

Fiscal Estimate Narratives

DPI 2/23/2023

LRB Number	23-0073/1	Introduction Number	SB-0062	Estimate Type	Original
Description the timing of equalization aid payments to school districts					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, the department (DPI) pays equalization aid to school districts for each school year in the following four installments: 15 percent in September, 25 percent in December, 25 percent in March, and 35 percent in June.

This bill increases the percentage of equalization aid distributed in September by 2 points each school year and decreases the percentage of equalization aid distributed in June by 2 points each school year, until the 2027-2028 school year, at which time the amount of equalization aid distributed in both September and June will be 25 percent. The result is that equalization aid will be paid to school districts in four equal installments beginning in the 2027-28 school year.

Local impact: Indeterminate, but potential for reduced short-term borrowing costs for some school districts.

Under the bill, the total general/equalization aid eligibility would not be impacted, but the distribution of it throughout the school year would change. School districts would receive more of their aid in the September payment, and less of their aid in the June payment, as compared to current law.

Some districts rely more on short-term borrowing than others (e.g., districts that receive little or no state general aid may choose to short term borrow to manage cash flow until they receive revenues from their property tax levy – a good share of which is distributed to school districts in August, after the school year has ended.) To the extent that the bill reduces the need for short-term borrowing, districts may save on costs associated with short-term borrowing. The amount of those savings would vary from district to district and cannot be projected by the department.

State Impact: Indeterminate, but potential for loss of revenue from interest earnings.

As general/equalization aid payments are phased into an equal, quarterly installments schedule, as proposed in the bill, the state's general fund would be subject to changes in cash balances/cash flow, compared to current law. The state appropriation for general / equalization aid is \$5.2 billion in FY23; a change of two percentage points would create a not insignificant swing in the state's general fund balance, and would very likely impact the interest earnings for the state (though, because the change would be phased in over five years, the impact would be incremental). The department is not able to estimate the impact on the interest earnings related to the state's general fund.

Long-Range Fiscal Implications