

During public hearings, the Committee heard testimony regarding the cost of short-term borrowing by school districts due to the current disbursement schedule for equalization aid.

Under current law, equalization aid is distributed to school districts according to the following statutory 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. A district may also request to receive payments equal to 10% of its total aid entitlement each month from September to June, at the cost of compensating interest payments to the state. DPI indicates that no school districts currently use the 10 month distribution schedule.

The state earns interest on moneys in the state investment fund; as a result, modifying the school aids distribution schedule would incur a cost to the state in the form of foregone interest earnings. Currently, the annualized rate of return for the state investment fund is equal to 2.05%. The amount of foregone interest earnings in future years will vary depending on the interest rate in those years.

ALTERNATIVES

1. Recommend modifying the disbursement schedule for equalization aid so that school districts receive aid in twelve equal payments, beginning in July and ending in June, beginning in 2019-20. State general fund interest earnings would be reduced.

ALT 1	2019-20	2020-21
Forgone GPR		
Interest Earnings	- \$15,000,000	- \$15,000,000

2. Recommend modifying the disbursement schedule for equalization aid so that school 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 for five years.

ALT 2	2019-20	2020-21
Forgone GPR		
Interest Earnings	- \$1,400,000	- \$2,800,000