

# School Funding and the State Budget Crisis

Kansas Association of School Boards, November 2008

Like many states, Kansas is facing a significant budget shortfall due to the national economic crisis. So far, school funding has not been affected. That is likely to change in the upcoming Legislative Session. Because over half of the State General Fund (SGF) is school district aid, it will be virtually impossible to address this issue without affecting school finance.

This paper provides background on the reasons for the current budget crisis, how it may affect school finance, and talking points about school funding issues.

## Background: Reasons for the budget crisis

Twice a year, state finance experts and university economists develop a “consensus estimate” of expected revenues for the SGF. The November 2008 consensus estimate lowered revenue projections by \$211 million in the current year (Fiscal Year 2009) and project virtually no growth in revenues for next year (FY 2010).

**Based on current spending levels and future commitments already made, the state faces a \$1 billion difference between revenues and expenditures over the next two years – a deficit of 15.6 percent.**

From the low point of the last recession in FY 2002 through FY 2007, SGF revenues grew from \$4.1 billion to \$5.8 billion – \$1.7 billion or over 40 percent in five years. With that revenue growth, the Legislature enacted a major increase in school funding to settle the *Montoy* lawsuit and other spending increases, adopted a number of tax cuts phased in over several years, and still had an SGF balance of nearly \$1 billion to begin FY 2008.

However, revenue growth has come to a halt. In fact, FY 2009 *receipts* are actually projected to be slightly lower than in FY 2007. But SGF *expenditures* are projected to increase from \$5.6 billion in FY 2007 to nearly \$6.3 billion in FY 2009. (State aid for public education rose from \$2.9 billion in FY 2007 to \$3.4 billion in FY 2009 – 52 percent of the SGF increase.)

As a result, the state not only spent down the entire SGF balance, it faces a \$141.2 million deficit in FY 2009. Because the state cannot end the year with a deficit, the Governor has taken steps to close the gap through spending cuts in other agencies but not state school aid.

The state faces an even larger budget problem in FY 2010. Legislative analysts say with current spending and new commitments, expenditures will exceed projected revenues by nearly \$880 million, or nearly 13 percent of the SGF. Reasons include:

- SGF receipts are projected to be flat between FY 2009 and FY 2010.
- Because SGF spending exceeded receipts, the ending balance dropped over \$400 million in FY 2008 and over \$500 million in FY 2009. Those funds are no longer available.
- The Legislature is already committed to \$211 million in additional spending in FY 2010, including \$142 million for school finance.

## Potential impact on school funding

Although the Governor has not yet ordered cuts in state school aid, her budget division has proposed reducing funding in the current year by \$11 million and an additional \$1 million cut in FY 2010. The Governor will make recommendations on any changes in the current year and propose a new budget for FY 2010, no later than the beginning of the 2009 Session.

Under current law, the state is already committed to \$142 million in additional school funding for FY 2010, as follows:

- *\$59 and the Lock Box.* The 2008 Legislature approved a \$59 base budget per pupil increase for FY 2010, and set aside \$37.2 million in a “lock box” fund to cover this increase.
- *CPI Adjustment.* In settling the *Montoy* lawsuit, the Legislature committed to increase state aid to education (excluding special education), by at least the percentage increase in the previous year’s consumer price index (urban) each year through FY 2010. This would require an additional \$38.4 million more than the “lockbox,” and provide an additional \$40 in the base, for a total of \$99. This amount also includes \$15 million in local option budget (LOB) aid, because LOB usage rises with the base.
- *Special Education.* In settling *Montoy*, the Legislature also committed to 92 percent of the special education cost formula each year, which will require \$33.7 million for FY 2010.
- *KPERS.* The state appropriates the employer’s contribution to the Kansas Public Employees Retirement System for school district employees. Because the system is significantly underfunded, the state has been boosting the contribution rate each year. The increase for the school group in FY 2010 is \$32.8 million. (State employees will require an additional \$9.2 million.)
- *Capital Improvement Aid.* State aid for bond and interest is expected to increase by \$9.6 million, due to the significant bond issues approved by voters in November. Capital Outlay State Aid is expected to increase by \$3 million.

The Legislature will certainly consider eliminating the increase in base state aid per pupil. Another option is to freeze total education aid at current levels. However, it is unlikely the Legislature would freeze Capital Improvement Aid, which would require local property taxes to make up the difference and could hurt bond ratings. Likewise, the Legislature would probably be reluctant to reduce KPERS state aid, and might continue its commitment to special education. But if overall state aid is frozen, cuts would be necessary to offset those increases – probably by reducing the base budget per pupil.

However, simply limiting school district aid in FY 2010, to the same limit as FY 2009, would save only \$142 million out of a much larger shortfall, which could lead to consideration of deeper cuts in school funding. Faced with a \$1 billion deficit, a proportionate reduction for education (52 percent of the state general fund budget), would be over \$500 million – approximately the total increase received under the “three-year plan” passed after the lawsuit.

As the 2009 Legislature prepares to address these critical budget issues, a number of important points about education and school finance must be kept in mind.

## Key Talking Points for School Funding

### **K-12 education is critical to long-term economic security.**

- For decades, average earnings have been rising for persons with higher levels of education, while those with a high school diploma or less have been falling behind.
- Most states that rank high in per capita income have high education attainment, while states with low education levels have much lower income and higher poverty.
- Well-educated workers and good schools for managers and employees are among the top factors for business expansion or retention, especially for high skill, high wage employers. In a knowledge-based, global economy, communities, states, and countries with the best educated, most productive people have the advantage.

### **With increased funding, Kansas schools have made enormous educational progress.**

- Since 2000, school district budgets and state aid have increased by 42 percent. At the same time, student proficiency in reading increased by 42 percent, math by 61 percent, science by 53 percent and history/government by 43 percent on state assessments.
- Much of the additional funding has been targeted at low income, minority, disabled, and English Language Learner students. Test scores of each of these groups have increased faster than average, narrowing the “achievement gap.”
- Kansas ACT scores have increased for six straight years. Kansas ranks fifth among states where a majority of graduates take the ACT. More students are taking college prep courses.
- Since the federal government began requiring all states to participate in the National Assessment of Education Progress reading and math tests, the combined Kansas ranking has increased from 12th in 2003 to 10th in 2005 and 7th in 2007.
- Despite annual increases in requirements for schools to make Adequately Yearly Progress (AYP) under NCLB, the number of schools making AYP increased last year.

### **Cutting education funding will put educational progress at risk and hurt students.**

- Money matters. The 2006 Legislative Post Audit Educational Outcomes Cost Study found a nearly one-to-one relationship between Kansas school spending and academic results.
- A follow-up report by Post Audit in 2008 found that 80 percent of the additional funding went to direct classroom instruction, including teacher salaries, and to improve teaching and assist students.
- Districts also significantly increased early childhood programs. Research shows high quality pre-school improves graduation rates and lowers crime and other social costs.
- Because school districts have so many mandates and fixed costs, funding reductions will have to come from many areas added to help students: new positions, after school and summer school tutoring, early childhood, health, counseling, and transportation.

### **School districts have unique challenges when facing budget cuts.**

- Public education is required by the Kansas Constitution. Most state and local government programs provide services as long as they have funding to do so. Public schools must provide mandated services to all eligible children, regardless of funding.
- The Legislature and Kansas State Board of Education have to set specific performance standards and curriculum requirements for public schools. Districts can't simply decide to cancel core subjects, drop grade levels or ignore test scores and graduation rates to save money.
- School districts differ from higher education and state agencies in other important ways. Over half the average district's budget goes to classroom teachers and other professionals. Teacher salaries are subject to negotiations under state law. Most classroom teachers are also guaranteed tenure or due process rights, even if a district must reduce staff for budget reasons.

### **Cutting education will make the state economic outlook worse, not better.**

- Tax dollars to fund schools are not removed from the state's economy. Those funds are immediately returned in wages and purchases, almost all spent in Kansas. Increased school spending helps the economy; cutting spending hurts it.
- School districts are major employers, accounting for at least 3.6 percent of jobs and 4.5 percent of wages paid in Kansas. Because most school spending goes to personnel, cutting school funding will result in lost jobs and lower wages. Fewer jobs and lower wages in school employment have the same impact as in private employment: employees will have less to spend, save and invest, resulting in a deeper recession.
- Because school districts spend the vast majority of their budgets in Kansas, cutting school funding will affect businesses that supply goods and services to districts.

### **The Legislature has options to consider before making harmful cuts to education.**

- Although the economic crisis is the major factor in slowing revenues, it is not the only reason. The Legislature has adopted a number of tax cuts that are being phased-in, usually promoted as a way to encourage economic development.
- In addition, the state has previously adopted numerous tax cuts and exemptions, and transfers of revenues that previously went to the SGF, to other programs. All of these "tax expenditures" should be evaluated just as closely as direct expenditures from the SGF.
- In 2002, to avoid deep, damaging budgets that would worsen the recession, the Legislature adopted a \$252 million tax increase. Over the next five years, the economy rebounded, SGF receipts increased more than projected, and personal income grew by 28 percent.
- The Legislature should encourage the federal government to provide assistance to state and local governments, including school districts, to minimize cuts in service and further economic damage.