

K-12 School Finance; The Kansas School Equity and Enhancement Act; SB 19

SB 19 makes appropriations for the Kansas Department of Education (KSDE) for FY 2018 and FY 2019; enacts the Kansas School Equity and Enhancement Act; adds a section requiring KSDE to produce a report concerning school district revenues, expenditures, and demographics; and amends the Tax Credit for Low Income Students Scholarship Program, the Virtual School Act, and statutes related to Capital Improvement State Aid and capital outlay.

Kansas School Equity and Enhancement Act

The Kansas School Equity and Enhancement Act (Act) provides for State Foundation Aid (SFA) to be provided to school districts. SFA is calculated by multiplying the base aid for student excellence (BASE) by the adjusted enrollment of the district and deducting the local foundation aid of the district. The adjusted enrollment of the district is calculated by adding the weighted enrollments for at-risk students, declining enrollment, high-density at-risk students, bilingual, low enrollment, high enrollment, new school facilities, ancillary school facilities, cost of living, special education and related services, career technical education, and transportation to the enrollment of the district. The BASE is \$4,006 for school year 2017-2018, \$4,128 for school year 2018-2019, and adjusted each year thereafter according to the average percentage increase in the Consumer Price Index (CPI) for all urban consumers for the Midwest region during the three immediately preceding school years.

The Act also allows districts to adopt a local option budget (LOB) by resolution of the school board. The LOB is capped at 33.0 percent of the BASE multiplied by the adjusted enrollment of the district. In any year in which the BASE is less than \$4,490, the LOB is capped at 33.0 percent of the product of \$4,490 and the adjusted enrollment of the district. Beginning in school year 2019-2020, the BASE allowed to be used to calculate LOB authority will increase based on a three-year CPI average. Any district adopting an LOB in excess of 30.0 percent will be subject to protest petition.

Additionally, the Act defines key terms, charges the State Board of Education (KSBE) with developing and implementing a school accreditation system and with conducting a cost study of career and technical education programs, gives the KSBE authority to adopt rules and regulations to administer the Act, and provides for several performance audits by the Legislative Division of Post Audit (LPA). The provisions of the Act are not severable and are scheduled to expire July 1, 2027.

Enrollment

The enrollment of a district is the number of students regularly enrolled at the district on September 20 of the preceding school year. If the enrollment of the district the preceding school year decreased from enrollment in the prior year, the enrollment will be the enrollment of the district from the second preceding school year. Districts that have military students and receive federal impact aid can use the average enrollment of the three preceding school years.

Students who are not Kansas residents will be counted as 1.0 full-time equivalent (FTE) in school years 2017-2018 and 2018-2019, as 0.75 FTE in school years 2019-2020 and 2020-

2021, and as 0.5 FTE in subsequent years. Out-of-state students whose parents or legal guardians are employed by the district or who were enrolled in the district during the preceding school year will continue to be counted as 1.0 FTE.

Each student enrolled in kindergarten full time will be counted as 1.0 FTE. Formerly, each kindergarten student was counted as 0.5 FTE. Any student enrolled in kindergarten in a district in the preceding school year will be counted as 1.0 FTE, regardless of actual attendance during the preceding year.

At-Risk Student Weighting

The at-risk weighted enrollment of a district is determined by multiplying the number of students eligible for free meals under the National School Lunch Act by 0.484. Any district maintaining kindergarten through 12th grade can substitute 10.0 percent of the district's enrollment multiplied by 0.484 for the purposes of this weighting. Beginning with school year 2018-2019, districts must use those funds for at-risk education programs and services contracted for to provide such programs based on programs identified and approved by KSBE as evidence-based best practices.

Bilingual Weighting

The bilingual weighted enrollment of a district is the greater of the FTE enrollment based on hours of contact in bilingual education programs multiplied by 0.395 or the number of students enrolled in bilingual programs multiplied by 0.185.

Low Enrollment Weighting

Low enrollment weighting is available to districts with fewer than 1,622 students enrolled. The weighting is calculated on a linear transition: districts with 100 or fewer students receive a weighting of approximately 101.4 percent of the enrollment of the district, and that amount transitions to approximately 3.5 percent of the enrollment of the district as the enrollment approaches 1,622 students.

High Enrollment Weighting

High enrollment weighting of approximately 3.5 percent is available to districts with more than 1,622 students.

High-Density At-Risk Weighting

If a school or school district's enrollment is at least 50.0 percent at-risk students, the school or school district receives a high-density at-risk weighting equal to 10.5 percent of the at-risk students of the district. If a school or school district's enrollment is between 35.0 percent at-risk students and 50.0 percent at-risk students, the school or school district receives a high-density at-risk weighting on a linear transition downwards from 10.5 percent of the at-risk students of the district. The high-density at-risk weighting is scheduled to expire July 1, 2019.

Beginning with school year 2018-2019, districts must use those funds on at-risk programs and instruction of students receiving at-risk program services identified and approved by the KSBE as evidence-based best practices. The KSBE will notify districts that do not spend the money on such best practices they must either spend such money on best practices or show improvement within three years of notification. Among other factors, improvement can be shown by the percentage of students at grade level or college and career ready on state math and English language arts assessments, average composite ACT scores, or the four-year graduation rate. Districts that do not spend money on best practices and fail to show improvement within five years will not qualify to receive the weighting in the succeeding school year.

Transportation Weighting

The transportation weighting of a district is determined by multiplying the district's per-student transportation cost by the number of students who reside at least 2.5 miles from the school building they attend and are provided transportation to the school building by the district. The district's per-student transportation cost is determined using the curve of best fit of a density-cost graph of the index of density of all districts in the state. A four-year grandfather clause applies to districts that receive less funding pursuant to the transportation weighting than they did during the 2016-2017 school year.

Career Technical Education Weighting

The career technical education weighting of a district is determined by multiplying the FTE enrollment in approved career technical education programs by 50.0 percent. This weighting is scheduled to sunset July 1, 2019. The bill directs KSDE to study the costs of career technical education programs and report its findings on or before January 15, 2018.

New School Facilities Weighting

The new school facilities weighting of a district is determined by multiplying the number of students enrolled in a new school facility by 25.0 percent. A new school facility is a school facility in its first two years of operation that was financed primarily with bonds approved at an election held on or before July 1, 2015.

Cost-of-Living Weighting

The bill allows districts in which the average appraised value of a single-family residence is more than 25.0 percent higher than the statewide average value to apply for additional funding from the KSBE in an amount not to exceed 0.05 percent of the district's foundation aid. The district must have an LOB of 31.0 percent, and the school board must pass and publish a resolution authorizing the levy. The entirety of this weighting is financed by local property taxes.

Ancillary School Facilities Weighting

A district can apply to the State Board of Tax Appeals (BOTA) for authority to levy local property taxes for the purpose of financing costs attributable to commencing the operation of a new school facility that is in excess of the amount financed by any other source. The amount to be levied for this weighting is reduced over a period not to exceed six years. The entirety of this weighting is financed by local property taxes.

Declining Enrollment Weighting

The declining enrollment weighting is available to districts that have lost revenues due to the declining enrollment of the district. The district must apply to the BOTA for authority to receive this weighting, and the weighting is capped at 5.0 percent of the general fund budget of the district. In school year 2017-2018, a district can receive declining enrollment weighting equal to half the amount the district generated pursuant to the weighting in school year 2007-2008. The entirety of this weighting is financed by local property taxes. The declining enrollment weighting is scheduled to expire July 1, 2018.

Special Education and Related Services Weighting

The special education and related services weighting is calculated by dividing the total state aid payments made to a district for special education and related services by the BASE.

Legislative Studies

The bill requires the House and Senate Committees on Education to review the high and low enrollment weightings and alternatives to such weightings, including a sparsity weighting by July 1, 2018; virtual schools by July 1, 2020; the at-risk weighting and the BASE by July 1, 2021; the successful schools model by July 1, 2023, and by July 1, 2026; and the bilingual weighting by July 1, 2024.

Local Foundation Aid

Local Foundation Aid includes the unencumbered balance of a district's general fund, certain grants received by a district, special education and related services aid, any tuition for non-resident pupils of a district, and 70.0 percent of the federal impact aid a district received. These categories were commonly referred to as "local effort" under prior law.

Reauthorization of the 20-Mill Levy

The bill reauthorizes the statewide 20-mill school finance levy for school years 2017-2018 and 2018-2019. The first \$20,000 of assessed valuation of residential properties will continue to be exempt from this levy.

Supplemental General State Aid

Supplemental General State Aid is paid to any district that has adopted a LOB. The amount of aid a district is eligible to receive is determined by multiplying the district's local foundation budget by an equalization factor that equalizes all districts below the 81.2 percentile of assessed valuation per pupil (AVPP) up to that percentile. For school year 2017-2018, the AVPP used is that of the immediately preceding school year. For school year 2018-2019, the AVPP used is an average of the AVPPs of the three immediately preceding school years.

Accreditation

The Act requires KSBE to design and adopt a district accreditation system based on improvement in performance that equals or exceeds the educational goals known as the "Rose capacities," which are codified at KSA 2016 Supp. 72-1127, and is measurable. The Act also requires KSBE to report to the Governor and Legislature on or before January 15 of each year regarding the district accreditation system.

KSDE District Report

The Act requires KSDE to develop an annual report for each district reflecting the total amount of revenues received from federal, state, and local sources each year, with certain categories of revenue being specifically identified. The report also includes total expenditures for certain programs and services and certain demographic information.

LPA Performance Audits

The Act requires LPA to perform several performance audits in the future. Topics of required audits include virtual school programs; the cost of providing educational opportunities to every public school student in Kansas to achieve the performance outcome standards adopted by KSBE; at-risk education, bilingual education, and transportation funding; and the best practices of successful schools. The House and Senate Committees on Education will review these reports.

School District Extraordinary Declining Enrollment Fund

The bill allows school districts to apply to KSBE for Extraordinary Declining Enrollment State Aid. KSBE will review all submitted applications and approve or deny any such application based on whether the applicant school district has demonstrated extraordinary declining enrollment since school year 2014-2015. In reviewing the application, KSBE may conduct a hearing and provide the applicant school district an opportunity to present testimony as to such school district's extraordinary declining enrollment. If approved, KSBE will determine the amount of aid to be disbursed, which could be less than the amount requested in the application. If denied, within 15 days of such denial, KSBE must send written notice of such denial to the superintendent of such school district. The bill also establishes the School District Extraordinary Declining Enrollment Fund.

Virtual School State Aid

Virtual School State Aid is paid to districts operating virtual schools. \$5,000 per student is paid for students under age 19 enrolled in a virtual school on a full-time basis. \$1,700 is paid for each FTE student enrolled in a virtual school on a part-time basis. For students 19 years of age and older, aid is paid at a rate of \$709 per credit hour earned, not to exceed six credit hours earned by any one student in any one school year.

Tax Credit for Low Income Students Scholarship (TCLISS) Program Act

On and after July 1, 2018, the bill amends the definition of “public school” within the TCLISS Program Act to mean a school identified by KSBE as one of the lowest 100 performing schools with respect to student achievement. It also amends the definition of “qualified school” to require accreditation on and after July 1, 2020. Accreditation must be by KSBE or a KSBE-recognized national or regional accrediting agency. Additionally, the bill expands eligibility for the tax credit to individuals and places an annual cap of \$500,000 on contributions.

Capital Outlay Changes

The bill allows capital outlay funds to be used for utility expenses and property and casualty insurance. Additionally, the bill allows capital outlay funds to be used for construction, reconstruction, repair, remodeling, additions to, furnishing, maintaining, and equipping computer software, performance uniforms, building sites, school buses, and other fixed assets. The law already allowed for acquisition of these items using capital outlay funds.

Beginning in school year 2017-2018, any new property tax exemptions granted by BOTA for property financed by industrial revenue bonds or for economic development purposes pursuant to Article 11, Section 13 of the *Kansas Constitution*, for which the public hearing was not held prior to May 1, 2017, will no longer apply to the capital outlay mill levy. Previously exempted property will continue to be eligible for exemption from the levy.

Beginning July 1, 2017, districts will receive the revenue generated by the capital outlay mill levy on the incremental valuation growth in newly created Neighborhood Revitalization Areas.

Capital Improvement Changes

For all bond issuances approved at an election on or after July 1, 2017, any district with an enrollment of less than 260 students must receive approval from KSBE prior to holding an election to approve the issuance of bonds to be eligible for Capital Improvement State Aid.

In determining the amount of payments a district is obligated to make for bond issuances approved at an election on or after July 1, 2017, KSBE will exclude payments for any capital improvement project, or portion thereof, that proposes to construct, reconstruct, or remodel a facility used primarily for extracurricular activities, unless a State Fire Marshal report, inspection under the Americans with Disabilities Act, or other similar evaluation demonstrates the project is necessary due to concerns relating to safety or disability access.

Additionally, beginning July 1, 2017, in each fiscal year, KSBE can approve for election bond issuances exceeding 14.0 percent of the district's assessed valuation for the election only to the extent of the aggregate amount of bonds retired by districts in the state in the preceding year. A district that has not passed a bond election in the past 25 years is not subject to this limitation.

Appropriations

The bill provides \$1.991 billion in general state aid from the State General Fund (SGF) for FY 2018 and \$2.047 billion in general state aid from the SGF for FY 2019. For FY 2018, \$480.9 million of supplemental general state aid is appropriated from the SGF, and for FY 2019, \$486.1 million of supplemental general state aid is appropriated from the SGF. Appropriations are also made for KSDE operations, special education state aid, and KPERS employer contributions for districts from the SGF for both fiscal years.