Testimony on SB 27

Appropriation revisions for FY 2017, FY 2018 and FY 2019 for various state agencies

before the

Senate Committee on Ways and Means

by

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February 1, 2017

Madam Chair, Members of the Committee:

Thank you for the opportunity to comment on **SB 27** on behalf of the Kansas Association of School Boards. School leaders understand that the Kansas Legislature faces a $350 million deficit in the current year and even larger projected deficits over the next two years. Our members understand the Legislature faces extraordinarily difficult choices, but we believe lawmakers should make every effort to avoid cutting school funding. The Governor's budget avoids operating cuts in FY 2017.

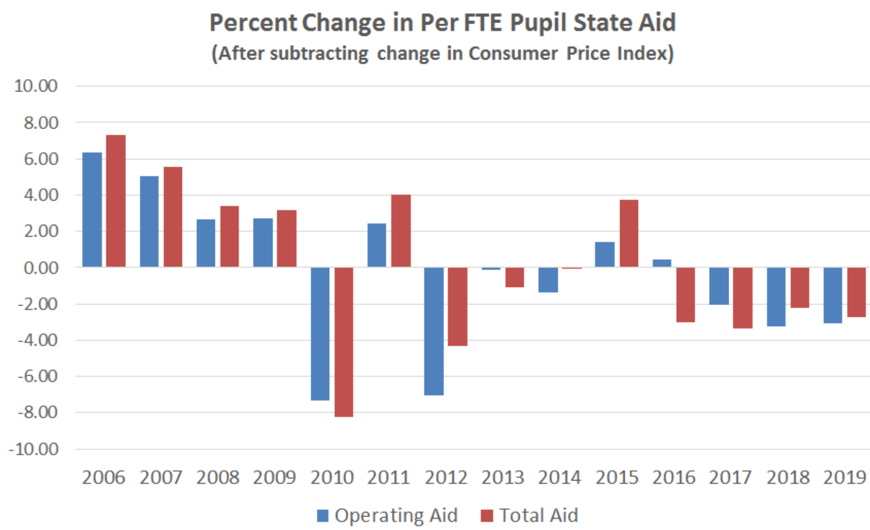
Gov. Brownback has proposed borrowing state idle funds to get through this year. At this point, the only alternative presented is to cut state spending, including school district aid for this school year. The Legislative Research Department has provided information that across-the-board spending cuts in the current year of $362 million would require a 6.95 percent reduction in most agencies, and would cut general state aid for school districts by 8.56 percent (this is a larger percentage reduction because school equalization programs such local option budget, capital outlay and bond and interest aid would not be affected.)

We urge you to consider the following:

1. School funding has already been cut compared to inflation and enrollment growth.

Since 2009, per pupil state aid has fallen behind inflation most years, especially funding for operating budgets. Most of the increase to state aid has been to provide equalization aid for construction bonds approved by local voters and to shore up the underfunded state pension system.

As shown in the chart below, after school funding increased substantially between 2005 and 2009 following the *Montoy* decision, both total state aid per pupil and state aid for operating budgets per pupil have fallen behind inflation most years, and will continue for the next two years under the Governor's budget.



2. School districts were cut by the extraordinary needs fund under the block grants.

When the block grant system was created, every district's state aid was reduced 0.4 percent to create an "extraordinary needs" program for special circumstances, but those funds have been eliminated. While 0.4 percent may not sound like much, note the consumer price index rose 1.6 percent in 2014, 0.12 percent in 2015, 1.1 percent in 2016 and is projected to be 1.9 percent for 2017.

After making deductions for the extraordinary needs fund, the block grants froze state aid for two years, despite increased enrollment and inflation. This is the second year of block grants. Cutting aid now would break the Legislature's commitment to funding when the block grants passed. The Governor's budget for the next two years would cut funding below the block grant levels.

3. Cutting state aid with the school year half over would leave school districts very few options.

Professional employees are under contract and salaries and benefits are the largest part of any district's operating budget. School building operational costs are mostly fixed. This means districts would have to consider cutting maintenance, student activities, supply purchases and even reducing the school calendar.

In the long term, the only way to significantly reduce district operating costs is to reduce employee positions, pay and benefits; and close school buildings, which has an impact on students, neighborhoods and communities. Research shows the most successful states have more employees and more schools for their enrollment, not fewer.

4. Cutting school district state aid will cause Kansas to fall further behind other states.

The most successful states in educational outcomes already spend more per pupil than Kansas. Kansas ranked 38th in per pupil funding growth since 2008. Although Kansas continues to rank high in achievement, most states improved more than Kansas over the past decade. Kansas average teacher salaries dropped from 38th to 41st in the nation between 2008 and 2014, making it increasingly difficult to attract and retain teachers and student support staff. (See KASB's "State Education Report Card 2016.)

Some have suggested school district cash balances could be used to absorb these cuts. However, there are also many problems with this proposal.

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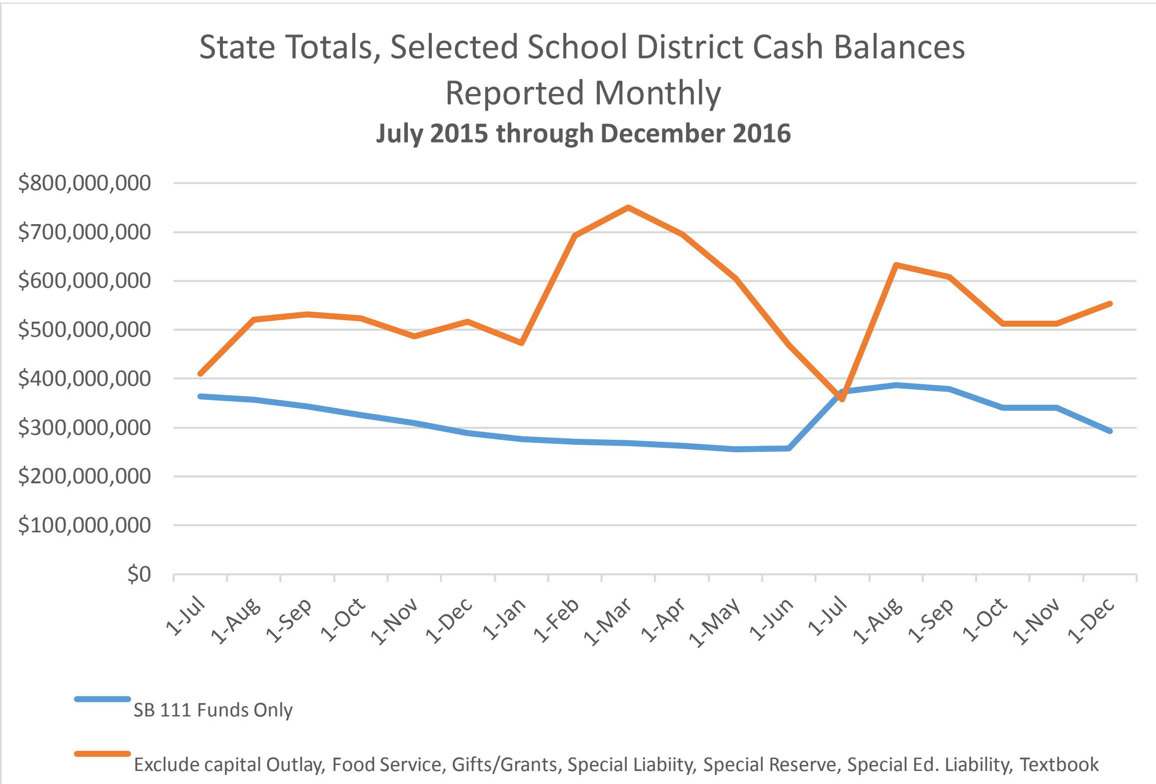
5. School district cash balances are not simply “reserves.”

Some money is held for contingencies or unforeseen circumstances, and some is held for planned, long-term purchases, such as textbooks, school buses or to build and equip buildings without debt.

However, cash reserves also have an important function in cash management. Just as the state uses idle funds for a variety of purposes, including “loans” to the state general fund for certificates of indebtedness every year, the July 1 “snapshot” of cash balances includes funds that will be spent throughout the year. Beginning in July of 2015, the Legislature required districts to report certain cash balances monthly. The chart below shows the statewide total in selected funds for the past 18 months.



The blue line shows the total of cash each month in funds the Legislature designed as “flexible” in SB 111 several years ago, which include the contingency fund. Note that this total dropped from over $360 million in July to about $250 million June. Districts then must replenish those funds in July. If the Legislature assumes school districts can absorb cuts based on July 1 balances, those amounts will not be available when districts try to finish the year in June.

The orange line shows the amount in all other funds reported monthly, except for capital outlay, gifts and grants, special insurance reserves and textbooks. The primary reason this line spikes up in February and March is that districts receive property tax payments for the local option budget. However, those funds are spent down during the remainder of the year. In fact, local property tax payments allow the state to schedule the distribution of state aid and manage cash flow in the state general fund.

6. Schools must accommodate the annual delay in state aid payments.

It should also be stressed school district general funds begin each July with an actual “negative” amount, because several hundred million dollars in state aid due before June 30 of each year is not paid until the

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first week of July. Without reserves to cover that amount, districts could not pay their June bills. The Governor's proposal permanently adds $75 million to this delay, to about $260 million.

7. Statewide totals of cash reserves do not reflect individual district differences.

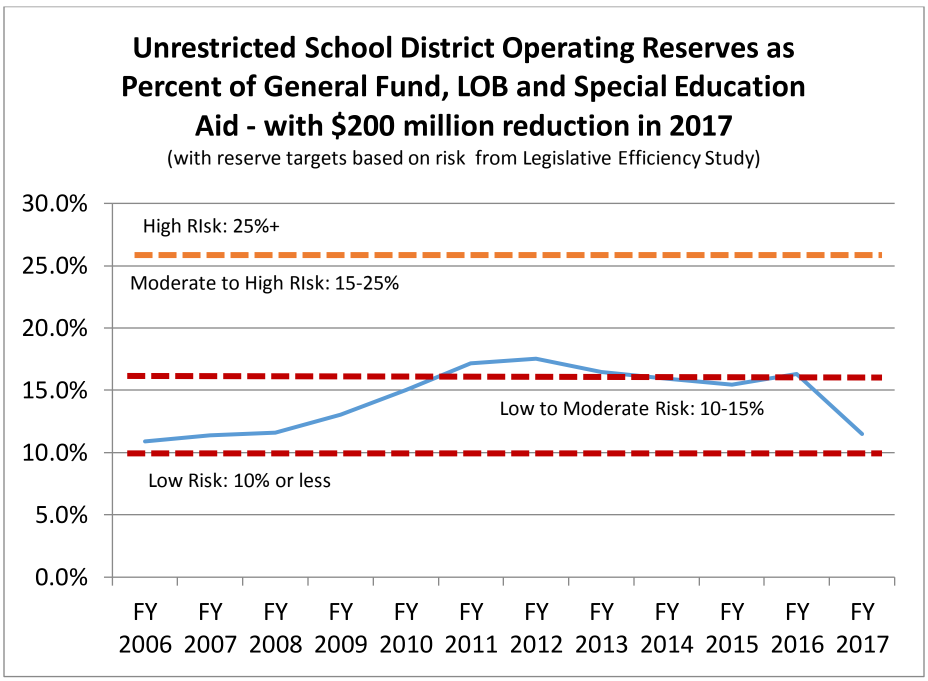
The amount of cash balances as a percentage of operating budgets varies significantly, due to different local needs and management philosophy. Some districts have low cash balances, and simply could not absorb cuts in state aid by using cash reserves. In other cases, reserves are much higher.

8. Use of cash balances is one-time money.

School districts understand the state's desire to achieve a structurally balanced budget. However, using school district balances to avoid borrowing from state idle funds, as the Governor has proposed, simply shifts the problem to school districts. Even if districts do have reserves to cover reductions in state aid, these funds are "one time" solutions - you can't spend "savings" more than once. Unless state funding is restored next year, using reserves simply postpones budget cuts.

9. What policy is the Legislature trying to promote?

In the chart below, we have attempted to show the trend in cash reserves. We totaled the July 1 cash reserves in funds we believe are truly "unrestricted." This is a much higher number than SB 111 funds. We than calculated those funds as percentage of school district general funds, local option budgets and special education state aid. Finally, we show the "risk categories" reported by the Alvarez and Marsal efficiency study last year as guidelines for the Government Finance Officers Association.



The blue line, which presents the selected cash reserves as a percentage of the state/local operating budget, was just above 10 percent from 2006 to 2008, near the bottom of a range called "low to moderate" risk. From 2008 to 2012, during the most turbulent economic period since the great recession, statewide balances increased to over 15 percent – the bottom range of the "moderate to high risk" range. The percentage dropped slightly as state revenues began to stabilize, but had an uptick this year as the

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state’s financial situation worsened, districts faced the possibility of a court-ordered shut-down, and delayed state aid payments were increased by $75 million.

Finally, we show what would happen if balances were reduced $200 million to deal with cuts in state aid. It appears to move statewide balances into what would be considered a low risk range. The question is: would a reasonable local school board consider this truly a low risk financial environment? Would you expect balances to stay at this level, or expect districts to rebuild their reserves, just as the Governor and Legislature are looking at ways to increase the state ending balance?

This is our best effort to analyze cash reserves from the data we have. I have included the information we used on the last page.)

Conclusion

We don’t believe any member of this committee really wants to cut school funding or damage the quality of education in Kansas. As we said at the beginning of this testimony, we know you face extremely difficult choices as you seek the “least bad” options.

However, our members strongly believe that further cuts in school funding will have serious consequences. The Kansas State Board of Education has set a goal of leading the world in the success of each student, and set five outcomes: kindergarten readiness, raising high school graduation rates, improving postsecondary preparation and completion, developing individual plans of study based on career interests, and meeting the social and emotional needs of students.

Reaching these goals will take more resources: expanding early childhood programs, better support and earlier intervention for students at risk of failing to graduate, expanding career and technical education and college preparation courses, more career counselors and help for students with social and mental health issues, keeping class sizes small and schools connected to parents and communities.

Cutting school financing will make it much harder to reach these goals. Using cash reserves may temporarily mitigate the impact for some districts, but has the long-term consequences for districts as one-time money has for the state. The difference is that the Legislature has control over the state’s revenue. It can raise taxes, or reverse tax cuts, if needed. School districts are basically limited to what the state provides. We believe significantly more state tax revenue will be needed fund public education for the results the people of Kansas desire.

States with best educational outcomes have been increasing their investment in education. We urge the Governor and Legislature to find the revenues to begin investing more in education, not less.

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Data for chart on ending balance trends:

Fiscal Year	Group 3	Group 4	Total Gen Operating Funds Balance	Gen Fund, LOB, Sped (000s)	Fiscal Year	Balances as % of Operating
FY 2006	$191,576,679	$175,328,736	$366,905,415	$3,366,474	FY 2006	10.9%
FY 2007	$217,999,029	$196,522,323	$414,521,352	$3,644,340	FY 2007	11.4%
FY 2008	$234,650,765	$219,391,733	$454,042,498	$3,918,061	FY 2008	11.6%
FY 2009	$254,651,226	$281,079,675	$535,730,901	$4,114,725	FY 2009	13.0%
FY 2010	$267,382,608	$321,818,111	$589,200,719	$3,922,115	FY 2010	15.0%
FY 2011	$319,764,324	$362,075,249	$681,839,573	$3,967,882	FY 2011	17.2%
FY 2012	$311,332,500	$381,464,563	$692,797,063	$3,951,270	FY 2012	17.5%
FY 2013	$286,914,017	$376,561,400	$663,475,417	$4,024,580	FY 2013	16.5%
FY 2014	$274,296,338	$373,555,606	$647,851,944	$4,064,765	FY 2014	15.9%
FY 2015	$276,349,866	$358,581,002	$634,930,868	$4,113,740	FY 2015	15.4%
FY 2016	$281,644,834	$396,997,578	$678,642,412	$4,156,226	FY 2016	16.3%
			$478,642,412	$4,156,226	FY 2017	11.5%

Funds included:

Group 3: Special Education, Sped Coop, Summer School, Food Service

Group 4: Contingency Reserve, General Fund, Supp. General, Virtual Ed., Declining Enrollment, Cost of Living, Ancillary, Prof. Development, Tuition Reimbursement, Activities, At Risk (4yr Old), At Risk (K-12), Bilingual, Extraordinary School, Voc. Ed., Area Vocational, Parent As Teachers, Adult Supp. Ed., Driver Training

Funds not include:

Group 1: funds raised by restricted mill levies, such as bond and interest, capital outlay.

Group 2: other effectively restricted funds, such as federal funds, gifts and grants and insurance reserves.

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