

STATE OF KANSAS  
HOUSE OF REPRESENTATIVES

#1

MICHAEL R. (MIKE) O'NEAL  
SPEAKER

**TESTIMONY IN SUPPORT OF H.B. 2397**  
**House Education Budget Committee**  
**March 5, 2012**

Madam Chairman and members of the Committee, H.B. 2397 was introduced to address pending and future school finance litigation where there are claims that state funding is inadequate. Procedures for handling school finance litigation is subject to legislative direction and oversight as evidenced by reforms passed in 2005 that are being followed by the court in the current litigation.

H.B. 2397 is a common sense proposal to focus the courts on how to evaluate cases involving adequacy of state funding. Since the bill was filed I have fine-tuned the measure to reflect current Kansas law dealing with the 65% classroom/instruction policy. Accordingly, I ask that the Committee focus its attention on the attached balloon amendment drafted by Jason Long with the Revisor's office.

Inasmuch as the State loses control, to a large extent, over how funds distributed to the school districts get spent, it is only fair that adequacy be measured and evaluated utilizing what the state has established as education

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funding policy in current law. Accordingly, H.B. 2397 directs the court(s) to consider that funds were applied as intended by the State rather than how districts chose to apply them, if in a different fashion. In particular, we have a statutory policy that 65% of state funds be spent in the classroom or for instruction, as defined by law. We know that, unfortunately, schools have not done that. Their failure to spend available funds on instruction is not currently within the State's control, yet schools are suing the state claiming inadequate funding for education. The courts must evaluate adequacy fairly and impartially and this legislation gives them the necessary direction to accomplish that.

We have had a statutory definition of "suitable education", which consisted of the courses required and cited in the bill. We must assume, and require the court to assume, that State funding goes first to pay the costs of providing the statutorily required curriculum and outcome-related services. Needless to say, current funding vastly surpasses the cost of providing these courses and services but we need to protect against the argument that schools will predictably make that they don't have enough money to fund everything they want to fund so they have to lay off a math teacher, e.g. Their accounting arguments typically involve counting non-essential, non-required costs and then arguing that there is not enough left over to pay for the essentials and required courses. We ran into that with the Augenblick & Myers survey.

K.S.A. 72-64c01, passed during the 2005 Special Session on school finance, provides that it is the public policy of the state that at least 65% of the moneys appropriated, distributed or otherwise provided by the state to school districts shall be expended in the classroom or for instruction. "Instruction" was given the same definition utilized by the Kansas State

Department of Education for unified school districts as published in its Kansas Accounting Handbook. (See attached)

We do have data available on the percentage of funds going to the classroom. (See attached) Even considering "student support", which doesn't qualify as "instruction", the difference between 65% and 58.4% is **over \$800 per student**. The difference between 65% and the 54.1% true instruction figure is **over \$1300 per student!** The failure to meet the policy of 65% funding for instruction is significant and beyond the State's current control. Accordingly, the State should not be considered to have shorted our students and classrooms when the facts show the State provided more than sufficient funding to achieve a much higher level of student support for instruction than the districts chose to invest in instruction. Isn't actual education the ultimate mission of the K-12 system?

As further reported by the Kansas Policy Institute, carryover cash balances continue to grow each year. Payments and expenditures occur on the same schedule each year. These funds operate on a cash basis, just like personal checking accounts. Since there is an annual reconciliation of outstanding encumbrances as of June 30, the only way that ending unencumbered balances grow is for annual revenue to exceed annual expenditures.

The July 1 unencumbered balances by district and fund are available at [KansasOpenGov.org](http://KansasOpenGov.org). Annual unencumbered carryover cash balances in current operating funds (excluding those dedicated to Capital Outlay, Debt Service and Federal funds) grew every single year since 2005 as follows:

2005 - \$458.2 million  
2006 - \$494.1 million  
2007 - \$542.3 million  
2008 - \$587.1 million  
2009 - \$699.2 million  
2010 - \$774.6 million  
2011 - \$868.3 million

The 2011 total includes \$8.3 million in Activity Funds which had not previously been reported by districts, but the balance of the over \$400 million difference between 2005 and 2011 ending balances represents state and local taxpayer funds that districts received but did not spend.

Without question, districts need some degree of carryover balance and we have already taken action to extend the contingency reserve fund cap to 10%. However, the fact that these balances have grown nearly 90% in the last six years is a clear indication that the current funding formula is giving districts more money than they apparently need or require to provide education services.

Further evidence of this is found by examining the trend in Current Carryover Ratio, which measures the beginning balance in current operating funds (as described above) as a percentage of that year's current operating expenses (total expense less capital and debt service). The 2006 Current Carryover Ratio was 11.7% (July 1, 2005 beginning balance divided by 2005-06 current expenditures). The ratio dropped a bit in the next two years but look at what happened in the last few years:

2006 - 11.7%

2007 - 11.0%

2008 - 11.3%

2009 - 11.9%

2010 - 14.4%

2011 - 16.0%

The 2012 budgeted ratio is even higher, although the exact amount depends upon which budget data one uses from KSDE. The Carryover Reserve Ratio report on KansasOpenGov also shows that dozens of districts have consistently operated with less than a 10% ratio; quite a few even operate with less than 5%. That is a strong indication that many of those districts operating with reserve ratios of 20% (and much higher) are likely doing so by choice, not necessity.

Other legislation will address these unencumbered balances and extend last year's authority under SB 111 to use unencumbered funds to provide for additional expenditures, directed primarily toward instruction.

H.B. 2397 is a simple and effective way of dealing with the pending school finance suit. At the very least, it codifies the analysis any court should be utilizing in evaluating adequacy and it protects the State in the event the court should be tempted to apply some another methodology.

**HOUSE BILL No. 2397**

By Committee on Appropriations

1 AN ACT concerning school districts: relating to the adequacy of the state's  
2 provision for finance of the educational interests of the state.  
3

4 *Be it enacted by the Legislature of the State of Kansas:*

5 Section 1. (a) In any action challenging the adequacy of the state's  
6 provision for finance of the educational interests of the state ~~all state~~  
7 ~~moneys appropriated, distributed or otherwise provided by the state to~~  
8 ~~school districts shall be deemed by the court to have been first applied to~~  
9 ~~pay the costs related to providing the areas of instruction required by~~  
10 ~~K.S.A. 72-1101, 72-1103 and 72-1117, and amendments thereto, and for~~  
11 ~~the course included in the precollege curriculum prescribed by the state~~  
12 ~~board of regents pursuant to K.S.A. 76-717, and amendments thereto.~~

13 (b) Any party challenging the adequacy of the state's provision for  
14 finance of the educational interests of the state shall have the burden, at all  
15 times, to prove that state moneys appropriated, distributed or otherwise  
16 provided by the state to a school district or districts, which is the subject of  
17 such action, were not sufficient to fund the costs of the areas of instruction  
18 required by K.S.A. 72-1101, 72-1103 and 72-1117, and amendments  
19 thereto, and for courses included in the precollege curriculum prescribed  
20 by the state board of regents pursuant to K.S.A. 76-717, and amendments  
21 thereto.

22 (c) For purposes of determining the adequacy of the state's provision  
23 for finance of the educational interests of the state, educational programs  
24 that school districts are required to provide pursuant to federal law shall  
25 not be included.

26 Sec. 2. This act shall take effect and be in force from and after its  
27 publication in the statute book.

Proposed Amendments to HB 2397  
For Committee on Appropriations  
February 29, 2012

Prepared by: Jason B. Long, Senior Ass't Revisor

no less than 65% of all state moneys appropriated, distributed  
or otherwise provided by or through the state to school districts  
shall be deemed by the court to have been expended in the  
classroom or for instruction, as defined in subsection (d) of  
K.S.A. 2011 Supp. 72-64c01, and amendments thereto. Such  
moneys

(d) The provisions of this section shall apply to all litigation  
pending on the effective date of this act, and any lawsuit filed on or  
after the effective date of this act.



## Debt Service is Largest Proportional Beneficiary of \$1.3 Billion K-12 Spending Increase Between 2005 and 2011

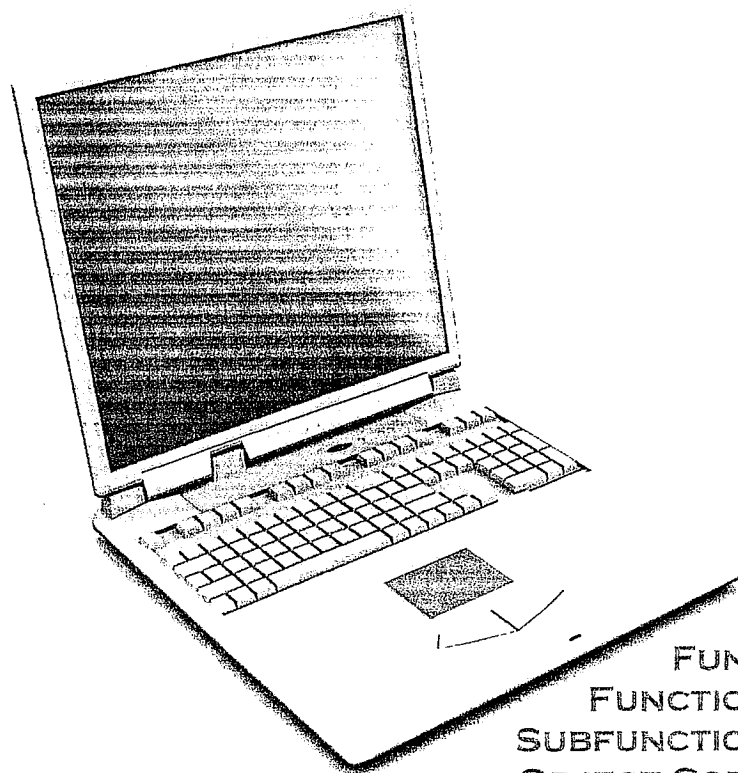
	Per Pupil Spending			School Year Ended June 30			
	2005	2006	2007	2008	2009	2010	2011
Instruction	5,177	5,634	6,274	6,620	6,884	6,671	6,641
Student Support	443	470	500	540	561	540	532
Staff Support	352	400	428	471	477	442	413
Administration	979	1,038	1,086	1,146	1,185	1,147	1,166
Oper. And Maint.	829	897	938	997	986	949	964
Transportation	366	400	408	438	454	409	447
Food Service	418	441	450	491	510	495	499
Other Current	42	65	73	96	36	66	60
Capital Outlay	453	539	652	614	751	707	594
Debt Service	648	712	749	775	816	904	967
<b>Total</b>	<b>9,707</b>	<b>10,596</b>	<b>11,558</b>	<b>12,188</b>	<b>12,660</b>	<b>12,330</b>	<b>12,283</b>

Source: KSDE, Comparative Performance and Fiscal System (CPFS); Other Current includes Community Services and spending not elsewhere listed on CPFS; Per-Pupil calculated based on Full Time Equivalent (FTE) enrollment per KSDE methodology. All capital expenditures reported as Capital Outlay. District-level data at [KansasOpenGov.org](http://KansasOpenGov.org)

	Percent of Total Spending by Category				School Year Ended June 30		
	2005	2006	2007	2008	2009	2010	2011
Instruction	53.3%	53.2%	54.3%	54.3%	54.4%	54.1%	54.1%
Student Support	4.6%	4.4%	4.3%	4.4%	4.4%	4.4%	4.3%
Staff Support	3.6%	3.8%	3.7%	3.9%	3.8%	3.6%	3.4%
Administration	10.1%	9.8%	9.4%	9.4%	9.4%	9.3%	9.5%
Oper. And Maint.	8.5%	8.5%	8.1%	8.2%	7.8%	7.7%	7.8%
Transportation	3.8%	3.8%	3.5%	3.6%	3.6%	3.3%	3.6%
Food Service	4.3%	4.2%	3.9%	4.0%	4.0%	4.0%	4.1%
Other Current	0.4%	0.6%	0.6%	0.8%	0.3%	0.5%	0.5%
Capital Outlay	4.7%	5.1%	5.6%	5.0%	5.9%	5.7%	4.8%
Debt Service	6.7%	6.7%	6.5%	6.4%	6.4%	7.3%	7.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Kansas Accounting Handbook

FOR UNIFIED SCHOOL DISTRICTS



FUNDS  
FUNCTIONS  
SUBFUNCTIONS  
OBJECT CODES

Kansas State Department of Education

June 2008



# *Expenditures*

## Function Definitions

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The function describes the activity for which a service or material object is acquired. The functions of an LEA are classified into five broad areas:

- Instruction
- Support Services
- Operations of Non-Instructional Services
- Facilities Acquisition and Construction
- Other Outlays

Functions are further broken down into subfunctions, service areas, and areas of responsibility. Each of these levels consists of activities, which have somewhat the same general operational objectives. Furthermore, categories of activities comprising each of these divisions and subdivisions are grouped according to the principle that the activities can be combined, compared, and are related. For example:

Function	2000	Support Services
Subfunction	2300	General Administration
Service area	2310	Board of Education Services
Area of responsibility	2313	Board Treasurer

An effort has been made to group together functions in relation to the magnitude of expenditures typically found in the LEA. This grouping corresponds to the categories most frequently requested in reporting to external authorities especially the federal government. **The numbering code for functions are always in even thousands, such as 1000; 2000; 3000; etc.**

### **1000 Instruction**

**Instruction includes the activities dealing directly with the interaction between teachers and students.** Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving co-curricular activities. This includes expenditures formerly reported under 3400 Student Activities. Teaching may also be provided through some other approved medium such as two-way interactive video, television, radio, telephone, and correspondence. Included here are the activities of aides or classroom assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process.

**Include only regular and part-time teachers, teacher aides or assistants, homebound teachers, hospital-based teachers, substitute teachers, and teachers on sabbatical leave.** If proration of expenditures is not possible for department chairpersons who also teach, include department chairpersons who also teach in instruction. Full-time department chairperson's expenditures should be included only in 2490.

## 2000 Support Services

**Support services provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction.** These services exist to fulfill the objectives of instruction, community services and enterprise programs, rather than as entities within themselves. The subfunctions of this function include: Student Support Services, Instructional Staff Support Services, General Administration, School Administration, Operation and Maintenance of Plant Services, Student Transportation, Central Services, and Other Support.

## 3000 Operation of Non-Instructional Services

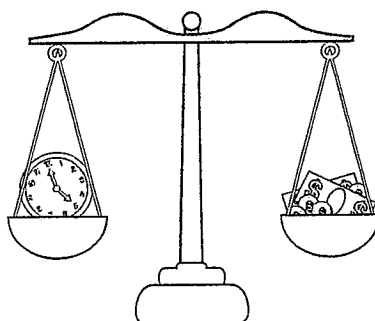
**Activities concerned with providing non-instructional services to students, staff, or the community.** This would include such activities as food service operations, enterprise operations (such as LEA bookstores) and community services (such as recreation, public library, and historical museum).

## 4000 Facilities Acquisition and Construction

**Activities concerned with acquiring land and buildings; remodeling buildings; constructing buildings and additions to buildings; initially installing or extending service systems and other built-in equipment; and improving sites.**

## 5000 Debt Service

A number of outlays of governmental funds are not properly classified as expenditures, but still require budgetary or accounting control. These are classified under *Debt Service*. **Activities related to servicing the long-term debt of the school district, including payments of both principal and interest. This function should be used to account for bond interest payments, retirement of bonded debt, capital lease payments and other long-term notes.** Interest on short-term notes or loans is charged to function 2513.



## **INSTRUCTION COSTS**

### **(1000 Function)**

Although all other functions are important, this function acts as the most important part of the education program, the very foundation on which everything else is built. If this function fails to perform at the needed level, the whole educational program is doomed to failure regardless of how well the other functions perform. Instruction not only includes the regular face to face classroom teaching but also such things as lab sessions, independent work, and education field trips.

By far the biggest cost item in this function are teacher salaries and associated costs such as social security, fringe benefits, and workers compensation. Other major costs in the function are costs in providing substitutes and paraprofessionals who work with the teachers. All of the materials needed in the delivery of the instructional program by the teacher and helpers are another major cost. Costs that do not involve teachers and their helpers (paraprofessionals, substitutes, etc.) and the students' actual learning should not be included in this category.

## **STUDENT AND INSTRUCTIONAL SUPPORT COSTS**

### **(2100 and 2200 Subfunctions)**

Although the Instruction function is the foundation of an educational program, without good support services it cannot operate at the highest levels of performance. The support services function covers all aspects of student and teacher services not related to actual teaching. The main purpose of this function is to help provide better instruction by providing continuing training for staff and services that prepare students to be physically and psychologically ready to learn.

Some of the services provided by this function are mental and physical health, curriculum development, teacher inservice, guidance counseling, program development, media services, technology, library, and all short and long-term programs that benefit general education.

## **ADMINISTRATION COSTS**

### **(2300 and 2400 Subfunctions)**

General and school administration plans and oversees the mission of the school district. In order to improve the education of students, a district must have creative, active leadership to make the best use of the expertise of all positions and plan and implement the most successful programs.

The costs of superintendents, assistants and deputies, legal affairs, and other miscellaneous administrative central office personnel are included in this function. From the school level, principals' and assistants' costs are a part of this function. The last major item included in this function is the school board expenses.

## **OPERATIONS AND MAINTENANCE COSTS**

### **(2600 Subfunction)**

Operation of the physical plant, maintaining grounds, buildings, and equipment related to facilities, school safety and security, operations staff, and care and upkeep of grounds are all included in the Operations and Maintenance function. Utilities are also a part of this function.

When money is tight, there is a tendency by school districts to limit spending in this function. Neglect in the maintenance area could result in unacceptable building conditions that result in high repair costs or replacement later. Poor surroundings can also contribute negatively to student learning. A carefully planned timetable for maintenance can result in reduced costs in the long term and provide facilities that contribute positively to learning.

