

SESSION OF 2015

**SUPPLEMENTAL NOTE ON SENATE BILL NO. 7**

As Amended by House Committee of the Whole

**Brief\***

House Sub. for SB 7, as amended, would make appropriations for K-12 education for fiscal years (FY) 2015, 2016, and 2017. The bill also would repeal the existing school finance formula - the School District Finance and Quality Performance Act - and create the Classroom Learning Assuring Student Success Act.

***Appropriations***

Highlights of the appropriations portion of the bill follow.

- For FY 2015 (school year 2014-15), the bill would add \$27,346,783 in General State Aid, \$1,803,566 in Supplemental General State Aid (Local Option Budget [LOB] State Aid), and an amount not to exceed \$2,202,500 for the Capital Outlay State Aid demand transfer, all from the State General Fund (SGF). In addition, the bill would transfer \$4.0 million from the SGF to a newly created special revenue fund called the School District Extraordinary Need Fund.
- For FY 2016 (school year 2015-16), the bill would appropriate \$2,751,326,659 from SGF as a block grant to school districts. (Components of the block grant are described below.) A demand transfer from the SGF to the School District Extraordinary Need Fund would be made in an amount not to exceed

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

\$12,292,000. An SGF appropriation of \$500,000 would be made to the Information Technology Education Opportunities Account (extension of a program to pay for credentialing high school students in information technology fields, funded previously in the Board of Regents' budget).

- For FY 2017 (school year 2016-17), the bill would appropriate \$2,757,446,624 from SGF as a block grant to school districts. A demand transfer from the SGF to the School District Extraordinary Need Fund would be made in an amount not to exceed \$17,521,425. An SGF appropriation of \$500,000 would be made to the Information Technology Education Opportunities Account.
- The operating budget for the Department of Education also would be included in the bill.

***Components of the Block Grant for FYs 2016 and 2017***  
*(Section 6)*

The block grant would include:

- General State Aid school districts were entitled to receive for school year 2014-15, as adjusted by virtual school aid calculations (described below) and a 0.4 percent reduction for an Extraordinary Need Fund;
- Supplemental general state aid and capital outlay state aid as adjusted in 2014-15 (adjustment described below);
- Virtual state aid as recalculated for FYs 2016 and 2017 (described below);
- Amounts attributable to the tax proceeds collected by school districts for the ancillary school facilities

tax levy, the cost of living tax levy, and the declining enrollment tax levy; and

- KPERS employer obligations as certified by KPERS.

General state aid for school year 2014-15 would be adjusted to account for consolidated school districts. Adjustments also would be made in all school years to ensure districts eligible for the new facilities weighting would receive that weighting as outlined in current law.

General state aid would be disbursed to districts in the same manner as in current law.

Special education funding would not be included in the block grant, but would be a separate appropriation in the bill.

***Extraordinary Need Fund (Section 17)***

For FYs 2016 and 2017, 0.4 percent of general state aid would be transferred to the Extraordinary Need Fund. Any unencumbered funds remaining in this Fund at the end of the fiscal year would be transferred back to the SGF. Districts would apply to the State Finance Council for payments from this Fund. In reviewing a district's application for payment from the Fund, the Finance Council would consider:

- Any extraordinary increase in enrollment;
- Any extraordinary decrease in the district's assessed valuation; and
- Any other unforeseen acts or circumstances substantially impacting a district's general fund.

***Recalculation of Supplemental General State Aid (LOB State Aid) (Section 38)***

LOB State Aid would be recalculated based on quintiles below the 81.2 percentile of school districts' assessed valuation per pupil (AVPP) in school year 2014-15 and capped at that amount for subsequent school years with gradations as follows based on AVPP, beginning with the districts with the lowest AVPP. (Each quintile equals about 46 school districts.)

- Lowest quintile – 97 Percent of LOB State Aid;
- Second lowest quintile – 95 Percent of LOB State Aid;
- Middle quintile – 92 Percent of LOB State Aid;
- Second highest quintile – 82 Percent of LOB State Aid; and
- Highest quintile – 72 Percent of LOB State Aid.

Districts would continue to be authorized to adopt a LOB and levy a property tax in an amount not to exceed the LOB of the district in school year 2014-15, unless the district approved a higher amount for school year 2015-16 prior to July 1, 2015.

***Recalculation of Capital Outlay State Aid (Section 63)***

The state aid percentage would begin at 75 percent for the district with the lowest AVPP and would decrease by 1 percent for each \$1,000 incremental increase in AVPP.

***Bond and Interest State Aid (Section 72)***

The bill would amend the calculation of state aid for general obligation bonds approved for issuance at an election

held on or after July 1, 2015, using the same formula as the amended Capital Outlay State Aid formula.

***Virtual State Aid (Section 36)***

In school year 2014-15, there would be no change in the calculation of Virtual State Aid.

In school year 2015-16, funding for full-time equivalent students would be calculated at \$5,000 per student; part-time students, \$4,045 per student; and students 19 and older, \$933 per 1-hour credit course successfully completed in the school year.

In school year 2016-17, funding for full-time equivalent students would be calculated at \$5,600 per student; part-time students, \$1,700 per student; and students 19 and older, \$933 per 1-hour credit course successfully completed in the school year.

***Special Levies (Sections 14 - 16)***

Districts would be authorized to impose special local tax levies (for ancillary facilities, cost of living, and declining enrollment), if the district levied such tax in school year 2014-15 or if the district would be qualified to levy such tax under current law.

***Fund Flexibility (Section 39)***

Districts would have fund flexibility at the district level; that is, funds could be transferred to the general fund of the district with no cap on the amount of the transfer. Excluded from this flexibility would be three funds: bond and interest, special education, and the special retirement contributions fund.

### **Effective Dates**

The bill would be effective upon publication in the *Kansas Register* with the exceptions noted above. Establishment of the Extraordinary Need Fund, amendments to the LOB equalization formula, capital outlay state aid, approval for LOB authority, and fund flexibility provisions would be effective for school year 2014-15.

The provisions of the bill would expire on June 30, 2017.

### **Other Provisions**

The bill would use the assessed valuation per pupil for school year 2015-2016 (instead of the current school year) for the purpose of determining Supplemental General State Aid (LOB state aid) for any district if the district has a total assessed valuation for school year 2015-2016 less than the assessed valuation in the current school year; the difference in assessed valuation between the current school year and 2015-2016 is greater than 25 percent; and having such reduction be the direct result of the classification of tangible personal property by 2014 legislation changing the tax classification of commercial and industrial machinery used directly in the manufacture of cement, lime, or similar products. (KSA 2014 Supp. 79-507)

### **Background**

SB 7, as introduced, would have required the Legislative Division of Post Audit to conduct information technology audits, as directed by the Legislative Post Audit Committee.

The House Appropriations Committee removed the contents of SB 7 and inserted the contents of HB 2403, as amended.

HB 2403 would have created the Classroom Learning Assuring Student Success Act. The House Committee made the following amendments to the bill:

- Extended the new facilities weighting to include districts initially eligible to receive the weighting in FY 17;
- Added a sunset date of June 30, 2017;
- Clarified the adjusted formula for bond and interest state aid;
- Changed the virtual state aid formula to include students age 19 and older and changed the amounts of funding;
- Removed the five-year limitation on the capital outlay resolution; and
- Made several technical amendments.

The House Committee of the Whole added one technical amendment as well as an amendment dealing with assessed valuation per pupil used in determining Supplemental General State Aid for districts meeting certain requirements.

No fiscal note was prepared by the Division of the Budget on the substitute bill, as amended.