

Lynn Rogers – I have been elected to serve on Wichita Board of Education, in 10th year of service

Paying job – Farm Credit Leasing, provide leases for major equipment purchases for cooperatives and farmers; work with balance sheets daily and am familiar with business accounting practices

Adopting the budget is one of the chief responsibilities of a Board of Education

My fellow board members and I take this responsibility quite seriously

Our actions provide the foundation to serve our 50,000 students

My goal today is to provide you with information on why it is prudent, practical and fiscally responsible for school districts to have balances in certain funds at the end of the fiscal year.

I hope to assure you that we are not hoarding money away or that we would prefer to eliminate programs or staff positions so we can have funds in these accounts.

I believe we have some misconceptions about why it is fiscally responsible to have balances so I would like to share with you Wichita's story. Districts will have different factual reasons for maintaining balances, but the business reasons will be universal.

I would like to start with the attached report on buff colored paper from a well-respected accounting firm – Allen Gibbs and Houlik.

AGH has a long history in governmental accounting and auditing. They audit a number of large governments in Kansas and across the nation including Sedgwick County, Wichita Public Schools and several agencies for the state of Kansas.

Madame Chair, I will outline several of the points contained within the report, but you might want to invite Mark Dick, a senior partner with AGH, to come to the committee and more thoroughly review their findings before your committee.

At the bottom of page one of my testimony, they state that:

“making sure you have enough cash on hand to pay your bills and keep the doors open in between revenue inflows is sound cash management”.

They go on to say “ a financially healthy organization must maintain enough cash in reserve (or working capital) to operate until new revenue comes in.

And the Government Financial Officers Association's best practices document recommends a minimum in unrestricted balance of not less than two months of general fund operating revenues.



On page 2 of my testimony there is a copy of the chart Allen Gibbs & Houlik uses to show how irregular school revenues come in. You can see an average of 7 or 8%, but lows of 3% and highs of 25% of school revenue when property taxes are distributed in January and June.

The June distribution is important to understand. If you would look at the chart at the bottom of page 2 of my testimony you can see how over the past ten years the June payment has been delayed.

For Wichita the average late payment is \$23 million.

This means the general fund begins the year-in the hole. I believe this is a major point where district fund balances are misinterpreted. Because the state requires districts to book the money to June as if we had it in the bank; thus our year-end balances are overstated.

But we are actually in the hole by \$30m. The fund balances are critical to paying out bills on time. We must have funds available to cover obligations.

The district's average monthly payroll, including benefits, is \$37m and we average \$12m in vendor payments. If the district is late paying employees or vendors, the ripple would cause a significantly negative impact on the local economy.

On page 3 I outline the revenue sources used to fund the budget –

Federal funding; state funding; local option budget and fund balances

Wichita did use almost 25% of the SB 111 authority

The bill was helpful to us because drivers education was discontinued the prior year, and we needed the statute to use the funds for another purpose.

(if asked a question: drivers ed summer program crosses the fiscal year, so state aid always comes in the next year for students who completed the program the prior summer)

Contingency reserve: I would like to take a moment on this fund. Wichita's contingency is \$14.8 million which taken into context is only 4.5% or 8 days of operating revenue.

- This is less than the bill the House passed allowing 10% contingency
- Best practices document from Governmental Financial Officers recommends 2 months or 8.3%.

Fund balances are critical for cash flow.

- June 30th special education balance was \$16 million – which was used to fund this year’s budget.
- State aid doesn’t come in until October 15 – need the fund balance plus a general fund transfer to cover \$23 million in special education salaries between July 1 and September 30th.

On page 4 we outline the funds in SB 111 cash flow over two years.

Contingency is our emergency reserve

Textbooks – this fund includes parent fees; adoptions are quite expensive, in our district a major adoption costs \$5 million.

The remaining SB 111 funds start with a balance but are soon depleted. If we spent those funds in June, there wouldn’t be funding for these programs during the year.

Bond ratings:

Finally – it is important to know that bond raters look at the entire financial profile.

If fund balances are depleted, the district will pay higher interest rates which translate into higher property taxes

Just as a banker looks at the bank account balances of a prospective car buyer....if you don’t have any balances, you will pay a higher interest rate than someone who does.

Madame Chair – in summary

We oppose this bill

School boards are applying practical Kansas common sense when adopting school budgets;

We are prudent and fiscally responsible for balancing budgets in good times and the bad.

We have worked hard during the recession to meet payroll and pay vendors when declining state revenue made it impossible for the state to pay schools in full and on time.

School district balances are overstated on June 30th because state aid is delinquent and not paid until July.

Fund balances are critical if we are to pay our bills on time.

Thank you for the opportunity to visit with you and I would answer any questions you have.