

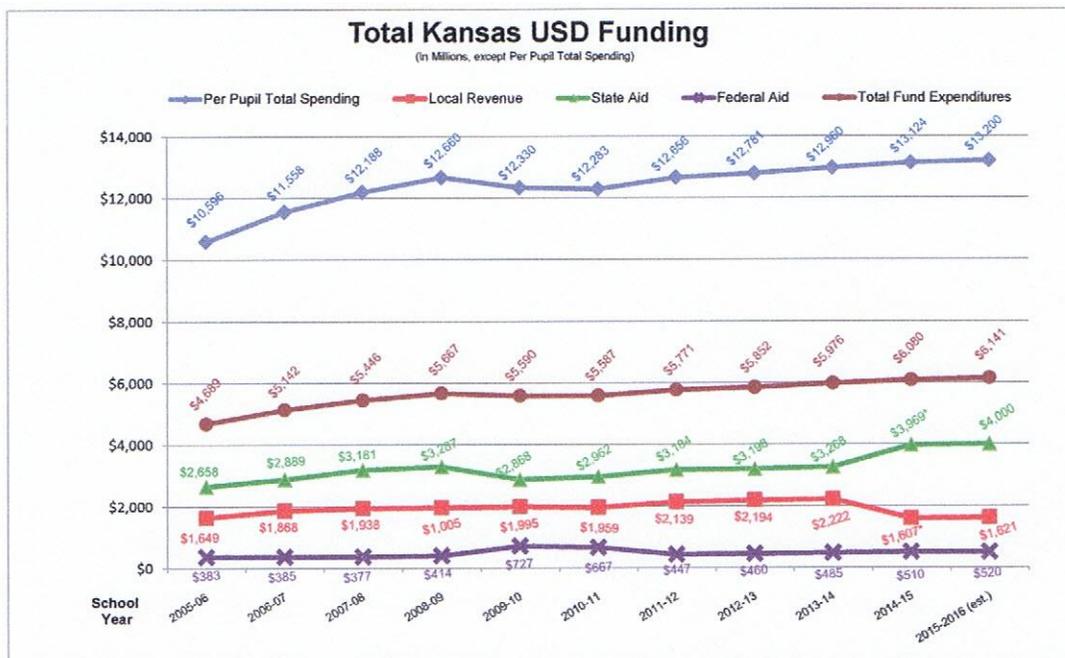


2016 Topics of Special Interest:

K-12 Education:

The question that we should all ask is, “How much is enough?” The K-12 budget is currently over 50% of the state’s budget each year. The fastest growing areas within their budget are bond and interest, and administrative positions at 34% and other non-teacher positions growing to a 42% increase since 1993. All the while, the number of classroom teachers has increased 14% and the number of students at 7%. The Kansas Association of School Boards (KASB) and the KNEA always argue that more money is the answer to every issue that comes up. However, in the last four years the taxpayers have added more than \$300 million to their budget, and most recently the Kansas Board of Education (KSBOE) has announced they want an increase of **\$900 million** over the next two years. Meanwhile the test scores, ACT and NAEP, have either remained level or have actually fallen.

According to the Kansas Department of Education (KSDE) the following graph illustrates the expenditures over the last several years, on an average per student basis.



A closer look reveals funding was over **\$6 billion** dollars last year. The per pupil funding averages about \$13,200. But the range of the per student funding across the state within school districts is wide, for the 2014 – 2015 school year it was \$8,690 - \$25,049. Generally speaking, the cost per student goes up dramatically for the smaller districts and slightly increases again for the largest districts from a baseline for the mid-size school districts.

The recent Kansas Supreme Court decision relating to equity very simply states that every school district should be evaluated for state funding on their taxing ability. In other words, if their per student property valuation is unequal to the other school districts, then the state is responsible for equalizing the difference. With 286 school

districts along with the variability of property evaluations each year, this process becomes very complicated and will lead to confusion during the budgeting process each January with new property valuations.

The court has also announced they will take up the case involving adequacy this autumn. The plaintiffs are arguing that the funding allocated by the legislature just isn't enough to adequately educate the children. If the court agrees, this could potentially cause them to ask the legislature to add another \$900 million as requested by KSBOE to the K-12 budget. This will cripple the state's budget for the foreseeable future.

For the original law suit that began in 2003, 43 school districts were involved in the suit as plaintiffs. There are four involved in the most recent law suit (Gannon case). Together, school districts have spent over \$1.9 million dollars of taxpayer money for attorneys so far. Each school initially was required to pay about \$6.25 per student head count to enter into the case. The four USD's involved in the most recent case paid about \$12.73 per student head count. Would those dollars have been better used in the classroom?

Taxpayers are paying for the law suits. My question is: "Couldn't the situation have been resolved by going to the State Board of Education before bringing suit against the state?" Additionally, taxpayers are paying for school memberships to the KASB that by definition is a lobbying organization for the USD school boards. The total last year that the USD's paid to KASB was \$2.4 million. The USD's also paid to KASB an additional \$553 thousand towards the legal advocacy fund. To be fair, not all USD's belong to the KASB. That totals about \$5 million that should have gone to teacher's salaries or other classroom needs.

In most USD's the teacher's union, KNEA, represents the teachers each year for salary negotiations with the school boards. The belief that the legislature determines any salaries at the school district level is false. The local school boards determine salaries.

Each year the schools submit a budget for the upcoming school year to the State School Board of Education. Those budgets represent what they would like to have to fulfill their needs. While these requests cannot be granted because of budget constraints, **it does not mean a budget cut** if the amount they receive is greater than what they received the previous year. The legislature passed the "Block Grant" funding system two years ago that funded each school with more money than they received the previous year. Even without including KPERS funding added into the totals, each year there was an increase. We must have a new funding mechanism for the 2017 – 2018 school year. Each school knows what they will receive, there is no mystery. Each year the legislature has passed a law that protects those funds from the Governor's ability to cut that funding. The control of funding remains with the local school districts and the local school boards. I chaired the special joint (House and Senate) interim committee last year that gathered a great deal of factual information that will be used to develop a new funding mechanism. At no time during these hearings was school closures discussed.

KPERS:

KPERS, also known as the Kansas Employee's Retirement System, is essentially a contract between the taxpayers and their public servants implementing a system of retirement benefits involving a defined benefit plan. There are five groups within the KPERS system. They are the Judges Retirement System, KPERS-School (previously the Kansas School Retirement System), KPERS-State, KPERS-Local, and the Kansas Police and Fire (KP&F) Retirement System. The total KPERS fund is discussed often, but the five parts are of importance.

The overall KPERS system is currently funded at approximately 62%. However, the Legislature approved \$1 billion in bonds in 2015 to improve the funded ratio. The bonds were sold in August 2015 and improved the funded ratio approximately 5% (to about 67%). The System currently has an unfunded liability of about \$9.5 billion, but is expected to drop to about \$8.5 billion with the addition of the bond proceeds. It was this unfunded liability that contributed to the state's bond rating being downgraded. At the time of the downgrading, the system was about 60% funded. The return on investment (ROI) has declined the last couple of years, making the

unfunded liability difficult to erase in today’s market place. However, the legislature has maintained a contribution plan with the goal to fully fund the System by the end of the current amortization period, FY 2033.

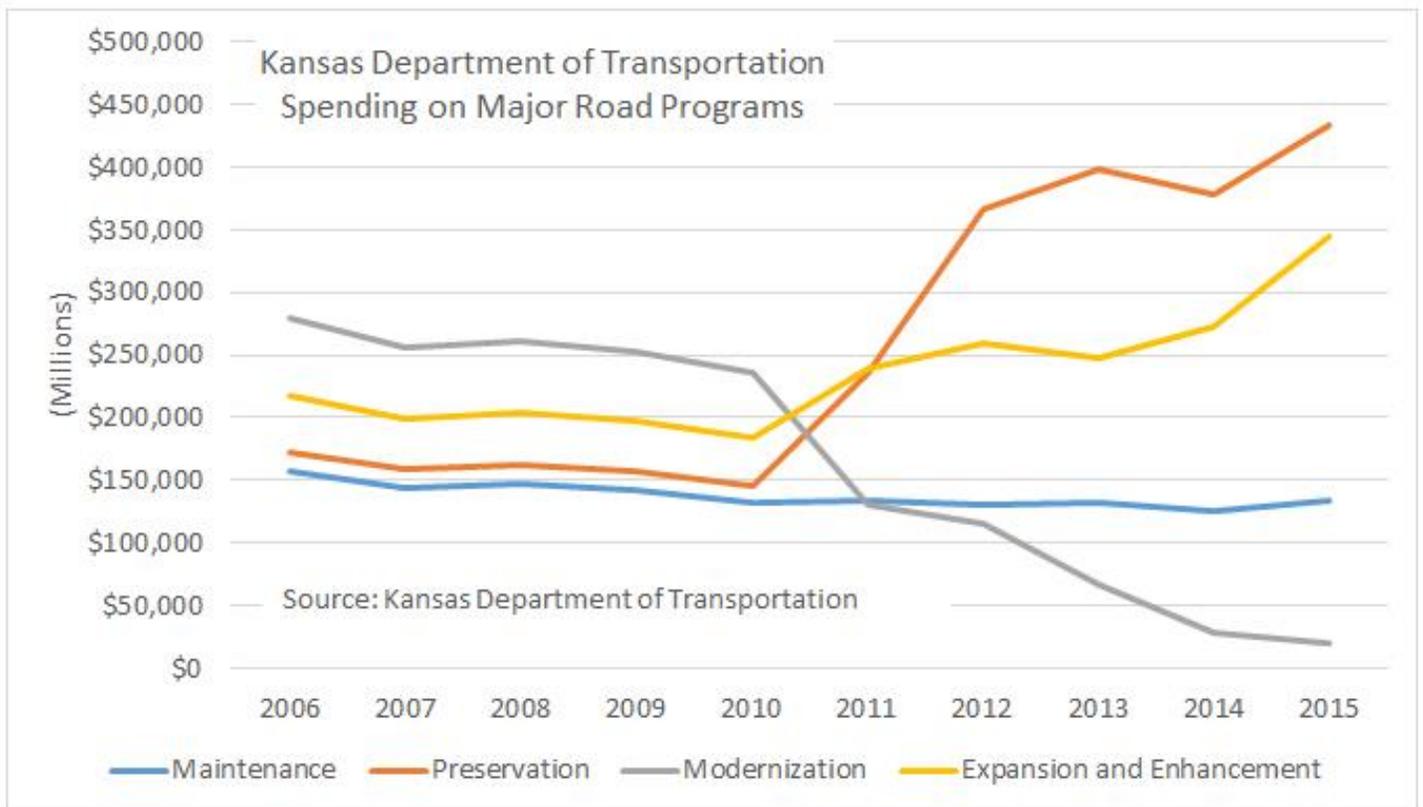
The KPERS-School portion warrants special attention. Before 1971, most school employees were members of the Kansas School Retirement System (KSRS). That system was designed to be a pay-as-you-go system, and the legislature merged that system into the current KPERS system to fund it on an actuarial basis. That move brought an unfunded liability of \$195 million with it. As of the last valuation, the school portion of the KPERS system was less than 55% funded and because it represents a large portion of the overall plan, it affects the funded ratio for the System as a whole. Changes are being made and will continue to be made to “catch up” the school employee’s portion of the plan. For example, the next valuation is expected to show the School Group’s funded ratio improving to about 61% with the addition of the bond proceeds.

The assets within the KPERS system are not available for use other than its intended use for retirees. Payments have been delayed in FY 2016 with legislative approval but only with the stipulation that it be repaid with 8% interest. Retirement disbursements have not been affected nor will they be.

KDOT:

KDOT, also known as the Kansas Department of Transportation is run by the Secretary of Transportation who is appointed by the Governor. A few years ago, following reorganization, the Secretary also became the Director of the Kansas Turnpike Authority (KTA). They both remain separate agencies; however, both are run by the Secretary. The duplication of services and personnel were the reasons for the reorganization. Under the current organization structure, there have been several changes that have resulted in overall savings.

The KTA is funded fully by tolls and bonding authority. KDOT is funded primarily by the federal government, a portion of the state’s sales tax receipts, motor fuel tax receipts and their bonding authority (ability to borrow). In 2015 that funding amounted to \$1.7 billion. Some of those funds have been moved to fund other areas of the state budget that are considered priority, especially during the last two years. However, the money spent on construction contracts has increased as the following graph shows.



The funding for both preservation and expansion and enhancement have both gone up since 2010 and the maintenance has remained relatively flat. In 2015 the Department of Transportation let \$669 million in contracts to construction companies. The modernization fund has gone down and was the fund used for meeting budget needs. Modernization includes work such as the addition of shoulders, passing lanes and remediation of hills and curves. Expansion projects add capacity to the highway system.

Kansas has 140,476 miles of road representing 21 miles of road for each resident of the state. About 100,000 miles of those roads are non-paved. Yet our roads are rated either 4th or 5th nationally. 97% of the interstate highway system is rated as in good condition and 90% of the non-interstate roads are also rated as in good condition. The bridge system is rated as 87% being in good condition. Our road systems are currently in good shape and are being maintained. New projects are being delayed out of necessity. We are monitoring the situation closely and looking at all agencies for inefficiencies where their budgets can be reduced so that utilizing KDOT funds to balance the budget will not be needed in the future.

Kansas Debt:

An area that deeply concerns all of us is the amount of debt we as a state carry. This debt includes school bonds, county bonds, city bonds, KDOT bonds and many other agencies with bonding authority. As of July 1, 2015 the debt was \$24,230,738,589. That amount does not include the unfunded liability for KPERS that amounts to approximately \$9.5 billion. To put that in perspective, each taxpayer owes approximately \$16,491.71 at this point to pay off the debt.

If we discuss the national debt that is about \$19.4 trillion and with the Kansas debt added in, each Kansas taxpayer owes \$178,142 to balance the books.

The US Government can print money but the state cannot. We must live within our means and save for projects instead of borrowing unless absolutely necessary. The Midwest has been hit harder than other areas of the country by the recession. Much of our revenue depends on gas, oil, and farm commodities prices. Additionally everyone knows that medical expenses have gone up and the proliferation of federal regulations is adding cost to everything we purchase, to include electricity. As everyone knows they are depressed and have been for an extended period of time. Every family and individual cuts back during times of decreased income, and there is no reason the state agencies cannot cut back as well. KDOT has already done their part. A new law passed last year, that will make the process easier, requires all agencies to present the legislature with a new priority based system. This creates transparency where we will be able to see duplication across agencies and areas where money has been allocated but the service is no longer needed. The time for common sense and a willingness to ask the difficult questions is long overdue. The legislature's primary constitutional duty is to balance the budget every year. Every legislator and state employee's sole purpose is to be a servant of the people by representing taxpayers and ensuring that every dollar is spent wisely for the purpose it is intended.

References:

Population Data: www.ipsr.ku.edu/ksdata/ksah/population National Debt: www.usdebtclock.org
State indebtedness: www.kansasstatetreasurer.com KDOT: www.kdot.org
K-12 School data: www.ksde.org KPERS: www.kpers.org
Taxpayer information: www.KSRevenue.org

At my website, www.ronhighland.com, you can find a syllabus that explains in detail how to get the legislative information you need. The web site also has all my updates and other information of interest. My contact information is: Rm 561 W, State Capitol, Topeka, Kansas, 66612; and ron.highland@house.ks.gov or rep.highland@gmail.com. It is an honor and a privilege to serve you.