

To: Board of Education

From: Kyle Hayden, assistant superintendent, business & operations, ext. 4309
David Cunningham, director, human resources & legal services, ext. 4937
Kathy Johnson, director, finance, ext. 2376

Re: Legislative & School Finance Update and Possible Board Action

Date: June 23, 2016 (Revised June 27, 2016)

Background:

On June 13, administration provided the Board of Education with a report regarding the current status of Kansas legislative and Supreme Court action related to the *Gannon II* case. Administration discussed what a potential shutdown would look like and how the district would need to respond. Specific discussion occurred around how this issue could negatively impact students, staff, district operations and the community. Administration explained that if the issue remained unresolved as of July 27, recommendations for board action would need to be considered.

As a reminder to the board and community, what follows is the background related to this issue:

On February 11, 2016, the Kansas Supreme Court gave the Legislature until June 30, 2016, to cure the constitutional inequities created by the Classroom Learning Assuring Student Success Act (the CLASS Act), which was enacted through Senate Bill 7 in 2015. In response to the Court's order, the Legislature passed and the governor signed Senate Substitute for House Bill 2655, which the legislature feels addresses the inequities found in the CLASS Act.

Oral arguments were held on May 10, 2016 to determine whether HB 2655 cured the inequities identified by the Court in *Gannon II*. The Court determined the Legislature has cured the unconstitutional inequities in capital outlay. The Court held that HB 2655 failed to cure the Local Option Budget (LOB) inequities found to exist in *Gannon II*. The Court found that applying the capital outlay aid formula to LOB actually increases the inequality among districts and stressed that just because it is constitutional in calculating capital outlay aid does not mean it works for LOB.

The Court found that at best the "hold harmless" provision returns districts to 2016-2017 CLASS distribution amounts, which the Court held in *Gannon II* as unconstitutionally inequitable. The Court points out even more inequities are created when the "hold harmless" funds are deposited in a district's general funds, because they then have the opportunity to raise even more LOB money, which is not equalized.

The Court is still giving the Legislature until June 30, 2016 to cure the LOB inequities. The Court has not said it would "close schools" if the Legislature does not comply by June 30. Instead, it said it could not allow money to be "raised, distributed or spent" under an unconstitutional system, which means districts would not be able to receive or spend funds. The Court has not yet provided any guidance on exactly what would be allowed or disallowed.

The next step is up to the Legislature. It must determine how to respond to the ruling. The Court is continuing to give the Legislature the same deadline to address the issue. A special legislative session began on June 23 to address the ruling.

The plan laid out by the Legislature on June 24, 2016 will impact Lawrence USD497 as follows, based on 2015-2016 information and subject to change with final 2016-2017 budget documents:

- LOB state aid increase of \$1,533,869: no new money, property tax relief only, estimating a 1.5 mill decrease on the LOB mill levy as a result.
- Capital Outlay State Aid of \$656,309: for capital outlay fund expenditures only, no change to general operating dollars and no impact to the mill levy.
- General Fund State Aid: tied to Virtual Education Enrollment, will remain at the current year funding level.
 - 2016-2017 funding level would have provided new dollars to the district in the amount of \$639,600. This amount of new money will not be realized.

Rationale:

Due to the school year end of June 30, 2016, although the outcome of the June 23 special legislative session is now known, the Kansas Supreme Court opinion on the financial equity of the legislative actions from that special session and possible school closure is still unknown. It is important that the district plan for multiple scenarios that will meet the financial obligations of the district with minimal impact to employees, vendors, students, parents and the community and still keep the district moving forward in preparation for the opening of school in August 2016.

Immediate items include, but are not limited to:

- ✓ Allowing the approval and payment of vendors after June 27 and between board meetings in order to timely meet the financial obligations of the district.
- ✓ Release early on June 30, 2016 the classified hourly employee payroll checks for the period ending June 24, 2016, check date scheduled for July 8, 2016.
- ✓ Release early, if necessary, certified teacher non-balance of contract payments dated July 20, 2016 and/or August 20, 2016 if the court school closure requirement prevents staff from performing the tasks necessary to release the funds for the non-balance of contract payrolls at the designated dates after June 30, 2016.
- ✓ Allow for the continued operations of the district. District staff contracted during the summer, will continue to work their duty days in preparation for the start of school in August 2016 and staff will be paid from available cash reserves as long as the district is able to sustain financially.
- ✓ Allow for staff to be paid retroactively, if allowed by the courts to work and they actually perform the work, but also rule districts cannot disburse funds. Staff who choose to not work, even though allowed, would be required to use leave or be unpaid for those days.
- ✓ Allow for all staff, hourly and salaried who have contracted days during the school closure and are ordered by the courts to not be on site during the shutdown, to be paid for their contracted time.
- ✓ Allow for the use of district facilities currently scheduled for use after June 30 and allow for a staff member, if necessary, to be on site and paid for their time, once schools are allowed to disburse funds.

Recommendation:

Due to the dynamic environment and pending unknowns that currently exist with school funding and operations, administration recommends that the board authorize the superintendent to make decisions, at his discretion, that include but are not limited to the items outlined above in order to continue to prepare for the upcoming school year.

Motion:

"I move the Board of Education authorize the superintendent to make the necessary decisions, at his discretion, including but not limited to the items outlined in this enclosure and within compliance of the courts and other legal and statutory provisions, in order to prepare for the upcoming school year and ensure minimal disruption to the operations of the district, while still maintaining financial stability."