

Testimony before the
Senate Ways and Means Committee
on

SB505: General State Aid Adjustment for Unencumbered Cash Balances

by
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Mr. Chairman, Members of the Committee:

Thank you for the opportunity to provide written testimony on **SB505**. This bill would provide adjustments in state aid to school districts who were in excess of 15% of general operating expenditures on July 1, 2014 based on operating expenditures for the 2014-2015 school year. I am providing testimony in opposition to passage of this bill.

Current and past boards of education of Salina USD 305 pride themselves on bringing fiscal conservative values to the financial operation of Salina Public Schools. To that end, difficult decisions have been made over the years to reduce expenditures without sacrificing programs which would negatively impact students. Further, we have held firm in the belief that cash reserves are necessary for the successful operation of the Salina school district. Maintaining cash reserves aids in cash flow for the operation of essential services and assists in short-term and long-term planning. On a smaller scale, reasonable Salina patrons, state taxpayers and voters know that maintaining an adequate savings to address unforeseen circumstances is essential for personal and business-based budgeting.

USD 305 opposes passage of SB505 for what we believe to be obvious inconsistencies and inequities between school districts with the implementation of this proposal.

1. SB505 does not specifically identify which cash balances are to be included in the calculation of “excess” reserves. Thus, it implies that all cash balances should be included.

Many of the cash balances that will be counted toward the excess reserve amount are from designated funds for targeted purposes. For instance, in USD 305 we have a health insurance trust because we are self-funded. Those funds can only be spent on health claims. To count those when determining excess cash reserves creates inequity for USD 305 employees when compared to other school districts who purchase health insurance directly from vendors.

Other funds maintained by the school district that will count against our cash reserve amount, have no direct impact on the instruction of USD 305 K-12 students, and should not be included are:

- Adult Ed Fund - Provides GED preparation for adult students.
- Special Education Cooperative Fund - Represents 12 school districts that are members of the special education cooperative. As the sponsoring district for the Central Kansas Cooperative in Education, USD 305 is responsible for the

management of these funds that are intended for special education and do not belong to the sponsoring district for other means.

- Textbook Rental Funds – Collected from student fees and are saved for textbook adoptions.
 - Food Service Fund – Not used in the classroom, these dollars are limited to no more than three months of expenditures.
 - Gifts/Grants – Were given to the district from outside sources for a specific purpose and generally have a term over which they are used. They are typically not long-term funds.
 - Bond & Interest Fund – Inaccessible for any purpose other than paying principal and interest on bonds. These dollars cannot be used for any other purpose.
 - Capital Outlay - Generated from local levies, these funds are set aside for technology replacement, technology infrastructure replacement, turf replacement, roof replacement, HVAC replacement, carpet and vehicles. These funds were not intended for and cannot be used for general operational expenditures.
 - Federal Funds –Federal grants such as Head Start are subject to federal spending guidelines.
2. SB505 has a negative impact on those school districts that have already spent down their reserves since the July 1, 2014 date prescribed by SB505.

The unencumbered cash balance in Salina USD 305 from July 1, 2014 to March 1, 2016 has decreased by \$4,175,287. This retrospective approach will penalize USD 305 and other school districts that have spent funds down in these cash reserves since July 1, 2014 by counting as “excess” funds that no longer exist.

3. SB505 will serve to penalize school districts for having excess reserves when “excessive” reserves were never defined.

Salina USD 305 argues that the state of Kansas provided the impetus for school districts by removing the cap on the contingency reserve fund. In 1993, contingency reserve funds unencumbered cash balances were capped originally at 1% of general fund expenditures, increased to 2% and then increased to 10% in 2012. Subsequently, in 2013 the cap was removed entirely sending the message to local school districts that dollars should be saved for cash flow purposes. Passage of SB505 will only serve to punish local school districts for making prudent fiscal decisions during difficult financial times and is an attempt to balance the state general fund on the backs of those same school districts.

4. SB505 does not provide assurance of stability and reliability of future state funding.

The Alvarez and Marsal study recommends utilizing excess cash reserves “provided that the USDs have assurance and reliability of funding.” Given the current state financial climate, projected deficits to the state general fund budget for FY16 and FY17, the obligation of the state to come into compliance with the Supreme Court’s decision in Gannon by the end of the current fiscal year, and the legislature’s unwillingness at this point to roll back the 2012 income tax reductions to create future revenue sources, this assurance as recommended by A&M has not been met. Reserves should be maintained to

insulate districts against future instabilities and/or reductions of revenue. Besides cash flow purposes, school districts maintain reserve funds because there is a lack of assurance for future state funding. SB505 would, over time, place many USDs that have made prudent budgeting decisions in the same precarious financial position that the state of Kansas currently faces.

5. Inherent within SB505 and A&M are the suppositions that maintenance of cash reserves by Kansas school districts are a quick source of revenue for the state of Kansas and that these budgetary decisions should be taken out of the hands of locally-elected boards of education.

USD 305 argues that maintenance of cash reserves for school districts, and level at which those funds should be maintained, are decisions that should be made at the local level. School districts must maintain adequate financial reserves in order to demonstrate a strong fiscal position, solid financial planning, and sound fiscal management. First and foremost, fund balances should be maintained at a level that supports attaining a district's long-range educational goals for the children of the community. Parents and patrons of USD 305 have entrusted the board of education to make financial decisions that are in the best interest of the school district and their children who attend Salina Public Schools.

The board and administration of USD 305 have been commended by taxpayers of the Salina school district for making conservative financial decisions as they navigated the district through uncertain and difficult economic times. The decision by the USD 305 board of education to maintain cash reserves at levels that are defined by SB505 as "excessive," led directly to USD 305 receiving a Aa2 bond rating and competitive interest rates on the most recent bond election approved by USD 305 voters in April, 2014. The financial position of the Salina school district is strong largely because of our maintenance of appropriate cash reserves.

In closing, USD 305 stands firmly behind the belief that maintaining reserve balances is a very important part of the budget process. Presently, Kansas school districts operate on a one-year budget process with limited ability to plan for the future. Reserve balances are the safety net most districts have in place to work through the fluctuations in yearly funding, delayed state-aid payments and increased operating costs.

Passage of **SB505** would undermine the fundamental belief that budgeting decisions are best made by local officials who understand the vision, mission and goals of the school district. The USD 305 Board of Education will continue to make financial decisions that balance the interests of the local community and taxpayers, but most importantly, that meet the educational needs of our diverse student population. Mr. Chairman and members of the committee, USD 305 appreciates your time and consideration of our position on SB505. We ask that you closely examine the adverse impact that this bill will have on many Kansas school districts and that you reject its passage out of committee.