

MYTH BUSTERS

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**Kansas
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Advocacy

District Fund Balances

FACTS: Districts' cash balances are not 'extra, excess' money. The June fund balances can be likened to a district savings or escrow account. Districts essentially cannot exhaust their reserves because the dollars have already been allocated - most commonly for ongoing operating costs (e.g., teachers salary & benefits, vendors), capital outlay (e.g., bricks and mortar upkeep), bond and interest payments (e.g., debt), dedicated tax sources (e.g., new textbooks, student materials, summer school), or insurance and liability claims.¹

MYTH: Kansas school districts sit on millions of extra dollars at the end of every school year. So, why do the public schools keep asking the state for more money and laying off teachers when they have excess in their reserve funds?

FACT 1. Reserves prevent cash flow interruptions. Reserve funds safeguard districts' ability to pay vendors and meet payroll throughout the school year.

Carryover is a critical accounting tool that allows timely cash flow between the continuous demand of bills and the periodic payments from state, federal and local sources that crisscross school years. For example, the state's first special education payment to districts does not come until mid-October two months after the school year begins and the second major property tax installment is made in June just as the school year is ending.

FACT 2. Mid-year cuts challenge local coffers and budget estimates.

In 2009 and 2010, our elected officials cut the state's contribution to public education mid-year.² Local communities were left holding the state's portion of the bill. The first time this occurred, districts' options were limited after accounting for contractual obligations through years-end. Given subsequent lack of consensus and extreme differences among current legislators on how to balance the state budget, school boards have had to plan their based on the least amount of proposed state funding. This need to anticipate mid-year cuts and worst case scenario has required many districts to cut overly deep, which explains in part

recent increases in July 1 fund balances.

FACT 3. Late payments from the state. The state has had its own cash flow problems, resulting in delayed payments to the schools. Districts are required to pay their bills on time and reserve funds have enabled them to meet their obligations.

FACT 4. Districts total operating reserves equates to a few days' worth of expenses.³ For the academic year ending June 2011, Kansas public schools' total operating fund balance was just under \$870 million (excluding capital, debt and federal funds).¹ While a large sum, this amount is less than best practices recommends equating to about \$3 million per district on average (\$868,393,468 divided by 286 school districts). The Government Finance Officer's Association suggests districts have 3 months of expenditures in reserve or \$4.8 million on average (\$5,589,549,135 / 286 districts / 12 months * 3 months).⁴

FACT 5. Limited impact of SB111. Not enough money is not enough money, no matter how districts are allowed to slice and dice it. House substitute for Senate Bill 111 is a one-year temporary provision passed by the legislature to ease restrictions and allow school boards and districts to spend selected



unencumbered balances for general operating expenses. This short term accounting flexibility is not a long term solution for the significant state funding shortfall that has grown over the decades and has been exacerbated by recent economic problems (see Kansas PTA Myth Busters—Chronic Underfunding of the Base State Aid)⁵.

FACT 6. Even deeper funding shortfalls on the horizon. Additional reasons why districts may be cautious about spending down their reserve funds: \$492 million in temporary federal stimulus money expires this year, a one-time transfer of \$205 million from the state highway fund to the state general fund ends as well, and the portion of the 1-cent sales tax benefiting education is scheduled to expire June 2013.

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¹ Kansas Department of Education. Cash Balance Annual Reports (2011). <http://www.ksde.org>

² Kansas Department of Education. House Bill 2383. (May 2011). <http://www.ksde.org>

³ Wichita Public Schools. Year-End Cash Balances (July 2011). <http://usd259.org/modules>

⁴ GFOA. <http://www.gfoa.org> & KSDE. Total Expenditures. <http://www.ksde.org>

⁵ Kansas PTA Myth Busters. Chronic Underfunding of Base State Aid, Issue 2. <http://kansas-pta-legislative.org/sites/default/files/MythBusterChronicUnderFundBSAPPIssue2d.pdf>