



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #497

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

[LFB 2021-23 Budget Summary: Page 460, #3]

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#### **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.

#### **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 1.6% of the \$4,746.8 million in net equalization aid that will be paid to school districts in 2020-21.
3. The budget bill would provide \$75 million GPR in 2021-22 for general school aids and, beginning in the 2021-22 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. The bill does not include necessary provisions to treat the general aid appropriation as if there were no buyback so as to distribute the correct amount of funding for 2021-22 through the general aid formula.
4. The delayed aid payment worsens the state's general fund balance under generally

accepted accounting principles (GAAP). While the state has had a GAAP deficit in recent years, the Comprehensive Annual Fiscal Report reported a \$1.5 million GAAP surplus in 2019-20. However, this GAAP surplus is partly attributable to the general fund having an undesignated fund balance of \$1.172 billion at the end of 2019-20 under the statutory basis of accounting. If this balance is drawn down in the 2021-23 budget, the state could once again have a GAAP deficit.

5. 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.

6. 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.

## **ALTERNATIVES**

1. Provide \$75,000,000 in 2021-22 for general school aids and, beginning in the 2021-22 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. In addition, specify that, for the purpose of calculating general school aid in the 2021-22 school year, DPI would treat the appropriation as if there were no buyback, so as to distribute the correct amount of funding.

<b>ALT 1</b>	<b>Change to Base</b>
GPR	\$75,000,000

2. Take no action.

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