



Testimony before the
Senate Committee on Ways and Means
on
SB 505 School finance; general state aid adjustment for unencumbered cash balances

by

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March 11, 2016

Mr. Chair, Members of the Committee:

Thank you for the opportunity to comment on **SB 505**. When KASB visited with consultants from Alvarez and Marsal prior to the Legislature session and when the report was released during the first week of the session, KASB stated that we do not oppose a reasonable limit on cash carryover in operating funds. We appear in opposition to SB 505 because we do not believe it reflects the totality of the A&M report in this area, and we do not agree with this method of capturing school district balances.

The following is KASB's summary of the entire A&M report on **Proposal 1. Reduce Excess Cash Carryover Balances**.

The report cites the Government Finance Officers Association (GFOA), which recommends school districts maintain a balance of at least 10 percent of their general operating fund for "minimal risk." For "low to moderate risk" reserves should be between 10 percent and 15 percent; for "moderate to high risk" between 15 percent and 25 percent; and for "high risk" greater than 25 percent.

The report then compares July 1, 2014, school district balances - "adjusted" to exclude federal funds, capital outlay, gifts/grants and bond and interest funds - to operating budgets (not defined but presumably excluding capital construction and equipment costs and debt services) for three enrollment categories. Group I was enrollment less than 1,000; Group II was enrollment between 1,000 and 5,000, and group III was enrollment greater than 5,000.

The report suggests cash balances in operating funds should be a minimum of 10 percent and a maximum of 15 percent. Based on A&M's analysis of July 1, 2014, balances, 68 districts are below 10 percent; 77 districts are between 10 and 15 percent, 92 districts are between 15 percent and 25 percent and 49 districts are above 25 percent.

A&M recommends the following:

- Development of a comprehensive policy on the target level of ACB that should be maintained by the school districts including: The appropriate uses of cash balance; who can authorize the use of cash balance; and guidance on how the cash balance will be brought back to target levels if it falls out of range.
- Establish quarterly reporting of cash balances for each school district. (This is already required. Monthly balances

are submitted to KSDE by districts and shared with the Kansas Legislative Research Department.)

- Establish a committee made up of representatives from KSDE and school districts to review quarterly cash balance reports and identify quarter-to-quarter material variations and underlying reasons for such material change. The magnitude of “material change” should be a subject of further study.
- At the end of each school fiscal year, compare the lowest monthly cash balance for the four reported quarters with the annual expenditure for each district. If the cash balance exceeds the target level, calculate the excess cash carried over by the district.
- Estimate the adjustment in funding required for districts with excess cash. Reduce the following years funding by 20 percent of the excess cash balance upon the committee’s approval, while taking any exceptions into consideration. (This suggests that if a district’s lowest monthly balance in operating funds was determined to have \$1,000,000 over the target level, the district’s state aid would be reduced \$200,000 the following year.)

Based on a suggested Adjusted Cash Balance target of 15 percent, A&M estimates excessive balances of \$193 million (for Fiscal Year 2014). Spread over the next five years, the estimated savings would be \$40 million per year until FY 2021, when it would be \$33 million.

We strongly disagree with the idea that school districts have been and are currently in a “low to moderate risk” financial environment.

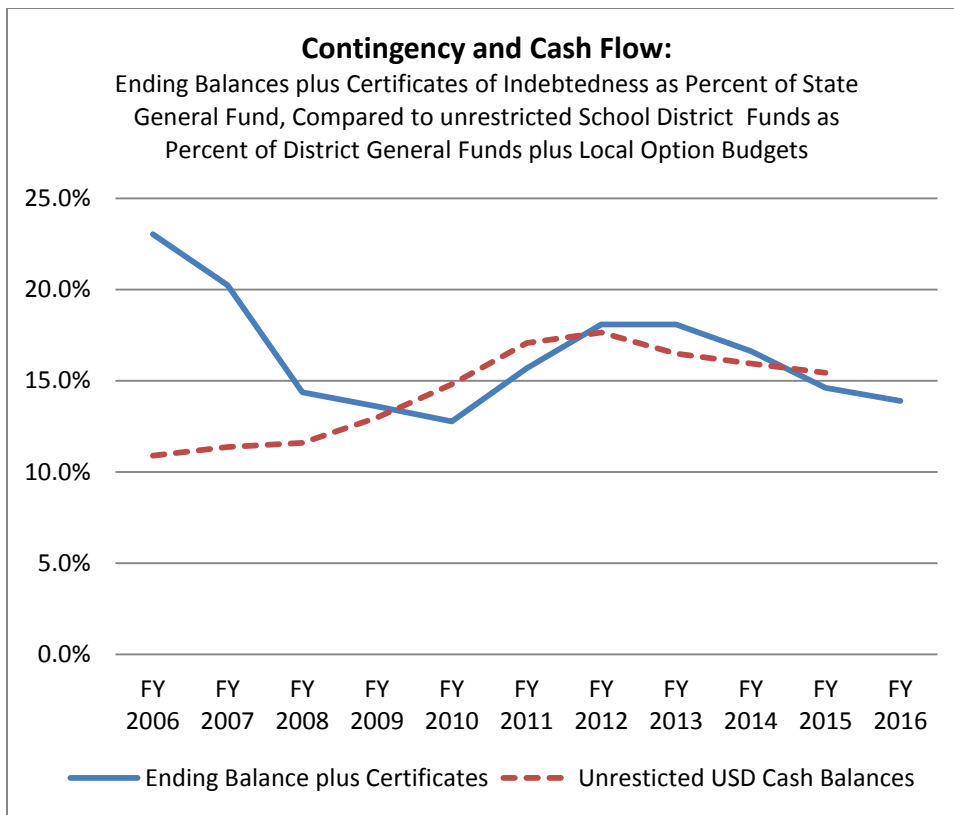
The report suggests a target based on “low to moderate risk,” and found almost half of districts above this total. However, since 2009, school districts have faced mid-year reductions in funding in 2009, 2010 and 2015, and reduced funding from the prior years in 2010, 2011 and 2012. The state general fund has been below the statutory 7.5 percent ending balance in 2009, 2010, 2011, 2015 and 2016 (projected). There have been repeated proposed and enacted changes in the school funding system, which is also under legal challenges. Current funding levels require significant transfers from other state funds, and the Legislature has had to pass three major tax increases to avoid further cuts. We do not find it surprising that about half of districts have reserved the GFOA deems appropriate for “moderate to high” or “high” risk, rather than “low to moderate.”

New limits on cash balances should not be imposed if the state fiscal situation is unstable.

The report makes a “key assumption” that “Stability of funding for the school districts by the state during the school fiscal year would be prerequisite to local school boards accepting the targeted (average cash balance) in the 10 percent-15 percent range.” However, nothing in this bill addresses this issue. One option might be to waive the cash balance limit in any year the state general fund is either projected or actually does fall below the statutory 7.5 percent ending balance requirement.

To illustrate recent changes in school district balances, we prepared the following chart:

The solid blue line compares the State General Fund ending balance plus annual certificates of indebtedness with SGF expenditures. We include the certificates because this is essentially borrowing from other state funds. The dotted red line compares the total of unrestricted school district cash balances at the beginning of the year with the total USD general fund, special education and local option budget expenditures.



The A&M report says it excludes only bond and interest, capital outlay, federal and gifts and grant funds from its calculation of percentage of operating budgets. We excluded some additional funds. First, those associated with restricted local mill levies (special liability, special assessments, no fund warrant and adult basic education), plus school retirement, special reserve funds for insurance programs and textbooks (because many districts build up balances for major book purchases).

As the chart shows, school district balances were in what GFOA calls the “low to moderate” range prior to the Great Recession, then jumped into the “moderate to high” range during the most turbulent period of state fiscal history in decades, and have gradually been declining.

Note also that school districts began raising the cash balance percentage when the SGF balance was declining (indicating greater risk in funding), and after state funding stabilized and balances increased, school district balances began to decline. In short, school districts did exactly what prudent financial management would indicate.

Districts should not be financially penalized for “excessive” balances when the state has not previously defined “excessive.”

In fact, the Legislature most recently removed any limits on contingency funds. If the state sets a maximum for cash balances, districts should have the ability to spend down balances on district priorities to reach that level, not lose state aid. We do not object to the idea of having limits on cash balances, but districts should know what those limits are before being penalized for exceeding those limits retroactively – which is what this bill does. This bill imposes a penalty for what was not a crime.

The funds excluded from a percentage limit should be increased.

The A&M recommendation excludes federal funds, capital outlay, gifts/grants and bond and interest funds from its calculation of excessive balances. This bill does not specifically exclude ANY funds.

By including all cash balances, districts would be penalized for having money in bond and interest funds (which must be on hand for construction costs or bond payments) and savings for capital outlay projects. Districts would be further penalized by losing state aid for general operating funds that cannot be replaced by balances raised from dedicated mill levies approved by voters or restricted revenues (such as federal aid, food service and student fees) that cannot be used for general operations.

We believe any funds should be excluded that are not tied to general operating expenditures. An important example is the special reserve for school district self-insurance programs. The balances in these funds should be based on actuarial requirements. Textbook funds should be allowed to grow for large purchases every several years. Funds based on local mill levies for special purposes outside of general operating funds should be excluded. We suggest using the funds previously designated by the Legislature for flexibility in SB 111.

The bill does not consider cash flow needs.

Unlike the full A&M recommendation, the bill does not base the calculation of “excess” revenues on the lowest percentage of expenditures during the year, which means districts would be penalized for cash flow requirements. (Similarly, the state general fund requires borrowing from other state funds, called “certificates of indebtedness,” to balance revenues and expenditures during the year.) This ignores a key part of the A&M recommendation.

If adopted, the Legislature should consider a different phase-in approach to allow districts to make prudent use of accumulated funds.

The proposed policy appears to penalize every district above the target by 20 percent per year, regardless of the percentage in excess of the target. An alternative would be to phase-in the targets or cap; for example, 35 percent in FY 17, 30 percent in FY 18, 25 percent in FY 19, 20 percent in FY 20 and 15 percent in FY 21. KASB does not object to districts losing cash balances that are in excess of specific state policy, but we believe districts should be given time to spend accumulated balances to meet those limits.

The bill does not provide any appeal or waiver process for local circumstances.

The report calls for development of a comprehensive policy on cash balances, and establishment of a committee to review quarterly cash balances. It is somewhat unclear exactly what the role of such a committee would be, but says reductions in state aid would occur “upon the committee’s approval, while taking any exceptions into consideration,” suggesting it should have authority to waive the requirement for all or individual districts. As noted, we suggest districts should either be able to waive these requirements or appeal for exceptions based on local circumstances.

Thank you for your consideration.

School District Cash Balances July 1 - 2006-2015

USD Total		Non-USD Funds Administered by USDs					Excluding Restricted	
Year	USD Total	Historical Museum	Public Lib. Bd.	Pub. Lib. Emp. Ben.	Rec. Comm.	Rec. Com. Emp. Ben.		
2006	1,163,505,241	23,088	5,279,368	669,345	9,417,521	1,216,312		366,905,415
2007	1,241,380,417	33,508	5,058,974	876,961	8,938,645	1,488,840		414,521,352
2008	1,375,139,138	36,223	5,194,133	850,339	9,599,757	1,299,345		454,042,498
2009	1,504,829,912	45,233	4,246,678	789,872	9,628,162	1,311,813		535,730,901
2010	1,572,903,869	53,913	5,112,979	742,542	9,348,322	1,181,335		589,200,719
2011	1,713,870,651	59,856	6,209,908	986,651	9,693,551	1,202,004		681,839,573
2012	1,720,775,319	57,854	7,685,836	940,438	9,846,903	1,220,484		692,797,063
2013	1,740,825,405	59,837	6,395,839	902,570	11,275,405	1,207,162		663,475,417
2014	1,713,794,470	65,094	7,177,189	946,677	10,728,203	1,196,906	20,114,069	647,851,944
2015	1,745,557,046	27,450	8,196,777	927,299	10,472,946	1,332,428	20,956,900	634,930,868
% Change	582,051,805	42,006	1,897,821	277,332	1,310,682	-19,406		
% Change	50.0%	181.9%	35.9%	41.4%	13.9%	-1.6%		
S Ch. 09-15	240,727,134	19,861	2,930,511	156,805	1,100,041	-114,907		
% Ch. 09-15	16.0%	43.9%	69.0%	19.9%	11.4%	-8.8%		

Constitutionally Restricted Funds (Local Mill Levies)									
Year	Capital Outlay	Bond & Interest 1	Bond & Interest 2	Special Liability	No Fund Warrants	Special Asses.	Adult Education	Group Total	% of Cash Total
2006	364,204,808	283,535,871	15,610,800	7,339,589	49,436	5,865,401	2,505,807	679,111,712	58.4%
2007	383,995,018	290,843,116	16,529,146	8,480,038	50,116	4,991,340	1,217,386	706,106,160	56.9%
2008	449,191,653	300,889,612	19,551,173	8,733,690	0	5,962,252	1,300,921	785,849,301	57.1%
2009	451,672,840	327,700,705	16,550,982	8,693,872	0	5,926,934	1,368,027	811,913,360	54.0%
2010	429,794,605	349,486,618	12,355,705	7,230,830	42,902	5,041,797	1,237,066	805,189,523	51.2%
2011	470,822,923	352,745,579	13,415,458	6,851,816	127,016	3,706,427	983,074	848,652,293	49.5%
2012	453,159,920	365,897,037	11,642,696	7,006,236	148,211	3,076,160	1,119,705	842,049,965	48.9%
2013	446,089,843	391,257,800	12,338,450	6,570,277	153,138	3,826,023	1,322,792	861,558,223	49.5%
2014	432,142,687	421,301,351	13,515,632	6,402,754	68,392	3,947,369	1,392,318	878,770,503	51.3%
2015	411,553,818	459,502,615	16,137,952	5,866,331	149,461	5,575,878	1,585,707	900,371,762	51.6%
% Change	47,949,010	175,966,744	527,152	-1,473,258	100,025	-289,523	-920,100	221,260,950	
% Change	13.0%	62.1%	3.4%	-20.1%	202.3%	-4.9%	-36.7%	32.6%	
S Ch. 09-15	-40,119,022	131,801,910	-413,030	-2,827,541	149,461	-351,056	217,680	88,458,402	
% Ch. 09-15	-8.9%	40.2%	-2.5%	-32.5%		-5.9%	15.9%	10.9%	

Other Effectively Restricted Funds									SB 111 Funds
Year	Federal Funds	Gifts/Grants	School Retire.	Special Reserve	Textbook	Group Total	% of Cash Total		
2006	150,948	21,269,478	314,918	56,697,898	39,054,872	117,488,114	10.1%	12,888,108	
2007	2,744,259	23,557,447	257,432	54,221,927	39,971,840	120,752,905	9.7%	13,190,707	
2008	3,666,675	22,756,045	438,674	70,604,187	37,781,758	135,247,339	9.8%	12,467,980	
2009	3,827,639	23,468,699	504,675	86,098,237	43,286,401	157,185,651	10.4%	14,284,512	
2010	1,067,258	24,022,841	440,206	102,361,425	50,621,897	178,513,627	11.3%	16,705,226	
2011	4,786,796	20,381,080	889,717	103,063,982	54,257,210	183,378,785	10.7%	17,904,879	
2012	-1,820,740	23,125,547	761,360	108,499,916	55,362,208	185,928,291	10.8%	18,269,529	
2013	2,791,807	26,432,720	539,541	130,129,403	55,898,194	215,791,665	12.4%	18,446,404	
2014	-14,181,937	28,787,855	0	118,323,187	54,242,918	187,172,023	10.9%	17,900,163	
2015	5,126,268	30,691,575	99,845	117,941,892	56,394,836	210,254,416	12.0%	18,610,296	
% Change	4,975,320	9,422,097	-215,073	61,243,994	17,339,964	92,766,302			
% Change	3296.0%	44.3%	-58.3%	108.0%	44.4%	79.0%			
S Ch. 09-14	-18,009,576	5,319,156	-504,675	32,224,950	10,956,517	29,986,372			
% Ch. 09-14	-470.5%	22.7%	-100.0%	37.4%	25.3%	19.1%			

Funds to Cover Expenses until Revenues are Received: Funds with Summer Expenses								SB 111 Funds
Year	Special Ed.	Sped Coop	Summer Sch.	Food Service	Group Total	% of Cash Total		
2006	130,416,781	19,056,607	8,202,858	33,900,433	191,576,679	16.5%	51,240,396	
2007	149,536,176	22,649,907	7,735,683	38,077,263	217,999,029	17.6%	57,082,621	
2008	163,666,930	27,090,889	6,964,103	36,928,843	234,650,765	17.1%	60,974,190	
2009	183,341,090	24,114,960	5,971,828	41,223,348	254,651,226	16.9%	66,474,388	
2010	181,078,898	35,121,588	5,099,631	46,082,491	267,382,608	17.0%	64,855,667	
2011	209,691,371	51,495,094	4,646,232	53,931,627	319,764,324	18.7%	73,644,364	
2012	206,848,701	40,846,279	4,286,953	59,350,567	311,332,500	18.1%	72,547,024	
2013	191,956,262	33,123,181	3,645,662	58,188,912	286,914,017	16.5%	66,991,228	
2014	187,473,642	24,665,221	3,922,777	58,234,698	274,296,338	16.0%	65,789,079	
2015	192,216,218	20,924,338	3,557,018	59,652,292	276,349,866	15.8%	66,988,370	
% Change	61,799,437	1,867,731	-4,645,840	25,751,859	84,773,187			
% Change	47.4%	9.8%	-56.6%	67.6%	38.9%			
S Ch. 09-15	8,875,128	-3,190,622	-2,414,810	18,428,944	21,698,640			
% Ch. 09-15	4.8%	-13.2%	-40.4%	44.7%	8.5%			

General Education Operating Funds												SB 111 Funds
Year	Contingency Res.	General Fund	Supp. General	Virtual Ed.	Declining Enroll.	Cost of Living	Ancillary	Prof. Develop.	Tuition Reimb.	Activities		
2006	97,636,498	1,600,933	39,358,766		0	0	0	10,184,305	209,739		107,820,803	
2007	107,425,894	1,281,800	38,845,906		0	0	0	11,644,420	336,372		119,070,314	
2008	119,016,020	1,381,116	42,148,769		0	0	0	12,617,382	44,409		131,633,402	
2009	175,712,033	1,435,657	42,183,718	915,204	0	0	0	13,400,850	65,878		190,028,887	
2010	194,276,118	598,170	43,091,299	2,112,120	0	0	0	15,165,095	14,349		211,553,333	
2011	198,767,766	1,670,107	40,873,956	4,064,565	661,279	1,183,772	2,571,600	15,055,381	15,822	8,250,908	217,887,712	
2012	192,814,557	968,123	60,676,472	3,841,150	222,279	1,503,620	697,789	14,726,693	412	10,115,769	211,385,340	
2013	193,199,655	1,248,562	53,779,815	5,641,446	338,640	1,370,470	1,553,559	14,355,616	1,422	10,440,712	213,196,716	
2014	194,349,988	1,408,321	59,496,260	5,758,600	-22,686	677,988	1,037,586	12,071,827	3,039	11,018,022	212,180,415	
2015	203,547,771	506,881	40,985,124	4,827,172	145,100	1,005,966	1,131,012	10,018,426	3,026	11,618,126	218,393,369	
% Change	105,911,273	-1,094,052	1,626,358	4,827,172	145,100	1,005,966	1,131,012	-165,879	-206,713	11,618,126		
% Change	108.5%	-68.3%	4.1%	N.A.	N.A.	N.A.	N.A.	-1.6%	-98.6%	N.A.		
S Ch. 09-15	27,835,738	-928,776	-1,198,594	3,911,968	145,100	1,005,966	1,131,012	-3,382,424	-62,852	11,618,126		
% Ch. 09-15	15.8%	-64.7%	-2.8%	427.4%				-25.2%	-95.4%			

Restricted Weightings: Early Childhood												SB 111 Funds	SB 111 Total
Year	At Risk (4yr Old)	At Risk (K-12)	Bilingual	Extra Sch.	Voc. Ed.	Area Vocational	PAT	Adult Supp. Ed.	Driver Training	Group Total	% of Cash Total		
2006	602,051	3,720,615	661,051	2,178,502	2,668,059	6,891,671	2,005,311	233,599	7,377,636	175,328,736	15.1%	17,034,723	188,984,029
2007	1,082,436	9,625,156	1,324,905	2,332,468	4,497,365	7,880,680	2,275,155	233,430	7,736,334	196,522,323	15.8%	26,541,353	215,884,995
2008	1,741,581	12,572,940	1,668,342	2,659,790	6,575,701	8,558,360	2,130,185	204,911	8,072,227	219,391,733	16.0%	32,760,976	237,836,548
2009	2,532,263	17,388,282	3,435,130	2,385,556	10,827,870	2,220,704	252,131	8,324,399	281,079,675	18.7%	44,728,648	315,515,635	
2010	3,651,510	28,565,629	5,832,170	2,389,785	15,771,083	2,516,827	267,311	7,566,645	321,818,111	20.5%	63,903,864	357,018,090	
2011	4,835,973	41,527,138	6,858,050	3,868,448	20,989,708	3,445,624	290,794	7,944,358	362,075,249	21.1%	85,300,851	394,937,827	
2012	5,394,759	47,634,889	7,152,051	3,351,649	21,760,891	2,995,670	295,384	7,309,466	381,664,563	22.2%	92,247,226	394,449,619	
2013	4,895,134	45,622,835	7,712,151	3,234,919	22,391,683	3,055,301	318,403	7,401,078	376,561,400	21.6%	91,078,182	389,712,530	
2014	4,197,508	40,099,678	8,589,180	2,998,277	21,506,899	3,064,583	255,670	7,044,866	373,555,606	21.8%	84,502,714	380,372,371	
2015	4,430,121	36,997,609	6,919,810	3,433,909	22,938,893	2,651,351	289,985	7,130,720	358,581,002	20.5%	81,068,504	385,060,539	
% Change	3,828,070	33,276,994	6,258,759	1,255,407	20,270,834	-6,891,671	646,040	56,386	-246,916	183,252,266			
% Change	635.8%	894.4%	946.8%	57.6%	799.8%	-100.0%	32.2%	24.1%	-3.3%	104.5%			
S Ch. 09-14	1,897,858	19,609,327	3,484,680	1,048,353	12,111,023	-430,647	37,854	(1,193,679)	77,501,327				
% Ch. 09-14	74.9%	112.8%	101.4%	43.9%	111.9%	N.A.	19.4%	15.0%	-14.3%	27.6%			