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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: March 23, 2017

Subject: HB 2410 - Kansas School Equity and Enhancement Act

House Bill No. 2410 (HB 2410) would enact the Kansas School Equity and Enhancement Act (Act). The Act is 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:

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

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

Sections 1 and 2 of HB 2410 provide appropriations for the Kansas Department of Education for fiscal years 2018 and 2019. The Act begins on page 17 with Section 3.

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This memorandum will describe each of the components of the Act in the order in which they would be considered when determining the financial aid being provided to school districts.

Enrollment

Section 10 of the HB 2410 provides for determining both the enrollment and the foundation enrollment of each school district. The enrollment of a school district is a determination of the actual full-time equivalent (FTE) enrollment of the school district for the school year. This is calculated by finding the average of the FTE enrollment of the school district on September 20 and February 20 of each school year. Under HB 2410, kindergarten students are counted as $\frac{8}{10}$ of a student in school year 2017-2018, $\frac{9}{10}$ of a student in school year 2018-2019, and one student in school year 2019-2020, and each school year thereafter.

The foundation enrollment of each school district is determined separately for purposes of calculating total foundation aid. The foundation enrollment is based on the school district's enrollment trend over the preceding four school years. This is calculated by finding a weighted average of the change in enrollment for the school district from the second, third, and fourth preceding school years. This weighted average change is then added to the enrollment of the school district for the immediately preceding school year.

The foundation enrollment of each school district is then adjusted by various weightings to account for differing student demographics among school districts.

Weightings

Under section 24 of the bill, the transportation weighting is 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 also has an adjustment to the assumed cost of transporting students who live $2\frac{1}{2}$ or more miles from their school. The assumed cost factor under the Act is 2.2, instead of 2.0.

Under section 25 of the bill, the low enrollment weighting is determined in a similar manner as under the SDFQPA. However, the low enrollment weighting is adjusted down by 3.504%. This adjustment is due to (1) how low and high enrollment weightings were calculated under the SDFQPA, and (2) the high enrollment weighting being eliminated.

Under section 26 of the bill, the bilingual weighting is determined by performing two calculations and using the greater of the two. First, the contact hours of students in bilingual programs is multiplied by 0.361. The second calculation is the number of students (by

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headcount) in bilingual programs multiplied by 0.1. The Act would limit the number of years a student could be counted for bilingual weighting to five school years. Finally, the Act amends K.S.A. 72-9509, which creates the bilingual education fund in each school district. The amendment would limit expenditures from that fund to only bilingual education programs.

Under section 27 of the bill, the at-risk student weighting is determined in the same manner as under the SDFQPA. The number of at-risk students included in the enrollment of the school district is multiplied by 0.456. An at-risk student is defined in section 4 as a student who is eligible for free lunch.

Section 27 also provides for a high-density at-risk student weighting. The high-density at-risk student weighting factor is 0.105 for school districts with more than 3,000 students and an at-risk student population that is 60% or more. For those school districts with at least 2,500 students and an at-risk student population of at least 50%, the high-density at-risk student weighting is provided at a lower rate based on a linear transition.

Section 29 creates the at-risk education fund in each school district. Moneys in the at-risk education fund can only be expended for at-risk education programs.

Under section 30 of the bill, the special education and related services weighting is determined in the same manner as under the SDFQPA. The weighting simply divides the amount of special education state aid the school district receives by the BASE aid. The resulting quotient is the weighting for the school district.

Section 31 provides a new school facilities cost weighting that replaces the ancillary school facilities weighting. The new school facilities cost weighting is determined in the same manner as the ancillary school facilities weighting was 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.

Section 32 provides a cost-of-living weighting that is 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.

Section 33 provides a one-year declining enrollment weighting that is determined in the same manner as under the SDFQPA with one exception. For school year 2017-2018, school

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districts who were grandfathered into this weighting will only receive ½ of the grandfathered amount. This weighting would then expire on July 1, 2018.

Section 35 does not provide a career technical education weighting. It creates the career and postsecondary education fund in each school district. This fund may be used to fund career and technical education programs, postsecondary dual credit courses, and distance-learning technology.

The weightings are applied to the foundation enrollment of each school district to determine the adjusted enrollment of the school district. The adjusted enrollment is then multiplied by the BASE aid to find the total foundation aid for the school district. The total foundation aid is funded in two parts: (1) state foundation aid; and (2) local foundation aid. The total foundation aid is provided through various revenue sources.

Revenue Sources

Section 13 of HB 2410 reauthorizes and requires that each school district 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.

HB 2410 replaces the local option budget with a series of local tax levies. The first of these is the local foundation budget, which helps fund the local foundation aid of the school district. Under section 14, each school district would be required to adopt a local foundation budget (LFB). The LFB would be calculated as 20% of the school district's total foundation aid. Section 16 requires each school district to levy a property tax to fund the LFB. The proceeds of this tax would be kept by each school district and counted as local foundation aid. Additionally, a portion of the LFB is required to be used for at-risk and bilingual education. This amount would be in proportion to the at-risk and bilingual weightings of the school district.

Under Section 14, in any school year, if 20% of the BASE aid is less than \$1,150, then the LFB is to be calculated by multiplying the adjusted enrollment of the school district by \$1,150. This alternative LFB calculation is similar in function to the alternative local option budget calculation that was in the SDFQPA.

Section 15 would give each school district the option to adopt a local enhancement budget (LEB). The LEB authority would be limited to 5% of the school district's total foundation aid. No election would be required to adopt a LEB. Section 16 also authorizes each school district that has adopted an LEB to levy a property tax to fund the LEB. The proceeds of this tax would be kept by each school district.

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Section 17 would provide supplemental state aid to equalize the tax levies imposed to fund the LFB and LEB. The formula for determining the amount of supplemental state aid is the same equalization formula as is currently used for local option budget equalization.

Section 19 would give each school district the option to adopt a local activities budget (LAB) subject to an election by the school district's voters. The LAB authority would be limited to 4% of the school district's enrollment multiplied by the BASE aid. In school year 2017-2018, no election would be required for those school districts that had a local option budget in excess of 30% for school year 2016-2017. Section 21 authorizes each school district that has adopted a LAB to levy a property tax to fund the LAB. In school year 2017-2018, moneys in the local activities fund could be used for general operating expenses of the school district. Beginning in school year 2018-2019, the LAB must be approved by the voters of the school district, and moneys in the local activities fund can only be expended for non-instructional purposes.

Section 22 would provide activities state aid to equalize the tax levied to fund the LAB. The formula for determining the amount of activities state aid is the same formula as is currently used for capital outlay state aid.

Other Substantive Provisions

Section 43 of HB 2410 would require the State Board of Education to annually report to the Legislature on its school district accreditation system.

Section 44 would direct Legislative Post Audit to conduct a series of performance audits on various components of the Act over the first nine years. 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 HB 2410.

Section 47 would establish the school district capital outlay state aid fund. It would also reenact the provision of capital outlay state aid using the same formula as in current law, except that the assessed valuation would be based on the preceding school year.

Section 92 amends K.S.A. 75-2319 regarding capital improvement state aid. 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. HB 2410 would also require that those school districts with less than 260 students receive State Board approval in order to be eligible for capital improvement state aid for bonds issued to construct new school facilities.

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Section 59 amends K.S.A. 72-3715 regarding virtual school state aid. 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.

Section 88 amends K.S.A. 72-99a02 regarding the tax credit for low income students scholarship program. Beginning in school year 2018-2019, students deemed eligible for a scholarship under the program would be expanded by including those students who are enrolled in school districts that receive high-density at-risk student weighting. HB 2410 would also require nonpublic schools receiving students under the program to be accredited by the State Board and have a postsecondary effective rate that exceeds the trend line for all school districts and accredited nonpublic schools as determined by the State Board, or have a composite ACT score that exceeds the statewide average, or have been a participating school in any preceding school year.