Legislative Fiscal Bureau
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February 10, 1998

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 25/Assembly Bill 66: Public Instruction -- Equalization Aid Payment Schedule

Senate Bill 25 would create an alternative equalization aid payment schedule for school districts. Senate Bill 25 was introduced on January 28, 1997, and referred to the Senate Committee on Education. On April 23, 1997, the Senate Committee on Education adopted Senate Substitute Amendment 1 to SB 25 on a vote of seven ayes and zero noes and recommended the bill for passage by the same vote. On May 20, 1997, the Senate adopted SA 1 to SSA 1 to SB 25 and passed (voice vote) and messaged the bill as amended. On June 3, 1997, the Assembly Committee on Education recommended concurrence on a vote of nine ayes and four noes. On June 10, 1997, the bill was referred to the Joint Committee on Finance.

A companion bill, Assembly Bill 66, was introduced on February 10, 1997 and referred to the Assembly Committee on Education.

BACKGROUND

Under current law, school districts receive equalization aids under the following schedule: 15% of the total payment 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. A district's September aid payment is 15% of its prior year aid payment and not based on its current year entitlement because the financial reports used to compute these entitlements are not fully compiled until October. The December payment is adjusted by the Department of Public Instruction (DPI) to reflect the difference between the prior year actual amount and the current year estimated amount.

The 1997-99 budget (1997 Act 27) delayed payment of $75 million in 1997-98 and $175 million in 1998-99 of equalization aid until the fourth Monday in July of the following fiscal year. School districts were directed to count the delayed payments as receipts in the fiscal year from which they were delayed and the payment percentages listed above were reduced proportionately to reflect these delayed payments. Under the Act 27 provision, some or all of these payment delays may be reversed, with the delayed payment amounts being made in June, rather than July.

Equalization aids are funded from a GPR appropriation from the general fund. Cash balances of the general fund are deposited in the state investment fund, which is managed by the Investment Board.

SUMMARY OF SENATE BILL 25/ASSEMBLY BILL 66 AS INTRODUCED

Under the provisions of the bills, as introduced, school districts would have the option of requesting their equalization aid payments under an alternative payment schedule. If a school board submitted a written request to DPI before July 1, 10% of its equalization aid, in the following school year, would be paid each month from September to June. For the September and October payments, the district's aid would be based on its total aid payment in the previous year. For the payments from November to June, the total aid would be based on the current year estimated aid amount. Payments would be made on the third Monday of each month, except in December and March, when the payment would be made on the first Monday and fourth Monday, respectively.

Under the bills, if a school district requested the alternative payment schedule, its equalization aid payment would be reduced by the amount of interest earnings that would be foregone by paying out the aid earlier. The amount of this aid reduction would lapse to the general fund.

SUMMARY OF SENATE SUBSTITUTE AMENDMENT 1 TO SB 25, AS AMENDED

Under Senate Substitute Amendment 1 to Senate Bill 25, as amended by Senate Amendment 1, school districts would have the option of requesting their equalization aid payments under an alternative payment schedule. If a school board would submit a written request to DPI before May 1, 10% of its equalization aid, in the following school year, would be paid each month from September to June. For the September and October payments, the district's aid would be based on its total aid payment in the previous year. For the payments from November to June, aid payments would be based on the current year estimated aid amount. Payments would be made on the third Monday of each month, except in December and March, when the payment would be made on the first Monday and fourth Monday, respectively.

Under SSA 1, if a school district would request the alternative payment schedule, it would have to pay to the Department of Public Instruction the amount of earnings that the school district's aid entitlement would have accrued had the school district's aid been distributed under the current law payment schedule. SSA 1, as amended by SA 1, would specify that the Department of Administration would determine the required payment amount by a school district.

Two modifications to the substitute amendment, as amended, could be considered. The first would specify the state's general fund as the entity that would incur the reduced interest earnings and, thus, would be the entity to which DPI would deposit the offset payments required by school districts. The second would clarify that the Act 27 payment delays could not be included in a school district's total aid entitlement under SSA 1.

FISCAL EFFECT

Under the bills as introduced as well as SSA 1 to SB 25 as amended, there would be no net fiscal effect on the general fund. For aid amounts paid under the alternative payment schedule, general fund interest earnings, which are credited as GPR-Earned, would be reduced, because aid payments would be made on an accelerated schedule. However, under the bills as introduced, equalization aid payments to those school districts would be reduced by an offsetting amount. Under SSA 1 to SB 25 as amended, an offsetting amount of payments from school districts would be made to DPI, which would be deposited in the general fund as GPR-Earned, so that the general fund balance would remain unchanged.

One concern about the bills as introduced is that if a school district's equalization aid would be reduced, the district could replace this aid reduction with an offsetting increase in the property tax levy. This concern is addressed in the substitute amendment, because the repayment mechanism is modified from an aid reduction to, instead, be a payment from the school district.

The amount of funding affected by the bill or the substitute amendment would depend on the overall level of funding for equalization aids, the number of school districts that would request the proposed alternative payment schedule and the rate of return realized on the state investment fund. The key factor would be how many school districts would choose the alternative payment schedule. School districts would have to weigh the advantages of improved district cashflow against the loss of a portion of their equalization aid payment amount or the cost of a required payment to the state.

For purposes of an example of the potential impact of SSA 1, it is assumed that all school districts would opt to receive aid under the alternative schedule. Based on this assumption, it is estimated that general fund interest earnings would be reduced by $15 million and an offsetting amount of $15 million from school districts would be paid to DPI for deposit to the general fund in 1998-99. This estimate represents the maximum potential effect of the bill; it would occur only if all school districts requested accelerated payments.

Finally, paying equalization aids on an accelerated schedule could shift the timing of the state's cashflow, depending on the number of school districts that request these payments. It is possible that the proposed payment schedule could reduce the state's cash balances in December by up to $40 million, which is when the state's lowest cash balances occur, if all school districts request accelerated payments and the aid entitlement includes the Act 27 payment delay. As a result, although the proposed payment schedule could significantly reduce cash balances at times during the state's fiscal year, it appears that the proposal at most would have a modest effect on the amount of operating notes issued by the state to support the general fund's cashflow.

Prepared by: Dave Loppnow and Bob Soldner

MO# Passage

2 BURKE	Y	N	A
DECKER	Y	N	A
JAUCH	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
SCHULTZ	Y	N	A
ROSENZWEIG	Y	N	A
1 GARD	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
PORTER	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

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