



Senate Committee on Ways and Means Testimony on SB 505

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On behalf of the Kansas City, Kansas Public Schools (KCKPS), I am here to testify as an opponent to Senate Bill 505. This bill would have a devastating impact upon the budget, and therefore the work of the Kansas City, Kansas Public Schools, and indeed the work of school districts across the state. I am confident this committee and I share the same goal of sustaining an education system that serves all students well and provides them with an education suitable to the economic and social needs of our state. Unfortunately, this bill does little to advance that end, and actually moves the state in the opposite direction.

SB 505 represents a fundamental misunderstanding of the budgeting process that school districts use. Rather than encouraging districts to operate more efficiently, it would devastate district budgets, punish districts for prudent fiscal management, and further decimate already inadequate funds needed to educate students. While purporting to capture excess funds in district budgets, it actually sweeps funds that in many cases have already been spent or allocated, or that are being used to manage cash flow and allow districts to pay their bills in a timely manner. It also ignores recommendations in the Alvarez and Marsal (A&M) efficiency report about which funds should be included in any assessment of excess carryover balances. It applies a blunt and clumsy tool to the complex and layered task of managing a school district budget.

Receipts and expenditures for school districts are of necessity irregular, from month to month, and from year to year. But our tax receipts come three times a year, and some state aid payments come months after our fiscal year begins. Schools are businesses, and in KCKPS, we have to meet a payroll of more than \$8 million, twice a month. Prudent fiscal management requires us to have cash on hand to meet our normal operating needs, but also to be able to respond to unforeseen circumstances, including fires, major building repairs, and natural disasters.

Perhaps the clearest way to explain our balances is to point out that unencumbered does not mean unobligated. School districts often have cash on hand which has been set aside to pay for specific things in the future, but which will not be "encumbered" until it is time to make those specific payments. For example, we allow teachers and other school employees to receive their pay over twelve months, in order to even out their cash flow. That means that, on July 1, we have to have money set aside to cover their July and August paychecks, because this is for work they have already completed. This is in no way, shape or form an "excess balance."

Another example: In order to pay for building projects, we set aside funds from Capital Outlay until we have enough to complete a project. In other words, we save funds, and pay as we go. As a growing district, we have used this method to complete three new elementary schools and add on to a fourth over the past three years. With each elementary school costing more than \$11 million to build, this has required us to have significant cash on hand, in order to pay for construction. By choosing the arbitrary date of July 1, 2014, this bill targets funds that were already set aside for a specific purpose: in essence, funds that were already spent. It is also important to note that these buildings were built during a period when Capital Outlay funds were not being equalized as promised, necessitating a much larger reserve of funds than should have been required.

We are also the fiscal agent for the Wyandotte Comprehensive Special Education Cooperative. We set aside funds to pay salaries while accommodating state payment cycles, to pay for summer school, and to have funds available to

cover high needs students whom we must serve. In addition, we run a self-insured workmen's compensation program, and are required to maintain a sufficient balance to cover potential claims.

This bill also ignores the A&M recommendation that certain funds should not be included in any assessment of excess balances: specifically, bond and interest, capital outlay, federal funds and gifts and grants funds. Finally, the A&M recommendations specifically noted 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." School funding in Kansas since 2009 has been anything but stable. Districts have faced mid-year reductions three different years during that time, and in three years, funding was reduced from the previous year. It is critical that districts be able to maintain sufficient balances to enable them to operate in financially unstable times.

This bill would cause significant financial harm to districts across the state, including KCKPS, and should not be advanced. Thank you for your consideration.