112	10,816,800
Estimated Total FY 2021 Expenditures		\$	1,040,148,413
Excess Cost Computation:			
Projected Total Expenditures			\$ 1,040,148,413
Less Ave per Pupil Cost of Regular Ed. \$ 7,820			
times FTE special ed pupils exc. SRS residents	28,650		224,043,000
Less Federal Aid			106,000,000
Less Medicaid Reimbursements			38,684,720
Less SRS Administrative Costs (State Hospitals)			300,000
FY 2021 Excess Costs		\$	671,120,693
State Aid at 92.0%		\$	617,431,038

Date of Consensus Education Meeting: November 7, 2018 (KSDE, DOB, KLRD)