



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #551

Buyback of Current Law General School Aid Payment Delay (DPI -- General School Aids and Revenue Limits)

[LFB 2019-21 Budget Summary: Page 316, #3]

CURRENT LAW

Equalization aid is distributed to districts according to the following payment schedule: 15% on the third Monday in September; 25% on the first Monday in December; 25% on the fourth Monday in March; and 35% on the third Monday in June. The state pays \$75 million of equalization aid on a delayed basis, with districts receiving these monies on the fourth Monday in July of the following school year. Total aid entitlements on each of the four main dates are reduced by the percentage that generates the \$75 million amount for the school year.

GOVERNOR

Provide \$75,000,000 GPR in 2019-20 for general school aids and, beginning in the 2019-20 school year, delete the current law provisions under which the state annually pays that amount of aid on a delayed basis on the fourth Monday in July of the following school year. To distribute the correct amount of funding, specify that, for the purpose of calculating general school aid in the 2019-20 school year, DPI would treat the appropriation as if there were no buyback.

DISCUSSION POINTS

1. The current law equalization aid payment delay was enacted in the 1997-99 budget act, beginning with aid for the 1997-98 school year.
2. The \$75 million in delayed equalization aid payments represents 1.7% of the \$4,484.7 million in net equalization aid that will be paid to school districts in 2018-19.

3. The delayed aid payment contributes to the state's deficit in the general fund under generally accepted accounting principles (GAAP). As reported in the Comprehensive Annual Fiscal Report, the state had a \$1.25 billion GAAP deficit in 2017-18. In the Budget in Brief document, DOA estimates that the GAAP deficit will be \$1.21 billion in 2018-19 and \$1.08 billion in 2019-20 and \$2.20 billion in 2020-21 under the budget bill.

4. The delayed school aid payment could also contribute to the need for districts to do short-term borrowing for cash flow purposes. General school aids and property taxes typically make up the largest portions of school district budgets. In addition to the aid payment schedule noted above, property tax settlements by municipalities to other taxing jurisdictions, including school districts, are required in January, February, and August. Receiving additional state aid on the four main payment dates could reduce the need for cash flow borrowing, especially by more highly-aided districts.

5. The delayed aid payment, however, has been a part of the school finance system for over two decades. Because the \$75 million is a fixed number, it has represented a smaller percentage of equalization aid funding paid to districts as overall funding has increased over that time. In the first year of the payment delay, the \$75 million represented 2.2% of equalization aid funding paid.

6. One factor contributing the increase in the GAAP deficit in 2020-21 under the bill is the proposed reallocation of the school levy and first dollar tax credits to general school aids, which DOA estimated would increase the GAAP deficit by \$279 million in that year. Under prior Committee action, the bill provision to reallocate funding from those property tax credits to the general school aids appropriation was deleted.

7. Other options are available if the Committee would choose to modify the aid payment structure to improve school district cash flow. One of the recommendations forwarded by the Blue Ribbon Commission on School Funding was to modify the disbursement schedule for equalization aid so that districts would receive four equal payments of 25% in September, December, March, and June by 2023-24. Under this approach, the September payment would increase by two percentage points and the June payment would decrease by two percentage points each year, beginning in 2019-20, for five years. Had this alternative been fully effective in 2018-19, approximately \$450 million in aid payments would have been shifted from June to September. Under the phased-in approach, state general fund interest earnings would be reduced by an estimated \$1.7 million in 2019-20 and \$3.4 million in 2020-21.

ALTERNATIVES

A. Buyback of Current Law Payment Delay

1. Approve the Governor's recommendation to provide \$75,000,000 in 2019-20 for general school aids and, beginning in the 2019-20 school year, delete the provisions under which the state annually pays that amount of aid on a delayed basis on the fourth Monday in July of the following school year.

ALT A1	Change to	
	Base	Bill
GPR	\$75,000,000	\$0

2. Take no action.

ALT A2	Change to	
	Base	Bill
GPR	\$0	-\$75,000,000

B. Modify Payment Schedule to Four Equal Installments

1. Modify the disbursement schedule for equalization aid so that school districts would receive four equal payments of 25% in September, December, March, and June beginning in 2023-24, with the September payment increasing by two percentage points and the June payment decreasing by two percentage points each year, beginning in 2019-20, for five years. Reduce estimated general fund interest earnings by -\$1,700,000 GPR-REV in 2019-20 and -\$3,400,000 GPR-REV in 2020-21.

ALT B1	Change to	
	Base	Bill
GPR-REV	-\$5,100,000	-\$5,100,000

2. Take no action.

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