Testimony to House Appropriations Committee
HB 2403 Creating the Classroom Learning Assuring Student Success Act
March 9, 2015
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Chairman Ryckman and members of the Committee,

We appreciate this opportunity to present testimony in support of HB 2403, which establishes the procedures for sunsetting the current school funding formula and providing block grants to school districts while a new school funding formula is designed. Kansas Policy Institute has been writing about the need for a new school funding formula for several years, most recently in "Student-Focused Funding Solutions" published in 2013. Some of the numbers have since changed, but the premise remains intact.

There may be fewer than five people in Kansas who truly understand the Kansas school funding formula, and that is only one reason that the current formula should be replaced.

Some believe the formula works if fully funded, but that depends upon how one define 'works.' More cash may temporarily satisfy the monetary desires of institutions and adults in the system but even a large cash infusion has done little to close achievement gaps and prepare students for postsecondary success. Taxpayer support of public education will top $6 billion dollars this year and set another new record in excess of $13,000 per-pupil. Even excluding KPERS pension costs and adjusting for inflation, funding over the last ten years increased by $713 million. Districts used an additional $399 million of taxpayer money to increase their cash reserves by 87 percent since 2005, which isn't included in total spending.

Yet only 36 percent of White students in the 2014 graduating class scored well enough on the ACT exam to be considered college-ready in English, Reading, Math and Science; preparedness is even worse for Hispanic and African American students, at 14 percent and 7 percent, respectively. Only 38 percent of 4th Grade students are Proficient in Reading on the National Assessment of Educational Progress (NAEP) and Low Income 4th Graders are almost three years' worth of learning behind everyone else – in the 4th Grade!

Hundreds of millions more might make the institutions happy (until they want more) but it hasn't and won't 'work' for students. It will always cost a lot of money to fund public education but it is how the money is spent that makes a difference – not how much.

On average, only 55 cents of every education dollar goes to Instruction by the choice of local school boards. Administrators could make a lot more money available for Instruction but they choose to operate inefficiently. Every Legislative Post Audit report has found districts to be operating

inefficiently and most of their recommendations have been ignored. Administrators even acknowledged that they often choose to spend more than necessary in testimony before the K-12 Efficiency Commission. That's another flaw in the current school funding formula – it gives districts more than is necessary to educate students and doesn't require efficient use of taxpayer money.

The current formula unbelievably finds every Johnson County school district to be 'property-poor' and in need of equalization aid, while dozens of small rural districts are considered 'wealthy' and receive no equalization aid. Johnson County is also a great example of the disconnect between spending more and achieving more; USD 229 Blue Valley is often touted as having high outcomes, but as shown on the attachment to this testimony, USD 232 De Soto and USD 231 Gardner-Edgerton have the best outcomes on state assessments and also have the lowest per-pupil spending.

The K-12 funding formula is irreparably broken and should be replaced with one that is transparent, student-focused and requires districts to efficiently use taxpayer money. That considerable effort will take time; in the meanwhile, it makes good sense to replace the formula with a block grant of the funding that the Legislature intended to provide this year to provide funding stability.

Response to Block Grant Criticisms

Some have criticized the block grant proposal for not allowing automatic funding increases for changes in enrollment or the current structure of weightings, but the bill does set money aside for which application can be made to offset extraordinary circumstances. Many districts also have considerable carryover cash reserves that could be used. As explained in the attached blog post ("At least $300 million in K-12 cash reserves potentially available"), districts could spend $320 million of their cash reserves if they held the same ratio of cash reserves-to-operating expense as in the 2006 school year – when there were no complaints about lack of carryover reserves.

As noted earlier, every Legislative Post Audit report on school efficiency has found inefficiencies and most of their recommendations have been ignored. Accordingly, districts could choose to reduce the cost of providing certain services and make more money available for Instruction.

The block grant proposal also provides considerably more latitude to districts to decide how to spend most of the money they would receive.

Conclusion

We support HB 2403 and encourage the Committee to recommend it favorably.

At least $300 million in K-12 cash reserves potentially available

Posted by Dave Trabert on Wednesday, February 25, 2015

School districts may say they need their cash reserves to operate but if they each had maintained the same percentage of operating expense held in 2006, cash reserves would have been $320 million lower at the beginning of the 2014 school year.

Most school districts claiming to have small cash reserves are only talking about their Contingency Fund, which is often referred to as a savings account for emergencies. In reality, they have as many as twenty-eight funds functioning in that fashion. Districts collectively began the 2014 school year with $194 million in Contingency cash reserves but their current operating carryover cash reserves in those twenty-eight funds totaled $884 million

KPI staff calculates an annual Carryover Ratio for each district to facilitate cash reserves comparisons of districts of all sizes and spending levels. The Carryover Ratio reflects each district's carryover cash reserves at the beginning of each school year as a percentage of that year's actual current operating spending.

All School Districts

School Year	Beginning Carryover Balance	Current Operating Spending	Carryover Ratio
2006	$458,173,556	$4,111,881,615	11.1%
2007	$494,087,977	$4,482,641,362	11.0%
2008	$542,277,538	$4,798,537,296	11.3%
2009	$587,099,413	$4,952,174,675	11.9%
2010	$699,150,812	$5,436,511,781	12.9%
2011	$774,648,615	$4,853,361,471	16.0%
2012	$868,266,452	$4,988,886,705	17.4%
2013	$888,672,035	$5,080,492,034	17.5%
2014	$884,368,344	$5,210,292,122	17.0%

Source: Kansas Dept. of Education, Comparative Performance & Fiscal System. Carryover balances and current operating spending exclude federal, capital outlay and debt service.

The 2014 Carryover Ratio for all school districts was 17percent ($884 million in cash reserves divided by $5.2 billion in current operating spending. As shown on the adjacent table, the Carryover Ratio is significantly higher than in most years. The average Carryover Ratio was very steady between 2006 and 2008; it increased a bit more over the next two years and then took a large jump in 2011 to 16 percent.

This trend is quite significant for purposes of determining adequacy of funding and the necessary level of cash reserves. School funds operate on a cash basis and are similar to one's checking account; the balance only increases if more money is deposited than is spent. The annual increase in cash reserves therefore reflect money that districts collected during the year but didn't need. A one-year increase could possibly be attributed to some unusual circumstance but seven consecutive years of increasing cash reserves is a clear sign that districts have received more money than necessary to educate students. The total increase between the 2006 and 2013 school years was $426 million – that wasn't needed to educate students. Districts claim that they need their annual cash balances, and to be sure, every entity needs some degree of reserves. However, there is no record of districts complaining that

they lacked sufficient cash reserves when average ratios were below 12 percent and since school officials aren't bashful about claiming to need more money, their silence in those years is quite telling.

The rise in the median and maximum carryover ratio is even greater than the jump in the average ratio. The median Carryover Ratio rose from 9.2 percent in 2006 to 15.6 percent last year and the maximum carryover ratio nearly doubled to 65.5 percent.

Statewide Carryover Ratio

Measurement	2006	2007	2008	2009	2010	2011	2012	2013	2014
Minimum	0.5%	-2.3%	0.7%	-0.8%	0.7%	1.1%	2.0%	3.2%	2.5%
Median	9.2%	8.8%	9.0%	9.8%	11.9%	15.6%	16.6%	16.0%	15.6%
Average	11.1%	11.0%	11.3%	11.9%	12.9%	16.0%	17.4%	17.5%	17.0%
Maximum	36.1%	49.1%	55.2%	68.5%	66.4%	64.9%	62.4%	74.6%	65.5%

Carryover Ratio Distribution of Existing School Districts

Current Ratio	2006	2007	2008	2009	2010	2011	2012	2013	2014
Less than 5%	46	52	44	39	21	13	9	6	9
5% to 10%	117	118	119	108	84	51	34	34	45
10% to 15%	77	70	73	81	90	72	78	89	82
15% to 20%	28	23	28	29	51	70	70	62	58
more than 20%	9	15	16	23	36	79	95	95	92
total	277	278	280	280	282	285	286	286	286

Source: Kansas Dept. of Education. Carryover ratio is the amount of carryover cash reserves in current operating funds at the beginning of a school year shown as a percentage of actual current operating spending for the school year. Current operating funds exclude federal, capital outlay and debt service. School districts that consolidated and no longer exist are reflected in the statewide average but are otherwise excluded in this analysis.

The distribution across districts is also eye-opening. The majority of districts held less than 10 percent of their annual operating costs in reserve through 2009. Since 2011, the majority held more than 15 percent in reserve

Fifty-four districts began last year with less than 10 percent in reserves, which for most of the past several years was commonplace. Indeed, sixty-two districts had less than 10 percent in reserves for at least six of the last nine years. If that many districts can manage operations with small reserves (as the majority of districts have done for many years), it begs credulity that so many districts claim to need more than 20 percent.

Historic Carryover Ratios by district can be found on KansasOpenGov.org.

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Johnson County's Best Value in Public Education

USD 232 De Soto and USD 231 Gardner-Edgerton

Students who read grade-appropriate material with full comprehension and usually perform accurately on all grade-level math tasks are best positioned for success in college and career. Disparate demographic compositions and achievement gaps distort districts' average scores, so student cohorts must be separately compared. De Soto and Gardner Edgerton have the highest and second-highest percentages of income-based cohorts attaining these levels in Reading and Math and also spend the least per-pupil on current operations (no capital or debt included). This further disproves the notion that spending drives achievement.

	Reads Grade-Appropriate Material with Full Comp.		Usually Accurate on all Grade-Level Math Tasks		2014 Current Operating Spend PP
	Not Low Income	Low Income	Not Low Income	Low Income	
Blue Valley	81.0%	59.3%	69.8%	43.9%	$ 10,187
De Soto	80.9%	64.4%	76.4%	56.9%	$ 8,754
Gardner-Edgerton	80.5%	68.5%	81.1%	71.3%	$ 9,054
Olathe	79.9%	55.4%	74.0%	46.6%	$ 10,277
Shawnee Mission	77.7%	49.0%	70.1%	43.4%	$ 9,855
Spring Hill	69.8%	54.1%	59.9%	48.7%	$ 9,288

Source: 2013 state assessment; 2014 assessment results not published. KSDE does not require students to students to read grade-appropriate material with full comprehension or usually perform accurately on all grade-level math tasks to meet standards; such performance is considered Advanced and Exceeds Standard. Low Income designation based on eligibility for free & reduced lunch.

Taxpayers Would Save $127.1 Million if These Districts Operated at De Soto's Cost

Cost Center	Blue Valley	Shawnee Mission	Olathe	Spring Hill	Gardner Edgerton
Instruction	$16.0	$22.6	$28.2	$0.9	$0.6
Student Support	$7.1	$7.2	$13.4	$0.6	$0.0
Staff Support	$0.0	$0.0	$0.0	$0.0	$0.0
Administration	$8.4	$5.2	$6.3	$0.8	$1.2
Oper. / Maint.	$3.4	$2.3	$0.7	$0.4	$0.6
Transportation	$0.0	$0.0	$0.0	$0.0	$0.9
Food Service	$0.0	$0.0	$0.0	$0.0	$0.0
total	$35.0	$37.3	$48.6	$2.8	$3.3

Source: KSDE Comparative Performance & Fiscal System. Some small spending amounts are not listed in CPFS so the amounts listed here may be slightly lower than actual. Capital expenditures are all reflected in Capital Outly and not allocated to other cost centers. If a district's costs are lower than De Soto, no calculation is made. No allowance is made for additional savings that would occur if De Soto operated more efficiently.

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Spending Per-Pupil Comparison - Johnson County School Districts

	Blue Valley			Shawnee Mission			Olathe		
	2005	2014	% Chg.	2005	2014	% Chg.	2005	2014	% Chg.
Instruction	$ 4,810	$ 6,254	30%	$ 4,890	$ 6,369	30%	$ 5,202	$ 6,533	26%
Student Support	$ 510	$ 622	22%	$ 414	$ 565	36%	$ 526	$ 779	48%
Staff Support	$ 469	$ 522	11%	$ 271	$ 368	36%	$ 374	$ 399	7%
Administration	$ 929	$ 1,137	22%	$ 740	$ 942	27%	$ 825	$ 971	18%
Oper. / Maint.	$ 672	$ 902	34%	$ 631	$ 829	31%	$ 617	$ 766	24%
Transportation	$ 245	$ 325	33%	$ 254	$ 358	41%	$ 337	$ 377	12%
Food Service	$ 377	$ 424	12%	$ 334	$ 424	27%	$ 349	$ 452	30%
Capital Outlay	$ 733	$ 776	6%	$ 847	$ 1,538	82%	$ 568	$ 280	-51%
Debt Service	$ 1,708	$ 2,070	21%	$ 561	$ 948	69%	$ 1,316	$ 1,695	29%
Total	$ 10,454	$ 13,033	25%	$ 8,941	$ 12,341	38%	$ 10,117	$ 12,252	21%
Instruction % of Total Spending	46%	48%		55%	52%		51%	53%	

	De Soto			Gardner-Edgerton			Spring Hill		
	2005	2014	% Chg.	2005	2014	% Chg.	2005	2014	% Chg.
Instruction	$ 4,688	$ 5,504	17%	$ 4,540	$ 5,625	24%	$ 4,841	$ 5,823	20%
Student Support	$ 245	$ 290	18%	$ 328	$ 290	-11%	$ 406	$ 497	22%
Staff Support	$ 277	$ 615	122%	$ 323	$ 265	-18%	$ 319	$ 215	-33%
Administration	$ 1,077	$ 742	-31%	$ 1,032	$ 971	-6%	$ 728	$ 1,034	42%
Oper. / Maint.	$ 664	$ 741	12%	$ 702	$ 865	23%	$ 739	$ 883	20%
Transportation	$ 449	$ 409	-9%	$ 428	$ 577	35%	$ 315	$ 424	35%
Food Service	$ 345	$ 454	32%	$ 336	$ 460	37%	$ 395	$ 412	4%
Capital Outlay	$ 545	$ 500	-8%	$ 386	$ 209	-46%	$ 208	$ 72	-65%
Debt Service	$ 1,747	$ 2,638	51%	$ 1,907	$ 2,489	31%	$ 1,467	$ 2,096	43%
Total	$ 10,037	$ 11,892	18%	$ 9,985	$ 11,752	18%	$ 9,420	$ 11,457	22%
Instruction % of Total Spending	47%	46%		45%	48%		51%	51%	

Source: KSDE, Comparative Performance & Fiscal System. Some small spending amounts are not listed in CPFS so the amounts listed here may be slightly lower than actual. Capital expenditures are all reflected in Capital Outly and are not allocated to other cost centers. Inflation (BLS, Midwest Urban Cities, fiscal year basis) was 29% over the period.