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MEMORANDUM

To:	Chairman Masterson
	Members of the Senate Committee on Ways and Means
From:	Jason B. Long, Senior Assistant Revisor
Date:	March 11, 2015
Subject:	SB 505 – Reduction in Unencumbered Cash Balances Held by School Districts.

Senate Bill No. 505 would create a new section of law regarding school district finance. This legislation is based on Department of Education Recommendation #1 made by Alavarez & Marsal (A&M) in their report. Under the bill the State Board of Education would determine the aggregate amount of unencumbered cash balances held by each school district as of July 1, 2014, that are in excess of the general operating expenditures for such school district for school year 2014-2015. The funds used by A&M for calculating the unencumbered cash balances of each school district include the following:

General Fund	Extraordinary School
Supplemental General Fund	Adult Education
Adult Supplemental Education	At-Risk (4 year old)
Bilingual	At-Risk (K-12)
Virtual Education	Driver Training
Declining Enrollment	Food Services
Professional Development	Parents as Teachers
Summer School	Special Education
Cost of Living	Vocational Education
Special Liability	School Retirement
Ancillary	Special Reserve
Contingency Reserve	Textbook
Activities	Tuition Reimbursement
No Fund Warrants	Special Assessment
Special Education Cooperative	

The following funds were not included in calculating the unencumbered cash balances of school districts: Bond & interest #1; bond & Interest #2; gifts/grants; capital outlay; and federal funds.

In determining the general operating expenditures of each school district A&M examined expenditures in the following function categories as described in the Department of Education Accounting Handbook: 1000; 2100; 2200; 2300; 2400; 2500; 2600; 2700; 2900; 3100; and 3300.

Once the State Board has determine a school district's unencumbered cash balance in excess of 15% of its general operating expenditures, the State Board must then divide such amount by five. The result is the annual general state aid adjustment for the school district.

After the annual general state aid adjustment is determined under subsection (a), SB 505 requires that starting in school year 2016-2017 and for each of the next four school years, the State Board is to reduce a school district's general state aid by an amount equal to the annual state aid adjustment.

SB 505 only applies to those school districts that had unencumbered cash balances in excess of 15% of their general operating expenditures as of July 1, 2014.

If enacted SB 505 would become effective on July 1, 2016.