



House Education Budget Representative Gordon, Chair

H.B. 2773 – Unencumbered Ending Balances

*Lynn Rogers
Board of Education
Wichita Public Schools*

March 12, 2012

Madame Chair, Members of the Committee:

Thank you for the opportunity to appear on H.B. 2773. I have been elected to serve on the Wichita Board of Education and am finishing my eleventh year of service. Serving on a school board is both greatly rewarding and at times quite daunting. My fellow Board members take our duty very seriously to be stewards of taxpayer dollars while providing educational opportunity to over 50,000 students.

Adopting the budget is one of the most important duties of a school board. As Board members we search for practical solutions which are both prudent and fiscally responsible. We have no incentive to hoard money away in accounts while making budget reductions in other areas. This bill seems to imply school boards choose to reduce staffing or cut programs in favor of keeping funds in accounts. This is simply not correct.

I would first like to bring the committee's attention to the attached white paper issued January 2012 by the auditing firm Allen, Gibbs & Houlik, a nationally recognized accounting firm with an extensive background in government accounting. I would like to highlight a few of their observations:

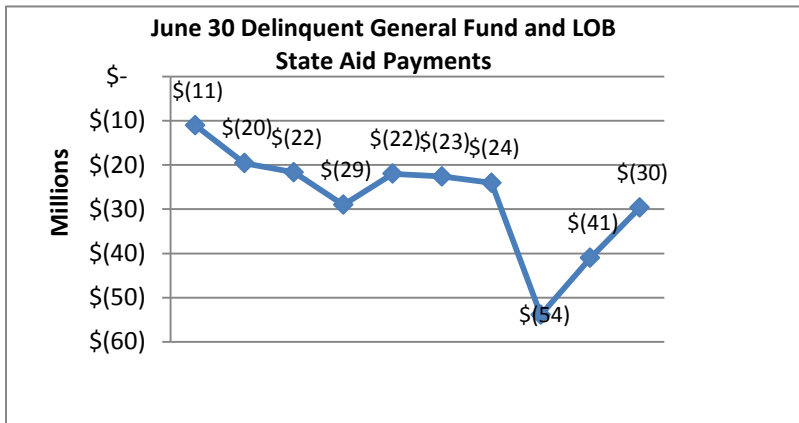
- "Making sure you have enough cash on hand to pay your bills and keep the doors open in between revenue inflows is sound *cash management*. A financially healthy organization – whether commercial or not-for-profit – must maintain enough cash in reserve (sometimes referred to as working capital or operating liquidity) to operate the entity for a period of time until new revenue comes in. The Government Financial Officers Association best practices document recommends that entities maintain, at a minimum, an unrestricted fund balance of no less than two months of general fund operating revenues." *AGH white paper, page 2*

The analysis goes on to explain school districts must conserve cash between “pay days”, on page 3 of the report, charts illustrate the amount of unrestricted funding districts receive from either state aid or property tax distributions. The chart illustrates districts receive a portion of revenue monthly but the major tax distributions are in June and January. The large distributions are six months apart requiring school districts to stretch funds to cover obligations until the next large payment six months later.

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
% of total funding received	8	7	6	8	3	4	25	4	5	3	2	25
% of average expenses for 12 mo. *	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33

- KSDE data provided did not include monthly expenses, so an average was used

The role of delinquent state aid and fund balances



The first misconception is what district year end balances actually are. For the past ten years the June payment has been paid in July. This means school district general fund budgets begin the fiscal year (July 1) **with a negative balance. However the state requires districts to book the money to June even though the money is**

not in the district’s account. Wichita’s June 30th balances unencumbered cash balances this year are overstated by \$30m of delinquent state aid payment. Because the general fund is negative \$30m the remaining funds are critical to cover financial obligations.

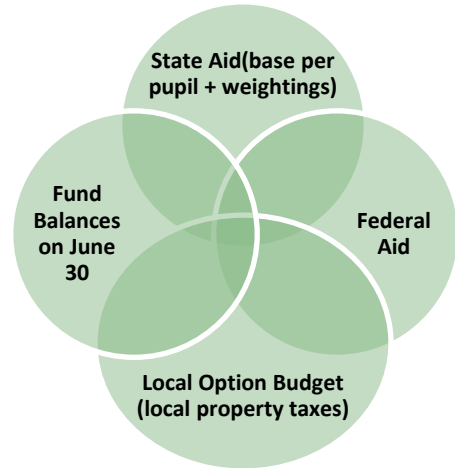
Spending down fund balances would simply not be fiscally prudent when we know the district’s general fund and LOB would be starting the year in the hole \$30m.

During the economic downturn the state has faced extraordinary difficulties in meeting state obligations. Those same fiscal difficulties have impacted school districts. School districts have had to be vigilant in planning and making certain we have the funds available to meet payroll on time and to pay our vendors on time. The district’s average monthly payroll is \$37m and average monthly vendor payments are \$12m. If the district is late paying employees or vendors the ripple throughout our community would have a significant negative impact on the local economy.

Wichita Public Schools and SB 111

As we worked with our public to explain the school budgeting process, we outlined the components to fund the next year budget which include: state funding, federal funding, the local LOB tax levy and June 30th fund balances. The expected revenue, along with **when** the revenue will come to the district, are all taken into account when building a budget for the next school year.

Building a Budget



SB 111 gave districts additional flexibility to move funds. For Wichita SB 111 allowed up to \$16.6m (\$232 reduction = \$16.6m authority to transfer). After careful consideration of the impact and ability to fund the program the Board chose to transfer \$4.7m or just less than 25% of the funds identified in SB 111 to fund the 2011/12 school year budget.

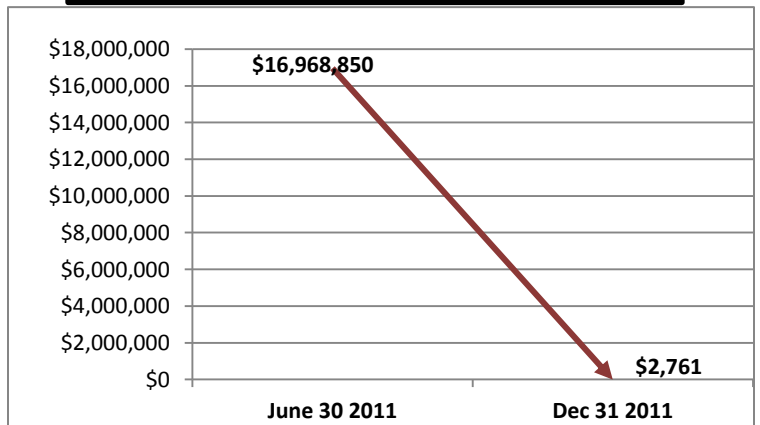
For example Wichita Public Schools had discontinued driver’s education the prior year. SB 111 allowed the district to transfer the driver’s education funds to the general fund. This was the only fund we needed a statutory change to access.

Contingency reserve is for unforeseen expenses and can be spent without changes in law. The district has \$14.8m in contingency. While this is a large amount, putting it into context it is **only 4.5% or 8 days of operating cash**. The Board is using contingency to fund the current and previous year’s budget. Recently the House passed a bill allowing districts to have up to 10% in contingency reserve which is twice as much as Wichita has been able to reserve.

Fund balances are critical for cash flow

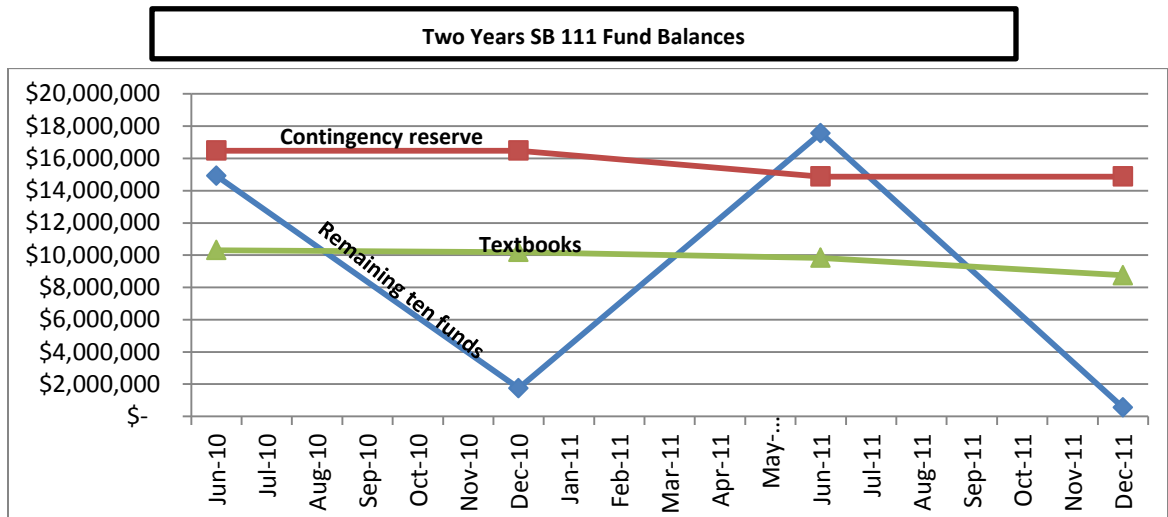
The special education fund illustrates the issues surrounding timing of state aid. Wichita has a sizable special education program serving over 7700 students. We had \$16.9m in the fund on June 30th. Between July 1 and September 30th special education had \$23.5m in salary obligations to cover before state aid comes on October 15th. The chart illustrates how June 30 balances are not the entire story. Fund balances are critical to fund the next year’s budget.

Special Education Balance



The graph below charts SB 111 fund balances for two years.

- **Contingency** (red line) is being used cautiously because that is our emergency reserve, and is only 4.5% or 8 days operating cash.
- **Textbook** (green line) funds spent are being replenished by parent fees and general fund transfers; the balance of \$8m would not cover two major adoptions.
- **Remaining ten funds:** The blue line illustrates the remaining ten funds over two years. These funds begin with balances but are depleted by December. If the Board spent those funds down in July, there would be no funds available to cover the programs supported by these funds.



Bond ratings

Another reason we would urge the legislature not demand districts spend fund balances is the impact on bond ratings. Bond raters look at balances in all accounts to determine ratings. Just as a homeowner wanting to purchase a car but has nothing in their checking account will pay a higher interest rate than someone with healthier balances, bond raters will charge higher interest rates on bonds when funds balances are depleted. Higher interest rates will translate to higher property taxes for taxpayers when school district patrons vote to support bond issues.

Summary

Madame Chair, school boards across this state are cautious. We realize our duty to provide quality educational opportunities while balancing taxpayer resources. Fund balances are part of the equation for Board’s to balance the budget. Fund balances are not extra monies being hidden away. Districts do not receive 100% of our revenue on July 1. School revenues come in irregular installments throughout the year as the Allen Gibbs & Houlik white paper outlined. Boards carefully plan when budgeting to have adequate funds on hand to cover our financial obligations. I would ask the committee to not support HB 2773.