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Testimony before the
House Committee on Appropriations
on
HB 2395

by
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Mr. Chairman, Members of the Committee:

Thank you for the opportunity to appear as a proponent of **HB 2395**. We believe this bill would provide school districts with additional flexibility to manage the reductions in operating budgets expected under proposals from the Governor and both the House and Senate.

Under the Governor's budget, the statewide average general operating fund per actual FTE pupil is expected to drop from $6,666 in the current year to $6,474 next year (slightly lower under the House committee budget and slightly more under the Senate committee plan). This is reduction of nearly 3 percent. It is also 11 percent below the high point of $7,277 in FY 2009. Because most districts are at or nearing the maximum local option allowed, there is little local funding flexibility. There are, of course, other areas of school district budgets, such as KPERS, capital improvement, debt service, school meals and other federal programs, but these are mostly outside the operating budget for educational proposes.

HB 2395 would allow districts to access cash in certain funds for next year only to make up to the difference between the actual base budget per pupil, and $4,012, which was the base budget used by districts for budgets published in the current year. The bill states that "The board of education of a school district shall consider the use of such funds in the following order of priority:

(1) At-risk education fund, bilingual education fund, contingency reserve fund, driver training fund, parent education program fund, preschool-aged at-risk education fund, professional development fund, summer program fund, virtual school fund and vocational education fund;
(2) Textbook and student materials revolving fund; and
(3) Special education fund."

Appropriations Committee
Date MArch 29, 2011
Attachment 2

KASB has no concerns about ability of school districts to access the first group of funds. We do think consideration needs to be given to the second and third funds listed.

- The textbook and student materials revolving fund may contain transfers from the district general funds and perhaps other funds, but will also usually contain significant student fees. Districts use these funds for very expensive textbooks and other teacher material purchases. We question whether student fees collected for specific purposes should be used for general expenses.

- The second area of concern, the special education fund, also includes general fund and other transfers, but will contain state special education aid. Diversion of state and local special education funds could conflict with federal maintenance of effort requirements, which apply at the local, as well as state level. Districts will have to be extremely careful in using these funds.

While expressing our support for the flexibility provided by this bill, we want to caution the committee not to expect this bill alone to cause a significant reduction in cash balances. The primary reason districts have cash balances is NOT because of restrictions on various funds, but because of cash management needs.

Districts carry cash balances for the same reason as families and businesses: to meet known expenses that occur before scheduled revenue arrives, to provide cash flow if revenues are delayed or reduced, to cover unexpected expenses, and to save for long term building and equipment needs.

- Balances in **bond and interest** funds ($361.9 million) are property taxes collected in one year to make scheduled bond payments that occur before taxes are received the next year.

- **Capital outlay** fund balances ($429.8 million) are used for long term capital expenses such as buildings and equipment, often saved up to avoid the expense and interest costs of a bond issue.

- **Special education** balances ($181.0 million) cover special education costs between the beginning of the school year in August and the first special education aid payment in October. Money in the special education fund on July 1 isn't there because districts didn't need it the previous year – they need it to operate in the current year until new funding arrives.

- **Contingency reserve** funds ($193.9 million) are set aside for unexpected, emergency expenses or to cover shortfalls in revenue during the budget years. Last session, the Legislature increased the maximum contingency reserve amount from 6 to 10 percent of the general fund, and encouraged districts to set aside money to cover further reductions in state aid (which is occurring).

- **Special reserve** funds ($102.4 million) pay claims, judgments and other expenses for health care, disability income benefits, group life insurance benefits and workers compensation costs. Districts have a fiduciary responsibility to maintain adequate reserves, just like insurance companies.

- **Textbook and student materials** revolving fund balances ($50.5 million) are used to purchase textbooks and everything from physical education towels and uniforms to science and art supplies. Districts build up balances to make purchases on multi-year replacement schedules.

Appropriations Committee
Date March 29, 2011
Attachment 2-2

- Balances in the **food service** fund ($46.1 million) go to purchase food, supplies and pay salaries prior to receiving meal charges for students or federal reimbursement.

There are several other important reasons why districts carry those balances, and why they have been increasing.

First, the July 1 cash balances are overstated by the fact that they included about $400 million this year that had not actually been paid by the state, but that districts must count on their books to avoid breaking the cash basis law. In other words, in order for the state to manage its own cash flow problems, state aid payments are routinely carried over into the next fiscal year, but school districts have to account for that money as though they have received it.

Second, the state has only been able to meet its cash flow needs by issuing certificates of indebtedness – which is essentially borrowing from other state funds. The state must issue $700 million or more in certificates on July 1 to pay its bills until tax revenues arrive throughout the year. School districts must have enough cash on hand on July 1 to pay their bills until tax revenues and state aid arrives throughout the year.

Third, those state aid payments have consistently been distributed late during the past several years. Without flexibility in cash balances, school districts would be late in paying their own employees and vendors.

Fourth, many school districts have been increasing balances because they know state and federal funding is likely to decrease – as will happen this year. In other words, those districts have done what this committee has proposed in its own state general fund budget – build up an ending balance even though it makes painful cuts because the future is uncertain. Districts have been criticized for "firing teachers while increasing reserves." But spending down reserves is using one time revenues. Keeping teachers by using cash balances may mean giving those teachers tenure without on-going revenue to pay for them in the future.

Fifth, KASB believes the money in the funds actually available for use – most of the funds indentified in this bill – totaled about $327 million on July 1. That equals about 8.2 percent of general operating budgets ($3,036.6 million total general fund plus $959.6 million total LOB). That amount is almost exactly one month's operating costs (One month is 8.3 percent of a year). Our members believe that is a prudent amount. It is also fairly close to the state's statutory ending balance requirement of 7.5 percent of the state general fund.

In conclusion, we expect that school district cash balances will drop this year, and we believe the flexibility provided by this bill will be helpful. However, it will not change many of the reasons that have led to reasonable and prudent cash balances in the first place. Any funds used under this bill are, by definition, one time revenues for Fiscal Year 2012 that would not be available in future years.

Thank you for your consideration.

Appropriations Committee
Date March 29, 2011
Attachment 2-3

School District Expenditures Per Pupil, 2006 to 2012 (Projected)

(Amounts in Thousands except for per pupil or per FTE)
(Multiply enrollment numbers by 1,000)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Base Budget Per Pupil	$4,257	$4,316	$4,374	$4,400	$4,012	$3,937	$3,780
Weighted FTE Enrollment	568.6915	592.1956	613.464	636	655.123	666.842	666.842
Special Ed Weighted Enr.	67.3533	76.0401	90.4067	97.2166	90.89	90.027	113.153
Total Weighted Enrollment	636.0448	668.2357	703.8707	733.2166	746.013	756.869	779.995
General Fund	$2,707,643	$2,884,105	$3,078,730	$3,226,153	$2,993,004	$2,979,793	$2,948,381
ARRA Special Education					$55,748	$55,748	
General Fund+ARRA Sped	$2,707,643	$2,884,105	$3,078,730	$3,226,153	$3,048,752	$3,035,541	$2,948,381
Unweighted FTE Enrollment	439.0958	441.115	442.9868	443.3304	448.7277	455.405	455.405
General Fund per Pupil	**$6,166**	**$6,538**	**$6,950**	**$7,277**	**$6,794**	**$6,666**	**$6,474**
Local Option Budget	$659,520	$760,709	$838,196	$901,535	$929,168	$959,602	$979,602
LOB Per FTE Enrollment	**$1,502**	**$1,725**	**$1,892**	**$2,034**	**$2,071**	**$2,107**	**$2,151**
Bond and Interest Aid	$57,488	$63,697	$69,128	$75,591	$86,700	$94,647	$100,000
Capital Outlay Aid	$19,294	$20,492	$23,124	$22,339	0	0	0
Total Capital Aid	$76,782	$84,189	$92,252	$97,930	$86,700	$94,647	$100,000
Capital Aid per FTE Enroll.	**$175**	**$191**	**$208**	**$221**	**$193**	**$208**	**$220**
KPERS School Contributions	$161,531	$192,426	$220,813	$242,277	$249,856	$283,502	$319,862
KPERS Per FTE Enroll.	**$368**	**$436**	**$498**	**$546**	**$557**	**$623**	**$702**
Note: Includes Community, Technical Colleges							
Total GF, LOB, Capital Aid, KPERS Per FTE Enrollment	**$8,211**	**$8,890**	**$9,549**	**$10,078**	**$9,615**	**$9,603**	**$9,547**
Note: Does not include non-stimulus federal aid, local capital outlay and bond levies, students fees							
Total Expenditures Per Pupil, All Sources	**$10,596**	**$11,558**	**$12,188**	**$12,660**	**$12,330**	**NA**	**NA**
FY 2011 and 2012 based on Governor's Budget							

Appropriations Committee
Date March 29, 2011
Attachment 2-4