



# MEMORANDUM

Legislative Division of Post Audit  
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TO: Representative Clay Aurand  
FROM: Scott Frank, Legislative Post Auditor  
DATE: March 17, 2017  
SUBJECT: Question Regarding LPA Treatment of the Local Option Budget in the 2006 Cost Study

This is in response to your request for clarification on how our office treated school districts' local option budgets (LOB) in our 2006 cost study and former Post Auditor Barb Hinton's April 21, 2006 memo to all legislators. Specifically, you would like to know if school districts had been mandated to utilize their LOBs to their full authority, would our office have counted both the state and local share of the LOB as covering part of the overall cost of achieving performance outcome standards.

Before I answer the question, I must first clarify that this memo is not a legal opinion. Rather, I am explaining how we would have considered the LOB in our comparisons between the cost of meeting outcomes and the funding provided by the (then) current formula, and how we might handle this issue today. This does not indicate how the Kansas State Supreme Court would or should rule on any questions regarding the LOB.

Regarding your question, the simple answer is yes. We would have considered both the local property tax and supplemental state aid portions of the LOB as sources of funding available to cover the costs we estimated as part of cost study, had districts been mandated to use them.

However, given the current purpose of the LOB, I would take this a step further if the analysis were repeated today. At the time of our 2006 cost study, the prevailing interpretation of the state's school finance formula was that districts' general fund budgets (set by formula) was supposed to cover the cost of meeting all requirements. Their LOBs (set at their discretion) was to cover enhancements the districts might optionally choose to fund. Excluding the LOB from our comparison was a logical choice, given its purpose at the time.

Since then, the purpose of the LOB has clearly changed. The idea that the LOB is only to pay for extras has been abandoned, and it is commonly used to pay for a share a district's basic operating costs. Because the LOB is now viewed as a component of basic operating funding, if we were to repeat the comparison from our 2006 cost study, we would include both the state and local share of the LOB, whether it was mandatory or not.

I hope this adequately addresses your questions and concerns. Please let me know if you have any further questions, or if you need anything else.



TOPEKA

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March 24, 2017

Scott Frank  
Legislative Division of Post Audit  
800 SW Jackson, Suite 1200  
Topeka, Kansas

Dear Mr. Frank,

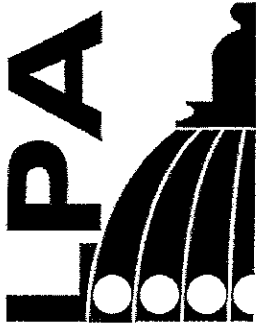
This is a follow-up to your memo dated March 17, 2017 regarding the LPA treatment of the Local Options Budget (LOB) in the 2006 Cost Study. Thank you for clarifying the Post Audit interpretation of that issue. My question now concerns looking at current proposed school funding formula and trying to determine what comparisons might be appropriate.

HB2410 contemplates foundation funding that is derived from a base dollar amount of \$5212. This is made up of two components, *State Foundation Funding* which is 80% of the total and the *Local Foundation Funding* which is 20% of the total foundation funding. It appears that this total foundation funding would be very similar in structure to the old formula's General Fund budget and Supplemental General budget.

Considering the comments in your memo, it seems that the new Foundation Funding might very well be looked at as covering most, if not all, of the costs required to fund at a level that was identified in the Cost Study. My question is this: What additional components do we need to consider as we try to draw parallels between the 2006 Cost Study and the formula in HB2410 when evaluating how it comports with a constitutionally adequate education?

Thanks,

Representative Clay Aurand



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TO: Representative Clay Aurand  
FROM: Scott Frank, Legislative Post Auditor  
DATE: March 28, 2017  
SUBJECT: Comparing Foundation Funding in HB 2410 to Cost Estimates in 2006 LPA Study

This is in response to your question regarding how the foundation funding envisioned in HB 2410 matches up with the cost estimates we developed in our 2006 LPA cost study.

In answering this question, here is a list of the funding elements (or near equivalents) from the SDFQPA formula that were included in our analysis. Together they formed a district's general fund budget:

- Base Funding
- Enrollment Weighting (Low/Correlation)
- At-Risk (Regular/High-Density)
- Bilingual
- Special Education
- Vocational
- Transportation
- New Facilities
- Ancillary Facilities
- Declining Enrollment
- Cost of Living

Our analysis did not include the following significant sources of school district funding:

- Local Option Budget – As discussed in my memo to you dated March 17, 2017, at the time of the cost study the consensus opinion was that the LOB was not intended to be a source of core funding for districts. That opinion has changed and we would now count the LOB in any comparisons.
- KPERS – We did not include the state's KPERS contribution as part of the core funding in our analysis. Had we included it, all our cost estimates would have been significantly greater (about \$175 million to \$210 million statewide).
- Capital Funding – We excluded capital outlay and bond repayment funds from our analysis.

HB 2410 would essentially make a share of the local option budget mandatory for all school districts. This would clearly make it part of a district's core funding, and it would seem appropriate to include it in comparisons against the cost estimates from our 2006 study. On the

other hand, including the district's capital outlay and bond repayment funds, as well as the state's KPERS payments would not match up with our 2006 estimates and we would exclude them from any comparisons.

I hope this adequately addresses your questions and concerns. Please let me know if you have any further questions, or if you need anything else.