

## AUDIT PROPOSAL

### K-12 Education: Evaluating the Use of Assessed Valuation Per Pupil (AVPP) as the Basis for State Equalization Aid

#### SOURCE

This audit was requested by Representative Larry Campbell.

#### BACKGROUND

As part of its constitutional obligation to “make suitable provision for finance” of public schools, the state has an obligation to ensure the funding for school districts is equitable. According to the Kansas Supreme Court, equity in school finance means “school districts must have reasonably equal access to substantially similar educational opportunity through similar tax effort.” To help make funding more equitable across school districts, the state provides equalization aid to districts with fewer local property tax resources. In the 2015-16 school year, the state provided a total of about \$640 million in equalization aid to districts in three major areas: supplemental state aid (to help fund local option budgets), capital improvement state aid (i.e., bond and interest aid), and capital outlay state aid.

While the state has established different formulas to determine how much of each type of equalization aid a district may receive, all three formulas are based on the district’s assessed valuation per pupil (AVPP). AVPP is determined by totaling the value of all real and tangible personal property in the school district (property held by government entities and certain other organizations are excluded) and dividing it by the total number of full-time-equivalent students in the district. In general, districts with an AVPP above a certain threshold receive no additional aid, while those below the threshold receive an amount that is determined by the specific formula.

Legislators have expressed concern that AVPP might not be the most appropriate measure to use as the basis for state equalization aid. One concern is that AVPP may make small, rural districts with relatively large property wealth but small or decreasing student populations, appear wealthier than they really are (so called “property rich, cash poor” districts). Another concern is that AVPP may fluctuate significantly from year to year, especially in smaller school districts.

#### AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

*The audit objectives listed below represent the questions that we would answer through our audit work.*

*The proposed steps for each objective are intended to convey the type of work we would do, but are subject to change as we learn more about the audit issues and are able to refine our methodology.*

**Objective 1: Is assessed valuation per pupil (AVPP) an appropriate measure of school district wealth in determining a district’s state equalization aid?** Our tentative methodology would include the following:

- Review state law and work with KSDE officials and the Legislative Research Department to understand how AVPP is calculated and how it is used in the formulas for various types of state equalization aid.
- Interview a group of stakeholders, including officials from KSDE and school districts, to collect their opinions on using AVPP as the basis for state equalization aid.
- Review professional and academic literature, and interview KSDE officials, school officials, and officials in other states to identify alternative measures of wealth that could be used as the basis for state equalization aid.
- Compute the state aid districts would be eligible to receive using AVPP and the alternative measures of wealth as the basis for equalization aid to determine how those different measures compare.
- Have our group of stakeholders review the results using different measures of wealth and collect their opinions on the pros and cons of using each measure.

#### **ESTIMATED RESOURCES**

We estimate this audit would require a team of **three (3) auditors** for a total of **five (5) months** (from the time the audit starts to our best estimated of when it would be ready for the committee).