Approved: February 25, 2010
Date

MINUTES OF THE SENATE EDUCATION COMMITTEE

The meeting was called to order by Chairman Jean Schodorf at 1:30 p.m. on February 23, 2010, in Room 152-S of the Capitol.

All members were present except:
Senator Chris Steineger- absent

Committee staff present:
Theresa Kiernan, Office of the Revisor of Statutes
Martha Dorsey, Kansas Legislative Research Department
Sharon Wenger, Kansas Legislative Research Department
Dorothy Gerhardt, Committee Assistant

Conferees appearing before the Committee:
Ed McKechnie
Dan Bryan, Senior Auditor, Legislative Post Audit
Dale Dennis, Deputy Commissioner, Kansas Department of Education

Others attending:
See attached list.

Confirmation Hearing

The meeting opened with a confirmation hearing regarding the appointment of Ed McKechnie to a position as a member of the Kansas State Board of Regents. The term would expire June 30, 2010. A question and answer session followed a brief introduction of himself to the committee by Mr. McKechnie.

Senator Marshall moved that the committee approve the appointment of Mr. McKechnie to a position on the Kansas State Board of Regents and forward it to the full Senate for approval. The motion was seconded by Senator Umbarger. The motion carried on a voice vote.

Presentation: Performance Audit Report - K-12 Education: Reviewing the Potential for Cost Savings From Reorganization of Kansas School Districts

Dan Bryan, Senior Auditor, Legislative Post Audit (Attachment 1), appeared before the members with a presentation on the recent Performance Audit regarding reorganization of Kansas school districts. He began the presentation stating Legislative Post Audit was given one question to answer; that being "What opportunities exist to restructure Kansas school districts to more cost-efficiently educate students?" In approaching this directive, two high-level scenarios were developed to illustrate potential ways a school district might consolidate. He pointed out that a number of assumptions were made to arrive at the estimated costs and savings; if different assumptions were made, different costs and savings would be arrived at.

Scenario 1 involved consolidating districts that do not meet the original consolidation requirements of the 1960s. This scenario would reduce the number of districts from 293 to 266. The estimated potential for State savings, including a proposed offsetting cost of State aid for new buildings which might be required, is $15 million per year.

Scenario 2 involved consolidating districts with fewer than 1,600 students. This scenario would reduce the number of school districts from 293 to 152 with a potential for State savings of $111 million per year.

The estimated impact of each scenario on operating expenditures is summarized as follows:

The potential cost savings under Scenario 1 is $18 million and would result from closing 50 schools and having 230 fewer teachers and administrators.

Potential cost savings under Scenario 2 is $138 million and would result from closing 304 schools and having 1,532 fewer teachers and administrators.

Minutes of the Senate Education Committee at 1:30 p.m. on February 23, 2010, in Room 152-S of the Capitol.

The State's share of the potential cost savings is $15 million under Scenario 1 and more than $129 million under Scenario 2, primarily because the State would provide less low-enrollment funding.

Under both scenarios, many districts would lose more money in State funding than they save by reducing their operating expenditures.

In all, almost 900 more students would need to be transported under Scenario 1 and 7,000 under Scenario 2. To reduce students' time on buses, districts may have to consider adding more bus routes.

Impacts on capital expenditures include:

Some districts would likely need new or expanded buildings to accommodate a consolidated high school, costing districts an estimated $1 million a year under Scenario 1, and almost $46 million a year under Scenario 2. No estimate of the impact on elementary and middle schools was made.

The State provides bond and interest aid to some "property poor" districts to help equalize the cost of building new facilities. Estimated costs under Scenario 1 would be $400,000 and about $18 million under Scenario 2.

A number of questions were asked by committee members. Due to time constraints, it was necessary to close the presentation.

The next meeting is scheduled for February 24, 2010.

The meeting was adjourned at 02:30 p.m.

SENATE EDUCATION COMMITTEE GUEST LIST

DATE: February 23, 2010

NAME	REPRESENTING
Dan Bryan	LPA
Scott Frank	LPA
Kristen Grimmer	Sen. Derek Schmidt
Ed McKechnie	self
Kathy Damron	KU
George Wingert	Ruffin Company
Bob Vancrum	Blue Valley USD 229
Stuart Little	Shawnee Mission 512
Marjorie Werly	Emporia State University
Kip Peterson	KBOR
Jackson Lindsey	Hein Law
Rob Mealy	Kearney & Assoc.
Diane Gjerstad	USD 259 - Wichita
Tom Krebs	KASB

Highlights

Legislative Post Audit Performance Audit Report Highlights

K-12 Education: Reviewing the Potential for Cost Savings From Reorganization of Kansas School Districts

Report Highlights

February 2010 • 10PA07

Audit Concern

With recent budget shortfalls, legislative questions have been raised about the potential for cost savings if school district boundaries were configured differently.

Other Relevant Facts

Any potential for cost savings from consolidating districts should be viewed as a long-term investment. It would take time for districts to develop consolidation plans and assess the resources needed. Also, under current law districts that consolidate have their funding held constant for several years.

Larger school districts cost less to operate per student because economies of scale allow them to share resources and reduce overhead costs such as administration, utilities, and insurance.

Estimated Potential For State Savings (including the new offsetting cost of State aid for new buildings)

Scenario 1:
$15 million per year

Scenario 2:
$111 million per year

AUDIT QUESTION 1: *What opportunities exist to restructure Kansas school districts to more cost-efficiently educate students?*

AUDIT ANSWER and KEY FINDINGS:

- Identifying the potential for savings from consolidating school districts involved statistical analysis and numerous assumptions about how districts could be reorganized, and what the costs for those newly reorganized districts might be. We could not do a detailed analysis of each district.

- We developed two high-level scenarios to illustrate potential ways that school district might consolidate:

  - Scenario 1—Consolidate districts that don't meet the original consolidation requirements of the 1960s. This scenario would reduce the number of districts from 293 to 266.

  - Scenario 2—Consolidate districts with fewer than 1,600 students. This scenario would reduce the number of districts to 152.

- The estimated impact of each scenario is summarized in the figure on the next page. In sum:

  Operating Expenditures

  - We estimated the potential for cost savings under Scenario 1 was $18 million, and would result from closing 50 schools and having 230 fewer teachers and administrators.

  - The potential for cost savings under Scenario 2 was $138 million, and would result from closing 304 schools and having 1,532 fewer teachers and administrators.

  - The State's share of the potential cost savings was $15 million under Scenario 1 and more than $129 million under Scenario 2, primarily because the State would provide less low-enrollment funding.

  - Under both scenarios, many districts would lose more money in State funding than they save by reducing their operating expenditures.

  - In all, almost 900 more students would need to be transported under Scenario 1, and 7,000 under Scenario 2. To reduce students' time on buses, districts may have to consider adding more bus routes.

Senate Education
2-23-10
Attachment 1

Comparing the Changes in Operating and Capital Expenditures to the Changes in Operating and Capital Aid Under Our Two Scenarios (dollars in millions)

	Scenario 1 Consolidate districts that don't meet the 1960s criteria	**Scenario 2** Consolidate districts with fewer than 1,600 students
# of Districts Identified	*32*	*239*
# of Consolidated Districts	*28*	*100*
Final # of districts	*266*	*152*
OPERATING EXPENDITURES AND AID		
Change in Operating Expenditures	**($17.9)**	**($138.4)**
Change in Operating Aid		
State Funding		
Basic Operating Aid (a)	*($13.5)*	*($111.3)*
Transportation Funding	*$0.8*	*$6.4*
KPERS Contribution	*($0.8)*	*($6.1)*
State Share of Local Option Budgets (b)	*($1.7)*	*($18.5)*
Total State Funding	($15.2)	($129.4)
Districts' Share of Local Option Budgets	($2.1)	($13.0)
Total Change in Operating Aid	**($17.3)**	**($142.4)**
Net Savings or (Loss) to Districts (c)	**$0.6**	**($3.9)**
# of Districts with a Net Savings	15	56
# of Districts with a Net Loss	13	44
CAPITAL EXPENDITURES AND AID		
Need for New/Expanded High School Buildings		
New Building	0	17
Expanded Building	*10*	*37*
No Construction	*18*	*46*
Total	**28**	**100**
Annual Cost of New/Expanded High School Buildings		
District Share	($1.3)	($45.5)
State Share	*($0.4)*	*($18.2)*
Total	**($1.7)**	**($63.7)**
Net Savings or (Loss) to Districts *[Operating and Capital Expenditures Combined]*		
Operating Expenditures *(from above)*	$0.6	($3.9)
Capital Expenditures	*($1.3)*	*($45.5)*
Total (c)	**($0.7)**	**($49.4)**
# of Districts with a Net Savings	12	38
# of Districts with a Net Loss	16	62

(a) Includes Base State Aid Per Pupil (BSAPP), as well as low-enrollment and correlation weighting.
(b) Local option budgets allow districts to raise money locally for enhancing their education programs. To determine the local option budget we assumed that all districts were authorized up to 30%. The district share is generate by local taxpayer dollars, and the State share is equalization aid paid to "property poor" districts.
(c) A negative number indicates that districts as a whole will be financially worse off. While operating expenditures would decrease (saving the districts money), the amount of funding would decrease even more (creating a net loss for the districts).

Source: LPA analysis of Department of Education data.

AUDIT ANSWER and KEY FINDINGS *(continued)*:

Capital Expenditures

- Some districts likely would need new or expanded buildings to accommodate a consolidated high school, costing districts an estimated $1 million a year under Scenario 1, and almost $46 million a year under Scenario 2. We didn't try to estimate the impact on elementary and middle schools.

- The State provides bond and interest aid to some "property poor" districts to help equalize the cost of building new facilities. We estimated the cost would be $400,000 under Scenario 1 and about $18 million under Scenario 2.

- We visited 8 districts to look at their facilities and locations and discuss the potential impacts of our consolidation scenarios with them. Among the issues they raised were:
  - whether smaller districts would have adequate representation on the new board
  - who would pay a district's existing bond debt
  - whether savings would be offset by increased transportation and facility costs
  - whether their students would go to the larger reorganized district or to another one
  - whether students' performance would suffer
  - the impact consolidation would have on mill levies
- Although these issues wouldn't preclude districts from merging, these are the types of issues that would need to be worked out if districts were consolidated.

We Recommended

- The Legislature should consider limiting or eliminating the provision allowing districts to enter into long-term inter-district contracts with another district to share entire grades.
- The Legislature should consider options for strengthening the incentives to encourage districts to voluntarily consolidate.

Agency Response: *The Department of Education didn't raise concerns about our findings. Three districts we visited for site visits chose to provide a response. Wathena/Elwood didn't raise concerns about our findings. Doniphan West and Skyline did raise issues about our findings and methodology which we address in the report.*

Other Relevant Facts
(continued)

Currently, Kansas relies in the voluntary consolidation of school districts at the local level. Since 1969, the number of districts has decreased from 311 to 293.

Kansas' primary incentive to encourage voluntary consolidation is to allow the districts to keep the current combined funding level of the original (smaller) districts for a certain number of years.

Potential incentives the State could offer include providing the combined budget based on funding from 2008-09 school year, temporarily reducing the mandatory property tax mill levy, and providing additional funding to help build new facilities. Most of these options would cost the State additional money.

State law allows districts to contract with one another for entire grades. We identified such contractual arrangements between six pairs of districts. This provision may be useful to districts to help address short-term needs, but there's no time limit on these arrangements, so the provision also may act as a disincentive for districts to consolidate.

For example, the Montezuma and Copeland school districts have had an inter-district agreement since 1992. Montezuma runs the high school, Copeland runs the middle school, and both districts have their own elementary schools. The districts also share a superintendent. Although they in essence have consolidated into a larger district, they receive an extra $431,000 each year (more than $1,300 per student) in low-enrollment funding, which they would lose if they merged.