School Administrators Alliance
Representing the Interests of Wisconsin School Children

TO: Senate Committee on Education
FROM: John Forester, Executive Director
DATE: April 21, 2021
RE: SB 177 – Payment of State Equalization Aid

The School Administrators Alliance (SAA) supports Senate Bill 177, relating to the payment of state equalization aid to school districts. The SAA supports this bill because it will improve cash flow and lower short-term borrowing costs for most Wisconsin school districts. And these savings could then be repurposed for the classroom or other annual budget uses. We thank the authors for bringing this bill forward.

The current school revenue distribution schedule in Wisconsin is end-loaded, with most of a school district's revenue arriving, in the form of local property taxes and state aid, more than six months after the beginning of the fiscal year (July 1). For example, under current law, a school district receives 15 percent of its state general aid in September, 25 percent in December, 25 percent in March, and 35 percent in June after the conclusion of the school year and close to the end of the fiscal year. Other factors contributing to school district cash flow challenges include:

- Some general aid is paid to districts in July after the end of the fiscal year.
- Districts receive no general aid in August, October, November and May.
- Districts receive no property tax revenue for the first half of the fiscal year (July through December).
- The $1.09 billion in school levy tax credits are received by districts in August after the fiscal year is over.

SB 177 addresses these district cash flow challenges by paying equalization aid to school districts in four equal installments of 25% each after a five-year phase-in. The five-year phase-in, as well as addressing this issue in a low interest rate environment like we have now, will serve to limit the state fiscal impact of adopting this bill.

Some argue that passage of this bill will automatically mean that school districts will: 1) discontinue plans to build a larger fund balance, or 2) reduce the amount of fund balance they are carrying. Some districts may be able to do that, and we applaud the fiscal flexibility afforded under the bill. However, Wisconsin has 421 school districts. Each district operates under unique fiscal and educational circumstances and has unique reasons for building its financial cash reserves. Therefore, blanket statements or general recommendations cannot possibly cover all the unique situations that necessitate a larger or smaller district fund balance.

Allow me to share just a couple of examples. School districts that receive little or no state general aid will still need to carry significant cash reserves to meet their cash flow needs, even if the bill is adopted. In addition, for the more than 60 percent of school districts that are currently in declining enrollment, sufficient cash reserves allow these districts to better manage the decline.

In closing, I would like to share with the committee several reasons, other than cash flow purposes, why sufficient cash reserves are so important to Wisconsin school districts.

- A district's financial cash reserves must be adequate to protect the short-term and long-term educational opportunities for that community's children against some type of financial disruption.
- Provides a way to set money aside for planned and unplanned expenses such as repairs (roof), maintenance (new heating systems etc.), catastrophic (or near catastrophic) events, or major purchases (buses, textbooks, new educational programs).
- Sufficient cash reserves insulate districts against revenue loss and instability. Uncertainty about state and federal funding and the myriad problems posed to school districts in declining enrollment are among the biggest reasons that districts add to their fund balances.
- The establishment of sufficient and stable district cash reserves is considered a prudent business practice that will result in higher credit ratings and lower district borrowing costs.

Thank you for your consideration of our views. If you should have any questions regarding our thoughts on SB 177, please call me at 608-242-1370.

WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION

Carolyn Stanford Taylor, State Superintendent

Senate Committee on Education
April 21, 2021

Department of Public Instruction Testimony
for Information on Senate Bill 177

The Department of Public Instruction (DPI) appreciates the opportunity to provide Chairwoman Darling and members of the committee this written testimony on Senate Bill 177 (SB 177), which would impact equalization aid payments.

Background

The two major sources of Wisconsin school district revenue are general school aids—equalization, special adjustment, and integration transfer aids—and property taxes.

Under current law, DPI pays general school aids to school districts in four quarterly installments: 15 percent in September, 25 percent in December and March, and the remaining 35 percent in June. The September payment of equalization aid is based upon the prior year's final eligibility, while the other payments are based upon the DPI October 15 certification of general school aids and include both equalization and special adjustment aids. Any integration transfer aid is paid in June. $75 million of the June amount is paid in July as a deferred payment, which school districts record as a June 30 revenue.

The other major source of school district revenue, property taxes, is received on a very different schedule. Most funds come in with the January and February settlements from municipalities to school districts. A small portion is received in March as part of the settlement between counties and the state. Finally, districts receive any property taxes due, but not yet received, in the August county settlements. There are additional monthly settlements between March and August where municipalities have adopted the installment option under Wis. Stat. § 74.12.

Analysis

Senate Bill 177 would shift payments from the June installment back to September over the next five years until all four payment percentages are equal, with school districts receiving less in June and more in September than under current law.

The impact of the two revenue sources, general school aids and property taxes, on school district cash flow depends in large part on the school district's position in the general school aid formula, since general state aids offset property taxes under the revenue limit. A highly aided district would see a cash flow impact from Senate Bill 177, while a district receiving little or no aid (and thus largely reliant upon property taxes) would not be affected.

Some districts rely more on short-term borrowing than others, depending in large part on how much they receive between general school aids or property taxes and the amount of fund balance available to meet their cash flow needs. To the extent that the Senate Bill 177 would reduce the need for short-term borrowing, districts may save on interest charges and related borrowing costs, but the amount would vary among districts and cannot be projected by DPI.

A further impact of Senate Bill 177 relates to open enrollment. Transfer payments between resident and nonresident districts are made in June. A district with more students leaving the district than entering under open enrollment has a net liability withheld from its general school aids. If the expected June payment is greater than the district's expected open enrollment liability, DPI withholds funds first from earlier payments of general school aids, and then other state school aids due to the district. Reducing the June payment by 10 percent will increase open enrollment withholdings from earlier payments, but specific district impacts will vary and are indeterminate at this time.

If you have questions about this testimony, please contact Grant Huber, Legislative Liaison, at grant.huber@dpi.wi.gov.

ANDRÉ JACQUE

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Testimony before the Senate Committee on Education
State Senator André Jacque
April 21, 2021

Chair Darling and Members of the Senate Committee on Education,

Thank you for holding this hearing and the opportunity to testify before you today in support of Senate Bill 177, bi-partisan legislation equalizing quarterly school aid payment distribution.

One area where choice schools, public schools and CESA's have found agreement is the need to reform the K-12 funding distribution model.

Currently, school districts and choice schools receive 4 payments per school year at various levels to meet their operational needs. They receive state aid in payments of 15% in September, 25% in December and March, and 35% in June. Current law also allows for school districts to opt to receive their funding in 10 equal payments from September to June. However, no school district currently uses this option as they would be required to forfeit a portion of their state aid for the state to recover lost interest due to more frequent payments. Instead, they use the quarterly model which creates additional costs for schools districts.

Senate Bill 177 will increase the percentage of equalization aid distributed each 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 2025-26 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 2025-26 school year.

This model provides further assistance to schools and school districts to manage their cash flow and budgetary needs. In some instances, due to the current quarterly model, school districts have to take out short term loans to fulfill their payments. Once they receive their next quarterly payment they are able to repay the loan but they incur additional cost due to the interest of the loan. Further this model provides opportunities for schools to rethink their cash reserves, to consider self-insurance models, to rethink legacy model and infuse innovation. Ultimately, this helps put more cash in the classroom and stops short term borrowing that wastes dollars that could be going to our children's education.

This proposal passed both Senate and Assembly Education Committees with unanimous 9-0 and 14-0 votes last session and was formally supported by the Association of Wisconsin School Adminstrators, Wisconsin Rural Schools Alliance, Wisconsin Association of School Boards, Wisconsin Association of School Business Officials, Wisconsin Association of School District Administrators, Wisconsin Association of School Personnel Administrators, and Wisconsin Council for Administrators of Special Services.

Thank you for your consideration of Senate Bill 177.

WASB
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JOHN H. ASHLEY, EXECUTIVE DIRECTOR

TO: Members, Senate Committee on Education
FROM: Dan Rossmiller, WASB Government Relations Director
DATE: April 21, 2021
RE: SUPPORT for SENATE BILL 177, relating to the timing of equalization aid payments to school districts.

The Wisconsin Association of School Boards (WASB) is a voluntary membership association representing all 421 of Wisconsin's locally elected public school boards.

The WASB **supports** Senate Bill 177, a simple and common-sense bill which stems from the recommendations of the Blue Ribbon Commission on School Funding.

Under current law, the DPI pays state general equalization aid to school districts in four installments: 15 percent in September, 25 percent in December, 25 percent in March and 35 percent in June.

The current system is back-weighted, meaning districts get more of their state aid at the end of the school year than at the beginning. One consequence of this is that many districts, especially those that receive substantial amounts of equalization aid, find their cash flow is troublesome in November and early December before the second aid installment is received and before any property tax revenues are received.

Senate Bill 177 would change the aid payment system to provide for four equal installments of 25 percent each. The bill would not affect the total state aid a district is eligible to receive and it would not change the timing of when the four major state aid payments come to districts. It would simply decrease the percentage paid in June by 10 percent over a five-year phase-in period and increase the percentage paid in September by 10 percent over a five-year phase-in period so districts would receive more of their aid earlier in the school year.

When the change is fully phased in in 2025-26, districts that receive a substantial portion of their state support through equalization aid will get an even delivery of such aid. With the receipt of this aid moved earlier in the school year, we believe the bill will improve many districts' cash flows, allowing school boards to avoid or lessen the need for short-term borrowing. Lessening short-term borrowing costs means more resources can be put toward educational programming rather than interest payments. This might also allow many boards to maintain a slightly smaller fund balance. For districts that receive little or no equalization aid, the bill will have a proportionately smaller positive impact on finances, but it will not be harmful in any way.

WASB members have adopted a resolution calling on our association to support the payment of equalization aids in installments of 10 percent in August, September, January, and February, and 15 percent in October, November, December, and June. Although this bill reflects a slightly different allocation of installment payments, its effect is similar in that it would allow districts to receive more of their state aid allocation earlier in the school year.

For all of these reasons, the WASB encourages you to support Senate Bill 177.