



Testimony to Senate Ways and Means Committee
SB 505 School Unencumbered Cash Balances
March 11, 2016
Dave Trabert, President

Chairman Masterson and members of the Committee,

We appreciate this opportunity to testify in support of SB 505, which calls for excess unencumbered cash reserves to be incrementally deducted from General State Aid over five years. The methodology and amounts come from the Alvarez & Marsal efficiency study but a similar practice has been in place for many years under the old school funding system, wherein leftover balances in a district's General Fund were deducted from the next year's state aid.

Alvarez and Marsal recommended that districts not keep more than 15 percent of their current operating expense in reserves, with 'current operating' meaning total spending less capital outlay and debt service and reserves coming from funds other than capital and debt. School district funds operate on a cash basis just like your personal checking account; the balance only increases when you spend less than you deposit. Accordingly, the balances and annual increases in these operating cash reserves represent state and local taxes provided for operating school districts in prior years that were not spent.

The average Carryover Ratio (Carryover balance in operating funds at the beginning of the year divided by that year's Current Operating spending) has grown from 11.4 percent for the 2006 school year to 16.6 percent for the 2015 school year. Cash balances in those funds increased by \$393 million during that period.

Opponents of SB 505 may say they need more than 15 percent in reserve, but their own history refutes that position. First, there is no legislative record of schools complaining that they lacked sufficient cash reserves when balances and carryover ratios were much lower.

All School Districts			
School Year	Beginning Carryover Balance	Current Operating Spending	Carryover Ratio
2006	\$468,133,413	\$4,111,881,615	11.4%
2007	\$499,953,378	\$4,482,641,362	11.2%
2008	\$547,218,762	\$4,798,537,296	11.4%
2009	\$601,640,025	\$4,952,174,675	12.1%
2010	\$705,077,746	\$4,840,527,235	14.6%
2011	\$780,156,781	\$4,853,361,471	16.1%
2012	\$878,805,429	\$4,988,886,705	17.6%
2013	\$891,748,195	\$5,080,492,034	17.6%
2014	\$888,194,367	\$5,210,292,122	17.0%
2015	\$860,948,345	\$5,174,712,604	16.6%

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

Further, many school districts managed cash well enough to function with much smaller reserves over the years. The majority of districts actually had less than 10 percent in reserve through 2009 and if that many districts could do so then, they could do so today. Indeed, 64 districts operated last year with less than 10 percent in reserve and many more had between 10 percent and 15 percent in reserve.

Statewide Carryover Ratio										
Measurement	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Minimum	0.5%	-2.3%	0.7%	-0.8%	0.7%	1.1%	2.2%	3.2%	2.5%	1.9%
Median	9.1%	8.9%	9.0%	9.8%	13.4%	15.6%	16.6%	16.0%	15.6%	14.9%
Average	11.4%	11.2%	11.4%	12.1%	14.6%	16.1%	17.6%	17.6%	17.0%	16.6%
Maximum	36.1%	49.1%	55.2%	68.5%	68.7%	64.9%	62.4%	74.6%	65.5%	76.0%

Carryover Ratio Distribution of Existing School Districts										
Current Ratio	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Less than 5%	42	51	44	39	16	12	9	6	9	8
5% to 10%	121	117	116	107	70	51	33	34	44	56
10% to 15%	74	72	76	80	86	72	79	89	83	80
15% to 20%	30	23	28	31	66	71	70	62	58	59
more than 20%	10	15	16	23	44	79	95	95	92	83
total	277	278	280	280	282	285	286	286	286	286

Source: KSDE. Carryover ratio is the amount of carryover cash reserves in current operating funds at the beginning of a school year as a percentage of current operating spending for the school year. School districts that consolidated and no longer exist are reflected in the statewide average but are otherwise excluded in this analysis.

The current practice of allowing unlimited accumulation of carryover cash reserves demonstrates that school funding has been higher than needed to fund current operations, which in turn causes taxes to be higher than necessary or causes funding to be diverted from other services. SB 505 takes appropriate corrective action by promoting responsible management of taxpayer money. Every entity needs some measure of reserves and this bill makes ample allowance for that – perhaps more than is really necessary and notably twice as much as is statutorily required for the State General Fund.

In fact, if each district's cash reserves had been limited to 15 percent at the beginning of the 2015 school year, districts would have still had \$663 million in operating cash reserves.

Dozens of Kansas school districts have proven that 15 percent carryover operating cash reserves is more than adequate. We hope you are encouraged by their efforts and that you will recommend SB 505 for passage.

Each district's Carryover Ratio is at http://www.kansasopengov.org/kog/databank#report_id=27

These 36 districts have consistently performed far below the 15 percent maximum cash reserve boundary established in SB 505.

Districts Below 10 Percent Carryover Ratio at least 8 Years out of 10										
District	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gardner Edgerton	6.8%	8.2%	9.5%	9.4%	9.5%	5.1%	2.2%	3.6%	6.8%	9.0%
Cimarron-Ensign	7.5%	7.2%	5.9%	3.8%	6.1%	7.9%	8.0%	8.6%	11.5%	7.9%
Bluestem	6.5%	5.2%	5.2%	5.9%	8.7%	10.0%	10.1%	7.8%	7.5%	7.8%
Cherokee	5.7%	3.9%	3.0%	2.2%	3.0%	2.4%	2.9%	7.7%	9.6%	10.4%
Pittsburg	4.9%	5.3%	4.6%	5.5%	7.5%	9.3%	11.4%	10.9%	7.9%	5.9%
Humboldt	4.9%	4.4%	3.8%	3.8%	5.1%	8.4%	7.7%	8.2%	8.1%	9.1%
Derby	11.4%	10.0%	9.7%	8.1%	7.9%	9.2%	9.1%	8.3%	7.5%	8.4%
Renwick	5.4%	2.8%	2.6%	1.6%	2.9%	3.5%	7.9%	12.7%	9.9%	8.7%
Quinter	9.2%	8.2%	6.5%	4.5%	6.0%	6.3%	10.8%	8.1%	7.4%	6.1%
Sylvan Grove	6.1%	6.0%	3.4%	6.1%	10.0%	6.0%	6.8%	8.5%	10.1%	8.5%
Pleasanton	7.3%	7.6%	6.4%	6.8%	9.4%	13.3%	12.9%	8.7%	4.6%	6.9%
Paradise	13.9%	9.8%	7.4%	6.7%	9.1%	5.3%	6.3%	6.4%	7.9%	10.3%
Lyndon	5.7%	6.8%	7.5%	9.8%	14.8%	9.1%	9.3%	7.6%	9.8%	10.1%
Santa Fe Trail	3.5%	1.4%	1.9%	2.7%	7.6%	9.0%	11.1%	9.2%	8.9%	8.3%
Skyline	11.2%	10.3%	3.8%	-0.8%	1.8%	4.1%	5.7%	7.7%	5.8%	2.6%
Liberal	7.8%	6.3%	6.4%	6.9%	8.5%	10.0%	10.6%	9.6%	8.7%	8.4%
Waconda	9.2%	7.1%	5.6%	7.9%	8.7%	7.5%	8.4%	7.8%	4.6%	3.8%
Wellsville	6.0%	6.1%	5.3%	4.8%	6.6%	4.3%	6.1%	6.5%	8.0%	7.8%
Haven	4.4%	3.3%	1.4%	0.8%	0.7%	1.1%	3.7%	4.8%	4.1%	4.8%
Wellington	6.7%	5.5%	5.3%	5.1%	4.7%	5.0%	6.5%	9.1%	7.8%	11.6%
Belle Plaine	1.0%	1.3%	1.5%	2.3%	4.0%	6.2%	4.9%	6.3%	6.0%	6.1%
Woodson	3.7%	2.5%	2.0%	1.3%	4.3%	4.5%	4.5%	4.4%	3.1%	6.0%
Osawatimie	1.2%	0.6%	0.7%	1.5%	2.7%	2.9%	3.2%	3.2%	4.1%	5.2%
Sterling	6.8%	2.5%	2.3%	2.4%	2.2%	3.3%	5.0%	5.6%	5.6%	5.2%
Pratt	9.1%	7.6%	7.2%	7.6%	7.1%	8.4%	9.1%	7.1%	9.2%	10.5%
Andover	4.1%	4.1%	4.3%	2.7%	3.4%	5.2%	6.1%	6.8%	6.2%	9.9%
Victoria	0.6%	1.6%	0.9%	1.0%	4.2%	2.7%	4.0%	3.6%	2.5%	1.9%
Little River	7.9%	6.4%	6.5%	6.9%	6.1%	8.4%	6.8%	3.7%	7.7%	10.6%
Inman	9.6%	9.1%	8.1%	8.5%	9.6%	9.7%	9.9%	9.6%	6.9%	5.9%
Neodesha	3.7%	3.3%	4.5%	4.3%	5.5%	6.7%	6.4%	5.7%	5.9%	5.1%
Central	2.7%	4.0%	4.2%	4.2%	8.8%	6.9%	9.1%	7.3%	6.8%	6.2%
Winfield	4.9%	3.4%	4.8%	5.8%	4.4%	3.3%	7.3%	8.3%	6.5%	6.0%
Arkansas City	3.5%	3.3%	4.6%	4.0%	6.9%	5.9%	4.9%	5.5%	3.3%	3.4%
Crest	8.7%	6.3%	6.5%	6.7%	7.7%	7.8%	8.2%	8.5%	7.8%	8.4%
Hays	3.4%	2.5%	1.7%	1.6%	1.7%	2.9%	6.9%	7.2%	6.1%	4.3%
Eudora	5.6%	8.0%	9.1%	6.8%	6.3%	6.7%	9.4%	9.1%	8.2%	6.7%