

McKnight, Stacy - Central Office

From: Eric Kennedy <eric.kennedy@ksba.org>
Sent: Wednesday, January 17, 2018 4:20 PM
To: McKnight, Stacy - Central Office
Subject: State Budget Information
Attachments: Budget Trends FY17 to FY20 for Key Education Programs as proposed in 18 RS HB 200.pdf

School board members and superintendents:

After the Governor finished his address last night, the actual budget bill itself was introduced in the House, as HB 200. The bill page (with a link to the text of the bill) is here: <http://www.lrc.ky.gov/record/18RS/HB200.htm>

As we continue to re-read the entire bill to analyze the impacts to our students, a few major issues are apparent. Taken as a whole, this budget proposal would shift substantial costs to local districts, while at the same time creating all new restrictions on local boards' statutory authority to make budget decisions including over even your local tax revenues. One provision that we'll point out below is an extreme and unprecedented state seizure of decision-making authority over every single district in the state.

Amounts of funding

To begin, please review the **attached** document. KSBA created this document, pulling amounts directly from the current budget bill in effect now, which was 2016's HB 303, and amounts from this budget proposal. You can read across the first 4 columns the amounts of state funds appropriated, and proposed, across some of the most important education programs from Fiscal Year 2016-2017 to the proposed amounts for Fiscal Year 2019-2020. The last column shaded in gray compares the amount from the current fiscal year, to the very next year if this proposed budget were enacted. Some programs are highlighted in yellow, which are those that the proposal explicitly eliminates. Other programs have no amount listed, which means they are not explicitly eliminated but are also not explicitly provided funding by the bill.

Year over year, some key takeaways are:

- General Fund ("GF" in the chart) money to **overall SEEK is cut.**
- General Fund money to **"Base SEEK" is cut.**
- General Fund money going to **total Learning and Results Services (LARS) is cut.** Some of the programs outside of the public schools, but a lot of these are direct instructional programs serving students in classrooms.
- Level of new state **offers of assistance for facilities by the SFCC to districts is cut.**
- General Fund money to district **employee health insurance is cut,** and the proposal states that if there is a shortfall the districts must cover the cost.
- General Fund money for **textbooks is eliminated.**
- General Fund money to state-mandated **transportation is severely cut.**

It is vital to understand that yes, the proposal does not reduce the "base guarantee per pupil" amount. That is very important, as it too could have been reduced. However, being held steady for 2 more years will effectively be a cut due to the effect of inflation. More important than that though, is that this does not mean all state money for our kids is protected. This amount is the first step in the SEEK formula calculation, and in the end

the amount of funding for students is a mix of state SEEK and local tax dollars. Therefore, while this guarantee base per pupil amount is held steady, this budget proposal still reduces the amount of state money being appropriated to the overall SEEK program because of the burden shift to local districts and increased tax revenues. The chart demonstrates this, with figures directly from the budget bills.

The biggest portion of the cut in total SEEK is transportation. Transportation funding (which is a state mandate intended to be fully state funded) is already at less than 60% state funded. This proposal would further cut this funding by \$128 Million. This would be one of the largest cuts in education funding ever experienced in our state. Such a cut, with the additional costs and unfunded mandates passed along to you, will push some of you into insolvency and perhaps cause shutdowns. We are moving into uncharted waters.

State control over local tax dollars

On page 125 of the bill, this provision is extremely concerning:

"Limitation on Local School District Administrative Expenditures: Notwithstanding KRS 160.290(1) or any statute to the contrary, all local school districts shall reduce fiscal year 2017-2018 actual administrative expenditures by 12 percent in fiscal year 2018-2019 and an additional 12 percent in fiscal year 2019-2020. "Administrative costs" is defined as expenses charged to district administration (2300), school administration (2400), and business (2500) within the "MUNIS Uniform Chart of Accounts" (revised effective July 1, 2017). Local school districts shall reallocate the total sum of reduced expenditures from those accounts to student instruction (1000).

Any school district with an administrative percentage less than 15 percent at the close of fiscal year 2018-2019 may submit a request for an exemption to the Kentucky Board of Education from the required reduction to administrative costs in fiscal year 2019-2020. "Administrative percentage" is defined as the sum of district administration (2300), school administration (2400), and business (2500) expenditures divided by student instruction (1000) expenditures within the "MUNIS Uniform Chart of Accounts" (revised effective July 1, 2017). Nothing in this provision exempts a local school district from reducing administrative costs by 12 percent in fiscal year 2018-2019. Each local school district's annual audit shall include a certification of compliance with these requirements and document how the reduction in administrative costs were achieved."

The statute being notwithstanding there is KRS 160.290, the general powers and duties of elected school boards. If this becomes law, the state will have taken a significant aspect of local decision-making authority away from you, the elected representatives of your community entrusted to impose taxes and decide how to invest those local dollars. This is shocking on grounds of representative democracy; local control; local decision-making, and constitutionally accountable taxing authority. If this became law, boards would be responsible to collect and spend more of the total district funds locally, and yet have much less authority over how to do so. The state will be dictating, down to single MUNIS account codes, over state and local tax dollars. If this stands, cities and counties should also be concerned, and you may consider reaching out to your own judges/executive and mayors to discuss this.

Use of district fund balances and contingency reserves

The Governor proposed that districts use their reserves to meet some of these expenses, and cited some specific examples. You all know that this issue comes up every so often at the state level, despite that fact that state law mandates at least a 2% reserve (this proposal would eliminate that requirement), and KDE recommends a 5% level. In the days ahead, it will be **CRITICAL** that you explain to your legislators that it is prudent to carry reserves:

- to meet cash flow in months between local revenue collections;
- to cover your debt service;
- to protect your credit ratings;
- to cover unexpected emergencies such as loss of building;
- to handle unexpected losses of revenue such as what many of you face in the coalfields; etc.

The Governor is absolutely correct that the state should maintain a prudent “rainy day fund” for these very same reasons, and it will be important for legislators to see that school districts are no different. We cannot allow ourselves to be penalized or criticized for being fiscal responsible and prudent with the tax dollars entrusted to us. Please give your legislators specific examples of why you budget for the reserves you carry, and how important this is to keeping your own financial houses in order!

Next steps

We will continue to review the proposal and send more info to you, with talking points. We will need every board member to be engaged with your state legislators as the Governor’s proposed budget is considered first by the House and then the Senate. We must properly invest in educating the next generation of Kentuckians, the future workforce. It seems clear that we must increase state revenue to properly do so, and pass a budget that gets our financial house in order without doing damage, and so we must advocate for legislators to consider tax reform.

Closing with positive notes

The proposal has some positive points. For example, it suspends the awarding of costly new film tax credits by the state. KSBA urges that no new tax credits are enacted, and that all current expenditures are frozen and studied for possible repeal in the interest of the state finances, and so this is a positive step towards that end. The budget also fully funds the ARC for the state employee and teachers’ pension systems. Doing so is vital, and KSBA advocates for such full funding. This is a very good step indeed, but we cannot allow this obligation to swallow up the legislators’ other funding obligation, to our children’s educations, which is the only state constitutional funding mandate!

As always, the LRC Message line is 1-800-372-7181.

Individual legislator offices may be reached by calling 1-502-564-8100.

Please consider coming to Frankfort for the LEAD event on Jan. 31st and Feb. 1st. [Register here.](#)

	16 RS HB 303		18 RS HB 200		FY 18 to FY 19
	2016-2017	2017-2018	2018-2019	2019-2020	
SFCC Total GF	\$ 121,991,300	\$ 134,918,000	\$ 129,286,000	\$ 127,846,700	(\$5,632,000)
SFCC Add'l offers over biennium	\$	91,000,000	\$	58,000,000	(\$33,000,000)
TRS Total GF	\$ 779,248,000	\$ 744,837,200	\$ 768,660,500	\$ 719,474,400	\$23,823,300
TRS state \$ for retiree medical under 65 ret. since July 1, 2010 (included in above TRS total GF)	\$ 46,545,800	\$ 53,948,400	\$ -	\$ -	(\$53,948,400)
KDE LARS Total GF	\$ 1,037,639,100	\$ 1,039,225,600	\$ 938,978,400	\$ 939,158,000	(\$100,247,200)
KDE Health Ins	\$ 694,800,000	\$ 696,247,500	\$ 652,732,000	\$ 652,732,000	(\$43,515,500)
LARS:					
ACT and WorkKeys (or "testing")	\$ 1,236,000	\$ 1,236,000			
Appalachian learning disabilities tutoring	\$ 72,300	\$ 72,300	\$ -	\$ -	(\$72,300)
Commonwealth School Improvement	\$ 1,358,800	\$ 1,358,800	\$ -	\$ -	(\$1,358,800)
Community Education	\$ 1,936,400	\$ 1,936,400	\$ -	\$ -	(\$1,936,400)
Collaborative Center for Literacy Development	\$ 1,225,600	\$ 1,225,600	\$ -	\$ -	(\$1,225,600)
Elem Arts and Humanities	\$ 424,100	\$ 424,100			
Every1 Reads	VETO	VETO			
ESS	\$ 25,510,700	\$ 25,510,700			
FRYSC	\$ 52,148,300	\$ 52,148,300			
Georgia Chaffee Teenage Parent	\$ 227,900	\$ 227,900	\$ -	\$ -	(\$227,900)
Gifted and Talented	\$ 6,622,300	\$ 6,622,300			
Leadership and Mentor	\$ 328,800	\$ 328,800	\$ -	\$ -	(\$328,800)
Local District Life Insurance	\$ 1,483,700	\$ 1,483,700			
Math Achievement	\$ 5,353,600	\$ 5,353,600			
Middle School Academic Center	\$ 339,200	\$ 339,200	\$ -	\$ -	(\$339,200)
Preschool	\$ 90,113,200	\$ 90,113,200			
PD	\$ 11,927,700	\$ 11,927,700	\$ -	\$ -	(\$11,927,700)
Teacher's Professional Growth	\$ 720,300	\$ 720,300	\$ -	\$ -	(\$720,300)
Read to Achieve	\$ 16,999,000	\$ 16,999,000			
Safe Schools	\$ 10,378,300	\$ 10,378,300			
Save the Children	\$ 941,400	\$ 941,400	\$ 1,300,000	\$ 1,300,000	\$358,600
State Agency Children	\$ 10,096,500	\$ 10,096,500			
Teacher Academies	\$ 1,400,800	\$ 1,400,800	\$ -	\$ -	(\$1,400,800)
Textbooks/Inst. Resources	\$ 16,700,000	\$ 16,700,000	\$ -	\$ -	(\$16,700,000)
Teacher Recruitment and Ret	\$ 1,338,200	\$ 1,338,200	\$ -	\$ -	(\$1,338,200)
Virtual Learning	\$ 700,300	\$ 700,300	\$ -	\$ -	(\$700,300)
Writing Program	\$ 534,300	\$ 534,300	\$ -	\$ -	(\$534,300)
Blind/Deaf Travel Program	\$ 525,100	\$ 525,100			
CATS testing					
Dropout Prevention					
Highly Skilled Educators					
Local Voc Schools					
Partnership for Student Success					
School Food Services match	\$ 3,646,200	\$ 3,646,200			
Lexington Hearing and Speech	\$ 100,000	\$ 100,000	\$ -	\$ -	(\$100,000)
Heuser Hearing and Lang Academy	\$ 100,000	\$ 100,000	\$ -	\$ -	(\$100,000)
Visually Impaired Preschool	\$ 100,000	\$ 100,000			
AdvanceKentucky	\$ 1,200,000	\$ 1,200,000			
Teach for America	\$ 250,000	\$ 250,000	\$ -	\$ -	(\$250,000)
KDE SEEK Total GF	\$ 3,035,747,400	\$ 3,024,776,100	\$ 2,899,573,700	\$ 2,899,367,900	(\$125,202,400)
KDE Base SEEK GF	\$ 2,101,558,200	\$ 2,089,985,500	\$ 2,065,477,600	\$ 2,054,139,300	(\$24,507,900)
Federal Stimulus Funds					
SEEK BASE GUARANTEE PER PUPIL	\$ 3,981	\$ 3,981	\$ 3,981	\$ 3,981	-
KDE Transportation	\$ 214,752,800	\$ 214,752,800	\$ 86,946,700	\$ 86,946,700	(\$127,806,100)
Tier 1	\$ 174,548,800	\$ 170,111,400	\$ 179,196,100	\$ 175,950,400	\$9,084,700
Vocational Transportation	\$ 2,416,900	\$ 2,416,900	\$ 2,416,900	\$ 2,416,900	\$0
Secondary Voc Education	\$ 22,881,900	\$ 22,881,900	\$ 22,881,900	\$ 22,881,900	\$0
TRS Employer Match	\$ 388,817,000	\$ 397,482,500	\$ 396,696,800	\$ 414,440,400	(\$785,700)
Supplements for NBCT	\$ 2,750,000	\$ 2,750,000	\$ 2,750,000	\$ 2,750,000	\$0
FSPK - Amounts of GF to equalize nickel levies	\$ 80,109,500	\$ 78,002,400	\$ 86,673,500	\$ 84,695,100	\$8,671,100
Growth Nickel Equalized funding	\$ 17,234,200	\$ 16,414,200	\$ 19,038,400	\$ 18,303,900	\$2,624,200
Retroactive equalized facility funding	\$ 16,377,200	\$ 15,973,300	\$ 21,662,500	\$ 21,219,600	\$5,689,200
Equalized facility funding	\$ 6,829,600	\$ 6,658,300	\$ 7,269,500	\$ 7,133,500	\$611,200
BRAC Equalized Funding	\$ 1,832,000	\$ 1,764,100	\$ 2,057,500	\$ 2,016,800	\$293,400
Equalized Funding Category 5/Critical Const. Needs	\$ 5,639,300	\$ 5,532,800	\$ 6,506,300	\$ 6,473,400	\$973,500