



**Testimony on HB 2078**

**Authorizing the reduction or elimination of property tax exemption by a school district**

before the

**House Committee on Education**

by

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Mr. Chairman, Members of the Committee:

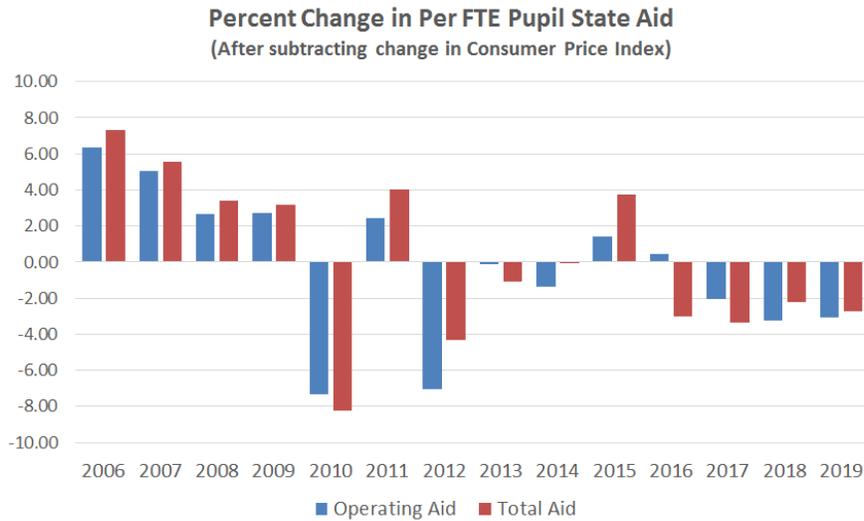
Thank you for the opportunity to comment on **HB 2078**. As we understand the bill, it would allow local school boards to adopt a resolution to reduce or eliminate the \$20,000 residential property exemption from the 20 mill state school district levy. The resolution would be subject to protest petition, which could result in an election for voters to approve or reject the proposal.

If the resolution goes into effect, the revenue would be deposited into the district's special education fund. Because state and federal special educational aid does not cover all of the cost of special education services, this would likely allow districts to reduce transfers from general revenues, which would free up funding for other purposes. In other words, these new revenues would not necessarily increase special education services, but could be used to support the general operating budget of the district.

It should be noted that the \$20,000 exemption applies only to the 20 mill statewide levy; and not local option budgets, capital outlay levies, bond and interest levies, and other local levies. This bill also assumes the current school finance formula will be extended in some form next year, which will not happen unless the Legislature takes action.

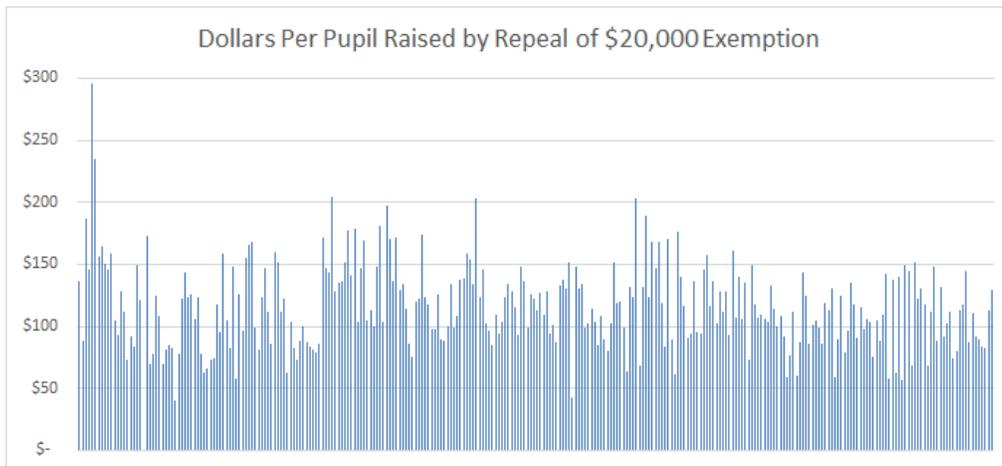
This bill seems attractive on the surface because special education state aid has been essentially frozen for the past seven years, and would remain so the next two years under the Governor's budget. Yet the "excess cost" of special education (total special education costs minus state and federal special education and the average "regular" education cost of students) has risen from \$465 million in 2009 to an estimated \$547 million next year (2018). Special education state aid has fallen from 92 percent of excess cost in 2009 to under 80 percent this year.

Over this same period of time, both total state aid per pupil and state aid for operating budgets per pupil have fallen behind inflation most years, as shown in the chart below, and Kansas has dropped from 25th to 29th in the nation in per pupil funding and ranked 38th in funding increases since 2008. For these and other reasons, KASB supports increased funding for K-12 education.



However, KASB appears in opposition to HB 2078 because it would allow school districts to raise local tax revenues without equalization. In other words, the degree of benefit would be based on differences in local valuation, not provided either equally to all students or based on differences in needs.

KASB prepared the following chart from Kansas State Department of Education data by subtracting each district’s general fund valuation (which includes the \$20,000 exemption) from the total valuation (which does not), divided that amount by 1,000 and multiplied by 20 to determine what the full 20 mill levy on the exempted portion would raise, and divided that product by enrollment to determine the per pupil amount. The chart below shows the amount that could be raised per pupil, in USD number order.



Repealing the full 20 mill exemption would raise as low as \$50 per FTE enrollment to over three times that amount for a number of districts and a few between and four and six times this amount. As a result, KASB opposes this option because of the position adopted by our Delegate Assembly: “Local boards of education should be able to authorize additional funding beyond the foundation level, provided such authority includes equalization that meets constitutional standards of equity.”

This bill does not include any equalization, and is therefore highly unlikely to be acceptable to the Kansas Supreme Court.

However, this bill does raise important issues about a path forward for the Legislature in determining a new school formula.

In Fiscal Year and school year 1997, the statewide mill levy was 35 mills. Over the next three years, the Legislature cut the statewide mill levy first to 27, then to 20 mills, and created the 20 mill exemption. During a period of robust economic growth, state revenues were used to cut property taxes, rather than increase school funding.

From 1998 to 2005, “unweighted” school funding (base state aid multiplied by full time enrollment for school finance purposes) increased from \$1,646.4 million to \$1,697.1 million, or just 3.1 percent, while the consumer price index increased almost 20 percent.

If the “base” had increased as far as inflation, districts would have received an additional \$330 million. Perhaps it should not be surprising that Local Option Budgets increased by \$335.7 million over that time. At the same time, many districts were capped at the previous 25 percent maximum LOB, and could not raise additional local revenue.

Faced with rising numbers of special needs students (low-income, English Language Learners, special education) and essentially flat state funding, the *Montoy* decision in 2005 that education was not funded at a constitutionally suitable funding level should not have been a surprise, and that finding was essentially confirmed by the Legislature’s own cost study.

Yet the Legislature’s response did not address the problem of the underfunded base. Of the \$900 million increase in total funding between 2005 and 2009, only about \$100 million was for base aid, and half of that came from reducing “unrestricted” weightings like low and high enrollment. About \$450 million in funding went to “restricted” weightings like special education and at-risk, and about \$450 was increased local option budget funding when the Legislature raised the LOB maximum.

Furthermore, since 2009, operating funding has been essentially frozen, as shown above.

These are the consequences - mostly unintended - of the choices to lower the statewide mill levy and keep a low base budget per pupil:

- It created pressure to increase the Local Option Budget for regular operating costs, which means the state must provide increasing about equalization aid, adding to the unpredictability of state costs.
- Even with equalization, it is resulted in disparities in LOB mill levies. An equal statewide 15 mills were simply traded for unequal LOB levies that are higher in most districts.
- It created pressure to continue to add weightings because base increases were so low and the LOB was capped as a percentage of that low base. The system went from five weightings plus special education to about 15 weighting factors.
- It requires the weighting factors to have higher multipliers to raise the same additional funding as a lower weight on a higher base. This creates legislative and public concerns that districts are “chasing” weightings and adds to the complexity of the formula.

When KASB studied the nine “aspiration states” that have better average overall performance on 15 indicators, we found the following:

- All of these states use a “foundation” formula similar to the previous Kansas law; all have adjustments similar to our previous weightings, and all allow some local option funding.
- However, all except New Hampshire provide a much higher base per pupil, and the base provides a higher percentage of total revenue.
- None of the states have as many weighting factors as Kansas.
- The “dollar value” of weights for at-risk and bilingual students is generally similar to Kansas, but in many cases the weighting factor is lower because the base amount is so much higher.

Based on data from the Legislative Research Department, a 35 mill statewide levy without the residential exemption would provide an additional \$495.4 million in state aid. It likely that if such funding had been provided, LOB levels and mill levies would be much lower and the state’s position in the *Gannon* case would be much stronger.

Finally, we would note that although Kansas ranks 29th in per pupil funding from all revenue sources, it actually ranks above average in the amount of revenue that comes from the state, and very high in the percent of the state budget that goes to K-12 education. This is because Kansas has chosen to keep property taxes low. However, if Kansas continues to keep school property taxes low, and continues to cut state-level taxes, particularly the income tax, Kansas school funding will continue to fall behind.

We urge the Legislature to adopt a much higher foundational amount per pupil; which would allow fewer and less-complicated weightings and allow districts to rely less on local option budgets - allowing lower local mill levies and requiring less state aid. This foundational amount should be regularly adjusted based on inflation and other documented costs, and current levels of funding will need to be increased to meet the Kansans Can outcomes.

The Legislature will need to determine the appropriate mix of state and local taxes - income, sales and property - to accomplish this.