

# AMANDA STUCK

## State Representative ♦ 57<sup>th</sup> Assembly District

Thank you Chairman Thiesfeldt and committee members for being here today and for holding a public hearing on Assembly Bill 77.

This is a simple bill which makes changes to how much state aid is given to school districts and when. What this bill does not do is change the total amount of state funding for public schools.

I drafted this legislation after meeting with a Superintendent in my district, Superintendent VanderHeyden from Menasha who unfortunately could not make it here today due to a previous scheduling commitment in the district and the change to the order of the bills taken up today for the public hearing, however I have included his written testimony on this bill for you.

For background, under current law, school districts receive 4 payments from the state throughout the year. With 15% in September, 25% in December, 25% in March and 35% in June of the total state aid they will receive.

School districts often have more or at least consistent expenses at the beginning of the school year to get things up and running, however that is when the least amount of state aid is sent to the districts. As a result, school districts can run into cash-flow issues. This causes the districts to rely on short-term borrowing just to keep up with the bills until large aid payments come in later in the year. When the districts have to borrow, interest has to be paid, which at the end of the day costs property taxpayers more money.

After meeting with Superintendent VanderHeyden I began drafting this bill, initially we discussed simply reversing the order of the payments, 35%, 25%, 25%, 15%, but after talking to Fiscal Bureau, it was clear that switching to those percentages could result in the State running into cash-flow issues and having to rely on borrowing to keep the state operating. As a result, I drafted this bill which changes it to 4, equal payments, meaning that the districts would receive 25% for each payment.

While this isn't perfect a perfect solution and won't alleviate all of the cash-flow issues that school districts can run into, it is a step in the right direction. This will help reduce the frequency of districts turning to short-term borrowing simply to keep the schools running, while not creating cash-flow issues for the state. While I believe that the State should be providing more state aid to school districts, at the very least we can take this commonsense step to help reduce districts' need to borrow just to start off the school year and keep the schools open and running.

I'd be happy to answer any questions.



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June 13, 2017

Assembly Education Committee:

I am writing in support of Assembly Bill 77 in regards to state aid payments to school Districts. I believe this is a move in the right direction for school funding because it will decrease the need for short term borrowing and it should allow Districts to maintain a smaller fund balance over time.

I support this legislation because it would significantly decrease the need for individual Districts to short term borrow in order to get through November to December's aid payment. This borrowing not only adds work to District business officials, but also incurs financing costs to District's expenditures. For Menasha this specifically moves about three million dollars in State aid from June to September, allowing us to more easily cover November accounts payable without deferring payments or borrowing.

District fund balances have been a reason for concern by Legislators in past years and falsely lead business people and the general public into believing public schools have stock piles of cash just sitting around. The main reason for this is the fund balance reported annually by Districts in Wisconsin is the number from June; just after we receive the largest installment of our aid payments. This amount would be significantly reduced if payments were spread more equally throughout the school year so we have money available as it is needed to cover our expenses during the school year instead of receiving the largest payment after our school year has been completed.

While any responsible administrator understands the importance of having funds available to cover unexpected damages or costs, our fund balance could be less if cash flow was more consistent and regular and if we didn't have to be sure to have enough to avoid the costs of short term borrowing.

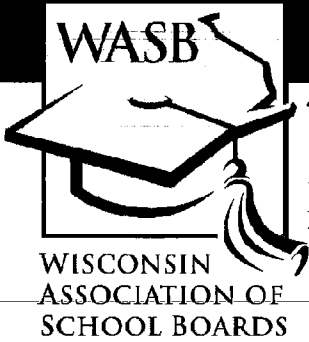
Please consider moving this bill forward as it takes us a step in the right direction in terms of working with the funding we currently receive.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris L. VanderHeyden", written over a white background.

Chris L. VanderHeyden  
Superintendent



"Leadership in Public School Governance"

JOHN H. ASHLEY, EXECUTIVE DIRECTOR

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PHONE: 608-257-2622 FAX: 608-257-8386

TO: Members, Assembly Committee on Education  
FROM: Dan Rossmiller, WASB Government Relations Director  
DATE: June 15, 2017  
RE: **SUPPORT for ASSEMBLY BILL 77**, relating to state aid payments to school districts.

The Wisconsin Association of School Boards (WASB), on behalf of all 422 public school boards in the state of Wisconsin, **supports** Assembly Bill 77.

Under current law, the DPI pays state general aid (a/k/a 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.

Assembly Bill 77 would change the 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 simply decreases the percentage paid in June by 10 percent and increases the percentage paid in September by 10 percent so districts would receive more of their aid earlier in the school year.

Under the bill, districts will get an even distribution, with more state resources provided at the beginning of the fiscal year and fewer state resources at the end of the fiscal year. We believe the change in this bill would help many district's cash flow situations by moving the receipt of state aid earlier in the school year, thus it might allow school boards to avoid or lessen the need for short-term borrowing. By lessening short-term borrowing costs more resources could be put toward educational programming rather than interest payments. This might also allow many boards to maintain a smaller fund balance.

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 different proportion of installment payments, it is similar in that it would allow districts to receive more of their aid earlier in the year. Under current law, many districts find their cash flow situation is most troublesome in November and early December before the second aid installment is received and before any property tax revenues are received.

For these reasons, the WASB supports Assembly Bill 77.

## Appleton comments on Assembly Bill #77

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- The current distribution schedule of State Aid to school districts in Wisconsin places an undue financial burden on school districts. While the fiscal year begins in July each year, most of the revenue due to a district arrives after January First in the forms of local property tax revenue and state aid. Consequently, most districts need to do a cash-flow borrowing in order to meet our ongoing expenditures. The necessary borrowing has an interest rate cost that takes money away from our mission of educating students. In the case of Appleton, despite the fact that we are rated as a Aa1 District by Moody's which puts us in the top 5% of school districts in the state, we need to borrow close to \$20 million each year to meet our cash flow needs. This legislation would approximately cut our financial cost of borrowing in half. The Appleton Area School District Board of Education and administration strongly support Assembly Bill #77 as it calls for a significantly improved distribution schedule for state aid to school districts.
- Thank you for your time and attention this morning.

Re: Assembly Bill 77  
Assembly Committee on Education, Public Hearing  
June 15, 2017

Submitted by:

Michele Wiberg  
PMA Financial Network, Inc.  
Senior Vice President  
Director, Wisconsin Office

Speaker Background:

Michele Wiberg has worked with Wisconsin school districts for 25 years. Her primary focus has been providing financial advisory, long range financing planning, cash flow analysis and investing services.

The PMA companies are three companies (PMA Securities, Inc., PMA Financial Network, Inc., and Prudent Man Advisors, Inc.) under common ownership that work to provide integrated financial solutions to public entities. Collectively, the PMA companies serve over 2,400 public entities in eleven (11) states, which include Florida, Illinois, Iowa, Michigan, Minnesota, Missouri, New York, Oklahoma, Pennsylvania, South Dakota and Wisconsin, and have 120+ employees to meet the ongoing needs of our clients.

Summary:

Nearly half of Wisconsin school districts are required to borrow for cash flow purposes due to the timing of revenues. Generally speaking, many of these school districts will hit their cash low points in October-December, awaiting their state equalization aid payment in December and tax receipts in January/February. The shift of revenue proposed under AB77, particularly the larger payment disbursed in September, will not completely eliminate the need for cash flow borrowing but will decrease the amount needed.

From a fiscal standpoint, this is important as it will help to reduce interest expense. Interest expense on cash flow borrowing is payable from a school district's operating budget, which is subject to revenue limits. Based on data from fiscal year ending June 30, 2016, the total expense incurred by school districts for this purpose was approximately \$3.8 million <sup>(1)</sup>.

Various methods are used by school districts to borrow the funds needed for cash flow purposes. The two most prevalent methods are a line of credit or the issuance of Tax and Revenue Anticipation Notes (TRANs). A line of credit works in select cases; namely, in school districts that need funds for a very short period of time. For the remaining districts, with cash shortfalls that span months, their only option is to issue TRANs.

The market for TRANs has changed rather significantly in recent years, likely due to increased regulation. TRANs are typically brought to market as non-rated securities with minimal disclosure, making them attractive to a relatively small universe of potential investors. Based on data publicly available for 2016, 52 TRAN issues were bid in the marketplace totaling nearly \$473 million. The average number of bidders for these transactions was three. It is not uncommon to receive only one bid and, in some cases, no bids at all.

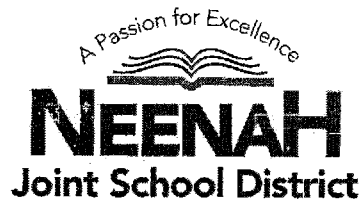
<sup>(1)</sup> Based on June 30, 2016 Annual Reports submitted to DPI. Districts selected showed a 682 expense, "Temporary Notes Payable".

The lack of demand for these securities creates wide fluctuations in interest rates. Consider this example of two school districts located in the same geographical region with the same underlying long-term credit rating:

<u>Sale Date</u>	<u>District</u>	<u>Amount of Borrowing</u>	<u>Term of Borrowing</u>	<u>True Interest Cost</u>	<u>Number of Bidders</u>
10/07/16	Edgerton	\$1,600,000	.99 years	0.90%	4
10/24/16	Belleville	\$750,000	.98 years	1.50%	2

Belleville School District received fewer bids with a significantly higher interest rate. This occurred despite the fact that short-term interest rates actually decreased between these two sale dates. Inconsistent results such as this have been fairly common in the TRAN market in recent years.

Again, Assembly Bill 77 will not completely eliminate the need for school districts to borrow for cash flow purposes. However, any reduction in the amount needed will correspondingly reduce school district's exposure to this fluctuating marketplace. Although this shift may create cash demands for the State of Wisconsin, the assumption is that the State has more cost-efficient access to the market.



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June 15, 2017

Dear Representative Stuck,

I have the privilege of serving the Neenah Joint School District as the superintendent for eight years. Our District serves just over 6,500 students and we have approximately 650 employees. Thank you for providing this forum for public input regarding Assembly Bill 77.

I strongly support and thank you for introducing Assembly Bill 77. As you are aware, current legislation 121.15(1)(a) provides school districts four payments at 15 percent of its total aid entitlement in September, 25% in December, 25% in March, and 35% in June. This is a challenge for most districts and leads to short-term borrowing.

Under current legislation, districts have another option to receive 10 percent of the district's total aid entitlement in each month from September to June. State statute 121.15(1g)(e) indicates that should districts select this approach, "it shall pay to the department of public instruction an amount equal to the earnings that the school district's aid entitlement would have accrued had the school district's aid been distributed under sub. (1), as determined by the department of administration." I remain curious as to why districts would have to pay the Department of Public Instruction in order to receive the appropriate dollars necessary for operating schools.

Assembly Bill 77 will alleviate a portion of the challenges districts currently face related to short-term borrowing. Shy of lifting payment to the Department of Public Instruction for 12-month payments, this Bill provides a better alternative for school districts.

In closing, I appreciate you introducing this Bill. If you have any questions, I will be happy to meet with you at your convenience.

Sincerely,

Dr. Mary Pfeiffer, Superintendent  
410 S. Commercial Street  
Neenah, WI 54956

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