

March 14, 2016

The Honorable Ron Ryckman, Jr., Chairperson
House Committee on Appropriations
Statehouse, Room 111-N
Topeka, Kansas 66612

Dear Representative Ryckman:

SUBJECT: Fiscal Note for HB 2728 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2728 is respectfully submitted to your committee.

HB 2728 would provide that for each school district, the State Board of Education would adjust the General State Aid payment that a district is entitled by an amount that is determined by a formula in the bill. This formula would require the Board to determine the aggregate amount of unencumbered cash balances held by each district on July 1, 2014, that is in excess of 15.0 percent of the general operating expenditures for the 2014-15 school year. This amount would be divided by five, with the resulting quotient being the annual reduction in General State Aid for school years 2016-17 through 2020-21. The bill would become effective upon publication in the *Kansas Register*.

This bill correlates to the Department of Education Recommendation #1 from the *Kansas Statewide Efficiency Review* by Alvarez & Marsal (A&M). In this report, A&M estimates that excess adjusted cash balances (ACB) in districts as of July 1, 2014, total approximately \$193.0 million, which could be used to offset future education funding by the state. A&M notes this ACB “drawdown” could be accomplished evenly over a five-year period to allow a transition for districts to get to the adequate level of ACB (which A&M estimates should be between 10.0 percent and 15.0 percent), with a \$40.0 million annual reduction of state aid payments in FY 2017 through FY 2020, and a final reduction of \$33.0 million in FY 2021.

The Kansas Department of Education notes that HB 2728 does not specify which funds are to be included in the calculation of excess balances, or a definition of general operating expenditures. However, the Department has estimated a fiscal effect based on school year 2014-15 expenditures from what it considers operating funds, as well as excess cash balances over 15.0 percent, as of July 1, 2014, from the following district funds: General Fund, Supplemental General Fund, At-Risk, Bilingual, Vocational Education, Parents as Teachers, Virtual, Professional Development, Driver Training, Summer School, Contingency Reserve, Special Education, and Textbook Rental. Using these funds and operational expenditures, the Department estimates that \$23.1 million would be reduced statewide annually from entitled

General State Aid payments in FY 2017 through FY 2021. Of the 286 school districts, 141 would have General State Aid payments reduced, while 145 districts would see no adjustment.

With the enactment of HB 2728, the Division of the Budget notes that General State Aid payments would be reduced by amounts much greater than what was estimated by A&M or the Department of Education. The bill would require utilizing the unencumbered cash balances of all funds held by a district in the formula to reduce General State Aid payments, as calculated by the bill's formula. The fiscal effect estimate provided by A&M, as well as by the Department excluded the following funds: bond and interest, capital outlay, all federal funds, gift and grant funds, insurance reserves, special education cooperative funds, as well as funds raised by local mill levies.

The Division of the Budget estimates that statewide General State Aid payments would be reduced by \$216.7 million each year, from FY 2017 through FY 2021, with the enactment of HB 2728. This estimate utilizes operating expenditures estimated by the Department in school year 2014-15 totaling \$4,199.8 million, with statewide cash balances from all funds (including funds excluded by the Department and A&M) totaling \$1,713.7 million. Fifteen percent of total operating expenditures would be \$630.0 million ($\$4,199.8 \text{ million} \times 15.0\% = \630.0 million). As a result, total cash balances exceeded 15.0 percent of expenditures by \$1,083.7 million ($\$1,713.7 \text{ million in cash balances} - \$630.0 \text{ million} = \$1,083.7 \text{ million}$). This amount divided by five totals \$216.7 million ($\$1,083.7 \text{ million} / 5 = \216.7 million), which would be used to offset General State Aid payments to districts from FY 2017 through FY 2021. Any fiscal effect associated with HB 2728 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Dale Dennis, Education