



Comments submitted to Kansas State Board of Education

Dave Trabert, President

Kansas Policy Institute

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Kansas Policy Institute (KPI) has been doing a lot of research this year on government spending and unencumbered cash balances, and while much more work remains to be done, we have discovered a great deal of good news in the data. In fact, our findings bring us to very surprising conclusion:

We don't have to choose between 'raising taxes' or 'cutting services'! Instead, the data strongly suggests that *we can have lower taxes and retain the services.*

That is very good news for Kansans.

We've uncovered hundreds of millions of dollars in potential savings in state government, local government and schools. Certainly, some of what we've discovered may not be easily realized but we don't need it all to resolve the budget crisis and retain services without raising taxes. We can probably avoid raising taxes or cutting services if we take advantage of efficiency opportunities and apply the best practices of schools and government entities that are providing similar services at much lower costs.

Unencumbered Cash Balances

Let's start with a quick review of unencumbered cash, which is money left over after all of the previous year's bills have been paid. For the year ended June 30, 2009, total unencumbered cash for Kansas school districts increased by about \$138 million to \$1.5 billion; that's a 10% increase over the previous year. As noted below, some of the increase was in capital and bond funds but most of it...\$112 million... was in state and local operating funds; that's a 19% increase over 2007-08.

	Balance as of July 1			4-Year Change (2005-2009)	
	2005	2008	2009	Amount	Percent
Capital and Debt					
Capital Outlay	320,075,543	449,291,653	451,672,840	131,597,297	41%
Bond and Interest #1	269,090,483	300,989,612	327,700,705	58,610,222	22%
Bond and Interest #2	15,567,848	19,551,173	16,550,982	983,134	6%
	604,733,874	769,832,438	795,924,527	191,190,653	32%
Federal Funds	5,729,302	3,666,675	3,827,639	(1,901,663)	-33%
State & Local Operating	458,173,556	587,099,413	699,150,812	240,977,256	53%
	1,068,636,732	1,360,598,526	1,498,902,978	430,266,246	40%

Last year's increases are part of a pattern. Since 2004-05, the unencumbered cash balances in state and local operating funds have increased from \$458 million to \$699 million, a 53% increase equal to nearly a quarter of a billion dollars. Some of the largest increases follow:

	Unencumbered Cash Balance			4-Year Change (2005-2009)	
	July 1, 2005	July 1, 2008	July 1, 2009	Amount	Percent
Food Service	34,463,284	36,928,843	41,223,348	6,760,064	20%
Special Education	132,406,209	163,666,930	183,341,090	50,934,881	38%
Special Liability Expense	5,796,051	8,733,690	8,693,872	2,897,821	50%
Gifts and Grants	16,455,352	22,756,045	23,468,699	7,013,347	43%
Textbook & Student Mat.	35,628,501	37,781,758	43,286,401	7,657,900	21%
Contingency Reserve	81,723,468	119,016,020	175,712,033	93,988,565	115%
Special Reserve Fund	46,010,660	70,604,187	86,098,237	40,087,577	87%
Coop Special Education	17,510,740	27,090,889	24,114,960	6,604,220	38%
All other operating funds	88,179,291	100,521,051	113,212,172	25,032,881	28%
	458,173,556	587,099,413	699,150,812	240,977,256	53%

These increases in unencumbered cash balances only come about when revenues exceed expenditures. Districts may have deliberately built these balances up by setting money aside or in some cases, it may just have happened naturally. Regardless, these buildups point to one indisputable fact – districts collectively did not need all the money they received over the last four years to educate students. They provided educational services and paid all of their bills and still had hundreds of millions left over to increase cash reserves.

That is very good news!

The fact that schools can provide the same education for less money than they've received in past years means there is no need at this time to raise taxes or cut other state services in order to give schools more money. And it couldn't come at a better time; all taxpayers are struggling to keep up in a tough economy, businesses are trying to find ways to retain or add jobs and many needy Kansans and college students are fearful of further cuts to services they receive.

Schools are to be congratulated for finding ways to operate on less revenue and should be encouraged to continue to find ways to lower costs.

Of course, some people will see this situation differently. They may say that these unencumbered carryover cash balances aren't available for current operations, but that is only partially true. First of all, Dale Dennis agrees that the \$175 million in Contingency funds can be used to cover the current projected shortfall. Most of the balances in Capital Outlay and Bond & Interest funds were approved by voters for specific projects and not available for current operations, which is why we set those funds aside and primarily focus our analysis on the state and local operating funds. Most of the balances in those operating funds are legally restricted to be used for the stated purpose (Food Service, Summer School, etc.), but those laws can and should be changed so schools have more flexibility to spend funds where they are most needed. It makes no sense to raise taxes or cut other services when leftover cash balances could be made available. Another way of accessing this money is to reduce the amounts that are transferred in from the General and Supplemental General Fund.

Ironically, another objection to putting unencumbered funds to good use is that they are 'spoken for'; i.e., they are available and needed for current operations. It's true that these balances are part of the budget process, but primarily as a means of tracking beginning and ending carryover balances. The process begins by identifying how much was left over from the prior year and concludes with the amount that will remain after all revenues and expenses have been processed.

Finally, some contend that carryover balances are needed to pay bills because revenues don't come in monthly. Without getting into an extensive analysis of how much might truly be needed for such purpose, this premise would only hold true for the total amount to the extent that cash balances had increased annually by perhaps a small inflationary rate, not 53% over the last four years as have the state and local operating funds.

School Spending

Since the Board will be hearing a presentation on consolidation later today, I would also like to touch on school spending levels.

Some people believe that school consolidation won't save much money and may even point to examples of consolidation that didn't produce savings. If so, I would encourage you to consider all of the relevant circumstances. For example, was the consolidation conducted by an independent panel or by school officials? Most often consolidation is managed by school officials, but asking people to put themselves out of work is a self-defeating purpose. I know; I've been through many such situations. These processes always produce savings when they are driven independently.

The Performance Audit Report issued by Legislative Post Audit in July identified many opportunities for reducing costs through operating efficiencies. The audit noted that

“...although spending per student primarily was driven by enrollment, we saw significant differences among similar-sized districts.” Our own research certainly supports those findings.

As noted below and in greater detail on the attached handout, districts with small enrollment levels spent much more per pupil in the 2007-08 school year (data from the most recent year is not yet published).

Enrollment	Districts	Total FTE	Per Pupil Operating Cost ¹		
			High	Avg.	Low
Less than 100 FTE	7	580.0	17,926	16,127	14,873
100 to 499	129	38,438.4	18,774	12,306	9,790
500 to 999	79	56,282.1	16,322	11,089	8,513
1,000 to 1,999	37	53,447.1	15,433	9,954	7,949
2,000 to 2,999	15	36,203.3	15,960	10,810	7,956
3,000 to 9,999	21	104,666.2	13,777	10,097	8,272
Over 10,000	7	158,545.6	13,931	10,762	9,465
All Districts	295	448,162.7	18,774	10,707	7,949

¹Excludes Architecture & Engineering, Capital Outlay and Debt Service

Source: Kansas Department of Education

This very clearly demonstrates that consolidation would reduce costs. The reason is that larger districts have more students over which to allocate fixed overhead and administrative costs; fewer districts would require less administration and overhead, thereby reducing costs. Districts with fewer than 1,000 students averaged \$11,611 in operating costs, whereas all other districts spent an average of \$10,447. If those small districts could operate at the lower cost per pupil, the operating savings alone would have been \$111 million in 2007-08. There would likely be additional savings in capital and debt service over time.

But there is an alternative to consolidation that would reduce costs and maintain educational quality. There are enormous differences in per pupil costs even among similar-sized districts, in some cases approaching 100%. We calculated the median cost per pupil for 2007-08 in functional cost centers (Instruction, School Administration, etc.) within each of the above enrollment categories to determine the potential savings of getting just the high-spenders down to median in each cost center. The result is a staggering \$456 million just in operating costs; the total reaches \$630 million if capital outlay and debt service are included.

Certainly, some districts may have unique circumstances that would limit the savings but this calculation only focuses on those districts spending more than the median; it's possible that some of those below median might also be able to find efficiencies. The point here is not that exactly \$456 million could be saved. Rather, it's that the potential is of such magnitude that seeking efficiencies and employing the best practices of lower-cost districts has tremendous potential for helping to resolve the budget crisis.

Tax Increase Not Viable

Recent reports saying that the state budget crisis could have been avoided if billions of dollars in tax breaks hadn't been granted are, at best, misleading. The Department of Revenue acknowledges that their calculations exclude any estimate for increased tax receipts that resulted from those or other changes, or from any increase in economic activity that was driven by said changes as often was the intention. They also did not include any estimate for revenue that could have been lost from taxpayers leaving the state or curtailing activity to avoid higher taxes if those statutory changes hadn't been implemented. In October, a QuickTrip moved just 100 feet from Kansas to a more favorable tax environment in Missouri, underscoring the importance of having a competitive tax environment. Kansas lost \$1.4 million in annual tax revenues because of the move.

Those reports may also have implied that tax collections have gone down and that is hardly the case. Prior to the recession-driven decline last fiscal year, tax revenues increased 40% between FY 2001 and FY 2008, or nearly 6% per year. Business taxes went up the most, at 83%.

	FY Ended June 30		7-Year
	2001	2008	Chg.
Business Taxes			
Motor Carrier	17,920	29,032	62%
Corporation	211,907	432,078	104%
Financial Inst.	24,816	33,160	34%
Corporate Franchise	16,927	46,659	176%
Oil Severance	87,320	91,511	5%
Gas Severance	14,217	56,662	299%
Insurance Prem.	67,680	117,588	74%
	<u>440,787</u>	<u>806,690</u>	<u>83%</u>
Individual Taxes			
Individual	1,977,342	2,896,653	46%
Estate	41,197	44,247	7%
Cigarette	48,784	112,705	131%
Tobacco Products	4,092	5,548	36%
Cereal Malt Bev.	2,489	2,228	-10%
Liquor Gallonage	14,490	17,579	21%
Liquor Enforcement	35,351	49,983	41%
Liquor Drink	6,238	8,903	43%
	<u>2,129,983</u>	<u>3,137,846</u>	<u>47%</u>
Joint Payees			
Retail Sales	1,423,059	1,711,398	20%
Compensating Use	235,893	246,277	4%
Miscellaneous	2,112	5,233	148%
	<u>1,661,064</u>	<u>1,962,908</u>	<u>18%</u>
Total Taxes	<u>4,231,834</u>	<u>5,907,444</u>	<u>40%</u>

Source: Kansas Department of Revenue

A tax increase is not only unnecessary, it's not viable. Kansas already has a tax structure that is unfavorable to individuals and businesses and not competitive with most states in the region. Increasing the burden, especially in this challenging economy, would cost jobs that we may never get back.

Conclusion

I have no doubt that in some circles these comments will be portrayed as being anti-education and anti-children, as that has unfortunately happened to those who raise legitimate questions about school spending. But these playground bully tactics have to stop. We have to move away from the "kill the messenger" mentality and start working collaboratively to find solutions in best interest of all Kansans.

Education is extraordinarily important to the success of our State and to each individual. It is imperative that students receive an education that prepares them to enter the workforce, whether directly into their chosen field or first into higher levels of education. But while education is of critical importance we must balance our approach to defining and funding a proper education with other essential needs; we must also have adequate funding for other necessary government services and the revenues required to fund all services cannot be so high as to necessitate a tax burden that impedes economic growth.

Discovering that schools are able to educate students at lower revenue levels and that there is tremendous potential to lower costs by implementing the best practices of more efficient districts is *really good news for Kansans*. Employing these strategies across all units of government will allow us to have lower taxes without cutting services.

Kansas Policy Institute is happy to lend our expertise and to find other experts to collaborate and help realize the full potential of these opportunities.

Thank you for your consideration.