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To: 2017 Special Committee on a Comprehensive Response to
the School Finance Decision

From: John Hess, Fiscal Analyst

Re: Costs of Equity and Adequacy Issues Raised by the Supreme Court

The following memorandum analyzes potential costs to the State of Kansas to comply with the equity and adequacy issues raised by the Kansas Supreme Court in the *Gannon V* decision. All figures discussed below are not the only options available, but represent cost estimates of those options identified by the Court.

Gannon V – Equity

The Court identified four points of inequity in 2017 SB 19. These are briefly described below, along with the most direct remedy available and the potential cost to the State.

Use of Capital Outlay Funds

The Court ruled that the expanded uses of capital outlay funds authorized in SB 19—expenditures for utilities and property and casualty insurance—would result in unacceptable levels of wealth-based disparities because the ability of a district to take advantage of this provision is tied to the property wealth of a district.

Most direct remedy. The most direct remedy to address this point of inequity would be to repeal the provisions of SB 19 that allow capital outlay expenditures for utilities and property and casualty insurance.

Cost to the State. This remedy would result in no direct cost to the State.

Local Option Budget – Protest Petition

The Court ruled that the reinstatement of the protest petition to reach the maximum local option budget (LOB) authority of 33.0 percent resulted in inequity because the provision effectively denied access to the maximum LOB authority for many districts while other districts are granted that access.

Most direct remedy. The most direct remedy to address this point of inequity would be to allow all districts to reach maximum LOB authority without being subject to a protest petition.

Cost to the State. The Department of Education estimates that allowing districts to reach the maximum LOB authority of 33.0 percent on board action alone would increase state obligations for Supplemental General State Aid (LOB State Aid or LOB Equalization Aid) by approximately \$10.0 million for FY 2019. Combined, all school districts in the state are approximately \$87.0 million below the maximum LOB possible under current law. Department of Education officials do not anticipate allowing all districts to reach 33.0 percent on board action would result in all districts below the maximum raising their LOB authority to 33.0 percent due to a variety of factors, including local concerns about property tax levels.

Local Option Budget – Use of Prior Year LOB Percentage

The Court ruled that the change to using the prior year LOB to determine the amount of Supplemental General State Aid a district is entitled to receive results in inequity because if a property-poor district tries to raise its LOB, it will not receive increase equalization aid for the first year of the increased LOB.

Most direct remedy. The most direct remedy to address this point of equity would be to return to using the current year LOB to determine the amount of equalization aid.

Cost to the State. The November 2017 Consensus Revenue Estimates estimated \$26.4 million in savings for FY 2018 and \$8.2 million in savings for FY 2019 due to reduced Supplemental General State Aid payments to school districts. This was due to the fact that the appropriation for Supplemental General State Aid included in SB 19 was based on current year LOB authority, not the change to prior year LOB authority included elsewhere in SB 19. Returning to current year LOB would eliminate those savings.

At-Risk Weighting – 10 Percent Floor

The Court ruled that the 10.0 percent floor for the at-risk weighting violated the equity requirement because only two school districts benefit from this provision. Additionally, the State had not demonstrated a justification for why the free lunch proxy used for the at-risk weighting was inappropriate for those two districts but appropriate for all other districts.

Most direct remedy. The most direct remedy to address this point of equity would be to repeal the provisions of SB 19 that provide for the 10.0 percent floor for the at-risk weighting.

Cost to the State. Repeal of the 10.0 percent floor would save the State approximately \$2.0 million due to the two districts that benefited from this provision no longer receiving those extra funds.

Gannon V – Adequacy

The Court did not identify a specific amount of extra funding required to make the school finance system adequate in *Gannon V*. However, the Court did cite several recommendations for the FY 2019 base aid for student excellence (BASE). These recommendations are discussed below.

Three-Judge Panel Recommendation

This recommendation included a FY 2019 BASE of \$5,055, which was calculated by adjusting the original three-judge panel's proposed FY 2014 base state aid per pupil (BSAPP) for inflation. This is an increase of \$927 above the FY 2019 BASE of \$4,128 included in current law. Meeting the panel recommendation for FY 2019 would result in an additional cost to the State of \$635.9 million for FY 2019.

State Board of Education Recommendation

The State Board of Education recommended a FY 2019 BASE of \$5,090. This is an increase of \$962 above the FY 2019 BASE of \$4,128 included in current law. Meeting the State Board's recommendation for FY 2019 would result in an additional cost to the State of \$659.9 million for FY 2019.

Plaintiff's Recommendation

The plaintiffs in *Gannon v. State of Kansas* recommended a FY 2019 BASE of \$6,539. This is an increase of \$2,411 above the FY 2019 BASE of \$4,128 included in current law. Meeting the plaintiff's recommendation for FY 2019 would result in an additional cost to the State of \$1.65 billion for FY 2019.

JH/mh