GOVERNOR BROWNBACK'S "EXCELLENCE IN EDUCATION" FINANCE PLAN

KASB ANALYSIS AND COMPARISON WITH CURRENT LAW – JANUARY 3, 2012

In December, Governor Sam Brownback's office released a proposal for significant changes in the school finance system for public education in Kansas. The proposal had been substantially modified from concepts presented earlier. The Governor has also indicated openness to further changes in the proposal, and the entire aspect of the plan is subject to revision or rejection by the Legislature. This memo compares the Governor's December proposal with the current system.

The Governor's proposal would essentially change three major components of the current system: (1) each school district's general fund, currently based on enrollment and student weighting factors and by a statewide mill levy and general state aid, (2) the district supplemental general fund, or local option budget (LOB), currently limited by the state and "equalized" with state aid, and (3) state aid for capital costs such as construction bonds.

Statewide, the general fund currently totals about 2.95 billion (including special education state aid), and LOB budgets total $980 million. These two funds compose about 70 percent of total district spending. The other components of district spending include federal funding (about 8 percent total expenditures), state payments for employer contributions to the Kansas Public Employees Retirement System (6 percent of total), bond and interest and capital outlay spending on buildings and equipment, and other local revenues such as student fees (17 percent).

The Governor has proposed the new plan take effect in 2013-14, using school funding next year, 2012-13, as a baseline year. The plan would guarantee each district would receive at least as much total funding in 2013-14 as in 2012-13, and would add an estimated $45 million for general operating budgets the first year of the plan. It is important to note any school finance system is subject to the limits of state appropriations and revenues, and subject to change by future Legislatures.

Current Law	Governor's Proposal Revisions
Base State Aid Per Pupil - Weighted. A base budget per pupil determined by the state (currently $3,780) is multiplied by *weighted* enrollment. Weighted enrollment is the actual "full-time equivalent" (FTE) number of students, *plus* an adjustment for various "weights" based on special costs or circumstances. Kindergarten students are counted at 0.5 FTE students, even if they are attending full-time. A declining enrollment provision allows districts to use either the current year enrollment, the previous year enrollment, or a three-year average. The actual number of FTE students this year is about 450,000, but the total number of "weighted" students is about 670,000.	***Base State Aid Per Pupil - Un-Weighted***. The proposed system would begin with a base budget per pupil multiplied by actual FTE enrollment of the district, including counting kindergarteners as full 1.0 FTE students, and retaining the current declining enrollment feature. The Governor proposes the base amount would be set at $4,492, the "statutory" amount provided in current law, but not actually funded. This would provide an estimated $2.15 billion for school districts, compared to $2.5 billion under current law for the base plus weightings (excluding $427 million in special education aid).

Weighting Factors. The largest weighting factors and funding levels for the current year are:

(1) *State appropriation for special education state aid*. Special education aid is distributed to districts based on the number of special education teachers and several other factors; then the amount of the district's aid is converted into a weighting factor in the general fund for determining the LOB. **$427 million**.

(2) *At-risk weighting*, primarily based on the number free lunch eligible students (who historically have much lower test scores and graduation rates than non-free lunch students). The weighting is higher for districts with higher percentages of free lunch students, and a small portion is provided for non-free lunch students scoring below proficient on state reading and math tests. **$350 million**.

(3) *Low enrollment weighting*, which provides districts with a higher per pupil amount as their enrollment declines to reflect higher per pupil operating costs. **$163 million**.

(4) *Transportation weighting*, which helps pay the cost of transporting students who live more than 2.5 miles from school. **$89 million**.

(5) *High enrollment weighting*, a per pupil amount for districts that do not receive low enrollment weighting. **$44 million**.

(6) *Bilingual weighting*, which aids districts based on students receiving instruction in English as a second language. **$33 million**.

(7) *Vocational weighting*, for students in approved vocation or career and technical education programs. **$29 million**.

Elimination of Weightings. The proposed system eliminates all weighting adjustments except for special education state aid, which would not be changed, and would replace the current vocational weighting with a new vocational or career and technical education program.

As a result, there would be no future adjustments based on current weighting factors except for special education and vocational.

Supplemental Equalization Fund. If the total of the base FTE payment, plus the district's share of the 20 mills distributed under the new formula and the current amount of LOB local effort (see page 3) is less than the current amount of general funding (base times FTE enrollment plus weightings) and LOB, the district will receive a Supplemental Equalization Fund payment to make up the difference. In effect, this guarantees that each district will receive at least the amount received the year before the new system goes into effect. The amount is to be guaranteed from year-to-year. If the Legislature appropriated more money to this fund, it is to be focused in districts with high density at-risk students as determined by the Kansas State Board of Education.

This provision essentially "locks in" the current amount of weightings received by each district, but the amount would not be adjusted going forward.

Statewide Mill Levy and General State Aid. The base per pupil multiplied by weighted enrollment determines the school district general fund budget. Every district is required to levy a 20 mill property tax to finance the general fund budget. After subtracting this amount and certain other local revenues from the general fund budget, the district receives the balance in general state aid. (In a few districts with very high local property wealth, the 20 mills raises more than the amount of the general fund budget, and the difference is sent to the state for redistribution as general state aid.) This year, the 20 mills and other local effort payments are expected to raise $538 million, and general state aid will contribute $2.4 billion (including special education).	***Statewide Mill Levy and General State Aid***. Under the proposed system, the 20 mill statewide levy would remain in place, but instead of staying at the local level to finance all or part of the general fund, this revenue, currently $538 million, would be sent to the state and redistributed to districts on a formula based on each district's property valuation. As a result, the highest valuation district would keep none of the 20 mills, and as property wealth declines, lower wealth districts would receive a higher share. These revenues would be an "add on" to the base FTE pupil payment. In a sense, this payment would "replace" state LOB aid, but would not be tied to any specific amount of LOB.
Local Revenue Cap. Current law limits a district's budget in several ways. First, as noted above, if the 20 mills raise more than the general fund budget, the excess is captured by the state. Second, districts are limited to a maximum LOB of 31 percent of the general fund.	***106 Percent Cap***. In the first year of the new system, any district that received more than the base year budget from the FTE payment, the district share of the 20 mills and its current LOB property tax revenues would have an increase in its budget, but the new amount would be limited to 106 percent of the base line amount. If the formula entitled the district to a higher amount, the excess would be used to finance the supplemental equalization fund. In the future, the cap would never drop below 106 percent. However, it could increase if any district that is (1) above average in property tax value per pupil, and (2) encompasses more than 5 percent of 1 mill of the entire state's taxable property, raises its local mill levy to the point at which its total aid payment is more than 106 percent of their baseline aid amount, the percentage cap will be equivalent to such district's percentage of their baseline aid amount. Although the cap would limit how much revenue the *state* would provide, it would not limit the local board's ability to raise additional local property tax revenues.
Local LOB Levy. Districts may adopt an LOB budget of any amount up to 31 percent of the general fund, and must levy a local mill levy to cover the portion not funded by state aid. This revenue totals about $640 million this year.	***Local Effort***. Under the new proposal, each district would also be expected to levy the same tax rate as currently in place for the LOB in order to maintain the current budget level. Districts could lower this mill levy rate in the future, but the state would not "make up" the difference.

***Local Option Budget and Equalization*.** Each district is entitled to adopt a supplemental general fund budget, generally called the local option budget, up to a maximum percentage of the general fund as set by the state. The total LOB this year is about $970 million, or about 30 percent of the total general fund. The LOB is "equalized" by providing school districts with state aid based on their assessed valuation per pupil. The top approximately 19 percent of districts receive no aid. As valuation per pupil declines, districts receive an increasing percentage of their LOB from state aid. Overall, about one-third of the LOB comes from state aid ($330 million) and two-thirds from local property taxes ($640 million).	***Local Control of Mill Levy; Equalization.*** Under the proposed new system, there would be no state-imposed limits on local mill levies, at least for general education purposes. Local school boards could propose an increase in the mill rate beyond the base year level, which would be subject to voter protest petition. There would be no state equalization aid for increasing the mill levy. As a result, there would be significant disparities in the amount districts could raise on a per pupil or budget percentage basis.
Changes in District Budgets. Each year a school district's budget is likely to change due to increases or decreases in enrollment and weighting factors, as well as changes in state funding. Until the Great Recession began in 2009, the Legislature usually provided some increase in the base budget per pupil. The Legislature also added a number of weighting factors over the years, and increased the weighting factors for bilingual and at-risk, especially after the *Montoy* school finance decision. Since 2009, the base budget per pupil has either remained the same or declined. Since the current system was adopted in 1992, total general fund budgets, excluding LOB but including special education, have grown by an average of 2 percent per pupil, less than the average inflation rate of 2.6 percent per year. Over that time, the weightings have grown much faster than the "un-weighted" part of the budget, which means the "unrestricted" part of the general fund available for general education has declined. To balance this change, districts have substantially increased reliance on the LOB. However, many districts are now "capped" at the maximum LOB and cannot increase their budget if they believe state funding is inadequate.	***Base Line Amount and Enrollment Adjustments***. The starting point for determining a district's budget in the new system is the base line amount. In the first year of the new system, this amount is equal to the amount provided under the current system for general fund (20 mil levy plus general fund aid as determined by weighted enrollment times the base per pupil), excluding special education aid and vocational weighting, *plus* the supplemental general fund or LOB (local LOB mill levy plus supplemental general state aid). In other words, in the first year of the new plan, each district is to receive *at least* as much funding as the last year of the current system. For the following years, the base line amount would be the same as the previous year adjusted as follows: (1) plus or minus the district FTE enrollment (with the current declining enrollment factor) times the previous year's base state aid per pupil, and (2) minus the dollar amount of any decline in the property tax mill rate adopted by the school board. For the most part, district budgets could increase on a per pupil basis if (1) the Legislature increased base state aid per pupil or supplemental equalization funding, or (2) the district increased its local property tax revenue (or both).

***Shortfalls in State Aid*.** If the amount of general state aid turns out to be less than necessary to fund the general fund budget at the expected base budget per pupil, the base amount is automatically "pro-rated" to a lower amount. As a result, the value of the base and weightings are reduced proportionately. If the amount of LOB aid is lower than required under the formula, that amount is prorated only for districts receiving LOB aid. Those districts must either raise more from local property taxes or reduce their LOB.	***Funding Shortfalls.*** The proposed plan states districts should be guaranteed to receive no less than the base year, except for changes in enrollment. However, it seems unlikely the state could guarantee against reductions in school district aid. It is not clear how the formula would be affected, but presumably either the base amount per pupil or the supplemental equalization fund or both would be reduced. If districts were notified of state aid reductions in time, they could presumably seek to make up that loss by raising their local mill levy, subject to protest petition. However, there would be no equalization aid for this effort.
***Capital Costs*.** Current law includes a formula that assists districts in paying the debt service on construction bonds (capital improvement aid) and providing matching state funds for districts that have a capital outlay levy for building, repair, equipment and land (capital outlay aid). Since 2009, no aid has been provided for capital outlay. In 2011-12, the state is providing approximately $100 million in capital improvement aid. Under the formula, districts with high valuation per pupil receive little or no state aid. As valuation per pupil drops, districts are entitled to an increasing percentage of state assistance.	***Capital Costs.*** As announced, the proposed system would either eliminate or "suspend" state aid for new bond issues, but would continue to pay the state aid portion of bonds already issued. No state funding would be provided for capital outlay aid.
No Sunset Provision. Current law continues in effect until it is changed by Legislature.	***Sunset Provision.*** The Governor has proposed including a provision that would cause the new system to automatically expire after a certain period of time, forcing the Legislature to consider revisions. This is a common provision in federal law. However, the Legislature, like Congress, could simply agree to extend the law on a year-by-year basis.

Simplified comparison of current and proposed plans

(Special education and vocational education aid not included):

Current	New
(1) Multiply base budget per pupil @ $3,780 x FTE enrollment of 450,000 = $1,701.0 million.	(1) Multiply FTE Payment @ $4,492 x FTE enrollment of 450,000 = $2,147.7 million
(2) PLUS multiply base @ $3,780 x Weighted Students = $821.1 million	(2) PLUS Supplemental Equalization Fund aid if needed for district budget to equal current year general fund budget plus LOB = $325.0 million.
(3) EQUALS district general fund budget of $2,522.1 million, funded by:	(3) EQUALS = $2,472.7 direct state aid
a. 20 mills statewide levy and other local effort = $538.3 million, AND	(4) PLUS 20 mills statewide levy distributed by state based on property valuation = $538.3 million.
b. General State Aid = $1,983.8 million	(a) EQUALS $3,651.1 million from 20 mill statewide levy for "entitlement" under formula.
(4) PLUS LOB State Aid = $328.5 million	(b) MINUS $115.3 million due to 106 percent cap on budget increase over base year
(5) PLUS LOB Local Property Tax effort = $639.1 million	(5) PLUS Current LOB Property Tax Effort = $639.1 million
TOTAL: $3,489.7 million General Fund Plus LOB	TOTAL: $3,534.8 million ($45 million over current year)
	PLUS: Any additional increase in local revenues