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## Credit agency watching school reserve funds School finance woes have some districts losing credit ratings

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Parents, teachers and education lobbying groups aren't the only ones watching as the legislative debate over K-12 school funding drags deep into this year's session.

Credit rating agencies also have an eye out.

Sarah Smaardyk, an analyst for Standard & Poors in Dallas, said her company has tracked Kansas school districts as they have been encouraged to dip into reserve funds in recent years due to state budget constraints. How much of the reserves they are able to maintain plays a major role in the bond rating Standard & Poors assigns them.

"Generally, what we've seen over the past couple years, the statewide school trend is that with all of the reductions in state funding — delayed payments and reductions — it's caused the majority of Kansas school districts to dip into their cash position," she said. "Some have been able to manage that better than others. Unfortunately, in the case of Gardner-Edgerton, they've not had that flexibility."

Gardner-Edgerton, a fast-growing district of about 5,200 students in Johnson County, had the rating on its general obligation debt reduced from AA- to A+ in late March "due to the deterioration of the district's nonrestrictive cash position to \$0 from \$3.3 million," according to a report filed by Smaardyk.

The downgrade comes at a bad time for Gardner, where voters recently approved a \$75 million bond issue for new elementary and middle schools and additions to the high school. Some of the money will go to revamping athletic facilities where Bubba Starling, Nebraska quarterback recruit and Kansas City Royals first-round draft pick, starred until he graduated last year.

The interest and insurance on that debt will now be significantly higher than when the district was rated AA-.

Smaardyk said Gardner is an extreme case, but it isn't the only district feeling the squeeze.

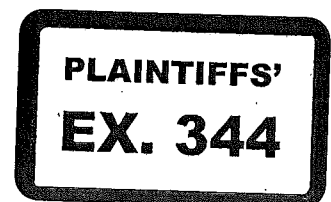
"I would not say that it's limited to them entirely," she said. "I would say they're one of the first we've downgraded. Their cash position going forward really limits their flexibility to respond to any additional reductions in state funding."

Smaardyk's report states that Gardner-Edgerton "lacks formal policies in the areas of long-term financial planning and debt management." But superintendent Bill Gilhaus said the district, which gets 55 percent of its revenue from state aid, would have maintained Standard & Poors' recommended \$2 million reserve if not for cuts from the state, and Smaardyk's report backs that up.

"People need to be aware there have been numerous occasions in which we have not received state aid on time," Gilhaus said. "If not for our use of cash balances we would not have the ability to issue payroll to our employees."

Topeka Unified School District 501 has expressed similar concerns recently, with fiscal director Mike Jones telling the school board Thursday that the district would find a way to cover payroll despite having about \$2.6 million of its promised \$4 million May payment from the state deferred to June.

Jones said Friday that the district's reserves are "OK" right now, but definitely not where they were when USD 501 bought its most recent bond with what was then the state's third-highest bond rating.



"That really saved our taxpayers a lot of money," Jones said. "If we were to float a bond issue now, I think we'd have to get a new bond rating and it would be substantially lower than it was back in 2008."

Gov. Sam Brownback put forth a proposed school finance overhaul early in the session that would have allowed local governments more flexibility to raise money locally, but it bogged down in committee amid a variety of concerns.

The sense of urgency on school funding differs dramatically from chamber to chamber. The Senate placed an additional \$77 million in its budget recently after talks with House members in a conference committee broke down more than a week ago.

"I think the Senate feels it's essential we provide more money to K-12 schools," said Senate Vice President John Vratil, R-Leawood.

House Democrats generally agree. But the chamber's conservative majority has a different take.

House Speaker Mike O'Neal said Friday that according to Kansas State Department of Education data, school district cash reserves are "growing, not shrinking" — to the point where most of the state's 293 districts didn't even take advantage of a measure passed last year to allow more flexibility in using designated funds.

"We know the effect of SB 111 is that they had \$158 million available we thought they would use," he said. "Only 77 districts chose to use it."

O'Neal has said increased school funding should have several conditions attached, including teacher evaluations and judicial changes meant to curb future funding suits.

Vratil said that for school districts it isn't always as simple as just shifting money around.

"Too many people don't understand the difference between dedicated funds and nondedicated funds," he said.

Mark Tallman, of the Kansas Association of School Boards, said a recent study indicated the average Kansas district has only enough emergency cash on hand for one month's worth of payroll, while government accounting standards recommend a two-month cushion.

Rep. Mike Kiegerl, R-Olathe, who represents Gardner and Edgerton, echoed O'Neal's assertion that overall, school districts throughout the state have more than enough cash reserves. He acknowledged that Gardner is "underwater," but said it is "one of the more expensive districts in the state."

"I've always encouraged the school board to do some saving," he said. "It's not one of their favorite things to do."

Gilhaus said he has been in contact with Kiegerl, but Kiegerl "has not been receptive to the school district's perspective on the utilization of cash reserves."

Kiegerl repeated oft-stated conservative assertions that Kansas school districts have more than \$1 billion in unencumbered funds unused and carried over from previous years — that they are essentially sitting on piles of money.

"I would disagree with that," Smaardyk said. "I think definitely when the state was probably in a better financial position they had more money, but at this point they've seen several years of deterioration in state funding. So it's not quite where they were before."

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