

Facts About SB 7 and School District Block Grants

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The logo for the Kansas Association of School Boards (KASB) is a black speech bubble with the letters "KASB" in white, bold, sans-serif font inside.

On March 23, Governor Sam Brownback signed SB 7, which made significant changes to the school finance system in Kansas.

First, the bill changes the formulas for determining state aid for school district local option budgets and capital outlay funds *in the current school year*.

- These aid programs are designed to help districts with lower local property wealth. Districts with the highest assessed valuation per pupil receive no aid. As valuation per pupil falls, districts qualify for increasing amounts of state aid in order to “equalize” the local mill required.
- Last spring, the Legislature appropriated enough money to fully fund the estimated cost of the aid formulas for those programs in response to an order by the Kansas Supreme Court. However, after school districts adopted their budgets last summer, the actual cost of the programs turned out to be much higher than anticipated.
- Under SB 7, those aid formulas were changed so the cost is about what the Legislature originally expected to spend. That means most school districts will receive less than *they* budgeted for the current year, but the Legislature is spending about what *it* budgeted for the current year.

Second, the bill abolishes the school finance system that has been used since 1993 and replaces it with a new system called block grants for *the next two school years*.

- The previous system provided a base state aid per pupil for every actual child enrolled in a school district, and additional amounts for “weighted” pupils based on special student needs (such as the number of low income students), special programs (bilingual or vocational education) or special district characteristics (low enrollment, rapid growth, high cost of living). On top of this funding, districts were able to adopt a local option budget of up to 33 percent of this amount. It was a *dynamic* system that adjusted for changes in enrollment and program costs.
- The new block grant is essentially a *static* system. It is designed to simply provide each district with the same amount of state funding for operating budgets in the next two years as the district received in the current year, after reductions in LOB and capital outlay. The only “adjustments” will be changes in virtual school enrollment and funding, and in locally funded weightings that apply to a small number of districts.
- The bill does provide for an “extraordinary needs” fund that could provide additional aid to districts with high enrollment growth or other special circumstances if approved by the Governor and legislative leaders. It is financed by reducing state aid for all districts by 0.4 percent below the current year’s level.

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652

- Districts will be able to raise local property taxes to replace local option budget state aid lost this year, or to fund what their maximum authorized local option budget would have been under the old formula. However, they will receive no additional state aid.

Third, the bill provides some additional flexibility in spending state aid.

- Previously, much of the state aid provided for weightings had to be placed in certain budget funds and could only be used for specific purposes. Under SB 7, any block grant funding can be used for general educational purposes, and districts can transfer money out of certain restricted funds.

Fourth, the bill continues to increase funding for the Kansas Public Employees Retirement System over the next two years.

- The Legislature appropriates money for school employee retirement pensions. These funds are included in school district budgets but are immediately transferred to KPERS, so they cannot be spent for regular educational operating costs.
- Because KPERS was significantly underfunded (especially after the Great Recession), the Legislature adopted a plan to raise contributions each year. Although the increase did not take place in the current year because of the state's revenue shortfall, contributions will increase over the next two years. These amounts will be added to the block grant for each district.

Fifth, the bill reduced the state aid formula for bond and interest state aid for bonds approved by voters beginning next school year.

- Bond and interest state aid works like LOB and capital outlay state aid: wealthier districts do not qualify but as assessed valuation per pupil declines, districts qualify for a higher percentage of funding. The cost of this program has grown significantly in recent years as voters have approved a number of large school construction projects.
- The formula approved in SB 7 means qualifying districts will receive less assistance from the the state, resulting in either higher property taxes or reducing the cost of the projects.

Sixth, the bill appropriates funding for the next two years, but does **not** contain a revenue source.

- The latest estimates from the Legislative Research Department indicate the cost of SB 7 and the rest of the state general fund budget tentatively agreed to by legislative committees is approximately \$300 million more than available revenue next year and \$250 million more the following year.
- This means funding SB 7 as passed will require significant additional tax revenue or reductions in other state programs, such as higher education, social services and health care programs, or public safety - or the actual aid to school districts will have to be reduced.

Seventh, the bill "sunssets" in two years, following the 2016-17 school year.

- Supporters of the bill say it is designed as a temporary funding method while a new formula is developed. If the Governor or Legislature cannot agree on a new system in two years, the block grants will have to be extended or there will not be a system for providing state aid to school districts.

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