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House Education Budget Committee
Testimony on H.B. 2773 – Unencumbered Ending Balances
Monday, March 12, 2012

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on behalf of United School Administrators of Kansas (USA|Kansas)

Good afternoon,

Thank you for the opportunity to visit with you today about the issue before you - unencumbered cash balances that have not been spent by the school district on or before June 30th, which is our fiscal year-end. I am here on behalf of USA|Kansas and I would like to address a few of those funds that are listed in this bill and how Auburn-Washburn has managed those unencumbered funds.

Contingency Reserve

Auburn-Washburn is a growing district and usually has an increase of 50 - 100 students each year. Our General Fund Budget is \$32,065,000 and our **contingency reserve stands at \$2.3 million. We have budgeted to expend \$937,000 of that contingency reserve this school year.** We will transfer that amount out of the contingency reserve at the last Board meeting in June.

On July 1, 2013, we anticipate having **\$1.4 million left** in our reserve. We expect no new money next year, so the \$1.4 million that is left is all we have to

negotiate raises with our employees and fund any increases in those areas that continue to creep up each year - health insurance, fuel, utilities, teaching supplies and with the “unknowns” that pop up every year. **The \$1.4 million in contingency reserve is 4.4% of our general fund.** Just as a point of reference, one month’s payroll is \$3.1 million. If we zero out our contingency reserve, we will have no ability to respond to emergencies, or cash flow issues that often occur with late state-aid payments.

We have **used contingency reserve funds to fill the gap left by reductions in BSAPP since 2009** and we have not transferred any general fund dollars into our contingency reserve since 2008. **Last year, we budgeted to expend \$232,000** out of contingency reserve. We depend on the ability to spend out of that fund to provide the flexibility to withstand further budget reductions and keep our mill levy stable. Our Board of Education has done a fabulous job of listening to our taxpayers, the majority of whom do not want to see marked raises in their property taxes.

From 2003 to 2011, our mill levy has ranged from 50.488 to 51.956, with only slight variations each year. It actually decreased from the previous year’s levy in 2003, 2004, and 2007.

At-Risk Funds

We began this school year with \$100,000 in unexpended at-risk funds. We received \$2.4 million and, through some excellent planning, we were able to reserve \$100,000 for this year so we could **fund additional salaries and supplies.** Auburn-Washburn has used at-risk funds to provide math and reading specialists (now called “interventionists”) in our buildings, where none existed prior to 2009. We are extremely grateful for this funding and evaluate our successes and/or

failures each year in order to use these funds well. Our Board has allowed us to slowly add social workers with our at-risk dollars to help us with the **changing demographics of our district**. Example: We have had 4 **families living at the Topeka Rescue Mission this year** and many more families in serious economic circumstances who need to be connected to resources within the community to just have their basic needs met. Our social workers are able to be that liaison and provide that service.

Special Education Reserve

We typically try to keep **\$3 million in our special education reserve** and there is a very good reason for that. Special education is a federally mandated program that is highly regulated and very costly. As with many districts, we have students who come through our doors that have special education needs that would drain our resources if we did not have a special education reserve. It is impossible to anticipate what these very needy students might require.

This year we have enrolled 28 special needs students since December who **require extensive interventions, including personal nursing services, therapy equipment, space reconfigurations, and, in some instances, residential treatment**. **Two weeks ago we had a new student arrive to enroll at the elementary level who is on a ventilator**. Districts need to be agile enough to respond to these situations during the school year. It is not reasonable to expect a district to be able to respond to these types of unknown situations without a sufficient reserve specifically allocated to special education.

In the 2010-2011 school year, we had a student who was sent to an intensive residential hospital-like treatment center in Wichita as part of her IEP. That treatment center costs \$250,000 per year. Our special education reserve mitigated the impact of that placement.

The **Menninger Hospital complex** is in our district. When they closed the facility in the spring of 2001, we were providing educational services to 20 emotionally disturbed students at Southard School on the Menninger Campus. Between March and August of 2001, we had to find functional space for these students and staff. We purchased 2 large modular units very quickly, reconfigured the interior space, furnished the modulars with modified instructional equipment, moved staff from the Menninger Campus to the high school, connected the plumbing, electricity, cameras, computers, and were ready by the time school started in August. We relied on our special education reserve funds to accomplish this huge relocation effort.

School districts depend on the safety net of our Special Education Reserve fund to be able to meet those special circumstances that challenge us each year and to take good care of the unique needs of our special education students.

Textbook Fund

Auburn-Washburn has \$2.3 million in our textbook fund for our next adoption, which is K-12 math. We have been building that fund for the past 6 years because we knew we had a large adoption scheduled for 2012. The last large K-12 adoption was language arts in 2004, which cost us \$1.2 million. We had 5,300 students then and we have 5,900 students now, so we anticipated a cost of about \$1.8 million for math.

The **majority of those funds have come from our textbook rental fee** that parents pay at enrollment. I am not sure the Legislature has the authority to re-direct or capture those funds, since they did not derive from state aid.

The Rest of the Story

I have had a similar conversation with my own staff about what appears to be exorbitant balances in some building level activity funds. I totally understand, on the surface, how it might appear that local Boards of Education are holding too much cash in reserve because I recently had similar concerns about our high school activity fund. They asked the district to purchase some expensive computer lab equipment and new football helmets for next year. When I looked at their account balance, they had several hundred thousand dollars. So, as you can imagine, we had a little visit about how **they might want to use THEIR funds** for these requests! However, I ended up having a Paul Harvey moment. **There was more to the story.**

The account was bulging because the band takes a trip every other year and the band students had \$200,000 in the account as part of their fund-raising efforts. There are 220 students in band and they each need to raise \$1,100. The fees collected for yearbook purchases and ad sales were also in that account, which added another \$260,000. They really did not have an extraordinary amount of unencumbered cash in their account, considering the circumstances; it just looked that way to the uninformed – and that would be ME!

The **286 school districts in Kansas all have different needs for the various funds listed in H.B. 2773 and those local Boards of Education have made decisions about particular fund balances that made sense for their school communities.** Our Board members are good stewards of their taxpayer dollars. They are concerned about the fiscal health of their districts and, after recent significant state budget cuts in BSAPP, are probably very reluctant to **deficit spend**; which is what my Business Manager calls spending out of our contingency reserve.

If the issue of what districts do, or do not do, with unencumbered cash balances on June 30th is a critical issue for our taxpayers and the Legislature, perhaps a **“rest of the story” analysis could be conducted to find out exactly how those funds plan on being used by districts and why the balances are being carried over at year-end.** Auburn-Washburn’s “why” might be very different than Wichita or Garden City or Ellsworth or Plainville.

Thank you for allowing me to share my thoughts with you on H.B. 2773 and I would be happy to answer any questions you might have.